The Narragansett Electric Company

d/b/a National Grid

INVESTIGATION AS TO THE PROPRIETY OF PROPOSED TARIFF CHANGES

Filing Requirements

Book 3 of 3

April 27, 2012

Submitted to:
Rhode Island Public Utilities Commission
Docket No. R.I.P.U.C. ____

Submitted by:

nationalgrid

2.5(c)(6)

Index and Responses to the Commission's
Rules on Practice and Procedure
April 2012

Section 2.5(c)(6) Annual reports to stockholders for the last three years.

Please see Book 2 of 2 for the annual reports to stockholders for fiscal years ending March 31, 2009, 2010, and 2011.

Annual Report and Accounts
2008/09

Focused on delivery.





nationalgrid
The power of action.℠

The Company highlights

We have had another year of strong financial performance. Cash generated from operations was more than £3.5 billion, revenue was more than £15.6 billion, while adjusted operating profit and adjusted earnings per share were higher by 12% and 6% respectively.

Revenue*

£15,624m

2007/08: £11,423m

+37%

Cash generated from operations*

£3,564m

2007/08: £3,265m

+9%

Ordinary dividends

35.64p

2007/08: 33.00p

+8%

Adjusted operating profit*†+

£2,915m

2007/08: £2,595m

+12%

Adjusted earnings per share*†+

50.9p

2007/08: 47.8p

+6%

Capital expenditure

£3,242m

2007/08: £3,054m

+6%

Operating profit*

£2,623m

2007/08: £2,964m

-12%

Earnings per share*

37.4p

2007/08: 60.3p

-38%

Return on equity†+ (three year average)

10.8%

2007/08: 11.8%

\+ National Grid uses adjusted profit measures as key financial indicators to assess our business performance. See page 42 for further information about these measures

* for continuing operations

† excludes the impact of exceptional items, remeasurements and stranded cost recoveries

New debt issuances

During 2008/09, despite adverse conditions in the credit markets, we issued £4.9 billion of new long-term debt.

Employee engagement index

70%

2007/08: 60%

Employee survey response rate

91.8%

2007/08: 86.4%

Climate change

During 2009/10, we will implement carbon budgets setting a maximum level of greenhouse gas emissions per business per financial year. We are targeting a 45% reduction in emissions by 2020 on the way to our goal of an 80% reduction by 2050.

Percentage of ethnic minority employees

13.2%

2007/08: 12.3%

Percentage of female employees

22.6%

2007/08: 22.5%

BITC platinum member

We continue to enjoy external recognition of our responsible business approach. For the seventh consecutive year, we are a 'platinum' company in the Business in the Community corporate responsibility index.

Lost time injury frequency rate ^

0.25

2007/08: 0.30

For more information visit: www.nationalgrid.com

^ on a like-for-like basis, including KeySpan employees in both years

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Important notice
This document contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. For a description of factors that could affect future results, reference should be made to the full Cautionary Statement on page 200 and the Risk factors section on pages 97 to 99.

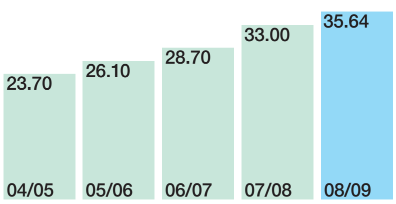
Chairman's statement

I am pleased to report another set of strong results for 2008/09.

"Everything we do to fulfil our vision would be ineffective without the dedicated involvement of our employees, and they deserve our thanks and appreciation."

The Board is proposing a recommended final dividend of	We are also targeting an increase of
23.00p	**8%**
2007/08: 21.30p	per annum from 2009/10 to 2011/12

Dividends per share
Pence



Over the past five years ordinary dividends per share have grown by 80.2%, from 19.78p for 2003/04 to 35.64p for 2008/09.

I am pleased to report another set of strong results for 2008/09. Financial markets the world over are in recession and many businesses are affected. However, we remain strong and our business is well funded. Further, management is focused on continuing to execute our clear strategy. We also have a new brand that revolves around 'the power of action'. This will help drive everything we do to make a difference in how we operate our business. In the Chief Executive's report, Steve Holliday will discuss how we are taking action continuously to improve our Company's performance.

Board changes

This year saw Bob Catell retire as an Executive Director in March 2009. Bob will continue to serve as a Non-executive Director and Deputy Chairman of National Grid, as well as Non-executive Chairman of National Grid USA, until July 2009. His knowledge of the energy industry has been very helpful following the acquisition of KeySpan. He supported us on the journey to integrate successfully our US businesses and influenced how we take forward our relationships with customers, regulators and other stakeholders.

Dividend policy

We are recommending a dividend increase of 8% for 2008/09. Over the past five years, ordinary dividends have grown by more than 80%. In addition, subject to shareholder approval at the Annual General Meeting, we will offer ordinary shareholders the opportunity to increase their holding in National Grid through a scrip dividend.

Safety

Safety is paramount. This year, we continued our focus on process safety and on controls to manage the major hazards that arise from the delivery of electricity and the transportation and storage of natural gas. We also maintained our attention on the safety of our workforce and the public. As we are including former KeySpan incidents this year, the number of injuries resulting in lost time increased when compared to last year. However, when we incorporate the KeySpan injuries into last year's figures, creating a like-for-like basis, the Company's lost time injury rate shows real improvement. Our focus this coming year remains on process safety improvements, behavioural change initiatives, and the health and well-being of our employees.

Chairman's awards

For the first time, this year we have expanded the Chairman's awards categories to include community action, inclusion and diversity and customer service. We received nearly 200 nominations from across the Company that exemplified the things we do to put the power of action to work every day. The awards programme recognises the outstanding achievement of employees who go above and beyond their work requirements in the pursuit of excellence.

Young Offender Programme

Ed, 26 – "My experience in prison was overwhelming and it made me vow to change my life. I was fortunately accepted into the Young Offender Programme and earned an NVQ qualification as a gas network operative. I'm very grateful to this programme because it turned my life around."

Community

We have the distinction of being the first official partner to Special Olympics Great Britain (SOGB). Under a three year sponsorship, we have committed to provide funding and employee volunteers. Since 2007, we have been delivering on this pledge, and have established several employee led volunteer groups around the business. I am absolutely delighted that nearly 500 employees have registered their interest in supporting the organisation.

In the US, employees organised United Way campaigns at many Company locations to benefit local groups that work to resolve pressing community issues. They were very generous with their support and together we raised nearly $3.5 million (£2.3 million). We also donated $1 million (£650,000) to fuel assistance funds in New England and New York to assist those most in need during the winter heating season.

All these efforts continue to demonstrate our commitment to the communities we serve and the steps we take as a Company to have a positive impact on them.

As our corporate vision states, we are determined to be a Company that is known for being safe, reliable and efficient. We are also firmly committed to providing for the well-being of our customers and communities, and to safeguarding the global environment. Achieving our vision will create value for all our stakeholders and can only be done by conducting our business in a responsible manner. I am pleased to report that we won the 2008 Gas Industry Energy Efficiency Award for our affordable warmth programme in the UK. We were also awarded a 'Big Tick' in the prestigious Business in the Community Award for Excellence for our Warm Wales initiative. In the US, we won the Association of Energy Services Professionals, Outstanding Achievement in Energy Program Implementation Award for our energy efficiency programmes.

Young Offender Programme

I continue to be heartened by the progress of the Young Offender Programme that provides skills training and sustainable employment to young people nearing completion of their sentences. The programme has now been adopted across major industry sectors and is operational in more than 22 prisons in the UK. The output from the programme reduces re-offending from approximately 70% to 7% and rehabilitates the offenders into productive members of the community.

Inclusion and diversity

Everything we do to fulfil our vision would be ineffective without the dedicated involvement of our employees, and they deserve our thanks and appreciation. This is why we are actively seeking to develop their talent, leadership skills and capabilities, while exploring innovative ways to attract new employees as we continue to build a more inclusive and diverse workforce.

Following a review of inclusion and diversity throughout the Company, we have clarified our business case and recently launched our global inclusion charter. The charter explains what employees can expect from the Company, as well as what the Company expects from them. It builds on work in progress throughout the US and UK. For example, we held a global mobilising inclusion fortnight designed to help us move from awareness to action on our inclusion and diversity journey.

We want to be the employer of choice. We are fortunate to have a vibrant and growing array of employee networks, focused on gender, ethnicity, faith, disability, sexual orientation, families and new starters. They help us understand the different communities represented within our workforce, and provide support and information to our employees.

Board effectiveness

At this time of global economic turbulence there are many questions being rightfully raised about the governance and effectiveness of boards. Again this year, as discussed within the Corporate Governance section, we have carried out an in depth review of the Board's effectiveness. We have produced, as we have done for several years, an action plan to ensure constant improvement. However, an overriding acid test question for a Chairman to answer is – does the Board have the breadth of skills and experience to address and challenge adequately the key business decisions and risks that confront it?

This and related questions have concerned us in our Nominations Committee over the past years as we have carefully recruited Non-executive and Executive Directors to build the Board we have today. I therefore believe that not only has the Board focused on good governance, but that we also have the right Board composition and that the Board works effectively, allowing us to respond to the challenges of these difficult times.

Outlook

The Board remains confident that we are well positioned to continue delivering strong performance. We have a business model that is focused on our core electricity and gas business, integrated across lines of business, and financially and operationally disciplined. While stock market sentiment will periodically fluctuate, our job inside the Company is to stay focused on delivering on our promises.

Sir John Parker
Chairman

Chief Executive's review

In a very difficult economic climate, the robust nature of our strategy has been demonstrated by a very successful year for National Grid, reflected in a strong set of results.

"We continue to create a more focused business and to run it in a more integrated way."

Planned investment in 2009/10	Response rate to our employee survey
£3.4bn	91.8%

I am pleased to be reporting to you on our 2008/09 results. In a very difficult economic climate, the robust nature of our strategy has been demonstrated by a very successful year for National Grid, reflected in a strong set of results. It is because of this performance that I am delighted to report that we have met our target to deliver 8% dividend growth.

At National Grid, we delivered on all fronts in 2008/09 – safety, reliability and financial – and ensured that we are well positioned for the future. The outlook for 2009/10 is very positive.

Financials

We have delivered another strong financial and operational performance this year. Cash generated from operations was more than £3.5 billion, revenue was more than £15.6 billion while adjusted operating profit and adjusted earnings per share (on a pro forma basis)* were higher by 12% and 14% respectively. Our continuing objective is to deliver 8% per annum growth in our dividend until 2012 for our shareholders while also delivering gas and electricity to our customers in a safe, reliable and efficient manner.

When we acquired KeySpan in 2007, we promised a $100 million run rate in synergy savings by the end of this fiscal year. I am delighted to report that we have exceeded our promise. We have also issued £6 billion of debt between 1 January 2008 and 31 March 2009 and our overall effective interest rate has fallen.

Investing for growth

As I told you last year, a major part of our plans is to invest by growing our asset value at what is a record rate for National Grid. These investments, necessary for society, communities and customers are made in response to the changing energy requirements in our operating territories and the need to replace end of life assets. The returns on our investments are underpinned by our regulatory arrangements or by long-term contracts. During the last year, £3.2 billion has been invested across the Company. Going forward, we plan a similar level of investment each year until 2012.

Strategy

We continue to create a more focused business and to run it in a more integrated way. This year, we have re-articulated our strategy to give better clarity to our employees on the direction of our business. Our eight Company objectives provide the framework for the first step in achieving this clarity (see pages 10 to 15).

Our strategy sets out what we plan to achieve in the next three to five years; we want to build on our core UK and US, electricity and gas, regulated business base to deliver sustainable growth and superior financial performance. This year, we have also introduced a line of sight concept that should connect each employee with the strategic vision and overall objectives of our Company, allowing everyone to see how what they do contributes to the success of their team, their line of business and the Company.

* Earnings per share growth stated on a pro forma basis (see note 28 of the consolidated financial statements on page 159)

US ice storm restoration

We received the Emergency Recovery Award from the Edison Electric Institute for our work during the December ice storm that affected New England and upstate New York. The award recognises outstanding efforts in restoring electricity service disrupted by severe weather conditions or other natural events across the US.

Our operating model

We continue to believe that owning and operating complementary businesses in the UK and US provides us with a great opportunity to create value for our shareholders and superior service for our customers. Achieving this standardisation and applying our operating model will be an ongoing theme for the next few years and we have already made a good start.

As with nearly every business in this economic environment, controlling our costs over time is important to our success. We recognised early in these difficult economic times that changes in the way we operated our business were required and actively took steps to accelerate existing plans. Over the course of 2008/09, we have experienced normal employee turnover, but have not had significant redundancies in any part of our Company.

In October 2008, we announced our cumulative global procurement operating and capital expenditure savings target of between £170 and £350 million over a three year period. We were ahead of our annualised savings target in 2008/09 and now expect to be at the upper end of the range for the three year period.

Safety

The safety of our people, including our contractors and the communities we serve, will always be a priority for National Grid. However, it is with sadness that we have to report the death of three contractors and one member of the public as a direct result of our operations.

On a like-for-like basis, with the safety performance of KeySpan employees included in both years, I am pleased to report that this year we have seen a 10.8% reduction in employee lost time injuries compared with 2007/08 and an improvement in the injury frequency rate. During the year, we have targeted such improvements with further impetus on our trusted to work responsibly programme, together with a series of safety leadership workshops for directors, senior managers and safety representatives. Investigation and analysis continue to indicate that the majority of our lost time injuries are due to behavioural causes rather than inadequate procedures, working conditions or equipment. We have also introduced a health and well-being strategy in the year, helping our workforce to be fit and healthy, which I believe will deliver benefits for employees, the Company and wider society.

Climate change

Another area in which we have a long standing reputation is our commitment to the environment. As a company involved in the transmission and distribution of energy, we continue to work with governments and our regulators to ensure that we are part of the solution to the global issue of climate change. Our goal remains the same, an 80% reduction in greenhouse gas emissions by 2050; and we have recently set an interim target of 45% by 2020 to help measure our progress. During 2009/10, we will implement carbon budgets setting a maximum level of greenhouse emissions per business per financial year.

In view of our internal goals, National Grid has taken on a leadership and advocacy role in this and other related areas by working with governments in the UK and US with a focus on expanded utilisation of energy efficiency, climate change legislation, expansion and efficient utilisation of transmission networks in connecting renewables, and renewable gas.

We remain focused on climate change and security of supply, and playing a leading role in addressing the longer term issues facing the energy industry. We continue to work closely with regulators and policy makers to deliver the energy networks of the future.

People and talent

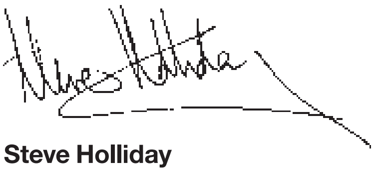
One of my personal priorities is to ensure that National Grid is a place where our employees are able to perform and grow to the best of their potential. I have been very clear with our employees that, even in these times of economic uncertainty, we simply will not compromise on our promise to invest in people. This year, we introduced new programmes including inclusion and diversity training for our employees, a first line supervisor's course and an inclusive leadership training workshop for senior managers to help us attain the high performance culture we are continually striving to achieve.

This year, I am pleased that we had a very positive response rate of 91.8% to the 2009 employee opinion survey. Also, our employee engagement index has increased from 60% to 70%. The results show improvement in our 2008 focus areas. While there are some areas of concern, we will continue to take targeted actions to ensure that we make National Grid a better place to work, and a stronger company for our customers and shareholders.

Along with all of the Executive team, I am immensely proud of our employees. Their dedication often goes unnoticed by the general public. Occasionally, usually in very challenging circumstances, such as the gas emergency in Rossendale in the UK or the ice storm in the US, which both occurred near Christmas, they come to the public's attention for their incredible professionalism under very difficult conditions.

Looking forward

The next year will be busy as we continue to:
- grow our business;
- deliver our capital investment programme;
- advance our leadership role in key UK and US policy areas, such as climate change, and begin to embed our carbon budgets;
- grow awareness of our brand in the UK and US; and
- invest in our people.



Steve Holliday
Chief Executive

How we operate

Our principal operations are the ownership and operation of regulated electricity and gas infrastructure networks in the UK and the US, serving around 19 million consumers directly and many more indirectly.

Transmission

UK The transmission of electricity and gas in the UK as owner and operator of the high voltage electricity transmission network in England and Wales, the gas national transmission system in Great Britain, the electricity interconnector with France and storage facilities for LNG. Operator of the electricity transmission networks in Scotland.

US The transmission of electricity in the northeastern US as owner of high voltage electricity transmission networks in upstate New York and in New England.

This year we have delivered more than £1.4 billion worth of electricity and gas projects to upgrade and reinforce ageing infrastructure and adapt our networks to cope with changing sources of energy.

Our fundamental priorities remain safety, reliability and efficiency. We have also created an enhanced line of sight from National Grid's objectives to Transmission's objectives and annual priorities.

We are focused on the long-term security of supply and environmental challenges arising from the transition to a low carbon economy and the decline of UK gas production from the North Sea.

Adjusted operating profit
£1,301m

Capital investment
£1,441m

Employees
3,874

UK energy transmitted
1,454 TWh

Gas Distribution

UK The distribution of gas in England as owner and operator of four of Great Britain's eight gas distribution networks.

US The distribution of gas in the northeastern US as owner and operator of gas distribution networks in upstate New York, New York City, Long Island, Massachusetts, New Hampshire and Rhode Island.

We continue to share best practice ideas between the UK and US to improve our operating model and make it more consistent.

In the UK, we are one year into the new price control period, which will bring considerable challenge and opportunity over the remaining four years as we look to become more efficient and effective.

Once again, we have achieved our objective to replace metallic main with plastic this year, totalling over 1,900 kilometres in the UK, and reduced the amount of cast iron and unprotected steel mains by 398 kilometres in the US, improving the safety and reliability of our networks.

Adjusted operating profit
£1,284m

Capital investment
£1,019m

Employees
9,534

Gas delivered
522 TWh

Electricity Distribution & Generation

US The distribution and generation of electricity in the northeastern US as owner of electricity distribution networks in upstate New York, Massachusetts, New Hampshire and Rhode Island, as operator and manager of the electricity transmission and distribution network in Long Island on behalf of the Long Island Power Authority, and as a generator of electricity on Long Island.

Our customers are at the heart of everything we do. We continue to invest in our distribution and generation systems creating sustained improvements in our system reliability.

We are focused on building a branded customer experience that demonstrates our commitment to our customers and educates them on the environmental impact they have. We believe that increased energy efficiency and deployment of smart technologies are the best ways to help our customers control their energy costs while addressing the effects of climate change.

We are seeking regulatory agreements that decouple our revenue from customer energy usage. With decoupling, we can enable increased energy efficiency for our customers without reducing our revenue stream.

Adjusted operating profit
£265m

Capital investment
£355m

Employees
7,950

Energy saved through energy efficiency measures
275 GWh

Non-regulated businesses and other

Other services related to our main operations, principally in the UK. They do not constitute a segment so are reported, together with other operations and corporate activities, as 'other activities'.

UK Principally metering services, property management, our LNG importation terminal on the Isle of Grain, and the construction and operation of an electricity interconnector between The Netherlands and the UK through our BritNed joint venture.

US Includes LNG storage, LNG road transportation, unregulated transmission pipelines, US gas fields and home energy services.

This year has seen further expansion activity at our liquefied natural gas (LNG) importation terminal on the Isle of Grain. Through the commissioning of phase II, the site now has annual import capacity of 9.9 million tonnes. We are continuing to invest in Grain LNG and by 2010, with the phase III expansion, it will have the capacity to import 14.8 million tonnes per annum, around 20% of the UK's forecast gas demand.

During the year, approximately 645,000 new meters were installed by OnStream, our competitive metering business, comprising approximately 375,000 gas and 270,000 electricity meters.

We are undergoing a programme of land remediation at many of our brownfield sites, including legacy gas sites.

Adjusted operating profit
£65m

Capital investment
£427m

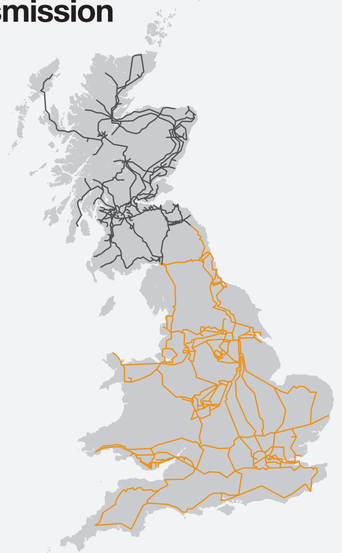
Employees
3,597*

LNG imported to the UK through Isle of Grain (tonnes)
1,229,000

* Excluding shared services employees

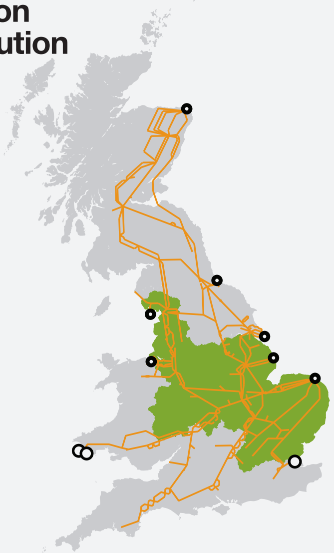
Electricity Transmission

— Scottish electricity transmission system
— English and Welsh electricity transmission system



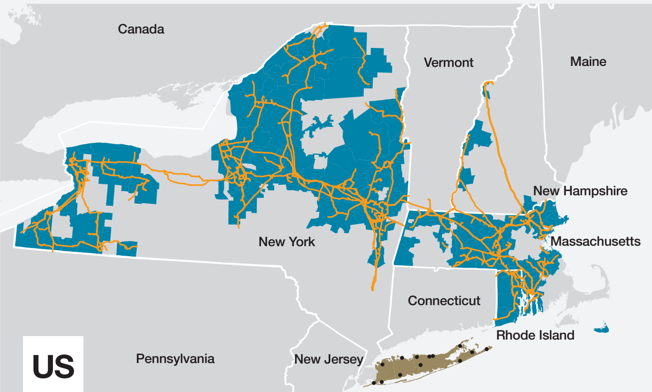
Gas Transmission and Gas Distribution

— Gas transmission system
■ Gas distribution area
Terminal
LNG terminal



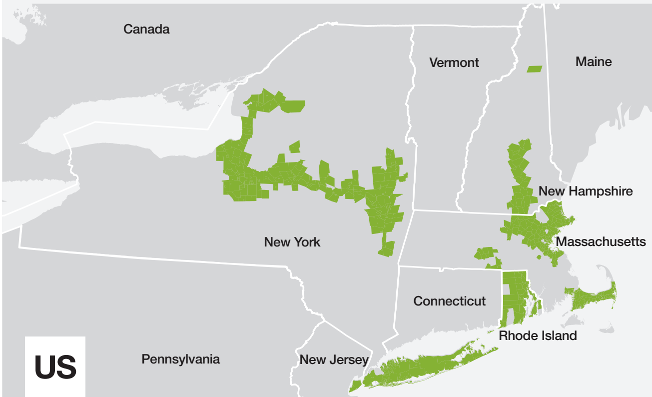
Electricity Transmission and Electricity Distribution & Generation

■ Electricity distribution area
■ Long Island Power Authority area
— Electricity transmission system
● Generation



Gas Distribution

■ Gas distribution area



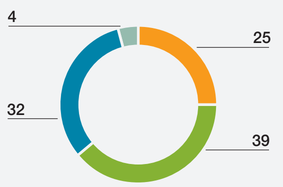
Business and geographical analysis

Business analysis 2008/09

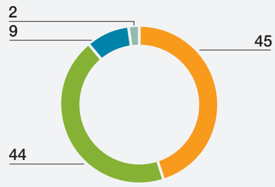
Continuing operations

■ Transmission ■ Gas Distribution ■ Electricity Distribution & Generation ■ Non-regulated businesses and other

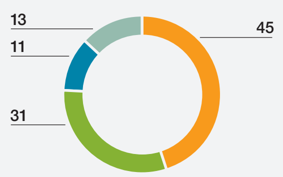
Revenue (%)



Adjusted operating profit (%)



Capital expenditure (%)

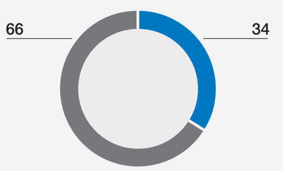


Geographical analysis 2008/09

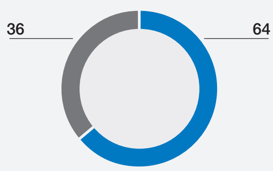
Continuing operations

■ UK ■ US

Revenue (%)



Adjusted operating profit (%)



Our vision and objectives in action

Our vision

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.

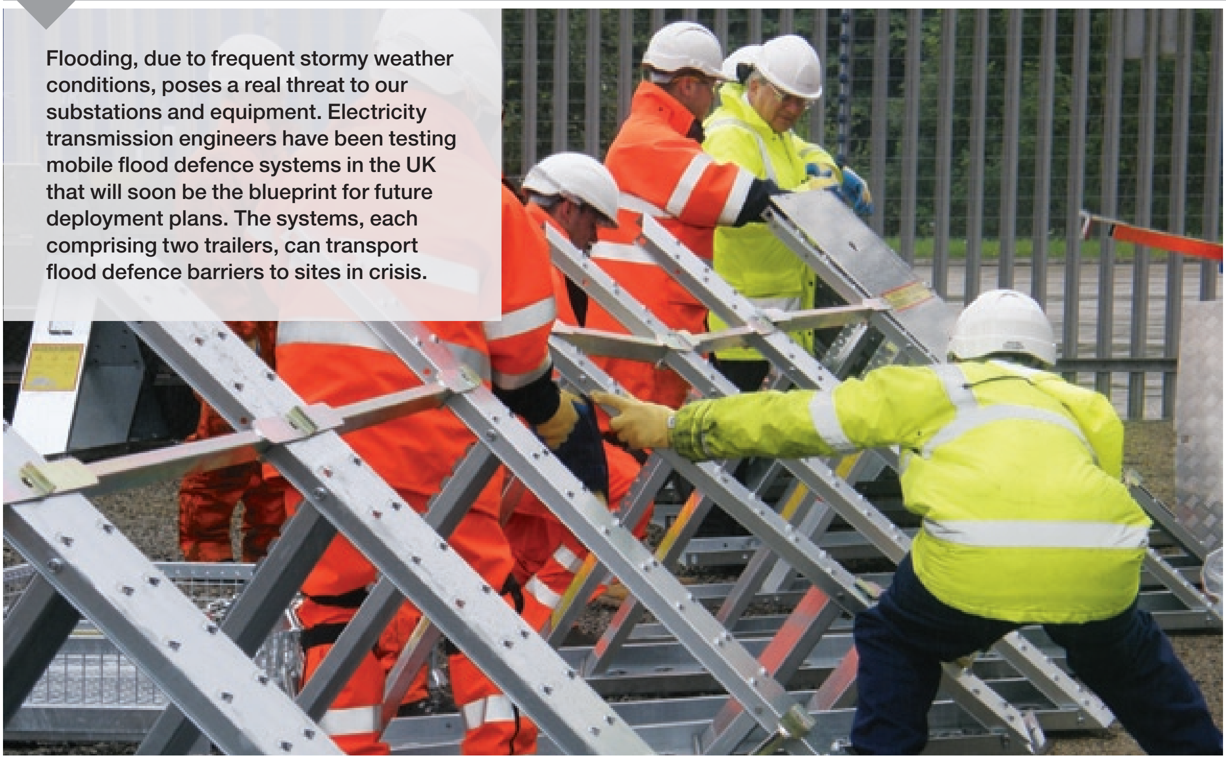
Our strategy

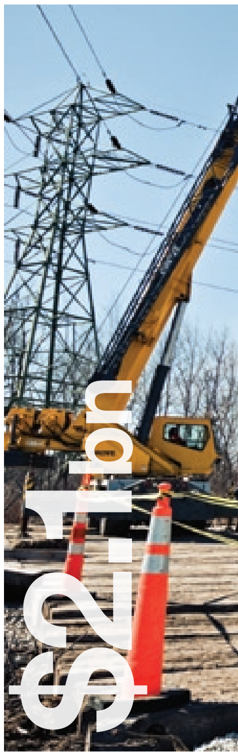
We will build on our core UK and US, electricity and gas, regulated business base and financial discipline to deliver sustainable growth and superior financial performance.

Specific examples of actions taken to implement our vision, strategy and Company objectives are found on pages 10 to 15:

Driving improvements in our safety, customer and operational performance

Flooding, due to frequent stormy weather conditions, poses a real threat to our substations and equipment. Electricity transmission engineers have been testing mobile flood defence systems in the UK that will soon be the blueprint for future deployment plans. The systems, each comprising two trailers, can transport flood defence barriers to sites in crisis.





Safety and reliability in adversity: New England December ice storm

The communities we serve depend on us for a constant supply of gas and electricity. This is especially true in adverse conditions, such as the severe ice storm that affected our service territory in upstate New York and New England this winter.

Over the course of 8 days in late December, more than 7,400 workers, including forestry crews, mutual aid workers, contractors and support staff across all lines of business, worked around the clock to restore electricity to more than 550,000 customers. States of emergency were declared in Massachusetts, New York and New Hampshire in what has since been called the most significant ice event to hit the northeast US in a decade.

Employees battled against unrelenting elements as ice in excess of an inch (25mm) thick, heavy winds, and falling trees downed lines making work very challenging. Despite this, the restoration was completed within a matter of days.

Even after the last customer's power was restored, our interest and involvement continued as employees donated $230,000 (£149,000) to the American Red Cross to support its relief efforts in those storm ravaged areas.

The sheer enormity of the storm was matched only by the scope of work performed by our employees to safely restore power to affected homes and businesses:

- 550,000 customers interrupted at peak;
- 1,252 miles (2,014 kilometres) of transmission lines out of service;
- 911,370 feet (277,785 metres) of distribution wire damaged;
- 285,834 storm related phone calls handled; and, most importantly,
- injuries sustained were minor in relation to the scope of the storm.

The level of dedication and professionalism displayed by our employees clearly demonstrated 'the power of action'. Their efforts were well received by both members of the public and public officials in New England and New York as expressions of thanks and appreciation poured in.

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

The New England East-West Solution (NEEWS) is a large scale regional transmission project that will see National Grid invest $634 million (£440 million) in New England as a partner in a broader $2.1 billion (£1.5 billion) plan. NEEWS is set to address reliability problems and enhance the New England transmission system in three states. Due to the project's scale and complexity, the Federal Energy Regulatory Commission granted us several incentives on our investment under their policies to encourage transmission owners to invest in the system.

Modernising and extending our transmission and distribution networks

We are looking at ways to incorporate renewable energy into the existing energy mix. In Massachusetts, under the Green Communities Act, we are planning to develop and own up to 50 MW of solar generating facilities. Our modernised electricity network pilot, or smart grid, is capable of combining renewables and smart metering to save energy and increase reliability. In the UK, we are exploring emerging biogas technologies where biodegradable waste streams could be turned into biogas and injected into the gas distribution system.

Our vision and objectives in action
continued

Safety improvements

Our employees play a critical role in helping us to deliver high performance, whether in the field or in the office. This is why the safety of our employees, contractors and, ultimately, the communities we serve will always be a priority.

On a like-for-like basis, with the safety performance of KeySpan employees included in both years, our lost time injuries have been reduced by nearly 11% in 2008/09 compared with 2007/08. Overall, the lost time injury frequency rate has improved to 0.25; down from 0.30. We believe a key contributor to that success is our trusted to work responsibly approach, which builds on our well established framework of engaging employees and giving them increased ownership for making safety decisions. The 'trusted' campaign was chosen as the winner of the 2008 Campaign of the Year in the UK by the Safety and Health Practitioner/Institution of Occupational Safety and Health awards.

Recognising the importance of demonstrable commitment from senior leadership and managers, a series of workshops have been conducted to reinvigorate the safety effort and capture crucial feedback from trade union safety representatives and front line managers to further embed the trusted approach.

Efficiency at work – gas road repairs

Road excavation is sometimes necessary to upgrade equipment and services to improve our operational performance. This type of work must always be done in line with legislative and regulatory obligations and completed in an efficient way to minimise disruption.

The UK's Traffic Management Act 2004 is designed to provide the basis for better conditions for all road users through the proactive management of the national and local road network. In 2006, we formed the traffic management act (TMA) programme to refine and align our existing processes with the legislation.

Our efforts were recognised in December when we were awarded Team of the Year in the 2008 Utility Industry Achievement Awards. The awards are backed by trade publication Utility Week and were judged by an independent panel of industry experts who recognised the TMA programme as an excellent example of collaboration and teamwork.

Expanding our capabilities and identifying new financeable opportunities to grow

£300m

Grain LNG, the largest LNG facility in the UK and the US, will play a major role in providing energy security and diversity of supply in the UK. Commercial operation of the newly expanded terminal (phase II) was completed in December 2008. Further expansion is under way and is expected to be completed by 2010 with a £300 million planned investment for phase III. Grain has a storage capacity of 960,000 standard cubic metres and the goal is for it to become a zero waste facility by 2012.

Responsibility to the community

We recognise that investing in the communities we serve is equally as important as the services we provide. A major part of this is the established culture of volunteering among our employees.

In the US, we have had a 20 year successful partnership with Junior Achievement donating more than $1 million (£650,000) to this programme, which educates students about workforce readiness. Employees also participated in the Making Strides Against Breast Cancer walk fundraiser and in Massachusetts alone $25,000 (£17,000) was raised. These donations help the American Cancer Society fund research and support programmes for patients and their families.

Since 2007, we have made continual progress with Special Olympics Great Britain (SOGB) raising more than £25,000 ($38,500) for SOGB clubs and establishing several employee led volunteer groups across the business. To date, nearly 500 employees have registered their interest in supporting SOGB. Three hundred of those employees have already participated in at least one volunteering activity, totalling nearly 4,500 volunteer hours.

Responsibility to the workforce

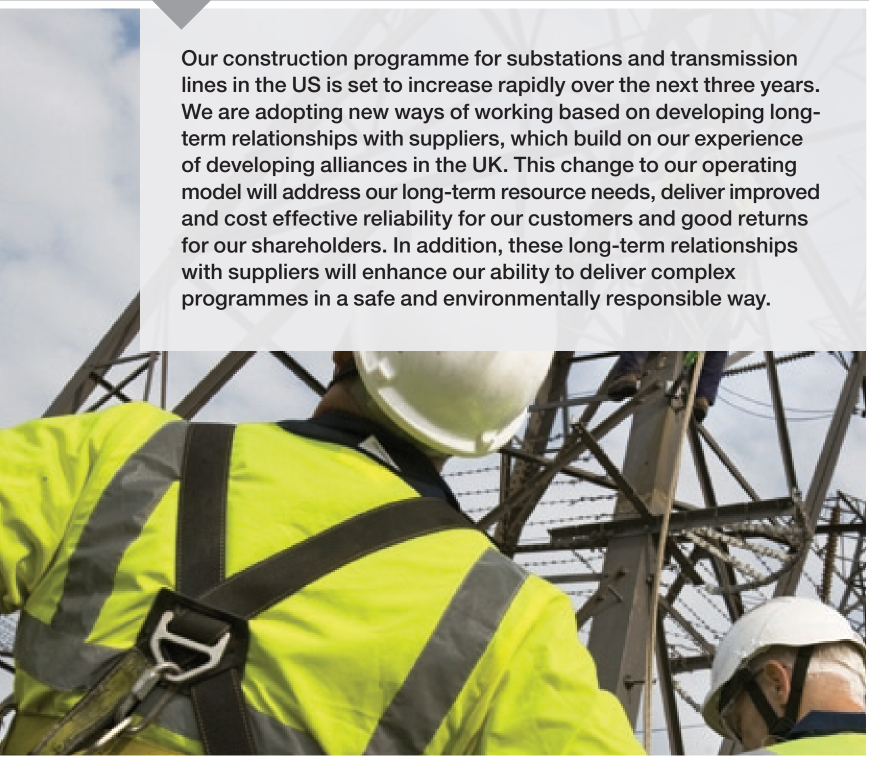
With an employee base of more than 27,500 in the UK and US and a service territory that covers various communities on both sides of the Atlantic, inclusion and diversity is not simply a 'nice to have', it is the right thing to do as a business.

Recently, we clarified our inclusion and diversity business case and launched our global inclusion charter. This charter will build on past successes and redefine expectations. Our strong commitment to inclusion and diversity within the Company has not gone unnoticed externally.

For the third consecutive year, we were the only energy utility listed in the Times/Aurora Where Women Want to Work TOP 50. We also had a first time listing among Business Week's Best Places to Intern list in the US, and we were the only energy utility in the Stonewall Top 100 list of lesbian, gay and bisexual friendly companies in the UK.

We are also pleased that internal measures of our achievements are showing improvement with the percentage of ethnic minorities within the Company increasing to 13.2%, a rise of 0.9%.

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



Our construction programme for substations and transmission lines in the US is set to increase rapidly over the next three years. We are adopting new ways of working based on developing long-term relationships with suppliers, which build on our experience of developing alliances in the UK. This change to our operating model will address our long-term resource needs, deliver improved and cost effective reliability for our customers and good returns for our shareholders. In addition, these long-term relationships with suppliers will enhance our ability to deliver complex programmes in a safe and environmentally responsible way.

Building trust, transparency and an inclusive and engaged workforce

Our annual employee survey helps us learn employees' views on National Grid. We had a very positive response rate of 91.8% in 2009 and we are committed to acting on the results. For example, in past surveys, employees said they did not understand the Company direction and how they made a difference. Line of sight will help to make this clear by showing how what we do every day connects directly to our Company vision, strategy and objectives.

Our vision and objectives in action continued

Energy efficiency

We remain committed to being an innovative leader in energy management. Doing this allows us to save energy, protect the environment and help our customers save money.

Warm Wales was set up by National Grid in 2004 to help develop energy efficiency measures in fuel poor homes. To date, more than 30,000 households have benefitted from energy efficiency measures. This has generated £50 million ($77 million) in lifetime energy savings, and achieved an annual carbon saving of more than 8,100 tonnes per year; the equivalent of removing 1,928 cars each doing 12,000 miles a year from UK roads.

For the past 20 years, we have been running highly successful energy efficiency programmes in the US. Programmes such as home energy audits, high efficiency heating and appliance rebates, and commercial lighting retrofits have helped customers reduce their electricity consumption by more than 32 billion kilowatt hours and gas consumption by more than 70 million therms.

Securing a reliable future energy supply

Securing and improving the diversity of supply for future energy needs is a growing global concern. In the UK, the demand for gas is increasing while the North Sea gas supply, a major current source of UK gas, is dwindling.

It is estimated that by 2010 the UK will import approximately 50% of its gas. This is one of the reasons why we are increasing our liquefied natural gas (LNG) importation capacity at the Isle of Grain – the largest facility in the UK and the US. We are continuing to invest in Grain and by 2010 it should have the capacity to import 14.8 million tonnes per year – around 20% of the UK's forecast gas demand.

In the US, LNG is an essential part of our future supply outlook. We have 16 storage facilities across New England and New York with a total storage capacity of more than 9 billion standard cubic feet. LNG allows us to maintain our supply and demand balance and meet hourly peaks. It is also used to support the distribution system by bringing on LNG when needed to support system pressures.

Developing our talent, leadership skills and capabilities

£5.5m

A skilled workforce is critical to any company's success and we are committed to developing the talent and leadership skills of all our employees. For instance, our two new leading edge skills development centres in Hollinwood and Hitchin in the UK provide scenario based training courses. The £5.5 million ($8.5 million) centres, along with an existing one at Eakring, aim to set industry leading safety and competence standards for apprentices, new recruits and existing employees in all lines of business.

Climate change – our responsibility to take action

We believe in leading by example. As part of our commitment to safeguarding our global environment for future generations, we are dedicated to reducing our own greenhouse gas emissions.

We have completed a thorough review of our greenhouse gas emissions inventory for the 2007/08 fiscal year, including the former KeySpan operations as if we had owned them for an entire year. This has provided a detailed assessment of the carbon footprint for each line of business and has helped identify the most effective and economical ways to reduce our greenhouse gas emissions. Carbon budgets and emission reduction targets, measured in tonnes of carbon dioxide equivalent, were adopted by each line of business in April 2009.

We have been exploring ways that the UK can meet the European Union's renewable target. This target focuses on achieving 15% of energy demand from renewable sources by 2020. Transmission UK have developed the Gone Green scenario that anticipates a sizeable increase in the volume of onshore and offshore wind generation. We have worked with the Electricity Networks Strategy Group to examine proposed investments to deliver the necessary transmission infrastructure.

It is estimated that there are some five million homes in the UK affected by fuel poverty; we intend to invest around £10 million ($14.4 million) in new gas connections to some 5,000 homes. With others, we have secured commitment for around £13 million ($18.7 million) in third party funding for new gas heating. We estimate that this investment will help reduce emissions by 20,000 tonnes per year.

In the US, we have added around 60 new compressed natural gas cars to our nearly 700 strong fleet of vehicles this year, furthering our effort to reduce our carbon footprint and reduce greenhouse gases. Our generation stations make up a sizeable proportion of our carbon emissions. Ongoing projects to modernise and improve the efficiency of these plants, such as the project at Northport on Long Island, will play a major role in helping us reach our 80% target greenhouse gas emission reduction by 2050.

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

As part of our new brand strategy, an interactive website was created using a virtual polar bear named Floe designed to inspire people to make a difference in the way they use energy by helping them to understand the impact of their energy choices on climate change. To date, visitors to the US website have pledged to save more than 64 million pounds (29,000 tonnes) of carbon – the equivalent of removing more than 5,200 cars each doing 12,000 miles a year from US roads. Since the US brand campaign launch, National Grid's brand recognition among residential customers has risen to 90%. Similarly, unaided awareness increased 22% in one year.

Board of Directors

George Rose, Sir John Parker and Steve Holliday

Nick Winser and Steve Lucas

Sir John Parker, Chairman

Appointed October 2002, Age 67, N (ch)

Sir John Parker became Chairman following the merger of National Grid Group plc and Lattice Group plc having been Chairman of Lattice Group plc since its demerger from BG Group plc in 2000. Sir John's career has encompassed the engineering, shipbuilding and defence industries. He is Chair of the Non-executive Directors Committee – Bank of England, Deputy Chairman of DP World (Dubai), joint Chairman of Mondi plc, a Non-executive Director of Carnival plc and Carnival Corporation, Inc., and the European Aeronautic Defence and Space Company (EADS) and Chancellor of the University of Southampton. Sir John is a former Chairman of P&O Group and of RMC Group plc and a former Chairman and Chief Executive of Harland & Wolff plc and Babcock International Group PLC.

Steve Holliday, Chief Executive

Appointed March 2001, Age 52, E (ch), F

Steve Holliday became Chief Executive of National Grid in January 2007 having joined National Grid Group plc as Group Director, UK and Europe in March 2001. Following the merger of National Grid Group plc and Lattice Group plc in October 2002, he was responsible for the electricity and gas transmission businesses. He was appointed as Group Director responsible for UK Gas Distribution and Business Services in April 2003. He was formerly an Executive Director of British Borneo Oil and Gas. Previously, he spent 19 years with the Exxon Group, where he held senior positions in the international gas business and managed major operational areas such as refining and shipping. He is a Non-executive Director of Marks and Spencer Group plc.

Bob Catell, Deputy Chairman

Appointed September 2007, Age 72, R&R

Bob Catell was appointed to the Board in September 2007 as an Executive Director and Deputy Chairman following the acquisition of KeySpan Corporation of which he was Chairman and Chief Executive Officer. He retired as an Executive Director of the Company on 31 March 2009 and will retire as a Non-executive and Deputy Chairman following the conclusion of the 2009 Annual General Meeting. He is a co-Chair of the Board of the Downtown Brooklyn Partnership and Immediate Past Chairman of the Long Island Association. He is an ex officio Director and Chairman Emeritus of The Partnership for New York City, Inc., past Chairman of the American Gas Association and the US Energy Association (USEA). He is a Vice Chairman of the US National Petroleum Council's Natural Gas Committee and is on the Board of the Business Council of New York, Keyera Energy Management Ltd, Sovereign Bancorp Inc., Advisory Board and JP Morgan Chase Inc., Metropolitan Advisory Board.

Steve Lucas, Finance Director

Appointed October 2002, Age 55, E, F

Steve Lucas has been Finance Director since October 2002 and is additionally responsible for Property and UK and US Shared Services. He joined the Board following the merger of National Grid Group plc and Lattice Group plc in October 2002. He had been Executive Director, Finance of Lattice Group plc since its demerger from BG Group plc. Previously, he was Treasurer of BG Group plc having joined British Gas plc in 1994. Prior to this he was with Shell International Petroleum Company for 11 years occupying a number of finance management positions and treasury roles including seven years in Africa and the Far East. Steve is also a Non-executive Director of Compass Group PLC.

Nick Winser, Executive Director

Appointed April 2003, Age 48, E

Nick Winser joined the Board in April 2003 as Executive Director responsible for Transmission. He was previously Chief Operating Officer of the US transmission business for National Grid Transco plc. He joined National Grid Company plc in 1993, becoming Director of Engineering in 2001. Prior to this, he had been with Powergen since 1991 as principal negotiator on commercial matters, having joined the Central Electricity Generating Board in 1983 where he served in a variety of technical engineering roles. He is a Non-executive Director of Kier Group PLC and co-Chair of the Energy Research Partnership.

Mark Fairbairn, Executive Director

Appointed January 2007, Age 50, E

Mark Fairbairn was appointed to the Board in January 2007 as Executive Director with responsibility for Gas Distribution. He joined National Grid in 1989 from BNFL. He was awarded the OBE in 2002 for his services to the electrical industry in respect of his leadership of the fundamental changes implemented for the introduction of the New Electrical Trading Arrangements (NETA). Previously Chief Operating Officer of the UK gas distribution business, he has played a key role in helping to restructure the UK gas distribution market through the gas networks sale and the creation of National Grid's new gas distribution business.

Tom King, Executive Director

Appointed August 2007, Age 47, E

Tom King was appointed to the Board as Executive Director in August 2007 with responsibility for Electricity Distribution & Generation operations. Tom was President of PG&E Corporation and Chairman and CEO of Pacific Gas and Electric Company from 2003 to 2007. Before that, he served as Senior Vice President of PG&E Corporation, and as President of PG&E National Energy Group having joined PG&E Gas Transmission as President in 1998. Prior to PG&E, he served as President and Chief Operating Officer of Kinder Morgan Energy Partners and served for nine years in officer positions in Enron's inter-state pipeline businesses.

Stephen Pettit, Linda Adamany and Ken Harvey

Maria Richter and Mark Fairbairn

Philip Aiken, Helen Mahy and Bob Catell

Tom King and John Allan

Ken Harvey, Non-executive Director and Senior Independent Director

Appointed October 2002, Age 68, N, R, R&R

Ken Harvey joined the Board following the merger of National Grid Group plc and Lattice Group plc, having been appointed to the Lattice Group plc board in September 2000. He was appointed Senior Independent Director in October 2004. He is Chairman of Pennon Group plc. A chartered engineer, Ken is a former Chairman and Chief Executive of Norweb plc, and a former Chairman of Comax Holdings Ltd, The Intercare Group plc and Beaufort International Group plc.

Linda Adamany, Non-executive Director

Appointed November 2006, Age 57, A, R&R

Linda Adamany joined the Board in November 2006. Until April 2008 she was Group Vice President, BP plc. Linda has over 25 years' experience in the energy sector, having held various roles for BP in the UK and US, including Chief Executive of BP Shipping and Group Vice President and Commercial Director, BP Refining & Marketing.

Philip Aiken, Non-executive Director

Appointed 15 May 2008, Age 60, A, R&R

Philip Aiken joined the Board in May 2008. He is Chairman of Robert Walters plc, a Non-executive and Senior Independent Director of Kazakhmys plc and senior advisor to Macquarie Capital (Europe) Limited. Philip was previously Group President of BHP Billiton's Energy business, an Executive Director of BTR plc and held senior positions in BOC Group plc.

John Allan, Non-executive Director

Appointed May 2005, Age 60, F, R (ch)

John Allan joined the Board in May 2005. He retires as CFO of Deutsche Post on 30 June 2009, having been appointed to the Management Board following its acquisition of Exel plc in December 2005 where he had been Chief Executive since September 1994. He is Non-executive Director of ISS and will become Chairman of DSG International plc on 2 September 2009. John started his career in marketing, at Lever Brothers, moving to Bristol-Myers Company Ltd and then Fine Fare Ltd. He joined BET plc in 1985 and was appointed to the board in 1987. He is a member of the supervisory boards of both Lufthansa AG and Deutsche Postbank and a member of the University of Edinburgh Campaign Board. John was previously Chairman of Samsonite Corporation and a Non-executive Director of PHS Group plc, Wolseley plc, Hamleys plc and Connell plc.

Stephen Pettit, Non-executive Director

Appointed October 2002, Age 57, F, R, R&R (ch)

Stephen Pettit was appointed to the Board following the merger of National Grid Group plc and Lattice Group plc, having been appointed to the Lattice Group plc board in 2001. He is a Non-executive Director of Halma plc and is Chairman of ROK plc. Stephen is also a member of BT plc's Equality of Access Board. He is a former Executive Director of Cable & Wireless plc. Before joining Cable & Wireless, he was Chief Executive, Petrochemicals at British Petroleum.

Maria Richter, Non-executive Director

Appointed October 2002, Age 54, A, F (ch), N

Maria Richter was appointed to the Board in October 2003. Maria worked for Morgan Stanley between 1993 and 2002, most recently as Managing Director of its Corporate Finance Retail Group. Prior to this, she was Managing Director of Investment Banking in the Southern Cone of Latin America, and Executive Director and Head of Independent Power and Structured Finance Business. Previous appointments include Vice President of Independent Power Group for Salomon Brothers, and Vice President of Prudential Capital Corporation and Power Funding Associates. Maria is a Non-executive Director of Pro Mujer International, an international microfinance organisation, The Pantry, Inc., The Vitec Group plc and The Bessemer Group Inc.

George Rose, Non-executive Director

Appointed October 2002, Age 57, A (ch), N, R

George Rose was appointed to the Board following the merger of National Grid Group plc and Lattice Group plc, having been appointed to the Lattice Group plc board in September 2000. He has been Finance Director of BAE Systems plc since 1998, having joined the company in 1992. He is a Non-executive Director of SAAB AB and a member of the Industrial Development Advisory Board. George is also a former Non-executive Director of Orange plc.

Helen Mahy, Company Secretary & General Counsel

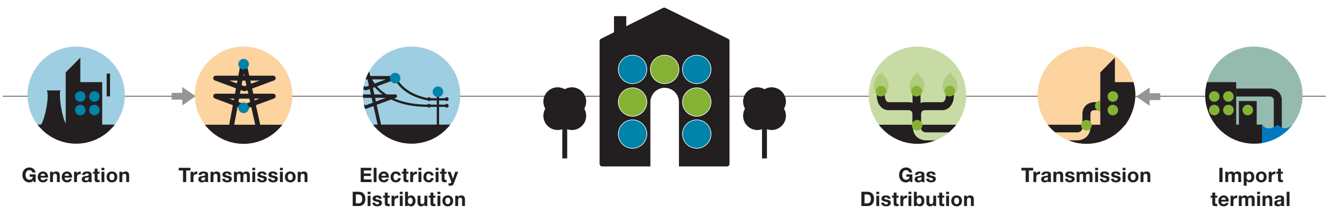
Appointed October 2002, Age 48, E

Helen Mahy was appointed Company Secretary following the merger of National Grid Group plc and Lattice Group plc, having been Company Secretary at Lattice Group plc since March 2002. She was additionally appointed as General Counsel from October 2003. She is a barrister and an Associate of the Chartered Insurance Institute. Helen was appointed a Non-executive Director of Aga Rangemaster Group plc in March 2003.

Committee membership

A Audit
E Executive
F Finance
N Nominations
R Remuneration
R&R Risk & Responsibility
(ch) denotes Committee chairman

Operating and Financial Review



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18 Principal operations
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20 External market and regulatory environment
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26 Vision, strategy and objectives
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40 Risks and opportunities
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78 Discontinued operations
79 Financial position and financial management
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Principal operations

Our principal operations are the ownership and operation of regulated electricity and gas infrastructure networks in the UK and the US, serving around 19 million consumers directly and many more indirectly. We also have interests in related markets, including electricity interconnectors, metering services, liquefied natural gas (LNG) facilities and property in the UK, LNG storage and transportation and non-regulated gas transmission pipelines in the US.

We have over 27,500 employees located in the UK and the US.

The performance of our principal businesses is reported by segment, reflecting the management responsibilities and economic characteristics of each activity. Our principal businesses and segments, together with other activities, are below. Discontinued operations represent businesses that we have committed to exit, including the Ravenswood generation station in New York City that we sold on 26 August 2008.

Transmission

UK The transmission of electricity and gas in the UK as owner and operator of the high voltage electricity transmission network in England and Wales, the gas national transmission system in Great Britain, the electricity interconnector with France and storage facilities for LNG. Operator of the electricity transmission networks in Scotland.

US The transmission of electricity in the northeastern US as owner of high voltage electricity transmission networks in upstate New York and in New England.

Gas Distribution

UK The distribution of gas in England as owner and operator of four of Great Britain's eight gas distribution networks.

US The distribution of gas in the northeastern US as owner and operator of gas distribution networks in upstate New York, New York City, Long Island, Massachusetts, New Hampshire and Rhode Island.

Electricity Distribution & Generation

US The distribution and generation of electricity in the northeastern US as owner of electricity distribution networks in upstate New York, Massachusetts, New Hampshire and Rhode Island, as operator and manager of the electricity transmission and distribution network on Long Island on behalf of the Long Island Power Authority, and as a generator of electricity on Long Island.

Non-regulated businesses and other

Other services related to our main operations, principally in the UK. They do not constitute a segment so are reported, together with other operations and corporate activities, as 'other activities'.

UK Principally metering services, property management, our LNG importation terminal on the Isle of Grain, and the construction and operation of an electricity interconnector between The Netherlands and the UK through our BritNed joint venture.

US Includes LNG storage, LNG road transportation, unregulated transmission pipelines, US gas fields and home energy services.

This Operating and Financial Review describes the main trends and factors underlying our development, performance and position during the year ended 31 March 2009 as well as those likely to affect us 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.

Organisation and structure

Organisation

Our organisational structure and executive responsibilities ensure a balance between activities that are local, by lines of business and those that are common throughout National Grid.

The Board of Directors has overall responsibility for the governance, strategy and management oversight of National Grid. The Executive Committee, led by the Chief Executive, is responsible for day-to-day management of National Grid and for the execution of our strategy as approved by the Board.

Board of Directors

Executive Committee

Chief Executive Steve Holliday

Finance and shared services Steve Lucas

Transmission Nick Winser	**Gas Distribution** Mark Fairbairn
Electricity Distribution & Generation Tom King	**Non-regulated businesses* and other (including corporate functions and information services)**

*Responsibility for each of our non-regulated businesses is allocated to the Executive Directors based on the nature of each business

In addition to the Executive Committee, the Board has also established a number of other committees that assist in exercising governance over National Grid's activities, including the Audit, Finance, Nominations, Remuneration, Risk & Responsibility, and Disclosure Committees.

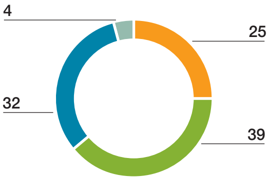
More information on the roles of the Board and these committees is available in the Corporate Governance section on pages 90 to 99.

Business and geographic analysis

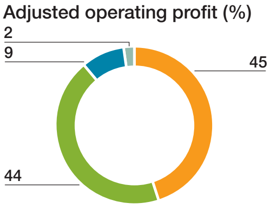
Our continuing operations are organised by lines of business as follows:

Business analysis 2008/09
Continuing operations

Revenue (%)



Adjusted operating profit (%)

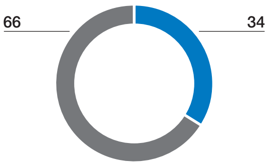


Transmission Gas Distribution Electricity Distribution & Generation
Non-regulated businesses and other

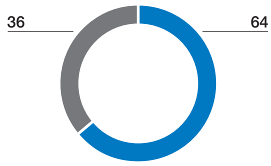
Our businesses are divided between the UK and the US as follows:

Geographical analysis 2008/09
Continuing operations

Revenue (%)



Adjusted operating profit (%)



UK US

The charts show revenue and adjusted operating profit from continuing operations for the year ended 31 March 2009. Adjusted operating profit excludes exceptional items, remeasurements and stranded cost recoveries.

Revenue in the US includes commodity charges to customers for the energy they use, and on which we make no margin; revenue in the UK does not include such charges.

History

National Grid originated from the restructurings of the UK gas industry in 1986 and the UK electricity industry in 1990. We entered the US electricity delivery market in 2000 in New England and expanded into upstate New York in 2002. We increased our UK wireless infrastructure activities in 2004 and in 2005 we sold four UK regional gas distribution networks.

In 2006, we acquired the gas distribution network in Rhode Island and in 2007, we acquired KeySpan. We sold our UK and US wireless infrastructure operations and the Basslink electricity interconnector in Australia during 2007. In 2008, we sold the Ravenswood generation station.

Key milestones

1986	British Gas incorporated as a public limited company
1990	Electricity transmission network in England and Wales transferred to National Grid on electricity privatisation
1995	National Grid listed on the London Stock Exchange
1997	British Gas (BG) demerged Centrica
1997	National Grid demerged Energis
2000	Lattice Group demerged from BG and listed separately
2000	New England Electric System and Eastern Utilities Associates acquired
2002	Niagara Mohawk Power Corporation merged with National Grid in US
2002	Merger of National Grid and Lattice Group to form National Grid Transco
2004	Acquisition of UK wireless infrastructure network from Crown Castle International Corp.
2005	Sales of four UK regional gas distribution networks and adopted National Grid as our name
2006	Acquisition of Rhode Island gas distribution network
2007	Sales of UK and US wireless infrastructure operations and of the Basslink electricity interconnector in Australia
2007	Acquisition of KeySpan Corporation
2008	Sale of the Ravenswood generation station

The history of operations that are now part of National Grid actually dates back much further than the dates above. For example, the first national gas company in the UK commenced operations in 1812.

External market and regulatory environment

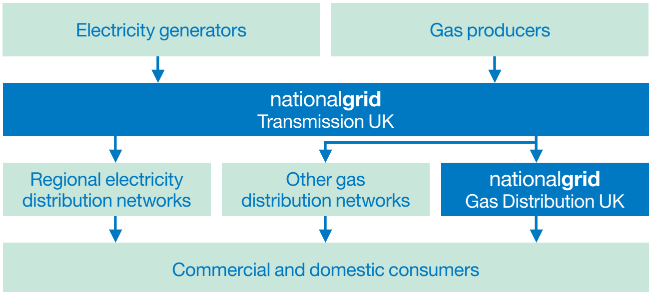
Markets in which we operate

The principal markets in which we operate are the electricity and gas markets in the UK and the northeastern US.

The generation and supply of electricity and gas in the UK and in most states in the northeastern US are competitive in that consumers can contract with different suppliers to obtain the energy they need. Those suppliers are then responsible for sourcing that energy from electricity generators or from gas extractors or importers as appropriate, as well as arranging for that energy to be delivered through physical delivery networks. These networks, including the ones we operate, are generally monopolies in their local areas as, for the majority of consumers, there are no alternative methods of receiving electricity or gas.

Energy delivery in the UK

In the UK, domestic and commercial consumers contract directly with energy suppliers who obtain the energy required from electricity generators and gas shippers.



In general, energy is transported through electricity or gas transmission networks to regional electricity or gas distribution networks that then deliver energy to consumers on behalf of suppliers. Certain end customers, primarily large industrial users, receive electricity or gas direct from the relevant transmission network.

We are the owner and operator of the high-voltage electricity transmission network in England and Wales, operator (but not owner) of the two electricity transmission networks in Scotland and owner and operator of the gas national transmission system and of four of the eight regional gas distribution networks in Great Britain. We charge energy suppliers, electricity generators and gas shippers for our services, which they then incorporate into the prices charged to end consumers.

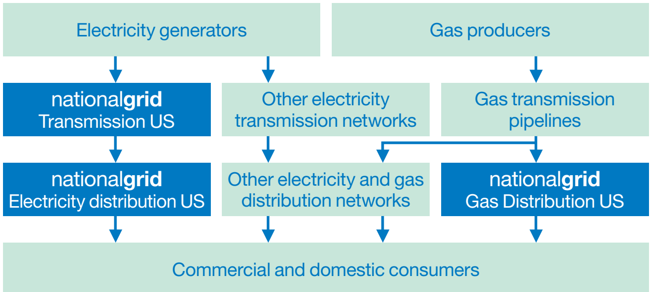
The other principal infrastructure owners and operators in the UK are EDF Group, which owns three electricity distribution networks, Scottish & Southern Energy, Iberdrola, E.ON, Western Power Distribution, and MidAmerican Energy, each of which own two electricity distribution networks, and Electricity North West, which owns one electricity distribution network. Scottish & Southern and Iberdrola also each own an electricity transmission network in Scotland, which we operate in both cases. The gas distribution networks in Scotland and southern England are owned by Scotia Gas Networks, in the north of England by Northern Gas Networks and in Wales and the west of England by Wales & West Utilities.

Energy delivery in the northeastern US

In most states in the northeastern US, consumers are able to purchase their energy through independent energy suppliers. While a number of large customers have chosen suppliers other than the local utility provider, the majority of residential and small commercial consumers still purchase electricity or gas from their local electricity or gas distribution network business.

The major alternative fuel source to gas is oil, which is used by many consumers for domestic heating purposes.

Electricity is transported either directly from generators into local electricity distribution networks or via electricity transmission networks, while gas is obtained from import terminals or inter-state pipelines and then transported through local gas distribution networks. Certain end customers, primarily large industrial users, receive electricity or gas directly from the electricity transmission networks or inter-state gas transmission pipelines.



Our US electricity and gas distribution businesses support regulatory policies that encourage customers to purchase their energy from independent suppliers. Where this occurs, we deliver that energy to consumers on behalf of those suppliers. For the majority of consumers in our operating areas who continue to purchase their energy from us, we source energy from electricity generators or gas suppliers on behalf of our customers in accordance with regulatory approved arrangements. We are generally responsible for billing customers both for our delivery services and for electricity and gas consumed (on which we do not charge any additional margin).

On Long Island, we operate the electricity transmission and distribution network on behalf of its owner, the Long Island Power Authority (LIPA). We own numerous electricity generation plants on Long Island that supply power under contract to LIPA.

Electricity transmission and distribution networks, including the ones we own, are members of the regional transmission operators or independent system operators that have the responsibility for balancing electricity supply with demand and for the reliability of the regional transmission network. Gas distribution networks, including the ones we own, are each responsible for balancing gas supply with demand within their respective distribution area.

There are more than 25 companies and organisations that own or operate energy delivery infrastructure in the northeastern US, including National Grid, Consolidated Edison, NSTAR, Iberdrola and Northeast Utilities.

Other areas in which we operate

Our other businesses primarily operate in energy related markets in the UK and the US or are directly connected to our regulated businesses as described above. This includes our metering services businesses in the UK, incorporating our legacy regulated metering business which owns approximately 80% of the domestic gas meters in the UK and our competitive metering services business which has about a 9% market share of the domestic gas meters in the UK. In addition, we have a significant property portfolio and management business.

Regulation

Due to our position in, and importance to, the economies we serve, our electricity and gas transmission and distribution businesses are subject to UK, European Union and US federal and state laws and regulations. Therefore, we have multiple regulators, each of which exercises power over how we operate within their respective jurisdictions.

Our businesses are also subject to safety legislation in the UK and the US, which is enforced by the Health and Safety Executive (HSE) in the UK and by federal safety bodies and state and local authorities in the US. Our UK gas operations work under a permissioning regime, whereby our organisation, processes and procedures are documented in safety cases that are subject to acceptance by the HSE.

Our principal market regulators and associated rate plans and price controls can be summarised as follows:

UK

In the UK, energy networks are regulated by the Office of Gas and Electricity Markets (Ofgem).

Ofgem operates under the direction and governance of the Gas and Electricity Markets Authority and has established price control mechanisms that restrict the amount of revenue that can be earned by regulated businesses.

We have eight price controls in the UK, comprising two for our UK electricity transmission operations, two for our gas transmission operations, and one for each of our four regional gas distribution networks. These price controls provide a financial incentive to invest, as we receive a return on efficiently incurred capital expenditure that increases our regulatory asset base, and also provide incentives by which we can gain or lose for our performance in managing system operation, in controlling internal costs, and for our service quality.

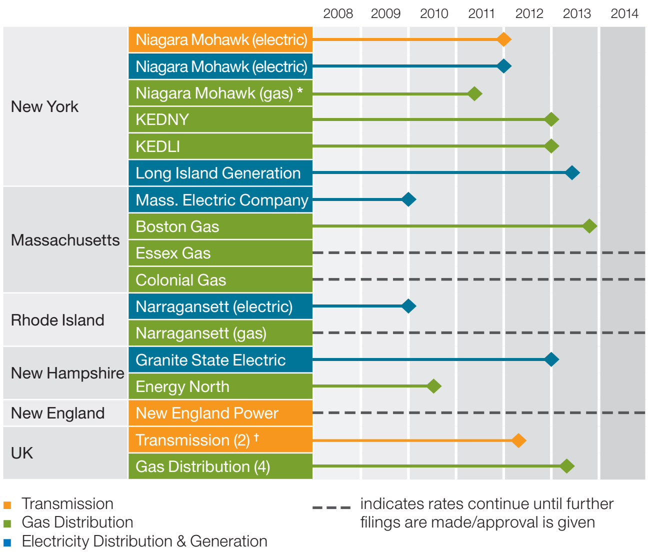
US

In the US, public utilities are regulated by the Federal Energy Regulatory Commission (FERC) and by utility commissions in each of the states, including the New York Public Service Commission, the Massachusetts Department of Public Utilities, the Rhode Island Public Utilities Commission and the New Hampshire Public Utilities Commission. These US regulators set service standards, determine allowable levels of return and usually approve mergers and acquisitions of public utilities. The FERC also regulates public utility holding companies, including the US business of National Grid.

We have four electricity rate plans and nine sets of gas rates in the US, covering our electricity distribution operations in upstate New York, Massachusetts, Rhode Island and New Hampshire and our gas distribution networks in upstate New York, New York City, Long Island, Massachusetts, New Hampshire and Rhode Island. Our electricity rate plan in upstate New York also covers our electricity transmission network in that state. Our rates for our electricity transmission network in New England are subject to federal regulatory approval.

Our rate plans are based on our cost and regulatory asset base, together with a return on capital expenditure. Some rate plans include earned savings mechanisms that allow us to retain a proportion of the savings we achieve through improving efficiency, with the balance benefiting customers. We are also permitted to recover commodity and other pass-through costs which we incur, together with the recovery of stranded costs. Stranded cost recoveries represent the recovery of historical generation related costs for assets that are no longer owned. Our reliability performance under certain rate plans is subject to performance targets established by the relevant regulator, under which we can be subject to monetary penalties for failing to meet those targets.

Our major current UK price control periods and indicative US rate plan periods can be summarised as follows:



* Based on settlement filed, awaiting approval

† System operator price control reviews for electricity and gas are not illustrated and are in effect until 31 March 2010

More information about the regulatory environments in which we operate, and on the nature of our rate plans and price controls, is provided in each of the business sections starting on pages 48, 57 and 66.

As a public company with shares and other securities listed on the London and New York stock exchanges, we are subject to regulation by the UK Financial Services Authority, the US Securities and Exchange Commission and the exchanges themselves.

Current and future developments

External market developments

Market structure and ownership

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

In the northeastern US, there have been no significant structural or ownership changes to the electricity and gas transmission and distribution networks during the year other than the acquisition by Iberdrola of Energy East, a utility company operating in New York, Connecticut, Massachusetts and Maine in September 2008.

Energy market developments

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

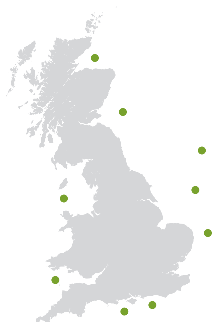
Both the UK and the US energy markets continue to undergo developments driven by the projected increased reliance on imported gas (UK) and unconventional gas sources (US), on new sources of electricity generation, including renewables, and increased focus on security of supply. In the UK, the energy sector faces significant challenges relating to the declining gas reserves in the North Sea, meeting the Government's targets on renewable generation, and significant levels of retirement of the current power generation fleet.

As a consequence of the decline in gas production from the North Sea, our latest forecast is that the UK will import around 50% of its gas requirements by the end of the decade.

National Grid has led a major assessment of the UK electricity transmission system, and the changes needed to ensure that renewable targets can be met. The assessment considered the potential locations and volume of renewable generation and the network requirements to connect it. We identified a requirement for £4.7 billion of transmission investment by 2020.

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

Illustration of the nine zones put forward by The Crown Estate for potential offshore wind projects in round three



This year has seen a significant increase in nuclear connection requests and in April 2009 the Government released its list of 11 potential sites for the development of new nuclear power plants.

During April 2009, the UK Government announced its commitment to the development of future carbon capture and storage networks.

These changes are expected to impact all our electricity and gas transmission networks. In particular, they will require significant investment in our UK electricity and gas transmission networks, while in the US asset replacement and renewable power developments will require increasing investment in our US electricity transmission and distribution networks.

In December 2008, phase II of our LNG import terminal on the Isle of Grain was commissioned. Progress is continuing on phase III with commissioning expected in 2010. Once fully commissioned, it is anticipated that our facility will have the capacity to import approximately 20% of the UK's gas demand.

In the US, the administration change has brought an increased political desire to tackle the issues around climate change and security of supply. The development of smart grid technologies is expected to enable more efficient use of the transmission and distribution grid, lower line losses, facilitate greater use of renewables and provide information to utilities and their customers that will lead to greater investment in energy efficiency and reduced peak load demands.

Regulatory developments

UK and European regulatory developments

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

In March 2008, Ofgem announced a review of the current RPI–X based regulatory framework. It is a two year assessment (RPI-X@20) of the current regulatory regime and its ability to address the challenges facing energy networks in the future. The outcome of this review is unlikely to impact our current regulatory settlements, but could influence future price controls from 2012.

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

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

US regulatory developments

The principal US regulatory policy developments continue to focus on reducing carbon emissions, involving the need for significant increases in energy efficiency and the development of renewable generation. State regulatory commissions and other policy makers in the various jurisdictions are taking different approaches, including the establishment of targets for reductions in electricity load growth, utility energy efficiency programmes, and renewable generation. There is also an ongoing debate about the potential for revenue decoupling mechanisms to address disincentives to implementing energy efficiency programmes. Massachusetts and New York regulatory bodies have instructed utilities to file decoupling proposals as part of their next rate cases. There is also an increasing interest in exploring the deployment by utilities of smart grid technologies.

At the federal level, the new administration and congress have focused new energy and environmental legislation in two main areas: the economic stimulus bill and emerging comprehensive climate and energy legislation. In February 2009, the $787 billion American Recovery and Reinvestment Act was passed. The Act, which covers all sectors of the economy, has significant provisions for the energy industry, including amounts for the expansion of the electricity transmission network with focus on smart grid development, a broad array of energy efficiency programmes, clean fuel transportation incentives, and research and development programmes.

There is also a high priority on passing comprehensive climate change and energy policy legislation in 2009, including a proposal for a cap and trade regime that would reduce carbon emissions over 80% by 2050.

Price controls, rate plans and other agreements

UK price controls

New price controls with respect to our role as owner of four of the eight gas distribution networks in the UK, covering the period from 1 April 2008 to 31 March 2013, came into effect and have been implemented successfully. The key elements are a 4.3% post-tax real rate of return (equivalent to a 4.94% vanilla return) on our regulatory asset value, a £2.5 billion baseline five year capital expenditure allowance and a £1.6 billion five year operating expenditure allowance. We were subject to one year system operator price controls for our electricity and gas transmission operations for 2008/09. One year system operator price controls for our electricity and gas transmission operations for 2009/10 have been agreed with Ofgem.

US rate plans

We were granted a $13.6 million (£9.5 million) gas distribution rate increase in Rhode Island, effective 1 December 2008. In New Hampshire, we reached settlement in our gas distribution rate application on all issues with the exception of the return on equity. The rate increase is dependent on the outcome of the litigation on the return of equity issue.

We have also filed, or are planning to file, rate plan applications that would increase gas distribution rates in upstate New York, increase electricity generation rates on Long Island and increase electricity distribution rates in Massachusetts and Rhode Island.

We have also applied for deferred recovery of incremental investment, and deferred recovery of electricity related costs and revenue items in upstate New York.

Other agreements

We have agreements with the Long Island Power Authority (LIPA) for the period until 2013 with respect to our role as operator of their electricity transmission and distribution network on Long Island. Our agreements with LIPA also give them an option to purchase one generation plant that we own, and cover our provision of energy procurement and management services.

We also have a joint venture arrangement with TenneT to construct an electricity interconnector between the UK and The Netherlands and an agreement with Elia to explore the feasibility of constructing an electricity interconnector with Belgium.

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

We have contracts with E.ON, Iberdrola and Centrica for a further 6.7 billion standard cubic metres of long-term LNG importation capacity at our Isle of Grain LNG importation terminal in the Thames Estuary, this being phase III of our development of this facility. Work commenced during 2007 and a contract has been awarded to CB&I to deliver the second jetty, an additional 190,000 cubic metre storage tank and associated works (phase III). National Grid is planning to invest approximately £300 million (excluding capitalised interest and expenditure associated with gas blending) in phase III of Grain LNG.

Legal and related matters

An update on the ongoing Metering competition and KeySpan Department of Justice investigations that were reported in last year's Annual Report and Accounts is provided on page 85. In October 2008, we informed and launched a joint investigation with Ofgem into the misreporting of gas distribution mains replacement activity, further details of this are also provided on page 85.

External relationships

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

Investor relations

Our aim is to ensure that the value of our business is reflected in our share price. We aim to make National Grid attractive to debt investors so that we can finance our operations as effectively as possible.

We continue to be active in communicating with equity investors, conducting over 300 investor meetings during the year, maintaining a presence at 18 investor conferences, presenting to 10 broker sales teams and holding 2 investor days in October 2008.

One of our objectives is to increase the number of shareholders in the US and one of our investor days was a presentation to our US investors.

We also presented to debt investors in 12 countries including Japan, across Europe and North America.

We also operate a shareholder networking programme, the aim of which is to allow shareholders to gain a better understanding of the business. The programme includes visits to operational sites and presentations by senior managers and employees.

Customers, regulators and governments

The primary concern of our customers, regulators and governments is that we deliver a safe, reliable and efficient service, now and into the future. Hence our relationships reflect the quality of our operational performance.

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

In the UK, we continue to work very closely with Ofgem on the renewal of our electricity and gas transmission and gas distribution networks, and in expanding those networks to meet new and changing demand. In addition, we seek to maintain a professional approach with Ofgem in areas where we disagree, in particular with respect to their investigation into metering services in the UK as discussed on page 85.

In the US, we strive to achieve and maintain strong working relationships with our state regulatory commissions and the Federal Energy Regulatory Commission.

Suppliers

We aim to work in partnership with our suppliers, developing constructive relationships and working together effectively. Our objective is to develop contractual arrangements with our suppliers that align their interests with our own as far as possible and share financial risks appropriately.

Our objective is to use the scale and breadth of our activities to get the best value for money from our suppliers. We continue to work in partnership with our suppliers, developing constructive relationships and working together effectively. Our focus in these areas has increased, in response to the greater uncertainties from credit market volatility and the global economic downturn.

We have developed our procurement operating model further over the past year and details of this are provided on page 34.

A key element of our approach in creating a new procurement operating model includes placing increasing emphasis on the linkages between procurement and our overall business strategy.

In addition, as an enhancement to our commercial focus, we are explicitly investing in skills and capabilities to help deliver our social and environmental ambition.

Collectively, all of the areas we have developed or are working towards make National Grid an attractive company to do business with. They also enhance our ability to drive value from our supply chain and provide an excellent opportunity for suppliers who are aligned to our approach and ambition.

Community involvement

National Grid's role in the community supports our ambitions, and is delivered through a sustained and consistent approach.

We have completed an external review of our community activities and we have developed a new community impact framework. We have set targets to improve our community profile around our key themes of education and skills, energy and environment, and community investment. Our key aims are:

- to improve employee engagement in Company community activities;
- to maintain and improve our supply of talent by promoting science, technology, engineering, and maths subject take up and achievement in schools;
- to use volunteering to develop employee skills; and
- to strengthen our corporate reputation.

We continue to use the London Benchmarking Group model to provide a framework for measuring and reporting our community investment contributions, through the capture of spend on the key themes. We invested £10 million (2007/08 and 2006/07: £9 million) in support of community programmes and relationships across our operations in 2008/09.

Working closely with Ofgem, we have developed the framework for connecting fuel poor communities to the gas distribution network under the newly formed Affordable Warmth Solutions Community Interest Company. This will result in the connection of a number of communities to the gas distribution network in the future.

In our 2009 employee engagement survey, 64% (2008: 55%) of respondents considered National Grid makes a positive contribution to the communities in which we operate.

Business drivers

Business drivers

Our principal activities include the operation of complex energy infrastructure networks. Overall, we have a highly developed business with numerous drivers; we continue to seek improvements in our business to maximise returns in the context of these. We consider the following to be our principal business drivers:

Price controls and rate plans

The prices we charge for use of our electricity and gas transmission and distribution networks are determined in accordance with regulator approved price controls in the UK and rate plans in the US. The terms of these arrangements have a significant impact on our revenues.

Their duration is significant in providing stability, allowing us to plan and invest with confidence that we will obtain financial returns.

Our price controls and rate plans contain incentive and/or penalty arrangements that can affect us financially based on performance targets.

Multi-year contracts

Revenues in our Long Island electricity distribution and generation operations are subject to long-term contracts with the Long Island Power Authority.

In addition, revenues in our UK metering services businesses and our Grain LNG importation terminal are determined by contractual arrangements that are long term with 'blue chip' customers.

Safety, reliability and efficiency

Our ability to operate safely and reliably is of paramount importance to us, our employees, our contractors, our customers, our regulators and the communities we serve. Our financial performance is affected by our performance in these areas.

Operating efficiently allows us to minimise prices to our customers and improve our own financial performance to benefit our shareholders.

Customer service

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

Capital investment

Capital investment is a significant driver for organic growth.

In our regulated energy networks, the prices we charge include an allowed return for capital investment determined in accordance with our price controls and rate plans. These provide incentives for us to enhance the quality and reach of our networks through capital improvements.

Capital investment in non-regulated assets allows us to develop new revenue streams or to increase revenues from existing assets.

Other investment

Investment in new businesses is also a significant driver of growth, provided we can create value through operational improvements, synergies and financial benefits.

Disposals can crystallise value for shareholders, where the price on offer is better than the long-term return we can obtain ourselves or where a business does not fit with our principal operations.

Inflation and deflation

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

Our price controls in the UK and a proportion of our UK borrowings are linked to retail price inflation, while certain of our electricity and gas regulatory settlements in the US allow us to recover additional distribution revenues if there is a significant change in inflation.

Relationships and responsibility

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

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

Weather and volumes

In the US, changes in the quantities of electricity and gas delivered through our transmission and distribution networks may result in an increase or decrease in our revenues. Volumes are affected by weather, consumer demand and network availability as well as other factors. The impact of changing volumes may sometimes be offset by changes in costs or may sometimes result in an under- or over-recovery against our allowable revenues, with a corresponding increase or decrease in revenues in future periods.

Seasonality

Revenues from our gas distribution networks in the US are weighted towards the end of the financial year, as gas demand is typically higher during the winter. In the UK, revenues from our gas transmission and distribution networks are less affected as under our current price control agreements the volume driven component of revenue is relatively small. Seasonality does not have a significant impact on revenues from our other operations.

With the exception of commodity and other volume related costs passed through to customers, our operating costs are generally not seasonal.

Exchange rates

The reported results, cash flows and financial position of our US operations are affected by movements in the US dollar to sterling exchange rate. However, we hedge a proportion of this exposure through the use of US dollar debt and derivative financial instruments.

Commodity and other pass-through costs

We are allowed to recover commodity costs in the US and certain other direct costs in both the UK and the US, through charges to customers. The timing of recovery of these costs can vary leading to an under- or over-recovery within any particular financial period.

We are affected by commodity prices to the extent that they affect our own energy requirements, most significantly gas purchases for the operation of our gas transmission and gas distribution networks. In the US, we are exposed to potential bad debts related to commodity costs, although under the majority of our rate plans our exposure is either fully or partially mitigated by the recovery of such costs in current or future revenues.

Certain US commodity contracts are recorded in our balance sheet at their fair values. Although remeasurements of these are reflected in our income statement, we expect to recover the actual costs incurred from customers in the current or future periods.

Interest rates

The costs of financing our operations are affected by changes in prevailing interest rates, as some of our debt is at floating rates. We hedge some of our exposure to interest rates with fixed-rate debt and derivative financial instruments to maintain a proportion of our debt at fixed interest rates. The cost of funding our future growth is dependant upon future interest rates and the rate at which we can issue debt.

Vision, strategy and objectives

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

Vision

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.

Our strategy and objectives are a medium term step in the journey towards the vision – what we are doing over the next few years.

Strategy and Company objectives

We will build on our core UK and US, electricity and gas, regulated business base and financial discipline to deliver sustainable growth and superior financial performance.

- Driving improvements in our safety, customer and operational performance
- Delivering strong, sustainable regulatory and long-term contracts with good returns
- Modernising and extending our transmission and distribution networks
- Expanding our capabilities and identifying new financeable opportunities to grow
- 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 in both regions

Responsibility

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

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

Line of sight

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

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

Our aim is that every employee is able to trace their objectives through to the Company's objectives, strategy and vision.

Strategy and Company objectives

Our strategy and objectives provide direction and clarity on how we are going to achieve our vision. During the year, we have launched our line of sight framework that establishes a direct link between our strategy and Company objectives and employees' individual objectives. The fundamental principles behind our strategy and Company objectives are below:

We will build on our core UK and US, electricity and gas, regulated business base and financial discipline to deliver sustainable growth and superior financial performance

Sustainable growth is key to our business and is vital to delivering our promise to shareholders of an 8% dividend growth per annum until 2012. The delivery of superior financial returns within our low risk business model will be through focusing on our core regulated business in the UK and US.

Driving improvements in our safety, customer and operational performance

The safety of our people, contractors and the communities we serve is central to everything we do. We strive for an environment where there are zero work-related injuries and where we set the industry benchmark for world-class safety processes. We will work towards a more consistent and improved experience for all our customers and to achieving top quartile satisfaction rates compared to our peers.

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

The successful delivery of acceptable regulatory agreements will enable us to recover our investment and costs and earn good returns.

We will negotiate strong sustainable regulatory arrangements to fund our ongoing operational costs and future network investment at acceptable levels of return. We will drive continuous improvement to deliver services and investment as efficiently as possible without compromising safety, reliability and customer service.

Modernising and extending our transmission and distribution networks

The capital investment that is required for security of supply and to meet climate change targets is a significant driver of organic growth. We will maintain a sustainable programme of capital investment. Our infrastructure replacement programme will ensure that we adapt our networks for the future and are able to identify opportunities arising from the changes in sources of energy and technology. We aim to increase our returns on capital expenditure through disciplined management of our workload ensuring investment is delivered on budget, to schedule and within our regulatory allowances.

We will improve our reliability performance by sustained investment and enhanced operational performance. We aim to achieve first quartile reliability performance in the majority of our businesses by 2011/12.

Expanding our capabilities and identifying new financeable opportunities to grow

We will evaluate potential acquisitions and new organic investment opportunities currently outside of our regulatory agreements (such as renewable power and Grain LNG), and pursue those with an acceptable risk return profile that build on our existing regulated business model.

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

Owning and operating complementary businesses within the UK and US provides us with a great opportunity to create value for our shareholders. Our aim is to reduce the number of systems that we have and to simplify and standardise processes where possible. This will enable us to drive reductions in controllable operating costs.

Building trust, transparency and an inclusive and engaged workforce

Developing and communicating a clear line of sight between our vision, our strategy and individual objectives is important to help develop trust and transparency with our employees. It will enable them to be actively engaged in the journey towards our vision. It will help them understand the challenges we face and also feel that their contribution is valued. We aim to establish a genuinely inclusive working environment where collaboration and sharing best practice is instinctive in the way we work.

Developing our talent, leadership skills and capabilities

The attraction and retention of talent and the quality of skills and capabilities of our employees are fundamental to the delivery of our strategy. We will establish training, coaching and performance management frameworks enabling the creation of a high performance environment where employees at every level are developed and supported to reach their full potential.

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

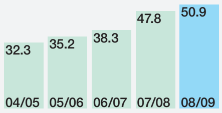
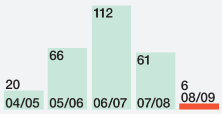
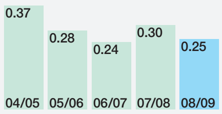
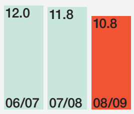
Delivering sustainable shareholder value depends on the trust and confidence of our stakeholders. We will build strong relationships with government and regulators, taking a leading role in shaping future energy policy including security of supply and the UK and US regulatory frameworks. We will become a trusted and innovative partner in meeting the changing needs of our customers and local communities.

Performance indicators

We use a variety of performance measures to monitor progress against our objectives. Some of these indicators are considered to be key performance indicators and are set out below. Details of our performance indicators are provided in the performance summary section on pages 28 and 29.

Strategy and Company objectives	KPIs
Sustainable growth and superior financial performance	Earnings per share Total shareholder return
Driving improvements in our safety, customer and operational performance	Employee lost time injury frequency rate
Delivering strong, sustainable regulatory and long-term contracts with good returns	Group return on equity
Modernising and extending our transmission and distribution networks	Network reliability targets
Becoming more efficient through transforming our operating model and increasingly aligning our processes	Regulated controllable operating costs
Building trust, transparency and an inclusive and engaged workforce	Employee engagement index based on employee survey
Positively shaping the energy and climate change agenda with our external stakeholders in both regions	Greenhouse gas emissions reduction against baseline

Performance summary: Key performance indicators

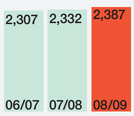
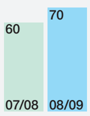
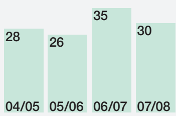
Objective	KPI	Description and performance	Target and page reference
Delivering superior financial performance	**Adjusted EPS ‡†**	Adjusted earnings divided by the weighted average number of shares (pence) 	To increase See page 30
	Total shareholder return	Growth in share price assuming dividends are reinvested (% cumulative three year growth) 	To increase See page 30
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) 	Zero See page 31
Delivering strong, sustainable regulatory and long-term contracts with good returns	**Group return on equity^**	Adjusted earnings with certain regulatory based adjustments divided by equity (% – three year average) 	To increase See pages 32 and 33

Modernising and extending our transmission and distribution networks

Network reliability

	Performance					Measure	Target
	04/05	05/06	06/07	07/08	**08/09**		
Electricity transmission – UK	99.99998	99.9999	99.9999	99.9999	**99.9999**	%	99.9999
Gas transmission – UK	100	100	100	100	**100**	%	100
Gas distribution – UK	99.999	99.999	99.999	99.999	**99.9999**	%	99.999
Electricity transmission – US	385	348	259	437	**266**	MWh losses	<303
Electricity distribution – US	120	141	121	110	**114**	Mins of outage	<110-120

See pages 53, 62 and 70 for additional details on network reliability

Objective	KPI	Description and performance	Target and page reference
Becoming more efficient through transforming our operating model	**Controllable cost ~**	Regulated controllable operating costs (£m – comparatives stated on a constant currency basis and inflated to current performance year) 	To decrease See page 35
Building trust, transparency and an inclusive and engaged workforce	**Employee engagement index**	Employee engagement index calculated using responses to our employee survey (%) 	To increase See page 35
Positively shaping the energy and climate change agenda	**Greenhouse gas emissions # ***	Reduction in greenhouse gas emissions against baseline (% – cumulative reduction) 	80% reduction by 2050 45% reduction by 2020 See pages 37 and 38

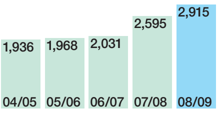
‡ Adjusted earnings per share excludes exceptional items, remeasurements and stranded cost recoveries
† 2007/08 includes continuing operations acquired with KeySpan for the period from 24 August 2007 to 31 March 2008 or as at 31 March 2008
* 2007/08 data restated as if KeySpan acquisition had occurred at the beginning of the year, previously published figure excluding KeySpan was 0.24 for employee lost time injury frequency rate and 38% for greenhouse gas emissions
^ 2007/08 results include KeySpan operations on a pro forma financial performance basis assuming the acquisition occurred on 1 April 2007
~ 2006/07 and 2007/08 results include KeySpan operations on a pro forma financial performance basis assuming the acquisition occurred at the beginning of the fiscal year
# 2008/09 result not currently available. Result will be published on our website www.nationalgrid.com in July 2009

Performance summary: Achievements and other performance measures

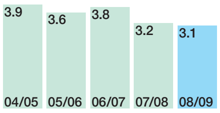
Delivering superior financial performance

See pages 41 to 47

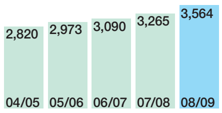
Adjusted operating profit ‡†
(£m)



Interest cover †
Long-term target: range 3.0-3.5



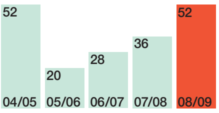
Cash generated by continuing operations † (£m)



Driving improvements in our safety, customer and operational performance

See pages 31 and 32

Injuries to the public * (number)
Target: zero

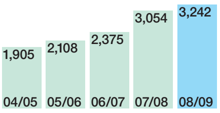


- Electricity Distribution & Generation ranked in lower quartile for customer satisfaction in J.D. Power and Associates survey in the US
- Employee sickness absence rate was 3.06% in 2008/09, an increase from 2.46% in 2007/08

Modernising and extending our transmission and distribution networks

See page 33

Total capital expenditure †
(£m)



- Phase II of Grain LNG commissioned in December 2008
- Commencement of the New England East-West Solution (NEEWS) transmission project in the US

Becoming more efficient through transforming our operating model

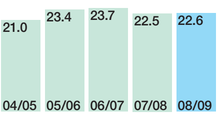
See pages 34 and 35

- Synergy savings of $74 million achieved in the year representing a run rate of $129 million at 31 March 2009
- Phase II implementation of common ERP operating platform across UK businesses
- Continuing restructuring plans in the US including consolidation of premises. Our new Reservoir Woods office in Waltham, Massachusetts is due for completion in spring 2009
- Transformation of operations within the lines of business focused on projects that maximise tangible returns in the near term

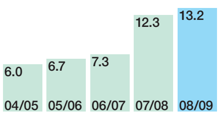
Building trust, transparency and an inclusive and engaged workforce

See pages 35 and 36

Proportion of female employees (%)



Proportion of ethnic minority employees (%)



- 91.8% response rate in our employee survey (2007/08: 86.4%)
- 73% (2007/08: 62%) of employees said that they would recommend National Grid as a place to work
- We launched our global inclusion charter that explains what employees can expect from the Company, as well as what National Grid expects from employees

Developing our talent, leadership skills and capabilities

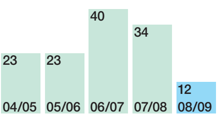
See pages 36 and 37

- Recruited a total of 272 advanced apprentices, foundation engineers and graduates in the UK
- Launched workforce planning as a methodology to identify and proactively address the gaps both in people and skills necessary to deliver our strategy
- Launched two new management development programmes

Positively shaping the energy and climate change agenda

See pages 37 to 39

Significant direct environmental incidents * (number) Target: zero



- Steve Holliday member of the RPI-X@20 advisory panel looking at regulation and future energy challenges in the UK
- 80% of employees working to certified ISO 14001 systems

‡ Adjusted operating profit excludes exceptional items, remeasurements and stranded cost recoveries
† 2007/08 includes continuing operations acquired with KeySpan for the period from 24 August 2007 to 31 March 2008 or as at 31 March 2008
* 2007/08 excludes KeySpan operations

Following a realignment of our strategy and Company objectives during 2008/09 some of our KPIs and other performance measures are still under review – any new performance measures identified as a result will be reported in the 2009/10 Annual Report and Accounts.

Performance against our objectives

Our performance and the progress we have made against the objectives we have set ourselves are described below and on the following pages. This includes commentary on our financial results on pages 41 to 47 and information on the performance and financial results of each business in the business sections on pages 48 to 78.

We measure the achievement of our objectives through the use of qualitative assessments and through the monitoring of quantitative indicators, called key performance indicators (KPIs). In line with our operating objectives, we use both financial and non-financial KPIs. Where relevant, KPIs are used as our primary measures of whether we are achieving our objectives. However, the scale and size of our operations means we use many other detailed performance measures in addition to KPIs. We also use KPIs to measure performance against our principal aim of sustainable growth and superior financial performance building on our core UK and US regulated business base. We use qualitative assessments to judge progress against our objectives in areas where numerical measures are less relevant.

During 2008/09, we have realigned our strategy and Company objectives. As a result we have undertaken a detailed assessment of our performance measures that resulted in a rationalisation of our performance indicators, directly aligning them with our objectives and providing a clear distinction between key performance indicators and our other performance indicators. This revised presentation is illustrated in the performance summary on pages 28 and 29. We have also introduced two new KPIs regarding the measurement of our efficiency relating to the transformation of our operating model and the engagement of our employees. The new efficiency KPI measures the year-on-year movement in our regulated controllable operating costs on an inflation and foreign exchange adjusted basis. The new employee engagement KPI uses an employee engagement score derived from our annual employee survey administered by Sirota, an independent consultancy firm. We have retained the KPI for greenhouse gas emissions reduction but, due to a change in the timing of when gas leakage performance data are reported by the four UK gas distribution network owners through Ofgem, this year's performance data is not currently available. It is anticipated that the current year's performance data will be available in July 2009 and will be presented on our website. Going forward, the year-on-year performance presented in the Annual Report and Accounts will continue to lag by one year.

We are currently developing a new KPI to monitor our performance on customer service. We will define and report our performance against this new KPI in next year's Annual Report and Accounts.

Last year's comparative figures for certain performance indicators incorporate the KeySpan acquisition. In particular, financial KPIs reflect the results of operations acquired from their acquisition on 24 August 2007, together with the associated increase in interest expense on debt used to finance the acquisition.

Delivering superior financial performance

We aim for superior financial performance, to deliver returns appropriate to our risk profile and to be financially disciplined. We also aim to ensure that the value we create is reflected in our share price.

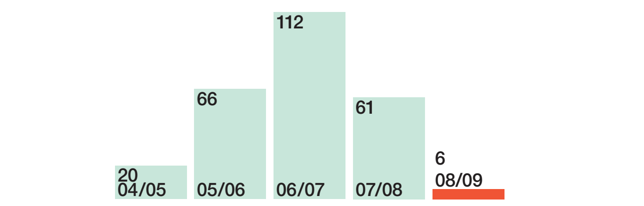
Shareholder returns

We aim to increase our dividend each year to ensure shareholders receive an appropriate level of return on their investment in us. We also endeavour to communicate with investors so that as much as possible of the value that we create is reflected in our share price to the benefit of shareholders.

We measure our overall performance through total shareholder return, being the increase in our share price over the course of the financial year, assuming dividends are reinvested.

Total shareholder return

Total shareholder return
% cumulative three year growth



We measure total shareholder return on a cumulative three year basis. Cumulative total shareholder return between 1 April 2006 and 31 March 2009 was 6%.

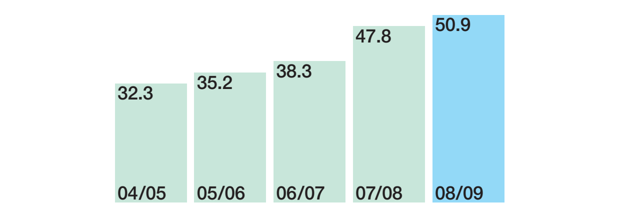
The 6% three year cumulative return represents a strong annual return in 2006/07 partially offset by falls in 2007/08 and 2008/09. These recent reductions over the last two years have occurred in an environment of significant instability in the financial markets and sharp declines in global share indices. We believe that our 6% shareholder gain, in the context of a 34% fall in the FTSE 100 UK share index in the same period, illustrates our low risk, stable business model combined with the potential for strong organic growth and our strong dividend policy.

Earnings

We aim to increase our adjusted earnings each year to support our dividend policy and return value to our shareholders.

The key performance measure we use to monitor our overall performance on earnings is adjusted earnings per share.

Adjusted earnings per share
pence



50.9p	6%	£597m	17%
Adjusted earnings per share	Increase in adjusted earnings per share	Returned to shareholders through the share repurchase programme	Reduction in employee lost time injury frequency rate

Adjusted earnings per share for 2008/09 increased by 3.1 pence, an increase of 6% compared with 2007/08 (2007/08: increased by 9.5 pence, an increase of 25% compared with 2006/07).

This increase reflected the higher adjusted profit for the year from continuing operations and the effects of the share repurchase programme that returned £597 million of value to shareholders (2007/08: the increase in adjusted profit from continuing operations and £1,516 million returned under the share repurchase programme).

A more comprehensive analysis of our financial performance is provided on pages 41 to 47. This includes a description of, and our reasons for using, adjusted profit measures on page 42.

Driving improvements in our safety, customer and operational performance

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

Safety

Safety is paramount. Our most important goals are: to ensure that members of the public are not injured as a direct result of our operations; to deliver a working environment where there are zero work-related injuries and illnesses; to reduce gas leaks on our distribution networks; and to improve the health of our employees so they are fit for work every day.

We use a range of indicators to monitor our performance including: members of the public injured as a direct result of our operations; employee lost time injury frequency rate; kilometres of gas distribution mains replaced in the UK; and employee sickness absence rate. Our key performance indicator is our employee lost time injury frequency rate.

Operating major hazard sites and pipelines means we remain vigilant to process safety risks as well as personal safety risks. During the year, there was one serious explosion in the UK and three explosions in the US as a result of escapes from our gas distribution networks. In the UK, we continue to replace our metallic gas mains in line with a programme agreed with the Health and Safety Executive (HSE) to reduce the risks of this type of incident. In the US, we continue to implement targeted replacement programmes to reduce the risk of incidents. In the last year, we have implemented revised processes to manage gas escapes in the UK satisfying the requirements of an enforcement notice served by the HSE.

We have continued to embed our trusted to work responsibly approach that builds on our well established safety framework and gives greater ownership for safety to our employees. We received external plaudits for this approach with the Safety and Health Practitioner/Institution of Occupational Safety and Health award for the best campaign of 2008, and the Confederation of British Industry publishing a case study on 'trusted'.

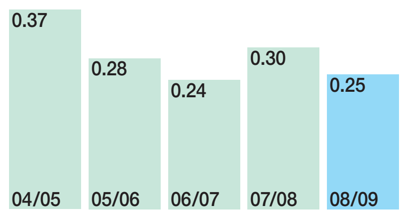
Employee safety

We report our 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 rate 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.

This is the first year we have included parts of the business that were acquired with KeySpan. This increase in the size of the organisation is the reason for an increase in the number of lost time injuries to 140 in 2008/09 compared with 88 in 2007/08 and 97 in 2006/07. KeySpan had a lower level of safety performance than the existing business and this has contributed to the lost time injury frequency rate rising slightly to 0.25 in 2008/09 compared with 0.24 in 2007/08 and 0.24 in 2006/07. If KeySpan had been included in the 2007/08 performance indicators, there would have been 157 lost time injuries with a rate of 0.30. Therefore, on a comparable basis performance has improved. The results prior to 2007/08 did not include KeySpan and so are not directly comparable. Definitions for lost time injury and lost time injury frequency rate are included in the glossary on page 195.

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

Employee lost time injury frequency rate
Per 100,000 hours worked — Target: zero

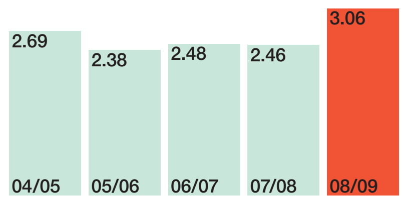


2007/08 data restated as if KeySpan acquisition had occurred at beginning of year. Previously published figure, excluding KeySpan, was 0.24.

In our 2009 employee engagement survey, 74% (2008: 71%) of respondents felt confident that safety concerns or issues raised would be addressed. In 2009, 76% (2008: 73%) of respondents also considered that National Grid never compromises safety in order to meet other goals.

Employee health

Employee sickness absence rate
% — Target: zero



Data prior to 2008/09 excludes KeySpan.

Improving the health and well-being of our employees continues to be a major focus for National Grid. For several years we have had a comprehensive occupational health service to deal with work related health issues. We are now extending our approach to look at the health and well-being of our employees in a more holistic way. As well as the obvious benefits to individuals, there are significant business and societal benefits to having a fit and

Performance against our objectives continued

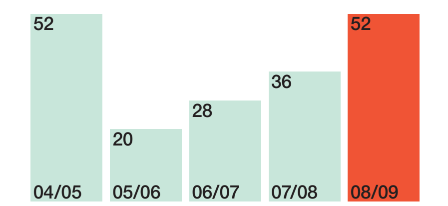
healthy workforce. In January we launched a new health and well-being strategy to provide a series of innovative initiatives that engage staff and encourage the restoration and maintenance of an individual's health, function and fitness. An early focus has been cardiovascular risk with screening being offered to UK employees over 45. Over the year, our sickness absence rate increased to 3.06% compared with 2.46% in 2007/08 and 2.48% in 2006/07. Data prior to 2008/09 does not include KeySpan, so is not directly comparable.

Contractor safety

We are committed to the safety of all our workforce, not only direct employees. In 2008/09, there were 108 contractor lost time injuries compared with 105 in 2007/08 and 131 in 2006/07. Data prior to 2008/09 does not include KeySpan, so is not directly comparable. We are very sad to report there have been 3 contractor fatalities in the US: 2 contractors died following an incident while using a drilling rig and 1 died after coming into contact with an energised electricity line.

Public safety

Injuries to members of the public
Number — Target: zero



Data prior to 2008/09 excludes KeySpan.
Includes fatalities, injuries requiring the person to attend hospital and, in the UK, any other injuries reportable under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR).

The safety of the public in the communities we serve is of prime importance to us. In 2008/09, 52 members of the public were injured as a result of our activities compared with 36 in 2007/08 and 28 in 2006/07, predominantly as a result of road traffic collisions and trips and falls around our street works. Sadly, 1 member of the public died in the US resulting from a road traffic accident.

Gas safety

We discuss our performance relating to consumer gas safety in the Gas Distribution section on pages 60 and 61.

Customer service

We aim to impress our customers with the quality of the services we provide, with our responsiveness when things go wrong, and with our dedication to continued improvement.

We use business specific service quality performance measures to measure our performance in this area.

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

An implementation programme will begin during 2009/10 to enhance our US customer experience across all areas. This includes ensuring complete alignment of all customer contact activities, streamlining work for the benefit of our customers, and prioritising resolution of customer issues at the first point of contact with National Grid.

In Gas Distribution, we will focus on standardising our practices and maximising collective learning. This will enable us to create a more consistent offering to all our customers. Greater levels of analysis and focus will be given to specific areas of low customer satisfaction.

In our 2009 employee survey, 57% (2008: 47%) of our employees believed National Grid is a good company for customers to do business with.

Further information on our customer service during the year is provided within each of the business sections on pages 53, 61, 69 and 75.

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

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

In the US, we are committed to filing new rate cases whenever current rates do not represent a fair return on our assets. We have made significant progress in rate filings this year, further details of which are provided in the current and future developments section on page 23, and in the business sections on pages 52, 60 and 68.

Regulatory returns

Our aim is to deliver good financial returns compared to the regulatory allowances within our UK price controls and US rate plans and agreements.

We measure the performance of our UK regulated businesses through an operational return metric comparable to the vanilla return defined in the UK price controls. In the US, our performance is measured against the allowed regulatory return on equity under the terms of the relevant rate plan or agreement.

Our performance during the year is measured against each of our UK price controls and our US rate plans. Details of our results are provided in the business sections on pages 53, 61 and 70.

Returns on our investments

We aim to generate value from our investments by improving the operating performance of our networks, by selecting investments that will provide the best return or, in the case of acquisitions, by selecting businesses where we can obtain synergies for the benefit of our customers and our shareholders.

We measure the value we generate from our investments by our consolidated return on equity.

Our group return on equity measure allows us to monitor our performance in generating value from our businesses and from the investments we make. Return on equity is calculated by dividing our annual return by the equity base. The annual return is our earnings

3.06%	10.8%	£3.2bn	£3.4bn
Employee sickness absence rate	Three year average return on equity	Total capital expenditure in 2008/09	Planned total annual capital expenditure for 2009/10

(excluding exceptional items, remeasurements and stranded cost recoveries) plus various regulatory based adjustments. The most significant regulatory adjustments relate to the replacement of IFRS depreciation and capital expenditure with regulatory based treatments, retail price index (RPI) linked UK regulatory asset value indexation uplift, and a pension deficit revenue adjustment. The equity base is invested capital less opening net debt. Invested capital is the opening UK regulatory asset value inflated to mid year based on RPI linked inflation, plus opening US invested capital (excluding stranded cost assets and assets disposed in the year), plus the closing net book value for assets and liabilities of UK based non-regulated businesses, corporate activities and joint ventures. Opening net debt is adjusted for significant individual transactions during the year such as disposal proceeds and share buybacks.

We monitor our performance using a three year average return rather than a return for a specific year. This provides a better measure of our ongoing performance as it helps to reduce short-term fluctuations due to temporary market conditions such as inflation volatility. For 2008/09, our three year average return on equity is 10.8%, down from 11.8% in 2007/08 and 12.0% in 2006/07. Despite an increase in our adjusted earnings during 2008/09, the decrease is primarily driven by UK RPI linked inflation that has reduced the inflation uplift on the regulatory asset value recognised in our return.

Modernising and extending our transmission and distribution networks

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

This planned capital expenditure is a significant driver for our future growth.

Reliability

Our principal operations are critical to the functioning of the economies we serve. The reliability of our energy networks is one of our highest priorities after safety.

We use business specific reliability performance indicators to measure our reliability performance.

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

Overall we continued to meet or exceed agreed performance targets. More information on the reliability of each of our main businesses is included in the business sections on pages 53, 62 and 70.

Capital investment

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

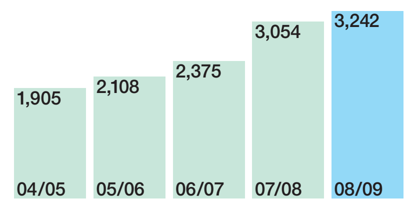
The principal measure we use to monitor organic investment is capital expenditure, which includes investment in property, plant and equipment as well as in internally created intangible assets such as software.

Our capital investment plans reflect changing energy infrastructure requirements.

The capital investment programme in our regulated businesses usually takes place within defined regulatory frameworks that permit us to earn a return on allowed investments. Capital investment in our non-regulated businesses is based on the financial return that we expect to generate.

Our planned total annual capital expenditure for 2009/10 is around £3.4 billion and we expect it to remain at around this level over the medium term.

Total capital expenditure
£m



Our total capital expenditure during 2008/09 was £3,242 million compared to £3,054 million in 2007/08 and £2,375 million in 2006/07. More detail on capital expenditure is provided in the business sections on pages 54, 62, 71 and 75.

Expanding our capabilities and identifying new financeable opportunities to grow

We are committed to the growth of National Grid through organic capital expenditure and potential acquisitions of new businesses. Acquisitions will only be considered when we believe we can derive added shareholder value and they can be readily financed without undermining our external credit ratings.

New businesses

We will consider acquiring new businesses in our core markets of electricity and gas delivery in the UK and the US. This may include generation assets where our exposure to commodity price fluctuations is limited.

We use the aggregate of consideration paid and debt assumed to monitor our investment in acquisitions. There is no numerical target as each investment is different and is considered on its own merits. As part of our monitoring of the transformation of our operating model we monitor synergy savings generated following an acquisition (see page 35).

Performance against our objectives continued

Acquisitions
While there have been no new acquisitions during the current year, this is our first full year of ownership of KeySpan following the acquisition on 24 August 2007 for consideration of £3.8 billion together with the assumption of £2.2 billion of net debt.

The acquisition of KeySpan significantly expanded our operations in the northeastern US. The results of KeySpan's operations are included in our results since the date of acquisition on 24 August 2007. In note 28 of the financial statements on page 159 we have included pro forma financial information in accordance with IFRS to present our financial results as if the acquisition had occurred on 1 April 2007. The pro forma information has been provided as we believe it provides the user of the financial statements with additional useful information relating to the KeySpan acquisition and aids the comparison of our financial performance between periods.

There were no other acquisitions during the years ended 31 March 2009 or 31 March 2008, while during the year ended 31 March 2007, we completed the acquisition from Southern Union Company of the Rhode Island gas distribution assets for £269 million, including transaction costs of £3 million.

Recent financial market volatility has led most utility companies to conserve cash and refrain from significant acquisitions that require funding through either the debt or equity markets. We continue to monitor the energy market and assess potential targets for strategic fit, good regulatory returns and the potential to add value to our business. If required, we believe that our ability to access the financial markets to fund transactions remains strong.

Exit non-core businesses

Our focus on our energy delivery markets in the UK and the US means that we have sought to dispose of operations deemed to be non-core.

Our principal objective on exiting a business is to maximise the proceeds we can generate from each sale.

Disposals
During 2008/09, we completed the disposal of the Ravenswood generation station for cash proceeds of $2.9 billion (£1.6 billion). Its disposal was a condition of regulatory approval for the KeySpan acquisition.

There were no other significant disposals during the year ended 31 March 2009.

During 2007/08, we completed the disposal of several non-core businesses including our UK and US wireless infrastructure operations and our Basslink electricity interconnector in Australia.

Becoming more efficient through transforming our operating model and increasingly aligning our processes
We are in the process of transforming National Grid in line with our strategy.

Last year we successfully created our lines of business and established our shared services functions for procurement, information services, business development, human resources and finance.

During 2008/09, we have continued to transform our business, however, now that our lines of business and shared services functions are established we are focusing on transforming our operating model within each line of business.

We remain committed to our long-term aim of a global operating model and the convergence of operating principles, processes, systems and organisations. However, in order to maximise our near-term benefits and return on investments, our focus during the current year and in the short term is on maximising efficiencies in the operating model within each line of business.

Through targeted reductions in the number of processes, as well as through their standardisation and simplification, we aim to maximise efficiencies and reduce our costs.

Operating model

Our operating model is based on ensuring that activities are carried out at the most appropriate level, either locally, within lines of business or across National Grid.

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

In designing and implementing an operating model to deliver our vision of being the foremost international electricity and gas company we believe we can deliver the following:
- a significantly improved customer experience;
- a high performance culture;
- structural changes in the way we operate;
- long-term labour agreements that enable us to deliver improved operational performance and rewarding work for our employees;
- rationalised locations from which we operate;
- refreshed system operation technology;
- improved productivity and efficiency; and
- advanced decision support tools and analytic capabilities.

Activities during the year
Lines of business – transforming our operating model
Our focus this year has been on the operating model within each line of business. Further information on transforming our operating model during the year is provided within each of the business sections on pages 54, 62, 71 and 76.

Global procurement model
We continue to develop our procurement operating model and are now structured on a strategic spend category basis. This structure drives greater focus in delivering value from our supply chain. We have strengthened our management team and increased the level of international industrial experience in particular, as we seek to improve the performance of this part of our business.

We have implemented new technology tools that better enable our capacity to plan, monitor, report spend and undertake e-commerce events. We have also introduced a system that provides robust financial monitoring services, focusing on our critical suppliers. We have developed common global spend reporting techniques that are able to consolidate information from our different enterprise resource planning platforms. Together, these developments have significantly enhanced visibility and control of spend.

£2,387m	$200m	$129m	91.8%
2008/09 regulated controllable operating costs	Total target synergy savings from KeySpan acquisition	Run rate cost savings from KeySpan acquisition achieved by 31 March 2009	Response rate to 2008 employee engagement survey

We have continued to selectively expand our use of alliance models in our construction activities, in particular developing this model in the US using a rigorous process based methodology to adapt our approach as necessary to suit any structural market differences and to drive value. Overall, as market conditions are affected by current economic uncertainty, we continue to benefit from the closer and more constructive working relationships that can be achieved when project objectives are aligned and financial risks are shared between ourselves and our supplier base.

Efficiency

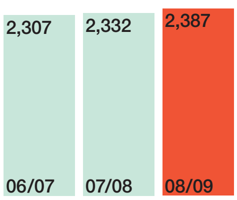
By improving efficiency, we can constrain the cost of our operations borne by customers and improve returns to shareholders. We review our operations continually to identify opportunities to improve the operational productivity of our assets and our employees and to identify areas in which we can reduce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

The key performance indicator we use to monitor improvements in our efficiency is our year-on-year movement in regulated controllable operating costs. In addition, we track synergy cost savings related to the integration of KeySpan as a performance indicator, as well as monitoring our overall financial performance.

Regulated controllable operating costs

Controllable operating costs are monitored through the comparison of year-on-year movements in regulated controllable operating costs on a constant currency and inflation adjusted basis. The results illustrated in the graph present 2006/07 and 2007/08 comparatives on a currency adjusted and inflation adjusted basis, as well as including an adjustment to include pro forma KeySpan costs as if its operations were owned for a full year. We believe this provides a comparable measure of our controllable costs on a like-for-like basis. A definition of regulated controllable operating costs is provided in the glossary on page 196.

Regulated controllable operating costs
£m



On a like-for-like basis, during 2008/09 our regulated controllable operating costs slightly increased to £2,387 million compared with £2,332 million and £2,307 million in 2007/08 and 2006/07 respectively.

Regulated controllable operating costs increased by £55 million in 2008/09 compared with 2007/08. If the impact of bad debts is excluded from the cost base the year-on-year increase is only £17 million. Our bad debt costs relate to our US operations. Under the majority of our US rate plans such costs are either fully or partially recoverable from customers in either the current or future periods.

We also monitor our regulated controllable operating costs (on a non inflated basis and excluding bad debts) as a percentage of our total adjusted regulated asset base. Our regulated controllable operating costs as a percentage of our asset base decreased from 8.2% in 2007/08 to 8.1% in 2008/09. The total adjusted regulated asset base represents an estimated mid year position based on opening UK regulated asset values inflated to mid year, plus US rate bases, and an adjustment for a proportion of capital additions and regulatory depreciation.

We believe cost savings will be delivered in the future through the continued development and deployment of our global procurement model and other cost reduction initiatives. Further information on our efficiency and controllable cost initiatives is provided within each of the business sections on pages 55, 63, 72 and 76.

Synergy savings from KeySpan acquisition

We continue to integrate the operations acquired with KeySpan in the US, which will enable us to achieve significant synergies. When we acquired KeySpan we set ourselves a total target of $200 million synergy cost savings by 31 March 2010 along with a target cost savings run rate of $100 million by 31 March 2009.

At 31 March 2009, we had surpassed our run rate target and achieved a rate of $129 million, and therefore are on schedule to achieve our total savings target by the end of 2009/10.

Information on our financial performance during the year is set out on pages 41 to 47.

Building trust, transparency and an inclusive and engaged workforce

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

Engagement and performance

To be successful, we will continue to engage our employees to strive for continued improvement. For that purpose our aim is to implement a world-class performance management process.

Our key performance indicator is the employee engagement index based on our independent annual employee survey.

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

Employee engagement

In February 2009, we conducted our second annual employee survey. A total of 24,727 employees took part, representing 91.8% of our workforce. During 2008, we undertook intensive action planning at the Company, line of business and individual employee level, to address the key themes of improving communications, providing greater clarity on vision and direction and providing stronger links between performance and reward. The 2009 survey reported a 10% increase in the employee engagement index, up to 70%. Improvements were reported across all survey dimensions, with significant improvements in the areas of vision, direction and communications which were key action items from the 2008 survey. Employees continue to believe National Grid's safety culture and supportive management are significant strengths but would like to see improvements on how the Company creates the context for change, raises accountability and takes further steps to

Performance against our objectives continued

create links between performance and reward. Action plans are being developed and will form part of the management annual objective process for 2009/10 to ensure we further build upon this survey success.

Performance management

We are continuing the task of building a high performance culture and, further to our work with senior managers, we have now completed training for the majority of middle and first line managers in the UK and US on 'performance for growth', our global performance management system. The process continues to focus on raising the performance bar and supporting high quality conversations. We have established support and challenge groups which continue to review best practice, share knowledge and enable managers to have a peer support network. Our performance programmes are driving stronger personal accountability and the leadership within National Grid is now actively involved in creating a culture where everyone across the business understands that business results are of primary importance and that they can directly influence these.

Inclusion and diversity

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

Performance measures we use to monitor our objective of promoting inclusion and diversity include the percentage of female employees and the percentage of ethnic minority employees, along with measuring our employee perceptions.

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

During the year we launched our global inclusion charter. The charter explains what employees can expect from the Company, as well as what National Grid expects from employees and builds on work in progress throughout the UK and US.

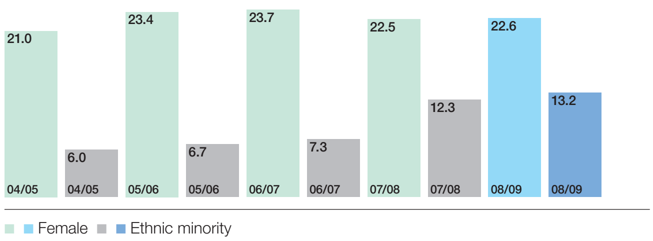
In addition, an inclusion and diversity transition group has been established to develop the necessary communications, governance and human resource processes to support our efforts. Training has continued to offer greater awareness of inclusive behaviours and we have recently launched a new inclusive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

Employee network groups led the effort in creating and managing a fortnight of events called mobilising inclusion. These events provided an opportunity for employees to learn about all the ways we are different and how we could become more inclusive. We also had the first winner of the Chairman's award for inclusion and diversity, recognising all the efforts that employees have put in across the business.

We are fortunate to have vibrant employee networks focusing on gender, ethnicity, faith, disability, sexual orientation, families and new starters. They are helping us to understand better the different communities represented within our workforce and to provide support and information to our employees.

At 31 March 2009, 22.6% of our employees were female and 13.2% were from ethnic minority groups. This compares with 22.5% and 12.3% at 31 March 2008 and 23.7% and 7.3% at 31 March 2007 respectively. The results prior to 2008 did not include KeySpan, so are not directly comparable.

Inclusion and diversity
%



Our progress has already received external recognition. We were in The Times/Aurora Where Women Want to Work TOP 50 list for the third year running; made the Stonewall Top 100 for the first time and were short-listed for an ethnicity award. In the US, we scored 100% in the US Human Rights Campaign's 2008 Corporate Equality Index.

In our 2009 employee survey, 70% (2008: 61%) of respondents considered they were treated fairly by National Grid, while 78% (2008: 76%) of respondents considered that their colleagues treated them with respect and dignity.

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

Developing our talent, leadership skills and capabilities

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

Talent and skills

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

Our performance in this area is the qualitative monitoring of our various projects and initiatives aimed at addressing these issues.

We have strengthened our talent management processes in 2008/09, creating talent management plans for senior management and for business critical roles. We are now conducting regular cross-business talent planning sessions using consistent processes to support senior management in developing employees within each business area and to address succession issues. We are carrying out an annual global review of talent for all our businesses and functions and have implemented metrics that will help us track the depth of our talent pool on a regular basis.

Our focus on developing the talent of our current and future business leaders has moved forward with the launch of our developing future leaders programme for senior managers, around 75 of whom will be invited to participate in 2009. We have also launched a foundations of leadership programme for first line leaders and supervisors. It was launched in April with a one day

22.6%	13.2%	45% by 2020	Carbon budgets
Percentage of female employees	Percentage of ethnic minority employees	Our intermediate greenhouse gas emissions reduction target	Being implemented across the Company during 2009/10

orientation of managers of first line leaders so that they are better prepared to support their supervisors' development. The first training for about 200 front line leaders followed in May and focused on understanding how our business operates and makes money, in addition to understanding the critical behaviours of motivating and managing teams of individuals toward higher levels of performance. The future leaders programme launched in May with a focus on enhancing business acumen and the demonstration of our leadership qualities.

We continue to invest in the recruitment and development of skilled employees for the future, recruiting 184 advanced apprentices, 58 foundation engineers and 30 graduates in the UK. In addition, we are currently reviewing our US approach to bring it into line with our UK efforts. These programmes are designed to facilitate the entrance into National Grid and the training and progression of talented people, with special emphasis on key engineering roles.

Through our e-futures strategy, we continue to organise and sponsor a number of educational initiatives in the UK. These initiatives continue to increase the number and diversity of young people interested in engineering careers and, ultimately, create and sustain a greater pool of skilled talent from which we can recruit. Key to this success has been the dedicated involvement of our employees.

In addition, we have formally launched workforce planning as a methodology to identify and proactively address the gaps both in people and skills necessary to deliver our ambitious business strategies. We are completing the first phase in Transmission UK and are planning on a full National Grid roll out during the coming year.

We will continue to use our annual employee survey to help determine the human resource initiatives we put in place to maximise our employees' contribution to the delivery of our vision.

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

Our aim is to embrace, address and lead on the current and future issues affecting the energy market. We are committed to safeguarding the global environment for future generations, taking positive action to reduce our contribution to climate change and other impacts on the environment. We strive to be an environmental leader and will work with our UK and US regulators to develop the regulatory framework required to address the changes in future energy supplies.

This year has seen significant changes to UK government policy with the introduction of the Climate Change and Energy Acts, which will implement a wide range of measures including setting carbon budgets on a national scale and enshrining climate change targets in law. In the US, energy policy is expected to change significantly following the administration change. In addition, energy efficiency, security of supply and the cost of energy will be key areas of focus.

Positively shaping the agenda

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

Our performance measure in this area is the qualitative monitoring of our contribution to various projects, committees, task forces and other initiatives aimed at addressing these issues.

In the last year, National Grid has raised its profile in the UK and US in the area of climate change. We have partnered with Ceres in the US and with the Worldwide Fund for Nature (WWF) in the UK to seek their review and comment on our internal and external efforts to reduce our climate change impacts and shape our positive influence on legislators and regulators.

We have also been active participants in the UK, with such programmes and organisations as the RPI-X@20 group and Business in the Community, and in the US, with the shaping of state climate change regulations through our membership of the Clean Energy Group and collaboration with other entities such as Environment Northeast.

Climate change

We continued with our climate change initiative and increased our energy efficiency programmes, focusing on initiatives that are cost effective and regulated. We see our 80% greenhouse gas emissions reduction target as being industry leading within the UK and US.

Our key performance indicator to monitor our performance in this area is the percentage reduction in our greenhouse gas emissions against our baseline. We also measure absolute emissions.

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

This year, we have focused our efforts on educating our workforce on the targets and the means by which we will achieve them. We have conducted an inventory of our greenhouse gas emissions to ensure that we have up-to-date information on the magnitude of the reductions necessary and the areas of the operations where reductions can take place. We have also established internal working teams tasked with developing opportunities to achieve our 80% target.

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

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

In 2008/09, we completed a detailed review of our greenhouse gas emission inventory for the year ended 31 March 2008 and included the operations acquired as part of the KeySpan transaction as if we had owned them for the entire year. On this basis, our total Scope 1 and 2 emissions for 2007/08 would have been approximately 12.1 million tonnes CO_2 equivalent compared with the approximate 4.1 million tonnes reported.

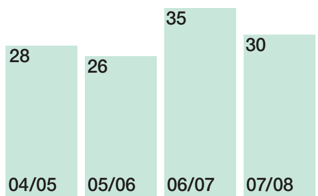
Performance against our objectives continued

Emissions from the electricity generating plants on Long Island account for approximately 50% of the total for National Grid.

Currently, we are using a reporting baseline of 1990 for the majority of our greenhouse gas emissions.

As noted on page 30, the 2008/09 performance is currently unavailable. We expect it to become available in July 2009 and it will then be presented on our website.

Greenhouse gas emissions (Scope 1 and 2)
% reduction against baseline — Target: 80%



2007/08 data restated as if KeySpan acquisition had occurred at beginning of year. Previously published figure, excluding KeySpan, was 38%.

Protecting the environment

We will help to protect the environment for future generations and we are committed to continuously improving our environmental performance.

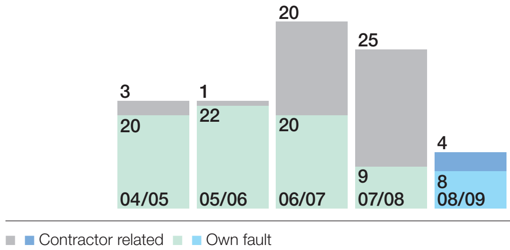
The performance indicators that we monitor in this area include the amount of waste we generate and recycle, activity in land contamination management and the number of significant direct environmental incidents.

At 31 March 2009, approximately 80% of our employees worked to certified ISO 14001 environmental management systems compared to 66% at the same time last year. The main reason for this increase is the certification in November 2008 of the gas operations we acquired as part of the KeySpan acquisition. During 2009, we will be seeking certification of KeySpan electricity operations acquired.

The number of significant environmental incidents in 2008/09 arising directly from our operations was 12, which included 4 contractor-related incidents, compared with 34, including 25 contractor-related incidents in 2007/08 and 40, including 20 contractor-related incidents in 2006/07. Incidents outside of our control resulting from third party or weather-related damage to our networks were 1 compared with 1 in 2007/08 and 13 in 2006/07. The results prior to 2008/09 did not include KeySpan and so are not directly comparable. There was 1 contractor-related prosecution resulting from these incidents. In the US, we received 6 environmental citations in 2008/09 compared with 6 in 2007/08 and 9 in 2006/07, attracting a total of $86,500 in fines. Data prior to 2008/09 does not include KeySpan, so is not directly comparable. In the UK, we received 1 improvement notice.

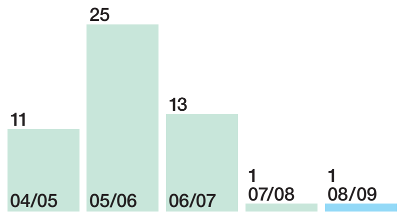
In our 2009 employee survey, 62% (2008: 55%) of respondents considered National Grid acts responsibly in all its business dealings, including environmental management.

Significant environmental incidents
Direct — Target: zero



Data prior to 2008/09 excludes KeySpan.

Significant environmental incidents
Third party/weather



Data prior to 2008/09 excludes KeySpan.

We manage an inherited portfolio of historically contaminated land including former manufactured gas plants, industrial landfills, former and current gas holders and electricity substations on our transmission and distribution networks. Sites can sometimes have a complex mix of contamination dating back over 100 years.

National Grid manages land contamination issues on 678 sites, the majority of which were previously used for gas production. In the US, this includes obligations in relation to land owned by third parties.

During 2008/09, environmental work stages were completed on 316 sites of which 22 included remediation. As a proportion of the programme in the UK is linked to the redevelopment of brownfield sites, the economic downturn has adversely influenced the number of remediation work stages completed.

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

80%	316	63%	Platinum
Percentage of employees working to ISO 14001	Number of sites where environmental work stages were completed	Reduction in significant environmental incidents	Our BITC corporate responsibility index status for the 7th consecutive year

On our website (www.nationalgrid.com), we provide further information on the steps we are taking to reduce our impact on the environment, including our use of natural resources and minimising the impact on the environment of waste.

Responsibility

We believe operating responsibly is essential to the way we conduct our operations, invest in our business, develop our people and manage our relationships. It underpins everything we do and is a prerequisite to delivering our vision to be the foremost international electricity and gas company, delivering unparalleled safety, reliability and efficiency.

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

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

We continue to enjoy external recognition of our responsible business approach. We remain on the Dow Jones Sustainability World and FTSE4Good indices and maintained a platinum status in the Business in the Community corporate responsibility index; the seventh successive year we have been accorded this top tier ranking. National Grid is a signatory to the United Nations Global Compact.

Our Standards of Ethical Business Conduct provide a common set of practical guidelines to help ensure that our behaviours are lawful, comply with our policies and licences and follow the values set out in our Framework and our core values. In 2008/09, there were 11.3 substantiated breaches per 1,000 employees compared with 11.6 in 2007/08 and 8.0 in 2006/07. Offences include such things as fraud, internet and email abuse, drugs and alcohol abuse and misuse of company vehicles and other assets. We take all breaches very seriously and disciplinary action can range from a verbal warning to dismissal.

In our 2009 employee survey, 66% (2008: 61%) of respondents considered something would be done if they reported an inappropriate business practice or an ethical issue.

More information on our corporate responsibility and business ethics objectives is included in the Corporate Governance section on pages 90 to 99.

On our website, we provide information on our method for assuring the corporate responsibility information and data in this report and our other public corporate responsibility reporting.

Risks and opportunities

Risks and opportunities

We believe that the principal opportunities to achieve our vision and to deliver growth in shareholder value have been identified in our strategy and objectives. Conversely, we risk failure in achieving our vision and in delivering growth in shareholder value if we do not fulfil our strategy or if we fail to achieve our objectives.

Financial performance

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

Driving improvements in our safety, customer and operational performance

The operating profits and cash flows we generate are dependent on our operating performance – operating safely, reliably and efficiently and providing a quality service to customers.

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

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

Modernising and extending our transmission and distribution networks

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

Expanding our capabilities and identifying new financeable opportunities to grow

Identifying, evaluating, and acquiring new businesses that build on our core regulated operations is important. If we are unable to acquire businesses with the correct strategic fit it will restrict our future sustainable growth and our ability to increase shareholder value. Acquisition of new businesses is dependent on our ability to fund transactions through the issuance of new debt or new shares. Volatility in financial markets may restrict our financing opportunities.

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

Transforming the way we operate through the simplification and standardisation of our systems and processes, will drive efficiency and reduce costs. Transforming our operating model will enable us to deliver increased value to our shareholders.

Conversely, if we do not achieve this transformation, or associated benefits in efficiency, then shareholder value will not grow as we hope or will diminish.

Building trust, transparency, and an inclusive and engaged workforce

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

Developing our talent, leadership skills and capabilities

The skills and talents of our employees, along with succession planning and the development of future leaders, are critical to the achievement of our objectives. Failure to develop our existing employees or to attract and recruit talented new employees could hamper our ability to deliver in the future.

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

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

Responsibility

Strong corporate governance is essential to operating responsibly and the achievement of all our objectives. Our reputation as a responsible business depends on our behaviours being lawful and ethical, on complying with our policies and licences, and on living up to our core values.

If we do not live up to these high standards we could be exposed to adverse financial or other consequences.

Risk management

Our approach to risk management is described in the Corporate Governance section on pages 96 and 97. This sets out how we have established an enterprise wide risk management process with the objective of identifying risks that could have an adverse impact on National Grid.

In addition, information on how we have addressed certain of our financial risks is included in the financial position and financial management section of this Operating and Financial Review on pages 79 to 86.

Risk factors

Through our risk management process, we have identified a number of significant risks and uncertainties in achieving our objectives as follows:

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

Not all these factors are within our control and, in addition, there may be other factors besides those listed that may have an adverse effect on National Grid. These risk factors are described in more detail within the Corporate Governance section on pages 97 to 99.

Financial performance

Our performance against the key performance indicators for delivering superior financial performance is described on pages 30 and 31. In the following section we provide a more detailed analysis of our financial results.

Financial discipline

In order to deliver sustainable growth we must be disciplined in the way we manage our balance sheet. This means that we will return cash to shareholders to the extent it is not required for our investment objectives.

The principal measure we use to monitor financial discipline is interest cover, being a measure of the cash flows we generate compared to the net interest cost of servicing our borrowings. We also measure our progress against our promise to return cash to shareholders.

Our long-term target range for interest cover is between 3.0 and 3.5. Interest cover for the year ended 31 March 2009 remained within our target range although it decreased to 3.1 from 3.2 for the year ended 31 March 2008 (year ended 31 March 2007: 3.8). The primary reason for the decrease in 2008/09 was due to increased interest expense resulting from higher average net debt levels during the year partially offset by higher levels of cash inflows from operations. In addition, decreased interest receipts on cash and financial investments compared with 2007/08 contributed to the decrease.

In 2006, we committed to return approximately $1.9 billion cash between calendar years 2006 and 2011 to shareholders through a share repurchase programme based on the after-tax cash flows generated from the recovery of stranded costs in the US. In addition, following the successful disposal of our UK wireless infrastructure operations in the UK for £2.5 billion on 3 April 2007, we announced the return of a further £1.8 billion to shareholders.

During the year ended 31 March 2009, we repurchased £597 million of our shares, £1,516 million in 2007/08, which together with the £169 million repurchased in 2006/07 totals £2.3 billion of returns to shareholders in the last three years through share repurchases. This now completes our promise to return the 2008/09 stranded cash flows and the return of £1.8 billion from our wireless disposals. However, in the current economic climate we believe that it is now financially prudent to suspend our remaining share repurchase programme.

Profit, cash flow and dividends

If we achieve our objectives, we should be able to achieve continued improvements in financial performance, so that we deliver on our commitment to increase our dividend by 8% each year to 2012.

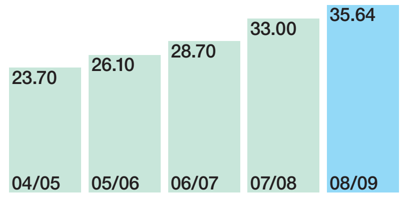
The key performance indicator we use to monitor our financial performance is adjusted earnings per share. Adjusted earnings per share is basic earnings per share before exceptional items, remeasurements and stranded cost recoveries.

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

Dividends in respect of the financial year

Our target is to increase dividends by 8% each year until 31 March 2012.

Dividends per share
pence



Dividends	2009 pence	2008 pence	2007 pence	2006 pence	2005 pence
Interim	**12.64**	11.70	10.90	10.20	8.50
Final	**23.00**	21.30	17.80	15.90	15.20
Total	**35.64**	33.00	28.70	26.10	23.70
Dividends per ADS	**$**	$	$	$	$
Interim	**0.95**	1.21	1.03	0.88	0.79
Final	**1.74**	2.05	1.76	1.51	1.38
Total	**2.69**	3.26	2.79	2.39	2.17

The total ordinary dividend for 2008/09 (including the final proposed ordinary dividend of 23.00 pence) amounts to £867 million or 35.64 pence per ordinary share. This represents an increase of 8% over the previous year's ordinary dividend per share of 33.00 pence. The above amounts exclude the return of £597 million, £1,516 million and £169 million to shareholders in 2008/09, 2007/08 and 2006/07 respectively through a share repurchase programme and the return of £2 billion to shareholders in 2005/06 through the B share scheme.

The total ordinary dividend per share was covered 1.4 times by adjusted earnings from continuing operations per ordinary share (2007/08 covered 1.4 times, 2006/07 covered 1.3 times) and covered 1.0 times by earnings per ordinary share from continuing operations (2007/08 covered 1.8 times, 2006/07 covered 1.7 times).

The dividend table shows the ordinary dividends paid or payable by National Grid for the past five financial years. These dividends do not include any associated UK tax credit in respect of such dividends.

Dividends expressed in US dollars per American Depositary Share (ADS) in the table reflect the amounts paid or payable to ADS holders, rounded to two decimal places.

In accordance with IFRS, the final dividend proposed in respect of each financial year is reported in the financial statements for the subsequent year. As a consequence, the final dividend proposed to shareholders for 2008/09 of 23.00 pence per share, amounting to approximately £560 million (assuming all dividends are settled in cash), will be reported in the financial statements for the year ending 31 March 2010. This year we are offering our shareholders the option of a scrip dividend (subject to shareholder approval), whereby they can elect to receive the final dividend in the form of new ordinary shares rather than cash.

Continuing and discontinued operations

The financial results of our businesses and segments and of our other activities, as described on page 18, are presented within continuing operations.

Financial performance continued

The results of our Ravenswood generation station, KeySpan Communications and of the KeySpan engineering companies that were sold during or subsequent to the year ended 31 March 2009 are included in discontinued operations.

Our financial results incorporate activities acquired with KeySpan on 24 August 2007.

Our UK and US wireless infrastructure operations and the Basslink electricity interconnector in Australia that we sold during the year ended 31 March 2008 are included within discontinued operations for that year.

Measurement of financial performance and use of adjusted profit measures

In considering the financial performance of our businesses and segments, we analyse each of our primary financial measures of operating profit, profit before tax, profit for the year attributable to equity shareholders and earnings per share into two components. Firstly business performance, which excludes exceptional items, remeasurements, stranded cost recoveries, and amortisation of acquisition-related intangibles. Secondly exceptional items, remeasurements, stranded cost recoveries, and amortisation of acquisition-related intangibles. Exceptional items, remeasurements, stranded cost recoveries, and amortisation of acquisition-related intangibles are excluded from the measures of business performance used by management to monitor financial performance as they are considered to distort the comparability of our reported financial performance from year to year.

Measures of business performance are referred to in this Annual Report and Accounts as adjusted profit measures in order to clearly distinguish them from the comparable total profit measures of which they are a component. Adjusted operating profit, adjusted profit before tax, adjusted earnings and adjusted earnings per share differ from total operating profit, profit before tax, profit for the year attributable to equity shareholders, and earnings per share respectively by the exclusion of exceptional items, remeasurements, stranded cost recoveries, and amortisation of acquisition-related intangibles.

Exceptional items, remeasurements, stranded cost recoveries, and amortisation of acquisition-related intangibles are items of income and expense that, in the judgement of management, should be disclosed separately on the basis that they are material, either by virtue of their nature or size, and are relevant to an understanding of our financial performance. Items of income or expense that are considered by management for designation as exceptional items include such items as significant restructurings, write-downs or impairments of non-current assets, significant changes in environmental or decommissioning provisions, the integration of acquired businesses, and gains or losses on disposals of businesses or investments.

Remeasurements comprise gains or losses recorded in the income statement arising from changes in the fair value of commodity contracts and derivative financial instruments. These fair values increase or decrease as a consequence of changes in commodity and financial indices and prices over which we have no control. Stranded cost recoveries comprise income from additional charges that we are allowed to recover from certain of our US customers arising from the divestiture of generation activities in the late 1990s. This income is scheduled largely to cease by the end of calendar year 2011. Amortisation of acquisition-related intangibles arises from intangible assets, principally customer relationships, that are only recognised as a consequence of the accounting required for a business combination. Such amortisation distorts the comparison of the financial performance of acquired businesses compared with non-acquired businesses.

Adjusted profit measures are limited in their usefulness compared with the comparable total profit measures as they exclude important elements of our underlying financial performance, namely, exceptional items, remeasurements, stranded cost recoveries, and the amortisation of acquisition-related intangibles. We believe that in separately presenting our financial performance in two components it is easier to read and interpret financial performance between periods. Adjusted profit measures are more comparable by excluding the distorting effect of exceptional items, remeasurements, stranded cost recoveries, and amortisation of acquisition-related intangibles. Exceptional items, remeasurements, stranded cost recoveries, and amortisation of acquisition-related intangibles 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, amortisation of acquisition-related intangibles 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 exceptional items, remeasurements, stranded cost recoveries, and amortisation of acquisition-related intangibles as a component of our overall financial performance.

Exchange rates

Our financial results are reported in sterling. Transactions for our US operations are denominated in US dollars and so the related amounts that are reported in sterling depend on the US dollar to sterling exchange rate. The average exchange rate in 2008/09 was $1.54: £1 compared with the average rate of $2.01: £1 in 2007/08. The same amount of revenue and other operating income (excluding stranded cost recoveries), adjusted operating profit and operating profit in US dollars earned in 2007/08 would have been reported as £1,947 million, £260 million and £398 million higher if earned in 2008/09. In 2006/07, the average rate was $1.91: £1. If the revenue and other operating income (excluding stranded cost recoveries), adjusted operating profit and operating profit in US dollars recognised in 2006/07 were earned in 2007/08, it would have been £193 million, £26 million and £51 million lower respectively.

However, the effect of movements in the US dollar exchange rate on adjusted operating profit and operating profit in 2008/09 was largely offset by the impact of interest and tax charges denominated in US dollars, when translated into sterling. This includes the effect of derivative financial instruments that swap debt raised in other currencies into US dollars as part of the financing of our US operations. As a result, adjusted profit for the year and profit for the year from continuing operations for 2007/08 would have been £49 million and £137 million higher respectively if translated at the 2008/09 average exchange rate of $1.54: £1 (2006/07: £4 million and £17 million lower respectively if translated at the 2007/08 average exchange rate of $2.01: £1).

£1,253m	50.9p	6%	37.4p
Adjusted profit from continuing operations	Adjusted earnings per share	Increase in adjusted earnings per share	Earnings per share

The balance sheet at the end of the financial year has been translated at an exchange rate of $1.44: £1 at 31 March 2009 ($1.98: £1 at 31 March 2008).

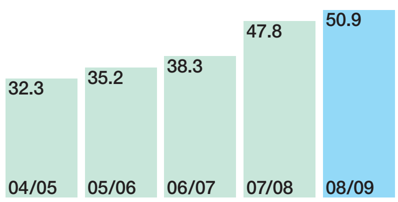
Profit for the year from continuing operations

Profit for the year from continuing operations decreased from £1,575 million in 2007/08 to £922 million in 2008/09 (increased from £1,310 million in 2006/07 to £1,575 million in 2007/08) as a consequence of the changes in operating profit, net finance costs, exceptional finance costs and remeasurements, and taxation described in the following sections.

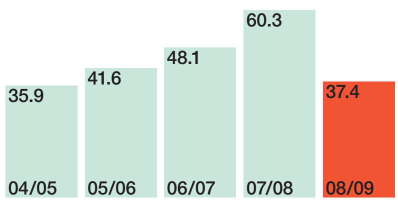
Details of the financial results of business segments and other activities are included in the business sections on pages 48 to 77.

Earnings and earnings per share from continuing operations

Adjusted earnings per share
pence



Earnings per share
pence



Adjusted earnings

Continuing operations	2009 £m	2008 £m	2007 £m
	Years ended 31 March		
Adjusted operating profit	**2,915**	2,595	2,031
Net finance costs excluding exceptional items and remeasurements	**(1,150)**	(770)	(547)
Share of post-tax results of joint ventures	**5**	4	2
Adjusted profit before taxation	**1,770**	1,829	1,486
Taxation excluding tax on exceptional items, remeasurements and stranded cost recoveries	**(517)**	(579)	(442)
Adjusted profit from continuing operations	**1,253**	1,250	1,044
	pence	pence	pence
Adjusted earnings per share from continuing operations	**50.9**	47.8	38.3

Earnings

Continuing operations	2009 £m	2008 £m	2007 £m
	Years ended 31 March		
Operating profit	**2,623**	2,964	2,513
Net finance costs	**(1,234)**	(786)	(764)
Share of post-tax results of joint ventures	**5**	4	2
Profit before taxation	**1,394**	2,182	1,751
Taxation	**(472)**	(607)	(441)
Profit from continuing operations	**922**	1,575	1,310
	pence	pence	pence
Earnings per share from continuing operations	**37.4**	60.3	48.1

Earnings per share from continuing operations

The following table sets out the adjusted earnings per share and earnings per share from continuing operations for 2008/09, 2007/08 and 2006/07 and reconciles the differences between them. Reconciling items are net of tax.

Continuing operations	2009 pence	2008 pence	2007 pence
	Years ended 31 March		
Adjusted earnings per share	**50.9**	47.8	38.3
Exceptional items	**(10.1)**	(0.1)	(1.5)
Commodity cost remeasurements	**(10.8)**	5.1	1.3
Derivative financial instrument remeasurements	**(3.0)**	(1.3)	0.6
Stranded cost recoveries	**10.4**	8.8	9.4
Earnings per share – continuing operations	**37.4**	60.3	48.1

Adjusted earnings per share for 2008/09 increased by 3.1 pence, an increase of 6% compared with 2007/08 (2007/08: increased by 9.5 pence, an increase of 25% compared with 2006/07). The reasons for this increase are our growth in adjusted profit and the share buyback programme during 2008/09.

Earnings per share from continuing operations decreased from 60.3 pence per share in 2007/08 to 37.4 pence per share in 2008/09 reflecting the increase in adjusted earnings per share, combined with the higher net exceptional items, remeasurements and stranded cost recoveries on a per share basis (2007/08: increase from 48.1 pence per share in 2006/07 to earnings of 60.3 pence per share).

Diluted earnings per share from continuing operations were 37.1 pence per share in 2008/09, 0.3 pence lower than basic earnings per share from continuing operations, compared with 59.9 pence per share in 2007/08 (0.4 pence lower) and 47.8 pence per share in 2006/07 (0.3 pence lower). The principal reason for the dilution in 2008/09, 2007/08 and 2006/07 relates to employee share plans.

Adjusted profit measures

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

Financial performance continued

a) Reconciliation of adjusted operating profit to operating profit

Continuing operations	Years ended 31 March **2009 £m**	2008 £m	2007 £m
Adjusted operating profit	**2,915**	2,595	2,031
Exceptional items	**(275)**	(242)	(22)
Commodity contract remeasurements	**(443)**	232	81
Stranded cost recoveries	**426**	379	423
Operating profit	**2,623**	2,964	2,513

Adjusted operating profit is presented on the face of the income statement under the heading Operating profit before exceptional items, remeasurements and stranded cost recoveries.

b) Reconciliation of adjusted profit before taxation to profit before taxation

Continuing operations	Years ended 31 March **2009 £m**	2008 £m	2007 £m
Adjusted profit before taxation	**1,770**	1,829	1,486
Exceptional items	**(275)**	(242)	(67)
Commodity contract remeasurements	**(445)**	223	62
Derivative financial instrument remeasurements	**(82)**	(7)	(153)
Stranded cost recoveries	**426**	379	423
Profit before taxation	**1,394**	2,182	1,751

Adjusted profit before taxation is presented on the face of the income statement under the heading Profit before taxation before exceptional items, remeasurements and stranded cost recoveries.

c) Reconciliation of adjusted earnings to earnings (profit for the year from continuing operations attributable to equity shareholders of the parent company)

Continuing operations	Years ended 31 March **2009 £m**	2008 £m	2007 £m
Adjusted earnings	**1,250**	1,247	1,042
Exceptional items	**(247)**	(2)	(41)
Commodity contract remeasurements	**(266)**	133	37
Derivative financial instrument remeasurements	**(74)**	(35)	16
Stranded cost recoveries	**256**	229	254
Earnings	**919**	1,572	1,308

Adjusted earnings is presented in note 10 to the consolidated financial statements, under the heading Adjusted earnings – continuing operations.

Discontinued operations

During 2008/09, discontinued operations included the Ravenswood generation station, KeySpan Communications and KeySpan engineering companies, which were sold during the year or subsequent to it. As at 31 March 2008, all these operations were classified as held for sale on the balance sheet and their results included in discontinued operations from their acquisition under KeySpan on 24 August 2007 to 31 March 2008. In addition, during 2007/08, discontinued operations included our wireless infrastructure operations in the UK and the US and the Basslink electricity interconnector in Australia that we sold during 2007/08. The results of these operations are also included within discontinued operations for 2006/07. Details of the results of these operations are provided on page 78.

We sold the Ravenswood generation station for $2.9 billion (£1.6 billion) on 26 August 2008.

Earnings per share from discontinued operations in 2008/09 were 1.1 pence per share (including 0.7 pence per share relating to gains on the businesses sold during the year) compared with 62.0 pence per share in 2007/08 (including 60.6 pence per share relating to gains on the businesses sold during the year) and 3.2 pence per share in 2006/07 with no gains from disposals.

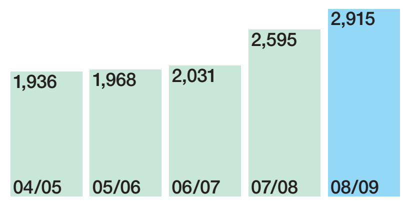
Net profit and total earnings per share for the year

Net profit from both continuing and discontinued operations was £947 million in 2008/09, compared with £3,193 million in 2007/08 and £1,396 million in 2006/07.

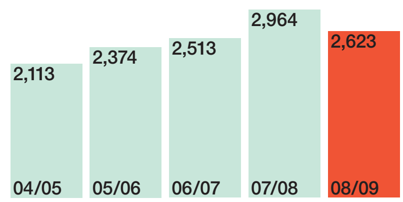
Total earnings per share from both continuing and discontinued operations were 38.5 pence per share in 2008/09, 122.3 pence per share in 2007/08 and 51.3 pence per share in 2006/07.

Adjusted operating profit and operating profit

Adjusted operating profit
£m



Operating profit
£m



During 2008/09, KeySpan operations contributed £556 million ($855 million) and £203 million ($313 million) to adjusted operating profit and operating profit for continuing operations respectively. During the year ended 31 March 2008, KeySpan was acquired on 24 August 2007 and consequently only contributed seven months of results for that period. During 2007/08, KeySpan contributed £368 million ($740 million) and £453 million ($911 million) to the adjusted operating profit and operating profit for continuing operations respectively.

KeySpan's operations are significantly affected by seasonality. Therefore, during 2007/08 the results of KeySpan that were consolidated from 24 August 2007 provide a larger contribution on a time apportioned basis compared with a full year's contribution. Weather driven seasonality results in higher revenues and operating profit in the second half of the financial year. This seasonality is due to higher energy demands in the US during the colder winter period.

£15.6bn	£2,915m	12%	£2,623m
Revenue	Adjusted operating profit	Increase in adjusted operating profit	Operating profit

The following tables set out the consolidated revenue, adjusted operating profit and operating profit by business segment.

Revenue by business segment

Continuing operations	2009 £m	2008 £m	2007 £m
		Years ended 31 March	
Transmission UK	**3,487**	2,956	2,816
Transmission US	**420**	299	270
Gas Distribution UK	**1,466**	1,383	1,193
Gas Distribution US	**4,786**	2,845	638
Electricity Distribution & Generation US	**4,972**	3,508	3,430
Other activities	**719**	642	567
Total segmental revenues	**15,850**	11,633	8,914
Less: sales between business segments	**(226)**	(210)	(219)
Total	**15,624**	11,423	8,695

Segmental operating profit before exceptional items, remeasurements and stranded cost recoveries

Continuing operations	2009 £m	2008 £m	2007 £m
		Years ended 31 March	
Transmission UK	**1,126**	1,021	946
Transmission US	**175**	128	108
Gas Distribution UK	**672**	595	409
Gas Distribution US	**612**	392	71
Electricity Distribution & Generation US	**265**	330	364
Other activities	**65**	129	133
Adjusted operating profit	**2,915**	2,595	2,031

Segmental operating profit

Continuing operations	2009 £m	2008 £m	2007 £m
		Years ended 31 March	
Transmission UK	**1,063**	1,013	936
Transmission US	**173**	122	107
Gas Distribution UK	**629**	574	412
Gas Distribution US	**226**	487	67
Electricity Distribution & Generation US	**531**	696	859
Other activities	**1**	72	132
Operating profit	**2,623**	2,964	2,513

2008/09 compared with 2007/08

Changes in revenue and other operating income, operating costs and operating profit for 2008/09 compared with 2007/08 are summarised in the following table.

Continuing operations	Revenue and other operating income £m	Operating costs £m	Operating profit £m
2007/08 results	11,498	(8,534)	2,964
Add back exceptional items and remeasurements	–	10	10
Deduct stranded cost recoveries	(382)	3	(379)
2007/08 adjusted results	11,116	(8,521)	2,595
Exchange movements	1,947	(1,687)	260
2007/08 constant currency results	13,063	(10,208)	2,855
Transmission UK	561	(456)	105
Transmission US	30	(22)	8
Gas Distribution UK	77	–	77
Gas Distribution US	1,068	(968)	100
Electricity Distribution & Generation US	454	(620)	(166)
Other activities	15	(79)	(64)
Sales between businesses	(16)	16	–
2008/09 adjusted results	15,252	(12,337)	2,915
Exceptional items and remeasurements	–	(718)	(718)
Stranded cost recoveries	435	(9)	426
2008/09 results	15,687	(13,064)	2,623

Revenue and other operating income excluding stranded cost recoveries was £4,136 million higher than in 2007/08. This primarily reflected a £1,947 million increase as a result of exchange movements on our US operations and the first full year contribution from KeySpan.

In addition, due to the pass-through nature of our commodity costs in the US, revenues have increased during 2008/09 due to a rise in average commodity costs during 2008/09 compared with 2007/08. This has not resulted in a significant increase in our operating profit.

There was a decrease of £12 million in other operating income, which primarily reflects a £49 million reduction in the sale of property by our property management business in the UK, partially offset by a £30 million increase in our Transmission UK business and a net £7 million increase from the other regulated and non-regulated businesses.

The increase in operating costs excluding exceptional items, remeasurements and stranded cost recoveries reflects a £1,687 million increase as a result of exchange movements, and the first full year contribution from KeySpan.

KeySpan operations contributed £4,635 million of revenue and £4,084 million of costs excluding exceptional items, remeasurements and stranded cost recoveries in 2008/09 compared with £3,262 million and £2,782 million respectively in 2007/08, on a constant currency basis.

Apart from the impact of a full year contribution from KeySpan and exchange movements, the other principal reasons for the increased revenue and operating costs were: in Transmission, higher UK regulated revenue and interconnector auction income; in Gas Distribution, increased allowed regulatory revenue and increased revenue due to colder weather partially offset by higher bad debt costs; and in Electricity Distribution & Generation, increased revenue, storm costs and depreciation.

Financial performance continued

Adjusted operating profit in 2008/09 was £320 million higher than 2007/08, comprising a £260 million increase as a result of exchange movements on US operations and a net increase of £60 million from the movements in revenue, other operating income and costs on a constant currency basis.

Net operating exceptional charges of £275 million in 2008/09 primarily related to restructuring costs incurred in the UK and US, and increases in environmental provisions resulting from significant movements in discount rates during the year. The majority of the restructuring costs related to the ongoing KeySpan integration programme, restructuring of our LNG storage facilities, and costs associated with initiatives related to the transformation of our operating model.

There were £443 million of operating remeasurement losses in 2008/09 compared with £232 million of gains in 2007/08. The losses relate to changes in the value of commodity contracts in the US carried in the balance sheet at fair value, primarily arising from movements in energy prices.

Stranded cost recoveries relate to the recovery of historical generation-related costs in the US that are no longer owned following divesture of generation assets. Such costs can be recovered from customers as permitted by regulatory agreements. Revenue and costs associated with stranded cost recoveries were £435 million and £9 million respectively (2007/08: £382 million and £3 million).

As a consequence of the increase in adjusted operating profit of £320 million, the net movement in operating exceptional items and remeasurements of £708 million and an increase in operating profit from stranded cost recoveries of £47 million, total operating profit decreased by £341 million in 2008/09 to £2,623 million compared with £2,964 million in 2007/08.

2007/08 compared with 2006/07

Changes in revenue and other operating income, operating costs and operating profit for 2007/08 compared with 2006/07 can be summarised as follows:

Continuing operations	Revenue and other operating income £m	Operating costs £m	Operating profit £m
2006/07 results	8,778	(6,265)	2,513
Add back exceptional items and remeasurements	–	(59)	(59)
Deduct stranded cost recoveries	(426)	3	(423)
2006/07 adjusted results	8,352	(6,321)	2,031
Exchange movements	(193)	167	(26)
2006/07 constant currency results	8,159	(6,154)	2,005
Transmission UK	134	(59)	75
Transmission US	42	(17)	25
Gas Distribution UK	192	(6)	186
Gas Distribution US	2,239	(1,915)	324
Electricity Distribution & Generation US	272	(288)	(16)
Other activities	71	(75)	(4)
Sales between businesses	7	(7)	–
2007/08 adjusted results	11,116	(8,521)	2,595
Exceptional items and remeasurements	–	(10)	(10)
Stranded cost recoveries	382	(3)	379
2007/08 results	11,498	(8,534)	2,964

Revenue and other operating income excluding stranded cost recoveries was £2,764 million higher than in 2006/07, including a £193 million decrease as a result of exchange movements on US operations. KeySpan contributed £2,498 million to this increase in revenue. There was a decrease of £8 million in other operating income. Operating costs excluding exceptional items, remeasurements and stranded cost recoveries increased by £2,200 million including a £167 million decrease as a result of exchange movements on US operations. KeySpan contributed £2,130 million to this increase in operating costs.

Excluding the significant uplift in revenue and costs associated with KeySpan there was a £459 million increase in revenue and other operating income and a £237 million increase in costs on a constant currency basis. This primarily related to higher allowed revenues in Transmission UK, and from Gas Distribution US with the first full year of contribution from the Rhode Island gas business.

Adjusted operating profit in 2007/08 was £564 million higher than 2006/07, comprising a £26 million decrease as a result of exchange movements on US operations and an increase of £590 million from the movements in revenue, other operating income and costs on a constant currency basis, primarily due to the acquisition of KeySpan.

Net operating exceptional charges of £242 million in 2007/08 related to restructuring costs incurred in the UK and US and to increases in environmental provisions. The majority of the restructuring costs related to the integration programme following the KeySpan acquisition.

There was a £151 million increase in operating remeasurement gains to £232 million in 2007/08 compared with £81 million in 2006/07. The gains relate to changes in the value of commodity contracts in the US carried in the balance sheet at fair value, primarily arising from movements in energy prices.

Stranded cost recoveries relate to the recovery of historical generation-related costs in the US that are no longer owned following divesture of generation assets. Such costs can be recovered from customers as permitted by regulatory agreements. Revenue and costs associated with stranded cost recoveries were £382 million and £3 million respectively (2006/07: £426 million and £3 million).

As a consequence of the increase in adjusted operating profit of £564 million, the net movement in operating exceptional items and remeasurements of £69 million and the decrease in operating profit from stranded cost recoveries of £44 million, total operating profit increased by £451 million in 2007/08 to £2,964 million compared to £2,513 million in 2006/07.

Net finance costs

Net interest excluding exceptional items and remeasurements was £1,150 million in 2008/09, compared with £770 million in 2007/08. The increase was primarily due to higher average net debt balances during the year reflecting the KeySpan acquisition, exchange movements and increased pension interest, partially offset by a lower effective interest rate reflecting lower floating and RPI linked rates.

29.2%	9%	£3.6bn	£1.6bn
Effective tax rate before exceptionals, remeasurements and stranded cost recoveries	Increase in cash generated from continuing operations	Cash inflow from continuing operations	Net cash inflow from borrowings

Net interest excluding exceptional items and remeasurements was £223 million higher in 2007/08 compared with £547 million in 2006/07. The increase was a consequence of higher average net debt balances following the KeySpan acquisition.

Exceptional finance costs and remeasurements

There were no exceptional finance costs in 2008/9 and in 2007/08. In 2006/07, there were £45 million of charges primarily relating to the early redemption of debt.

Financial remeasurements in 2008/09 relate to net losses on derivative financial instruments of £82 million (2007/08: £7 million, 2006/07: losses of £153 million) and the financial element of commodity contract revaluations, totalling £2 million (2007/08: £9 million, 2006/07: £19 million). Net losses on derivative financial instruments in 2008/09 includes £nil (2007/08: £3 million, 2006/07: £126 million) arising from a difference in the tax treatment of certain derivative instruments that offset on a post-tax basis.

Taxation

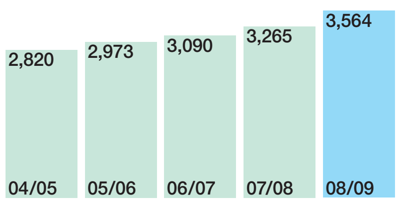
A net charge of £472 million arose in 2008/09 comprising £517 million on profit before tax excluding exceptional items, remeasurements and stranded cost recoveries, and a £45 million credit on exceptional items, remeasurements and stranded cost recoveries, compared with £607 million in 2007/08 (comprising £579 million and a £28 million expense respectively) and £441 million in 2006/07 (comprising £442 million and a credit of £1 million respectively).

In 2008/09, exceptional items, remeasurements and stranded cost recoveries included a £49 million expense for increased deferred tax liabilities due to a change in the UK industrial allowance regime. In 2007/08, it included an exceptional tax credit in 2007/08 of £170 million relating to the release of deferred tax provisions arising from the change in the UK corporation tax rate.

The effective tax rates before and after exceptional items, remeasurements and stranded cost recoveries were 29.2% and 33.9% respectively (2007/08: 31.7% and 27.8%, 2006/07: 29.7% and 25.2%).

Cash flows

Operating cash flows
£m



Cash flows from operating activities

Cash generated from continuing operations was £3,564 million in 2008/09, compared with £3,265 million in 2007/08 and £3,090 million in 2006/07. This included cash outflows for continuing operations relating to exceptional items of £131 million, £132 million and £86 million respectively and cash inflows from stranded cost recoveries of £359 million, compared with £278 million and £288 million respectively.

After reflecting cash flows relating to discontinued operations and tax paid, net cash inflow from operating activities was £3,413 million, compared with £3,165 million in 2007/08 and £2,958 million in 2006/07. This included net corporate tax payments amounting to £143 million in 2008/09, £110 million in 2007/08 and £313 million in 2006/07.

Cash flows from investing activities

Cash outflows from investing activities were £1,998 million in 2008/09, compared with an outflow of £3,023 million in 2007/08 and an outflow of £4,061 million in 2006/07. There were no payments in respect of business acquisitions in 2008/09, compared with £3,502 million spent on acquiring KeySpan in 2007/08 and £269 million on business acquisitions in 2006/07. Proceeds from sales of financial investments were £99 million (2007/08: net sales of £45 million, 2006/07: net purchases of £1,725 million). Proceeds from disposals of businesses in 2008/09 were £1,617 million (2007/08: £3,064 million, 2006/07: £27 million) and proceeds from sales of joint ventures and other investments were £nil (2007/08: £55 million, 2006/07: £19 million).

Excluding acquisitions, disposals and financial investments, cash outflows increased in 2008/09 compared with 2007/08 as a result of purchases of property, plant and equipment within continuing operations increasing to £3,107 million during the year (2007/08: £2,832 million, 2006/07: £2,185 million). Investing activities of discontinued operations in the period resulted in a cash inflow of £1,049 million in 2008/09 (2007/08: £3,050 million inflow, 2006/07: £105 million outflow).

Cash flows from financing activities

Net cash outflows from financing activities were £877 million in 2008/09, compared with £1,592 million in 2007/08 and a £1,278 million inflow in 2006/07. This reflected net inflows from borrowings of £1,641 million (2007/08: £1,589 million, 2006/07: £3,045 million) and £627 million of share repurchases (2007/08: £1,498 million, 2006/07: £169 million).

In both 2007/08 and 2006/07 £26 million was paid in respect of the B share £2 billion return of value to shareholders.

Payments to providers of finance, in the form of interest and dividends, totalled £1,899 million in 2008/09 compared with £1,680 million in 2007/08 and £1,588 million in 2006/07.

Net interest cash outflows increased from £694 million in 2007/08 to £976 million in 2008/09 (increased from £597 million in 2006/07 to £694 million in 2007/08). The increase in 2008/09 compared with 2007/08 reflected higher average net debt (primarily the full year impact of the acquisition of KeySpan and higher capital expenditure) and the impact of the stronger US dollar partially offset by lower effective interest rates on our debt due to lower floating and RPI rates. The increase in 2007/08 compared with 2006/07 reflected higher average net debt during the year, primarily as a consequence of the acquisition of KeySpan. This was partially offset by the beneficial impact of the weaker US dollar.

Transmission

This year we have delivered more than £1.4 billion worth of electricity and gas projects to upgrade and reinforce ageing infrastructure and adapt our networks to cope with changing sources of energy.

Our fundamental priorities remain safety, reliability and efficiency. We have also created an enhanced line of sight from National Grid's objectives to Transmission's objectives and annual priorities.

We are focused on the long-term security of supply and environmental challenges arising from the transition to a low carbon economy and the decline of UK gas production from the North Sea.

Key Facts

- Over 20,900 kilometres of electrical overhead lines
- Over 800 kilometres of electrical underground cable
- 296 TWh of electricity transmitted in the UK
- Over 7,600 kilometres of gas pipeline
- 1,158 TWh of gas throughput

Adjusted operating profit	Capital investment
£1,301m	**£1,441m**
2007/08: £1,149m	2007/08: £1,711m

Employees	UK energy transmitted
3,874	**1,454 TWh**
2007/08: 3,678	2007/08: 1,437 TWh

About Transmission

Our Transmission business operates in both the UK and the US. As a consequence of the different economic and regulatory environments, we report the results of Transmission as two segments: Transmission UK and Transmission US.

This section should be read in conjunction with the rest of this Operating and Financial Review, in particular the external market and regulatory environment; current and future developments; business drivers; vision, strategy and objectives; and risks and opportunities set out on pages 20 to 27 and page 40.

Principal operations

Transmission UK

Our transmission operations in the UK encompass both electricity and gas transmission, comprising the following principal activities:

Electricity transmission owner

We own the electricity transmission system in England and Wales. Our electricity assets comprise approximately 7,200 kilometres of overhead line, about 690 kilometres of underground cable and 337 substations at 241 sites.

Gas transmission owner

We own the gas national transmission system in Great Britain. This comprises approximately 7,600 kilometres of high pressure pipe and 26 compressor stations, connecting to 8 distribution networks and to third party independent systems for onward transportation of gas to end consumers.

Electricity system operator

We are the Great Britain System Operator, responsible for managing the operations of both the England and Wales transmission system that we own and also the two high voltage electricity transmission networks in Scotland.

Day-to-day operation of the Great Britain electricity transmission system involves the continuous real-time matching of demand and generation output, ensuring the stability and security of the power system and the maintenance of satisfactory voltage and frequency. We are also designated as system operator for the new offshore electricity transmission regime.

Gas system operator

We operate the gas national transmission system. Day-to-day operation includes balancing supply and demand, maintaining satisfactory system pressures and ensuring gas quality standards are met.

French interconnector

We own and operate the UK assets, and a portion of the subsea cables, that comprise the electricity interconnector between England and France as part of a joint arrangement with the French transmission operator.

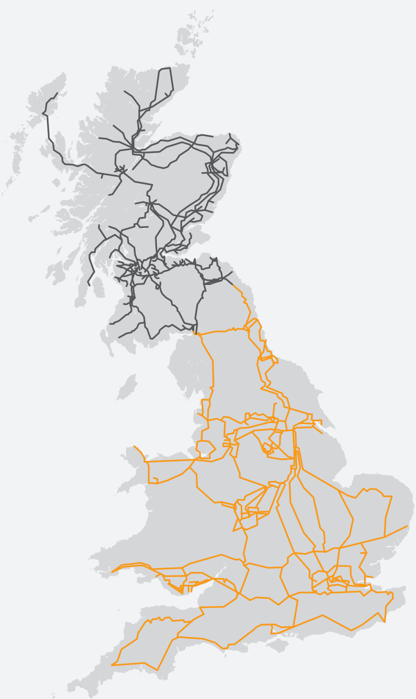
LNG storage

We own and operate four liquefied natural gas (LNG) storage facilities in Great Britain. With the scheduled closure of Dynevor Arms during 2009 the number of facilities will decrease to three.

337	99.9999%	26	100%
UK electricity substations	UK electrical system reliability	UK gas compressor stations	UK gas system reliability

Transmission UK – electricity system

— Scottish electricity transmission system
— English and Welsh electricity transmission system



Commissioned 434 circuit kilometres of overhead line, 18 super grid transformers and 41 circuit breakers.

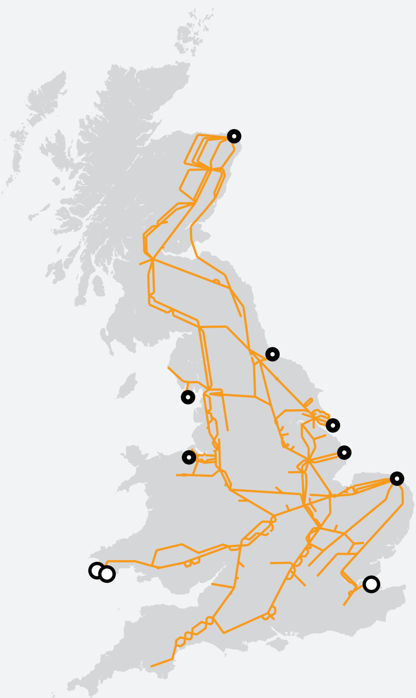
Diverted two existing overhead line circuits into a newly constructed cable tunnel on the site of the 2012 Olympic Park.

Developed a strategic plan for infrastructure investment to support the UK Government to meet its climate change targets.

Implemented a mobile flood defence system to protect substations from flooding.

Transmission UK – gas system

— Gas transmission system
● Terminal
○ LNG terminal



Completed Trans-Pennine high pressure gas pipeline connecting the two main north-south pipelines to provide greater operational flexibility.

Commissioned two new pipelines in southern England to connect new gas fired power stations.

New electric drive compressor station completed at Wormington, allowing greater flexibility of flows.

We are exploring carbon capture and storage – a technology that transports CO_2 emissions from power stations to depleted gas fields under the North Sea.

Transmission continued

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

As electricity transmission system operator and gas transmission system operator, we undertake a range of activities necessary for the successful, efficient delivery, in real-time, of secure and reliable energy. In the case of electricity, this involves the continuous real-time balancing of supply and demand, and management of balancing services that include commercial arrangements with market participants that enable electricity demand or generation output to be varied. In the case of gas, we ensure the system supply and demand is balanced at the end of each day. We are also required to maintain levels of short-term gas reserves to ensure domestic and other non-interruptible gas supplies can be maintained during prolonged cold conditions.

Transmission US

In the US, we are involved in electricity transmission and our principal activities are as follows:

Electricity transmission owner

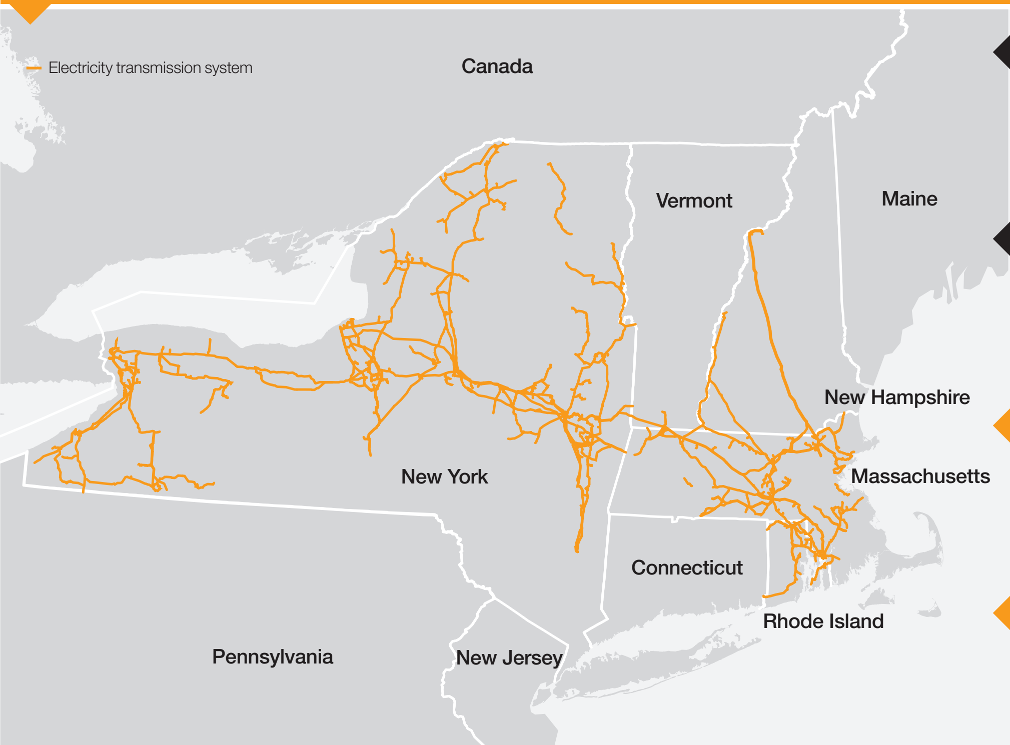
We own and operate an electricity transmission network of approximately 13,800 kilometres spanning upstate New York, Massachusetts, Rhode Island, New Hampshire and Vermont. Our US electricity transmission facilities operate at voltages ranging from 69 kV to 345 kV, utilising nearly 13,700 kilometres of overhead line, nearly 140 kilometres of underground cable and 524 substations.

We are the largest electricity transmission service provider in New England and New York by reference to the length of these high voltage transmission lines.

Canadian interconnector

We own and operate a 224 kilometre direct current transmission line rated at 450 kV that is a key section of an interconnector between New England and Canada.

Transmission US – electricity networks



Significant expenditure on asset replacement to increase system reliability.

Capital investment delivered in New York in line with KeySpan merger commitment.

New England East-West Solution (NEEWS) project is under way to enhance the transmission system in three states.

Five year contract signed with the New Energy Alliance to support investment programme in New England.

524	98.8%	5.05%	£10.8bn
US electricity substations	US electricity system availability	UK price control allowed vanilla return for electricity and gas	Estimated UK regulatory asset value

As one of several transmission owners, we work with two distinct independent system operators in New England and New York. These non profit system operator entities for New England and New York are responsible for operating organised wholesale markets for energy, for operating reserves and capacity, for maintaining the operating reliability of the New England and New York networks, for coordinating the activities of the transmission owners, and for managing transparent transmission expansion planning processes.

The transmission owners are responsible for certain aspects of the operation of the facilities they each own, such as maintenance, equipment restoration and switching operations.

National Grid also works closely with the independent system operators in New England and New York to support efficient market and network operations and transmission investment.

Regulation

Transmission UK

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

Through our subsidiary, National Grid Gas plc, we hold a gas transporter licence in respect of the national transmission system in Great Britain. Under the Gas Act 1986, we have a duty to develop and maintain an efficient and economical pipeline system for the conveyance of gas. Our LNG storage business is managed as a separate business from the gas transmission business; however, some elements of its operations are regulated under our gas transporter licence.

Ofgem sets price controls in respect of the amounts that can be recovered by the owners and operators of electricity and gas network infrastructure in the UK. These controls are reviewed every five years and the current price controls for both electricity and gas transmission activities cover the period 1 April 2007 to 31 March 2012.

We accepted Ofgem's final proposals for the system operator incentive schemes that applied to the year ended 31 March 2009 for both gas transportation and electricity transmission. We have also accepted their proposals for the one year schemes from 1 April 2009.

The key elements of the current price control for both gas and electricity transmission are that we earn a 4.4% post-tax real rate of return on our regulatory asset value (equivalent to a 5.05% vanilla return), a £4.4 billion baseline five year capital expenditure allowance and a £1.2 billion five year controllable operating expenditure allowance.

The charges that we can make for access to our UK electricity and gas transmission systems are determined by formulae linked to the UK retail price index (RPI). These formulae are based upon Ofgem's estimates of operating expenditure, capital expenditure and asset replacement, together with an allowed rate of return.

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

Both our UK electricity and gas system operation activities are also subject to financial incentive schemes to promote efficiency. If we operate our networks more efficiently than Ofgem's forecasts, we can increase our revenues, with penalties for underperformance.

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

For gas transmission, we have a number of incentive schemes covering activities such as cost of investment for additional capacity to facilitate new connections to the system, managing capacity constraints, the provision of market information, and the cost of purchasing shrinkage gas (gas used in operating the system) and other gas system operation costs.

Transmission US

Revenue for our transmission business in New England and New York is collected from transmission customers, including from our Electricity Distribution & Generation business, pursuant to tariffs approved by state utility commissions and by the Federal Energy Regulatory Commission (FERC).

In New York, our rates allow for capital expenditure on our transmission network based on historic levels, which are significantly lower than required to maintain a safe and reliable network. Over recent years our investment has been three to four times greater than the levels in the rate plan. We are permitted to petition for additional revenues with respect to incremental capital expenditure, which we have done with respect to the 2008 calendar year.

In New England, the transmission tariff allows for recovery of, and a return on, capital expenditures as new investment enters service, bringing immediate revenue benefits.

In New York, Massachusetts and Rhode Island, we are subject to penalties if the reliability of our electricity distribution and transmission networks fail to meet specific targets related to customer impacts.

The New York rate plan is orientated around efficient operations. To the extent that we perform necessary activities and spend less than the forecast operating costs set in the rate plan, it equates to increased income for us. Part of the rate plan deals with forecast energy delivery. To the extent that more energy is delivered, we increase revenue. Conversely, if we deliver less

Transmission continued

than forecast, our revenue goes down. In New England, working efficiently is also vital. However, the rate structure is such that network availability, energy delivery and operational expenditure are all pass-through items.

Current and future developments

In addition to the current and future developments described on pages 22 and 23, the following developments are relevant to the Transmission business.

Security of supply and climate change

The decline of the UK's North Sea gas reserves and the transition to a low carbon economy, are the two long-term security of supply and environmental challenges we are focused on. We are working with the UK electricity generators and Ofgem to ensure that the connection of renewable generation to the transmission network can be facilitated quickly and within our current licencing framework. In the US, we have major projects under way to increase the capacity of the transmission system to meet future demand. We are also working with the US Government and regulatory bodies to ensure that we help facilitate the implementation of the new climate change initiatives and stimulus package.

Other UK developments

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

At this time, network access is being sought by approximately 9 GW of renewable generation projects in Scotland consisting of just over 100 projects, each with connection agreements with National Grid. For England and Wales, connection offers have been made to an additional 8 GW of renewable generation projects. We have continued to work closely with the Scottish transmission companies to find innovative solutions to advancing new generation projects in Scotland. We have introduced measures to allow generators who are ready and able to connect to do so before wider reinforcement works. Importantly, on 8 May 2009, Ofgem confirmed that they will agree derogations from the GB Security and Quality Standards of Supply to advance the connection of 450 MW of Scottish renewable generation.

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

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

US regulatory developments

In New England, incentives applicable to transmission investments in service after 31 December 2008 require a separate petition filing with the FERC. On 17 September 2008, we and Northeast Utilities jointly filed a petition with the FERC to recover financial incentives for the New England East-West Solution (NEEWS) project, a series of interrelated transmission upgrades in the tri-state area of Connecticut, Massachusetts and Rhode Island, in which National Grid will invest approximately $0.6 billion (approximately £0.4 billion). The FERC granted incentives returns for NEEWS in November 2008.

We are seeking improvements to the New York regional planning process, and are working with the New York Independent System Operator (NYISO) and the New York Public Service Commission (NYPSC) to achieve this. The New York transmission owners are conducting a joint study to identify improvements needed to address ageing transmission infrastructure and the integration of renewables.

As permitted under our rate plan, in December 2007 we petitioned the NYPSC for deferred recovery of incremental investment on major capital programmes for calendar year 2008. The NYPSC issued its order on our deferral petition in September 2008 that recognised that the total programme of investment could be considered incremental to the existing rate plan but required us to file an additional petition based upon our actual 2008 investments after the end of the calendar year. This supplemental petition was filed on 21 April 2009. We anticipate that we will also petition for deferred recovery of qualifying incremental investment for calendar years 2009 and 2010.

50%	17%	4.7%	6.9%
Reduction in Transmission UK employee lost time injury frequency rate	Reduction in Transmission US employee lost time injury frequency rate	Transmission UK electricity operational 2008/09 vanilla rate of return	Transmission UK gas operational 2008/09 vanilla rate of return

Performance against our objectives

Our progress against all National Grid's objectives is set out on pages 30 to 39. We include below further information specific to Transmission with respect to the objectives that are closely aligned to the lines of business.

Driving improvements in our safety, customer and operational performance

Safety

Our objective is to reduce employee lost time injuries to zero.

To monitor our safety performance we use employee lost time injury frequency rate as our key performance indicator.

The safety of our employees, contractors and operations is of paramount importance and we have focused our efforts on safety messages that really matter and empowering our professionals to deliver continuous improvement in safety performance. The impact is illustrated through improvements in our safety performance in 2008/09.

In the UK, during 2008/09 there were 8 lost time injuries compared with 15 in 2007/08. The lost time injury frequency rate was 0.14 in 2008/09 compared with 0.28 in 2007/08.

Our US electricity transmission lost time injury frequency rate decreased to 0.20 in 2008/09 from 0.24 in 2007/08. There were 2 lost time injuries in 2008/09 compared with 2 in 2007/08.

Customer service

Our aim is to support generators and distribution network customers, including our own networks operated by Gas Distribution in the UK and Electricity Distribution & Generation in the US, in delivering energy efficiently and effectively to consumers, in particular in connecting new sources of supply to our transmission networks.

Our transmission customer service activities principally relate to facilitating new connections and maintaining existing connections and relationships with the customers who are already connected. In the US, much of the interconnection work with our transmission customers is performed in conjunction with the independent system operators in the areas within which we operate.

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

Returns on investment

Our aim is to meet or exceed the base financial returns in our price controls in the UK and our rate plans in the US.

The performance indicator we use to monitor our return on investment is the vanilla return in the UK and the return on equity per rate plan in the US.

We measure the financial performance of our UK regulated businesses using an operational return metric comparable to the vanilla return defined in the UK price controls from 1 April 2007. In our electricity transmission operations we achieved a 4.7% operational return in 2008/09 (2007/08: 5.2%), performing broadly in line with regulatory assumptions. In our gas transmission operations we achieved a 6.9% return in 2008/09 (2007/08: 6.9%), significantly outperforming regulatory assumptions mainly as a result of a strong performance under our incentive schemes.

In the US, we measure our financial performance against the allowed regulatory return on equity under the terms of our rate plans or rate agreements. In New England, we achieved a weighted average 11.8% return on equity broadly in line with the prior year. In New York, our electricity transmission activities are combined with electricity distribution under a single rate plan and the combined returns for these activities are included within the Electricity Distribution & Generation business commentary on page 70.

Modernising and extending our transmission networks

In the US, we are entering into new agreements with supply chain partners to deliver our commitments for significantly increased investment to replace ageing transmission assets. In the UK, we have also agreed with Ofgem to commit significant investment into planning new infrastructure to connect low carbon power generation ahead of the traditional timescales. In addition, we have committed to developing new processes to enable investment in new physical network capacity, which provides customers with easier access to our network.

Reliability

Our aim is to meet or exceed network reliability and availability objectives.

To monitor our reliability performance we use network reliability percentages as our key performance indicator.

In the UK, the total amount of electricity transmitted in 2008/09 was 296.1 TWh compared with 303.0 TWh for 2007/08 and 303.7 TWh for 2006/07. Gas transmitted amounted to 1,158 TWh compared with 1,134 TWh in 2007/08 and 1,086 TWh in 2006/07.

In the UK, the winter of 2008/09 saw demand from the electricity transmission network in England and Wales hit a peak of 52.9 GW. This compares with 54.2 GW in 2007/08 and 52.1 GW in 2006/07.

2008/09 saw a maximum gas demand of 443 million standard cubic metres on 6 January 2009. This is higher than last year's peak of 419 million standard cubic metres.

In the US, the summer of 2008 saw demand from the electricity transmission networks in New England and New York hit a combined peak load of 13.0 GW. This compares with 13.2 GW in 2007 and 14.0 GW in 2006.

Transmission continued

Our reliability and availability performance during the year can be summarised as follows:

Measure	Years ended 31 March 2009	2008	2007
UK electricity transmission network reliability – target 99.9999%	**99.9999%**	99.9999%	99.9999%
UK gas transmission network reliability – target 100%	**100%**	100%	100%
US electricity transmission network reliability – target < 303 MWh	**266 MWh**	437 MWh	259 MWh
UK average annual availability for electricity transmission network	**94.64%**	95.09%	95.02%
UK electricity system availability at winter peak demand	**97.7%**	98.0%	98.2%
UK gas compressor fleet performance – mean time between failures	**405 hrs**	259 hrs	430 hrs
US annual network availability	**98.8%**	98.6%	98.1%

In the US, our electricity system reliability performance broadly improved over the previous year as well as the average of the previous five years. However, continued improvement remains an objective for 2009/10.

Capital investment

Our aim is to deliver our planned capital investment programme involving approximately £5 billion of capital expenditure between 1 April 2009 and 31 March 2012.

UK investment

Investment in electricity and gas transmission systems is, by its nature, variable and is largely driven by changing sources of supply and asset replacement requirements. The gas transporter and electricity transmission licences also oblige us to provide connections and capacity upon request.

We have increased our level of investment as we replace parts of our UK electricity network as the assets become due for renewal. In addition, parts of the gas transmission network are reaching the end of their technical lives. These are mainly compressor stations, control systems and valves. This, together with work required to meet changing supply sources, means that the UK electricity and gas transmission business will continue to see a significant increase in investment and network renewal.

Capital investment in the replacement, reinforcement and extension of the UK electricity and gas transmission systems in 2008/09 was £1,259 million, compared with £1,600 million in 2007/08 and £1,235 million in 2006/07. 2008/09 has seen a substantial decrease in the level of investment in gas pipeline projects, some £363 million lower than 2007/08 (2007/08: £138 million higher than 2006/07) as the south Wales project is now substantially complete. Capital investment included £18 million with respect to intangible assets, principally software applications (2007/08: £22 million, 2006/07: £17 million).

Capital investment continues to include high levels of expenditure on the replacement of electricity transmission network assets, many of which were commissioned in the 1960s, and also increasing expenditure on load related infrastructure. Total investment in electricity network assets amounted to £863 million in 2008/09, compared with £800 million in 2007/08 and £607 million in 2006/07.

US investment

Capital investment in the replacement, reinforcement and extension of the US electricity transmission networks in 2008/09 was £182 million compared with £111 million in 2007/08 and £108 million in 2006/07. After excluding the £33 million effect of exchange rate movements, capital investment increased by £38 million in 2008/09 compared with 2007/08. The change principally reflects an increase in regional reliability projects in New England and additional asset replacement in New York to improve system reliability.

We expect increasing investment in New England to deliver our regional system expansion projects including the NEEWS project.

NEEWS is a large scale, regional transmission solution involving improvements to the transmission systems of National Grid and Northeast Utilities. In total it has an estimated cost of approximately \$2.1 billion (£1.5 billion) with National Grid's share estimated at approximately \$0.6 billion (£0.4 billion). The NEEWS project is designed to address reliability problems in the southern New England transmission system. The complexity and geographical coverage is on a larger scale than any other transmission infrastructure project built in New England in more than 20 years and represents the most significant addition to the New England 345 kV transmission system since it was first built.

Other investment projects in New York will also deliver our asset replacement plans and improve the reliability of the system.

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

Key areas of focus

Key areas of focus for our Transmission business in 2008/09 have been safety, securing funds for strategic investment in the UK, better operational planning and establishing construction alliances in the US.

Much of the focus for Transmission has been on preparing for the significant increase in capital investment that will occur in future years. In the UK, this has included developing the strategic investment plan. In the US, this has involved setting up new construction alliances, based on the established UK model, to manage the asset replacement programme more efficiently.

The new operational planning way of working brings together consistent planning information from all parties across a longer timeframe. This has improved the alignment of workload, resources and system access across multiple years between National Grid and supply chain partners to drive the efficient and timely delivery of work on our assets.

£1,126m	£175m	£1,259m	£182m
Transmission UK adjusted operating profit up 10%	Transmission US adjusted operating profit up 5%	Transmission UK capital expenditure	Transmission US capital expenditure

Efficiency

Our objective is to increase the efficiency of Transmission's operations.

Transmission has continued to focus on incremental efficiencies and is committed to further improving the levels of efficiency in our operations. This is how we will reduce controllable costs on an enduring basis contributing to an improved financial performance.

Efficiency is reflected in our financial performance, which is discussed below.

Financial performance

Profit

Our objective is to drive continuous profit growth.

Our combined adjusted operating profit, excluding exceptional items, for Transmission in the UK and the US of £1,301 million is 10% higher than 2007/08 on a constant currency basis, which in turn was 10% higher than in 2006/07, also on a constant currency basis.

Financial results – Transmission UK

The results for the Transmission UK segment for the years ended 31 March 2009, 2008 and 2007 were as follows:

	Years ended 31 March **2009** **£m**	2008 £m	2007 £m
Revenue and other operating income	**3,517**	2,956	2,822
Operating costs excluding exceptional items	**(2,391)**	(1,935)	(1,876)
Adjusted operating profit	**1,126**	1,021	946
Exceptional items	**(63)**	(8)	(10)
Operating profit	**1,063**	1,013	936

2008/09 compared with 2007/08

The principal movements between 2007/08 and 2008/09 can be summarised as follows:

	Revenue and other operating income £m	Operating costs £m	Operating profit £m
2007/08 results	2,956	(1,943)	1,013
Add back exceptional items	–	8	8
2007/08 adjusted results	2,956	(1,935)	1,021
Allowed revenues	232	–	232
Timing on recoveries	(20)	–	(20)
BSIS	318	(330)	(12)
French interconnector	43	(4)	39
Depreciation	–	3	3
Other	(12)	(125)	(137)
2008/09 adjusted results	3,517	(2,391)	1,126
Exceptional items	–	(63)	(63)
2008/09 results	3,517	(2,454)	1,063

Revenue and other operating income increased by £561 million in 2008/09 compared with 2007/08, mainly driven by recovery of higher incentivised costs associated with balancing the electricity system (BSIS) and an increase in allowed revenues. French interconnector revenue was up £43 million due to higher capacity auction revenues. Other movements mainly comprise lower LNG storage auction income.

Operating costs, excluding exceptional items, increased by £456 million in 2008/09 compared with 2007/08. This was primarily due to higher incentivised BSIS costs relating to higher constraint, margin and energy balancing costs (largely covered by the revenue increase above). Higher other operating costs reflect an increase in gas shrinkage costs, due to higher energy prices, and higher pass-through costs.

The increase in UK adjusted operating profit in 2008/09 reflects the movements in revenue and operating costs, excluding exceptional items, as described above.

The £63 million exceptional charge in 2008/09 primarily consists of a £50 million charge relating to the restructuring of our LNG storage facilities.

2007/08 compared with 2006/07

The principal movements between 2006/07 and 2007/08 can be summarised as follows:

	Revenue and other operating income £m	Operating costs £m	Operating profit £m
2006/07 results	2,822	(1,886)	936
Add back exceptional items	–	10	10
2006/07 adjusted results	2,822	(1,876)	946
Allowed revenues	176	–	176
Timing on recoveries	10	–	10
Lower French interconnector and LNG storage auctions	(62)	–	(62)
Depreciation and amortisation	–	(20)	(20)
Other	10	(39)	(29)
2007/08 adjusted results	2,956	(1,935)	1,021
Exceptional items	–	(8)	(8)
2007/08 results	2,956	(1,943)	1,013

Revenue and other operating income increased by £134 million in 2007/08 compared with 2006/07. Allowed revenues increased by £176 million, driven by the five year transmission price controls that came into effect on 1 April 2007. As expected, revenues from our French interconnector and LNG storage businesses were lower in 2007/08, down by a combined £62 million on 2006/07, as demand for capacity returned closer to normal levels following the abnormal demand in 2006/07.

Operating costs, excluding exceptional items, increased by £59 million in 2007/08 compared with 2006/07. As expected, depreciation and amortisation increased by £20 million as a result

Transmission continued

of increasing capital investment. Other items increased costs by £39 million, principally because of higher pass-through costs and increased non-regulated activities, both recovered through revenue.

The £8 million exceptional charge in 2007/08 relates to costs incurred in establishing a shared services function in the UK and from the continuation of our review of business processes, compared with £10 million in 2006/07.

As a consequence, adjusted operating profit, excluding exceptional items, increased by £75 million in 2007/08 compared with 2006/07, while operating profit increased by £77 million.

Financial results – Transmission US

The average exchange rates used to translate the results of US operations during 2008/09, 2007/08 and 2006/07 were $1.54: £1, $2.01: £1 and $1.91: £1 respectively.

	Years ended 31 March **2009** **£m**	 2008 £m	 2007 £m
Revenue	**420**	299	270
Operating costs excluding exceptional items	**(245)**	(171)	(162)
Adjusted operating profit	**175**	128	108
Exceptional items	**(2)**	(6)	(1)
Operating profit	**173**	122	107

2008/09 compared with 2007/08

The principal movements between 2007/08 and 2008/09 can be summarised as follows:

	Revenue £m	Operating costs £m	Operating profit £m
2007/08 results	299	(177)	122
Add back exceptional items	–	6	6
2007/08 adjusted results	299	(171)	128
Exchange movements	91	(52)	39
2007/08 constant currency results	390	(223)	167
Allowed revenues	25	–	25
Timing of recoveries	4	–	4
Other	1	(22)	(21)
2008/09 adjusted results	420	(245)	175
Exceptional items	–	(2)	(2)
2008/09 results	420	(247)	173

Adjusted operating profit increased by £47 million in 2008/09, of which £39 million was caused by the movement in exchange rates when compared with 2007/08. On a constant currency basis, revenue and operating costs increased by £30 million and £22 million respectively, resulting in an £8 million, or 5%, increase in adjusted operating profit in 2008/09.

Allowed revenues increased by £25 million in 2008/09. This growth was in New England where we have seen the benefit of our investment in regional reliability projects coming through in higher sustainable revenue streams.

In addition, revenue was £4 million higher in 2008/09 because of the timing of recoveries under our New York rate plan.

Operating costs were £22 million higher, on a constant currency basis, in 2008/09 than in 2007/08 reflecting our commitment to improve the operational performance of the networks in both New England and New York. The majority of the increase was driven by reliability enhancements and maintenance programmes aimed at improving system reliability. In addition, both depreciation and property taxes have increased as a direct consequence of the growth in network capital investment brought into service.

The £2 million exceptional charge in 2008/09 relates to restructuring costs arising from the integration of the operations acquired with KeySpan.

2007/08 compared with 2006/07

The principal movements between 2006/07 and 2007/08 can be summarised as follows:

	Revenue £m	Operating costs £m	Operating profit £m
2006/07 results	270	(163)	107
Add back exceptional items	–	1	1
2006/07 adjusted results	270	(162)	108
Exchange movements	(13)	8	(5)
2006/07 constant currency results	257	(154)	103
Allowed revenues	27	–	27
Timing on recoveries	15	–	15
Other	–	(17)	(17)
2007/08 adjusted results	299	(171)	128
Exceptional items	–	(6)	(6)
2007/08 results	299	(177)	122

Revenue and operating costs decreased by £13 million and £8 million in 2007/08 respectively as a consequence of exchange rate movements when compared with 2006/07. On a constant currency basis revenue and operating costs increased by £42 million and £17 million respectively. This reflected an increase in allowed revenues of £27 million and £15 million arising from the timing of revenue recoveries, while operating costs increased by £17 million as a consequence of higher wages and other expenditure.

The £6 million exceptional charge in 2007/08 relates to the integration of the operations acquired with KeySpan, in particular costs arising from voluntary early redundancies, compared with £1 million incurred in 2006/07. As a consequence adjusted operating profit increased by £25 million in 2007/08 compared with 2006/07 on a constant currency basis and by £20 million in total. After reflecting exceptional items, operating profit was £15 million higher in 2007/08 than in 2006/07.

Gas Distribution

We continue to share best practice ideas between the UK and US to improve our operating model and make it more consistent.

In the UK, we are one year into the new price control period, which will bring considerable challenge and opportunity over the remaining four years as we look to become more efficient and effective.

Once again, we have achieved our objective to replace metallic main with plastic this year, totalling over 1,900 kilometres in the UK, and reduced the amount of cast iron and unprotected steel mains by 398 kilometres in the US, improving the safety and reliability of our networks.

Key Facts

- Around 190,000 kilometres of gas pipe
- Delivery of 317 and 205 TWh of gas to over 10.8 and 3.5 million consumers in the UK and US respectively

Adjusted operating profit	Capital investment
£1,284m	**£1,019m**
2007/08: £987m	2007/08: £702m

Employees	Gas delivered
9,534	**522 TWh**
2007/08: 9,136	2007/08: 455 TWh

About Gas Distribution

Our Gas Distribution business operates in both the UK and the US. As a consequence of the different economic and regulatory environments, we report the results of Gas Distribution as two segments: Gas Distribution UK and Gas Distribution US.

This section should be read in conjunction with the rest of this Operating and Financial Review, in particular the external market and regulatory environment; current and future developments; business drivers; vision, strategy and objectives; and risks and opportunities set out on pages 20 to 27 and page 40.

Principal operations

Gas Distribution UK

Our Gas Distribution UK segment comprises four of the eight regional gas distribution networks in Great Britain.

Our networks comprise approximately 132,000 kilometres of gas distribution pipelines and we transport gas on behalf of approximately 25 active gas shippers from the gas national transmission system to around 10.8 million consumers.

We also manage the national gas emergency number (0800 111 999) for all the gas distribution networks and for other transporters in the UK. During 2008/09, we handled approximately 2 million calls to the national gas emergency number and a further 1.4 million calls to the enquiries line, appliance repair helpline and meter number enquiry service.

Gas Distribution US

Our Gas Distribution US segment comprises gas distribution networks providing services to around 3.5 million consumers across the northeastern US, located in service territories in upstate New York, New York City, Long Island, Massachusetts, New Hampshire and Rhode Island.

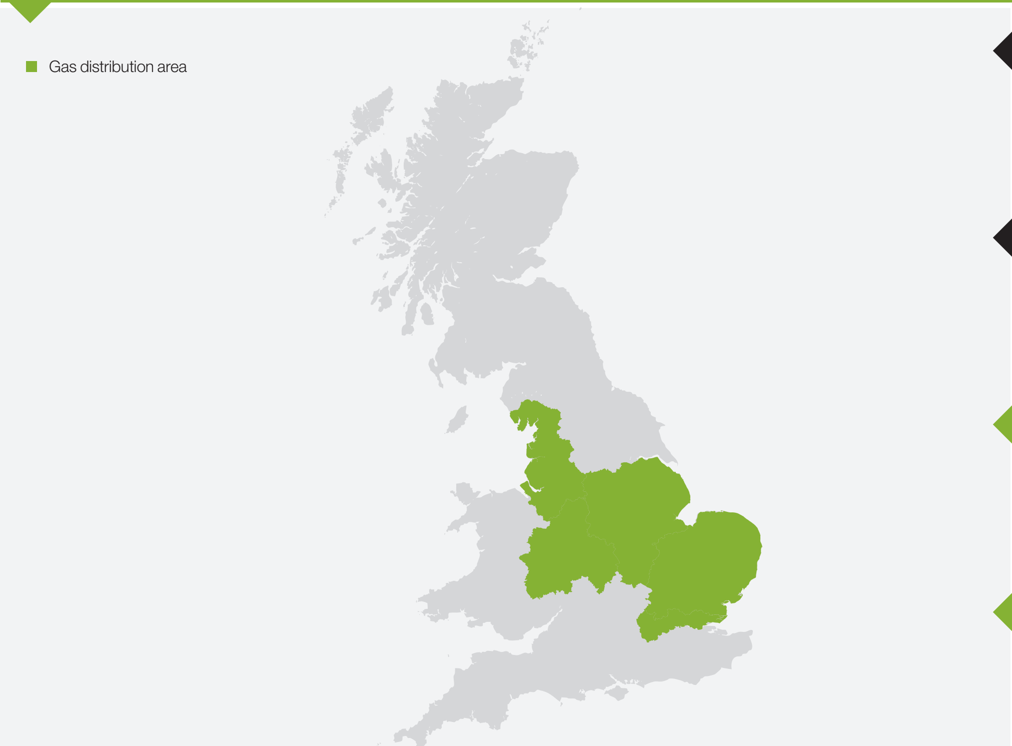
Our network of approximately 58,000 kilometres of gas pipelines covers an area of approximately 26,400 square kilometres.

In the US, our core services are the operation and maintenance of each of our gas distribution networks, in addition to billing, customer service and supply services.

Except for residential and small commercial consumers in Rhode Island, customers may purchase their supply from independent providers, with the option of billing for those purchases to be provided by National Grid. The gas industry is less deregulated in the US than in the UK, in that the majority of gas supplied is still sold by local regulated utilities such as National Grid, to customers. Regulated utilities purchase gas from gas producers, and gas transporters then transport this gas on the independent inter-state pipeline system and into regulated utilities' gas distribution networks for delivery to customers. In our case, we receive gas from the inter-state pipeline system at 95 gate stations. The inter-state pipeline system and local gas distribution networks are also used to deliver gas on behalf of customers who have purchased gas from independent suppliers or direct from gas producers.

Gas Distribution continued

Gas Distribution UK – operating area



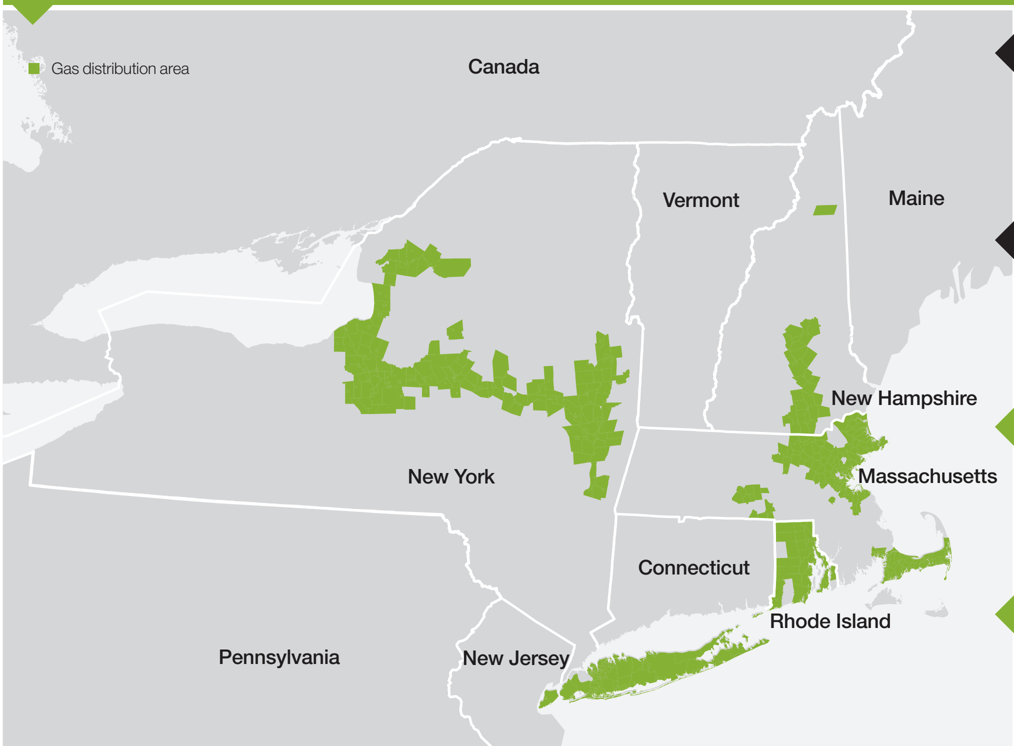
Met all standards of service as defined by our UK regulators.

Retained our PAS 55 certification in recognition of optimal management of our UK infrastructure assets.

Exceeded Health and Safety Executive mains replacement target for the third consecutive year.

Ongoing management of around 15,350 pressure reduction sites, and over 8.4 million standard cubic metres of gas storage capacity.

Gas Distribution US – operating area



Over $160 million invested in infrastructure replacement in 2008/09.

More than 60,000 new gas heating customers in 2008/09.

16 liquefied natural gas (LNG) sites to meet peak customer demand and mitigate price volatility.

Significant improvements made in gas rate plans in Rhode Island, upstate New York and New Hampshire.

Over 1,900km	£6.6bn	$8.1bn	14.3m
Metallic gas main replaced within the UK	Estimated UK regulatory asset value	Estimated US rate base (based on latest filings)	Gas consumers served in the UK and the US

Regulation

Gas Distribution UK

We hold a single gas distribution transporter licence in the UK, which authorises us to operate the four gas distribution networks we own. Detailed arrangements for transporting gas are provided through the Uniform Network Code. This defines the obligations, responsibilities and roles of industry participants and is approved by Ofgem.

Our four regional gas distribution networks each have a separate price control that determines the prices we can charge to gas shippers for our gas delivery service. These maximum prices are based on Ofgem's allowances for operating, capital and replacement expenditure, together with depreciation of, and a return on, Ofgem's allowances for our regulatory asset value.

The current price control period came into force on 1 April 2008 and covers the period up to 31 March 2013 providing for an allowed average revenue increase of 2% per annum above the retail price index. Key elements of the price control are a 4.3% post-tax real rate of return (equivalent to 4.94% vanilla return) on our regulatory asset value. Ofgem's final proposals (at 2005/06 prices) allow a £1.6 billion five year operating expenditure allowance and a £2.5 billion baseline five year capital expenditure allowance split £1.8 billion for replacement expenditure and £0.7 billion for capital expenditure.

The allowed formula revenue was decoupled from delivery volumes from 1 April 2007. This eliminated the sensitivity to warm weather and lower underlying volumes. In addition, from 1 October 2008 only a minimal proportion of our income is recovered through the volume delivery component of our charges.

At 31 March 2009, our regulatory asset value was estimated at approximately £6.6 billion.

In the UK, the price control formulae specify a maximum allowed revenue assigned to each network. Each formula consists of a fixed core revenue, cost pass-through items and an opportunity to earn additional revenue through new incentive schemes including: a mains and services replacement adjustment mechanism; shrinkage and environmental emissions incentives; an exit capacity scheme; and innovation, environmental and community incentives.

Replacement expenditure maintains the safety and reliability of the network, by replacing older gas pipes with modern polyethylene equivalents. Ofgem treats 50% of projected replacement expenditure as recoverable during the price control period and 50% as recoverable over future years. Each network is subject to its own mains replacement incentive mechanism and retains 36% of any outperformance against Ofgem's annual cost targets as additional return or, alternatively, bears 36% of any overspend if it underperforms.

In specific instances, Ofgem has agreed the price control can be re-opened in response to changes in legislation that may increase the cost of carrying out work in the public highway.

Transportation charges are set broadly to recover allowed revenue but in any year collected revenue can be more or less than allowed. Any difference is carried forward and our charges are adjusted accordingly in future periods.

Ofgem has established standards of service we are required to meet that apply to our operations. These include: standards of service incorporated within our gas transporter licence, for example, answering 90% of all calls to the national gas emergency number, enquiries line and meter number enquiry service within 30 seconds of the call being connected and attending 97% of reports of a gas escape or other gas emergency within the required timescale; and guaranteed standards of service for our other transportation services such as, restoration of supply after an unplanned interruption and complaint handling. Compensation is payable for any failures to meet guaranteed standards of service.

Gas Distribution US

Gas Distribution US operates under franchise agreements that provide us with certain rights and obligations regarding gas facilities and the provision of gas service within each state in which we operate. In addition, there are federal and state laws and regulations covering both general business practices and the gas business in particular, especially with respect to safety, energy transactions, customer sales and service, levels of performance, rates, finances and environmental concerns. The jurisdictions include, but are not limited to: the US Department of Transportation, the US Environmental Protection Agency, the US Federal Energy Regulatory Commission (FERC), several state utility commissions, departments of transportation, and environmental agencies. Local building departments, fire departments and departments of transportation also impose regulations upon our operations. A number of these agencies issue licences and permits that govern activities under their jurisdiction.

The prices we set in the US for our customers are based on a cost of service model, whereby the prices that we agree with our regulators are designed to recover the costs we incur in providing services to customers, together with a return on equity invested. Customer bills typically comprise a commodity rate to recover the cost of gas delivered and a delivery rate to cover our gas delivery service. Delivery rates consist of a per customer charge and an additional price per therm of gas delivered. The allocation between these components varies by jurisdiction, type of customer and size of customer.

Depending on the jurisdiction, gas costs are set either monthly, semi-annually or annually based on estimated gas prices and volumes expected to be delivered to customers, which may differ from actual amounts. Gas purchases for supply to customers, which represent a substantial proportion of our costs, are pass-through costs, in that prices are adjusted on a regular basis to ensure that over- or under-recovery of these costs is returned to or recovered from customers with interest. As a consequence, we have no economic exposure to such costs assuming they were prudently incurred.

Gas Distribution continued

However, as prices are typically established based on estimates of costs and volumes, there can be timing differences between the financial period when we incur such costs and the financial period when our prices are adjusted to return or charge for any over- or under-recovery.

Our rate plans include sharing arrangements, which allow us to retain some of the benefit of efficiency improvements in excess of those built into rate plan assumptions. Typically, we retain all the benefits up to a certain level of return on equity, after which we retain only a proportion of the benefits with the balance returned to customers. A summary of the key features and allowed returns within our rate plans is provided below.

Rate plan	Equity return	Equity to debt ratio	Sharing arrangements
New York City and Long Island	9.8%	45/55	100% to 10.5%, 50% to 12.5%, 35% to 13.5%, nil above 13.5%
Upstate New York*	10.2%	44/56	100% to 11.35%, 50% to 13.6%, 25% to 15.6%, 10% above 15.6%
Boston, MA	10.2%	50/50	100% up to 14.2%, 75% above 14.2%
Essex, MA	11.2%	55/45	None
Colonial, MA	11.2%	46/54	None
Rhode Island	10.5%	48/52	50% to 11.5%, 25% above 11.5%
New Hampshire	10.4%	49/51	None

*Based on settlement filed, awaiting approval

We also have a number of service standards for our operations. These vary between our rate plans but include such measures as: reliability levels; responsiveness to gas emergency calls; customer satisfaction levels; customer complaints; customer meter reading performance; customer call answering; enrolment of customers into the low income customer assistance programme; outstanding gas leaks requiring repair; and other measures. Many of these service standards have penalties if we do not achieve certain specified minimum standards.

Current and future developments

In addition to the current and future developments described on pages 22 and 23, the following developments are relevant to the Gas Distribution business.

Rhode Island gas rate plan filing

We filed a request on 1 April 2008 with the Rhode Island Public Utilities Commission for a $20.4 million (£14.2 million) rate increase, representing a 4.6% increase on a total bill basis. In November, we were granted a $13.6 million (£9.4 million) rate increase with a 10.5% return on equity, effective as of 1 December 2008. The case has a discrete funding mechanism for a mains replacement programme, a new rate for low income customers, and an increased recovery of commodity related bad debt expense. Our decoupling proposal was rejected and the Commission indicated that full revenue decoupling was not appropriate at this time.

Upstate New York gas rate plan filing

We filed a rate plan with the New York Public Service Commission on 23 May 2008 for an $84 million (£58 million) rate increase in natural gas delivery rates. We filed a settlement proposal on 13 February 2009, which included a two year rate plan, a $39.4 million (£27.4 million) rate increase in year one resulting in an overall 5.1% increase on customer bills. The settlement contains a 10.2% return on equity, revenue decoupling, a new rate for low income customers, a partial recovery of commodity related bad debt expense based on current gas costs, a full recovery of New York State Energy Research and Development Authority (NYSERDA) auction rate debt, and a partial recovery of new long-term debt. The Commission will rule on the settlement during 2009, with new rates expected to come into effect during the year.

New Hampshire gas rate plan filing

On 25 February 2008, we filed a request with the New Hampshire Public Utilities Commission to increase distribution rates by approximately $9.9 million (£6.9 million). The filing marks the first request for an increase in distribution rates in 15 years and is necessary to fund ongoing operations and significant infrastructure improvements. On 23 January 2009, we filed a partial settlement addressing all issues other than the return on equity. The return on equity was fully litigated. The partial settlement includes a commodity related bad debt allowance in the first year of 2.54%, (decreasing to 1.75% in year four) increased customer charges, an enhanced collections programme and the elimination of the requirement to connect new customers to the system at no charge who are within 80 feet of the network. The Commission ruling is expected in 2009 and will cover the settlement and the return on equity.

Performance against our objectives

Our progress against all National Grid's objectives is set out on pages 30 to 39. We include below further information specific to Gas Distribution with respect to the objectives that are closely aligned to the lines of business.

Driving improvements in our safety, customer and operational performance

Safety

Our objective is to reduce employee lost time injuries to zero.

To monitor our safety performance we use employee lost time injury frequency rate as our key performance indicator. In addition, we monitor kilometres of gas distribution mains replaced in the UK.

Lost time injuries totalled 76 in 2008/09, of which 24 were within the UK and 52 were within US. This was equivalent to a lost time injury frequency rate of 0.35. This compared with a total of 72 lost time injuries in 2007/08, of which 15 were within the UK and 57 within the US, equivalent to a lost time injury frequency rate of 0.36. Data for 2007/08 has been restated as if the KeySpan acquisition had occurred at the beginning of the year.

In both the UK and US, we again exceeded all our regulatory agreed targets on safety related standards.

5.8%	Safety	3 rate filings	£25m
Vanilla rate of return achieved in the UK	Exceeded our UK and US targets to attend gas escapes	Three new gas rate plan filings being progressed in the US	Investment in active pressure management systems to reduce our impact on climate change

In the UK, we have decommissioned more than 1,900 kilometres of metallic gas main in 2008/09 under our long-term main replacement programme, exceeding the target agreed with the UK Health and Safety Executive (HSE) for the third consecutive year. The HSE target this year was 1,852 kilometres. We decommissioned over 1,850 kilometres in both 2007/08 and 2006/07. We have also seen good performance in the US with the rate of mains replacement steadily increasing. As detailed on page 85, we identified that some of our mains replacement activity may have been misreported. We have notified both Ofgem and the HSE, and a full investigation is currently being conducted.

In the UK, we are also investing around £25 million in a wider roll-out of active control systems, which change the pressure in the gas mains automatically as customer demand conditions require. This investment reduces average system pressure on our gas mains, thereby reducing natural gas escapes and is a direct consequence of the new environmental emissions incentive laid out by Ofgem in this current price control period. The combined effect of the above mains replacement activity and pressure management investments ultimately reduces the number of gas escapes that impact climate change.

Customer service

In addition to meeting customer service objectives agreed with our regulators, our objective is to be within the upper quartile of customer satisfaction in the territories we operate in.

To monitor our customer service performance we use customer satisfaction surveys as our performance measure.

In addition to meeting all service standards defined by our UK regulators, we aim to deliver a high quality customer experience, with satisfaction levels measurable through industry surveys in the geographic areas within which we operate.

In the UK, quality of service standards apply to three principal areas of activity: new connections; the telephone service; and attendance at gas emergencies. All standards have been met in 2008/09 and, in the individual cases where compensation is due, we have processes to ensure that customers receive the statutory compensation to which they are entitled. Customer satisfaction with the levels of service provided in respect of our main types of work (emergency response and repair, planned work and connections work) is measured and reported on a quarterly basis. Results of these surveys are directly comparable with the other independent distribution network operators and can be found at www.nationalgrid.com/uk/gas and www.ofgem.gov.uk. In summary, out of a maximum score of 10, we achieved the following year-to-date network average scores: 7.86 for emergency response and repair; 7.29 for planned work; and 6.74 for connections work. All scores are calculated within the Ofgem template and represent the mean scores of individual quarters. There is a programme of activities within the UK to improve these scores in future surveys.

For gas utility businesses in the US, J.D. Power and Associates formulate an annual survey and customer satisfaction rating. In 2008/09, the gas line of business experienced a decline. The business customer satisfaction scores were in the third quartile and residential customer satisfaction scores are in line to be in the third quartile. As our relationship with J.D. Power develops, we plan to implement initiatives that should improve customer satisfaction in the next three years by focusing on: communications and price; corporate citizenship; bill payment and collections; gas and electricity quality; reliability and safety; customer field services; and customer operations.

In the US, our Gas Distribution business met all gas safety related regulatory requirements on service quality indices and performance measures. These standards are set by state regulatory agencies and cover operational activities including, but not limited to, damage prevention, leak repair, emergency response, meter changes and main and service replacements.

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

Returns on investment

Our aim is to meet the base financial returns in our price controls in the UK and our rate plans in the US.

The performance indicator we use to monitor our return on investment is the vanilla return in the UK and the return on equity per rate plan in the US.

In the UK, we measure our return on investment using an operational return metric comparable to the vanilla return measure as defined in our UK price controls. In the US, we measure our return on investment using our defined return on equity under the terms of each rate plan.

Gas Distribution UK achieved a 5.8% vanilla return in 2008/09 exceeding the regulatory allowance. A summary of returns under our US rate plans is provided below.

Regulatory entity	Asset base* 2008	Asset base* 2007	Return on equity* 2008	Return on equity* 2007	Allowed return current
KEDNY	**$2,294m**	$2,239m	**11.9%**	14.9%	9.8%
KEDLI	**$1,795m**	$1,715m	**11.1%**	10.4%	9.8%
Mass. Gas	**$2,425m**	$2,137m	**8.3%**	9.2%	10.6%
Energy North	**$191m**	$173m	**4.4%**	4.9%	10.4%
Narragansett	**$337m**	$341m	**7.6%**	3.2%	10.5%
Niagara Mo. Gas**	**$1,067m**	$1,084m	**4.8%**	5.9%	10.2%

* Based on regulatory returns for the 12 months ended either 31 October or 31 December

** Based on settlements filed, awaiting approval

Current returns for our downstate New York and Long Island gas businesses are above our allowed returns. We are in the second year of a five year rate plan. Returns for our gas businesses in Rhode Island, New Hampshire and upstate New York are below our allowed returns. As previously discussed, we have filed rate cases in these jurisdictions. In upstate New York, we are awaiting approval for a two year gas settlement that increases rates by $39.4 million and has a 10.2% return on equity. In our Massachusetts gas businesses, we are operating under long-term rate plans but anticipate filing for rate adjustments in April 2010 to be effective 1 November 2010.

Gas Distribution continued

Modernising and extending our distribution networks

Reliability

Our objective is to meet regulatory targets and to have zero loss of supply incidents.

To monitor our reliability performance we use network reliability percentages as our key performance indicator.

In the UK, we again achieved a very high network reliability percentage of 99.9999% which reflects a low volume of unplanned customer interruptions during the year.

In the UK, actual gas consumption was 317 TWh compared with 315 in 2007/08. In the US, gas consumption was 205 TWh for 2008/09 compared with 212 in 2007/08. This was below the previous year due to the decreased gas usage among customers having dual fuel capability.

In both the UK and US, we continue to focus on improving reliability, in particular in the area of gas escapes, and targets in both regions have been met. Specifically in the US, workable gas escape backlog has been reduced by 30% over the previous year.

We continue to focus on process safety, which is the collective name for the measures, systems, procedures or policies which prevent incidents and/or protect people and the environment from the effects of major accidents. We are aligning our approach for controlling asset risks between the UK and the US.

Our asset management policies promote continual improvement in how our physical assets (plant, pipes, meters and regulators) are managed throughout their lifecycle from conception through construction, operation, maintenance and decommissioning.

Capital investment

Our aim is to deliver capital investment by 2012 in line with our UK price control allowance and supported by our US rate plans.

During 2008/09, we successfully delivered £1,019 million of capital investment and plan to invest a further £3.3 billion by 2012.

UK capital investment

Gross investment including reinforcement, extension and replacement of the UK gas distribution network was £598 million in 2008/09 compared with £514 million in 2007/08 and £490 million in 2006/07. Of these amounts, £425 million in 2008/09 related to replacement expenditure that is capitalised (2007/08: £353 million, 2006/07: £333 million) and £173 million to other capital investment including new connections, new pipelines and minor capital expenditure (2007/08: £161 million, 2006/07: £157 million). Expenditure on software applications included within the above amounts was £22 million (2007/08: £18 million, 2006/07: £12 million).

Replacement expenditure increased by £72 million (20%) compared with 2007/08 reflecting an increase in workload and a higher proportion of complex large diameter mains. Performance under the mains replacement incentive scheme is expected to be broadly neutral in 2008/09.

In collaboration with our alliance partnerships, we have replaced more than 1,900 kilometres of metallic gas main this year and approximately 8,800 kilometres since 2004/05, the vast majority of which relates to the long-term mains replacement programme agreed with the HSE.

The increase in other capital expenditure in 2008/09 compared with 2007/08 is driven by the commencement of the construction of a major new pipeline in west London, which is due for completion in 2009/10 together with information technology expenditure to replace obsolete equipment in system control and operational activities.

US capital investment

Capital expenditure in the replacement, reinforcement and extension of our US gas distribution networks was £421 million in 2008/09, £188 million in 2007/08, and £36 million in 2006/07.

After excluding the effect of exchange movements of £58 million in 2008/09 compared with 2007/08, capital expenditure increased by £175 million. The primary reason for the increase arose from five months of additional activities from the gas distribution network of KeySpan acquired in August 2007.

After excluding the effect of exchange movements of £2 million in 2007/08 compared with 2006/07, capital expenditure increased by £154 million. The primary reason for the increase was the inclusion of £144 million representing seven months of capital expenditure on the operations acquired with KeySpan.

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

Key areas of focus

Our objective is to utilise the scale and breadth of our enlarged Gas Distribution operations, together with the benefits of common support services, to drive improvements in our operating and financial performance. In particular, we aim to adopt best practices across Gas Distribution.

We have continued the transformation of our gas business towards the National Grid operating model. During 2008, we agreed a core of eight processes that can be more common across our business. These processes have been further broken down in preparation for work to commence on detailed design of our new IT system to support a more efficient operation in the UK gas business.

We completed the alignment of the Gas Distribution organisation to a globally aligned process based structure, as opposed to the traditional geocentric approach. This, combined with piloting new ways of planning, standardising and delivering of work, will enable us to release more value from our scale of operations and the greater centralisation of our back office support tasks.

In 2009/10, we will start the progressive replacement of our ageing front office IT suite of systems. The lessons learnt from the pilots, and the advances in technology since the original front office was

£1,466m	£4,786m	£598m	£421m
Gas Distribution UK revenue	Gas Distribution US revenue	Gas Distribution UK capital expenditure	Gas Distribution US capital expenditure

installed, will help us drive further improvements in the efficiency and customer performance of the gas business.

We have also made significant progress towards achieving the KeySpan integration initiatives attributable to Gas Distribution. Major categories of these initiatives included process model driven cost savings, standardisation, best practices, revenue enhancement and leak management. These initiatives were an integral part of the overall KeySpan integration.

Efficiency

Our objective is to increase the efficiency of Gas Distribution operations.

Our aim is to maintain the proper level of investment in our infrastructure to enable related operating cost reductions. The transformation of the front office programme in the UK is an example of how we are looking to execute information systems priorities to facilitate savings. US operations have achieved operating efficiencies of $15 million (annual run rate) due to initiatives related to merger integration synergies, which include, but are not limited to, consolidation of New England control centres, standardisation of fleet vehicles, organisational and office consolidations and increased utilisation of best practice technologies such as keyhole coring and remote service shut off systems.

Efficiency is reflected in our financial performance, which is discussed below.

Financial performance

Profit

Our objective is to increase profits each year.

The adjusted operating profit was £1,284 million in 2008/09 compared with £987 million in 2007/08 and £480 million in 2006/07.

Financial results – Gas Distribution UK

The results for our Gas Distribution UK segment for the years ended 31 March 2009, 2008 and 2007 were as follows:

	Years ended 31 March **2009 £m**	2008 £m	2007 £m
Revenue	**1,466**	1,383	1,193
Other operating income	**2**	8	6
Operating costs excluding exceptional items	**(796)**	(796)	(790)
Adjusted operating profit	**672**	595	409
Exceptional items	**(43)**	(21)	3
Operating profit	**629**	574	412

2008/09 compared with 2007/08

The principal movements between 2007/08 and 2008/09 can be summarised as follows:

	Revenue and other operating income £m	Operating costs £m	Operating profit £m
2007/08 results	1,391	(817)	574
Add back exceptional items	–	21	21
2007/08 adjusted results	1,391	(796)	595
Allowed revenues	90	–	90
Timing on recoveries	(15)	–	(15)
Pass-through costs	–	(9)	(9)
Non-formula	9	(12)	(3)
Other revenue and costs	(7)	21	14
2008/09 adjusted results	1,468	(796)	672
Exceptional items	–	(43)	(43)
2008/09 results	1,468	(839)	629

Revenue and other operating income in Gas Distribution UK increased by £77 million in 2008/09 compared with 2007/08. Allowed revenue was up £90 million, driven by the five year price control that came into effect on 1 April 2008 and incentive gains through the efficient management of our capacity requirements and improved pressure management. This was partially offset by a £15 million timing impact on recoveries.

The net year-on-year timing impact against allowed revenues was a reduction of £15 million as in 2008/09 there was a net benefit of £10 million (comprising the under-recovery of £20 million relating to the previous year, partially offset by a £10 million under-recovery for 2008/09), compared with a net benefit of £25 million in 2007/08 (comprising a £20 million under-recovery in 2007/08, offset by £45 million under-recovery from 2006/07).

Operating costs for 2008/09, excluding exceptional items, were in line with 2007/08. Efficiency savings through strong operating cost performance were combined with one-off benefits in the year. As expected, this was offset by £9 million higher pass-through costs due to an increase in business rates following the changes in rateable values introduced from 1 April 2005 and shrinkage costs due to higher gas prices. Non-formula costs were £12 million higher because of increased meter work and other non-formula activities.

Exceptional charges of £43 million in 2008/09 included an increase in the environmental provision of £13 million with the remaining £30 million made up of restructuring and transformation costs, which include system related projects costs. This compared with a £21 million charge in 2007/08.

As a consequence of the above, adjusted operating profit excluding exceptional items was £77 million higher in 2008/09 than 2007/08, an increase of 13%. Including exceptional items, operating profit was £55 million higher in 2008/09 than 2007/08, an increase of 10%.

Gas Distribution continued

2007/08 compared with 2006/07

The principal movements between 2006/07 and 2007/08 can be summarised as follows:

	Revenue and other operating income £m	Operating costs £m	Operating profit £m
2006/07 results	1,199	(787)	412
Add back exceptional items	–	(3)	(3)
2006/07 adjusted results	1,199	(790)	409
Allowed revenues	165	–	165
Timing on recoveries	59	–	59
Depreciation and amortisation	–	(11)	(11)
Pass-through costs	–	(18)	(18)
Other revenue and costs	(32)	23	(9)
2007/08 adjusted results	1,391	(796)	595
Exceptional items	–	(21)	(21)
2007/08 results	1,391	(817)	574

Revenue and other operating income in Gas Distribution UK increased by £192 million in 2007/08 compared with 2006/07. Net formula income was higher by £165 million due to the outcome of the one year price control extension. In addition, there was a £59 million timing impact on recoveries. This was partially offset by lower non-formula income, as a result of the cessation of transitional service agreements with the independent distribution networks and lower meter work activities, which was reflected in the improvement in other costs.

The allowed formula revenue is no longer linked to delivery volumes. This decoupling now eliminates the sensitivity to warm weather and lower underlying volumes. Furthermore, a smaller proportion of our income is recovered through the volume delivery component of our charges.

Cooler temperatures than the prior year increased consumption by 14 TWh, which was partially offset by the impact of underlying volumes being lower by 2 TWh. The net year-on-year timing impact against allowed revenues was £59 million as in 2007/08 there was a net benefit of £26 million (comprising the recovery of £43 million relating to the previous year, partially offset by a £17 million under-recovery for 2007/08), compared with a net detriment of £33 million in 2006/07 (comprising a £43 million under-recovery for 2006/07, partially offset by £10 million recovered relating to 2005/06).

Operating costs, excluding exceptional items, were £6 million higher in 2007/08 compared with 2006/07. Depreciation and amortisation costs were £11 million higher reflecting the increased capital investment in the distribution network. In line with 2006/07, there was a £12 million increase in business rates following the changes in rateable values introduced from 1 April 2005. From 2007/08 there is an extra allowance of £12 million for the recovery of non-active members' pension costs. This was partially offset by a reduction in operating costs of £11 million partly driven by the cessation of the transitional services agreement with the independent distribution networks and partly by efficiency savings.

Exceptional charges of £21 million in 2007/08 related primarily to the creation of the new shared services organisation in the UK and global information services function, together with pension costs associated with these restructuring programmes. This compared with a £3 million net gain in 2006/07.

As a consequence of the above, adjusted operating profit excluding exceptional items was £186 million higher in 2007/08 than 2006/07, an increase of 45%. Including exceptional items, operating profit was £162 million higher in 2007/08 than 2006/07, an increase of 39%.

Financial results – Gas Distribution US

The average exchange rates used to translate the results of US operations during 2008/09, 2007/08 and 2006/07 were $1.54:£1, $2.01:£1 and $1.91:£1 respectively.

	Years ended 31 March **2009 £m**	2008 £m	2007 £m
Revenue	**4,786**	2,845	638
Operating costs excluding exceptional items and remeasurements	**(4,174)**	(2,453)	(567)
Adjusted operating profit	**612**	392	71
Exceptional items and remeasurements	**(386)**	95	(4)
Operating profit	**226**	487	67

2008/09 compared with 2007/08

The principal movements between 2007/08 and 2008/09 can be summarised as follows:

	Revenue £m	Operating costs £m	Operating profit £m
2007/08 results	2,845	(2,358)	487
Add back exceptional items	–	(95)	(95)
2007/08 adjusted results	2,845	(2,453)	392
Exchange movements	873	(753)	120
2007/08 constant currency results	3,718	(3,206)	512
KeySpan contribution	902	(896)	6
Rate increases	32	–	32
Weather and volumes	22	–	22
Timing on recoveries	(6)	52	46
Merchant function charge	38	–	38
Energy efficiency programme	19	(12)	7
Pass-through costs	69	(69)	–
Bad debt expense	–	(29)	(29)
Other revenues and costs	(8)	(14)	(22)
2008/09 adjusted results	4,786	(4,174)	612
Exceptional items	–	(52)	(52)
Remeasurements	–	(334)	(334)
2008/09 results	4,786	(4,560)	226

Revenue and operating costs excluding exceptional items and remeasurements increased by £1,068 million and £968 million respectively in 2008/09 compared with 2007/08 on a constant currency basis, an increase of 29% and 30% in each case. The rise in revenue and operating costs primarily arose from an increase in contributions from KeySpan operations in 2008/09 reflecting the first full year of ownership since acquisition in August 2007.

£672m	£612m	13%	20%
Gas Distribution UK adjusted operating profit	Gas Distribution US adjusted operating profit	Gas Distribution UK increase in adjusted operating profit	Gas Distribution US increase in adjusted operating profit at constant currency

Revenue increased by £1,073 million in 2008/09 compared with 2007/08. Revenue from KeySpan operations increased by £902 million compared with 2007/08. The remaining £171 million was primarily driven by New York, Long Island, Rhode Island, and New Hampshire rate increases of £32 million, colder weather and higher consumption of £22 million, higher recoveries of gas inventory carrying charges of £38 million, higher commodity pass-through costs of £69 million, and other increases of £10 million.

The weather in 2008/09 was significantly colder than 2007/08. As measured in heating degree days, weather in 2008/09 across National Grid's US gas territories was approximately 5% colder than normal and was approximately 8% colder than 2007/08.

Operating costs, excluding exceptional items were £973 million higher in 2008/09 compared with 2007/08. The increase in costs from KeySpan operations in 2008/09 was £896 million on a constant currency basis. The remaining increase of £77 million was a result of higher commodity pass-through costs, an increase in maintenance costs and higher bad debt expense as a result of the economic downturn partially offset by a favourable overcollection in commodity costs.

Exceptional charges of £52 million in 2008/09 related to integration initiatives, including the cost of voluntary early redundancies, while adverse mark-to-market commodity contract remeasurement losses were recorded as a consequence of lower energy prices compared with contracted amounts as at 31 March 2009. The losses from these transactions will be realised in subsequent periods and recovered from consumers.

2007/08 compared with 2006/07

The principal movements between 2006/07 and 2007/08 can be summarised as follows:

	Revenue £m	Operating costs £m	Operating profit £m
2006/07 results	638	(571)	67
Add back exceptional items	–	4	4
2006/07 adjusted results	638	(567)	71
Exchange movements	(32)	29	(3)
2006/07 constant currency results	606	(538)	68
KeySpan contribution	2,181	(1,832)	349
Rhode Island gas operations	61	(74)	(13)
Bad debt expense	–	(3)	(3)
Pension and benefit costs	–	(3)	(3)
Other	(3)	(3)	(6)
2007/08 adjusted results	2,845	(2,453)	392
Exceptional items	–	(46)	(46)
Remeasurements	–	141	141
2007/08 results	2,845	(2,358)	487

Revenue and operating costs excluding exceptional items and remeasurements increased by £2,239 million and £1,915 million respectively in 2007/08 compared with 2006/07 on a constant currency basis. The rise in revenue and operating costs primarily arose from five months of additional activities from the gas distribution network in Rhode Island we acquired from Southern Union Company in August 2006 and seven months of activities from the gas distribution networks we acquired with KeySpan in August 2007.

Exceptional charges of £46 million in 2007/08 related to integration initiatives, including the cost of voluntary early redundancies, while favourable mark-to-market commodity contract remeasurement gains were recorded as a consequence of higher energy prices compared with contracted amounts as at 31 March 2008. The benefit of these gains will be realised in subsequent periods and passed back to consumers.

Electricity Distribution & Generation

Our customers are at the heart of everything we do. We continue to invest in our distribution and generation systems creating sustained improvements in our system reliability.

We are focused on building a branded customer experience that demonstrates our commitment to our customers and educates them on the environmental impact they have. We believe that increased energy efficiency and deployment of smart technologies are the best ways to help our customers control their energy costs while addressing the effects of climate change.

We are seeking regulatory agreements that decouple our revenue from customer energy usage. With decoupling, we can enable increased energy efficiency for our customers without reducing our revenue stream.

Key Facts

- Over 116,700 kilometres of circuit
- 3.4 million customers
- 65 TWh of electricity delivered
- 670 substations
- 57 generation units at 13 locations across Long Island
- LIPA network serving 1.1 million customers over 24,100 kilometres of circuit and 177 substations, delivering 22 TWh of electricity

Adjusted operating profit	Capital investment
£265m	**£355m**
2007/08: £330m	2007/08: £257m

Employees	Energy saved through energy efficiency measures
7,950	**275 GWh**
2007/08: 7,955	2007/08: 266 GWh

About Electricity Distribution & Generation

Our Electricity Distribution & Generation business operates in the northeastern US and is reported as a single segment in our financial statements.

This section should be read in conjunction with the rest of this Operating and Financial Review, in particular the external market and regulatory environment; current and future developments; business drivers; vision, strategy and objectives; and risks and opportunities set out on pages 20 to 27 and page 40.

Principal operations

Electricity Distribution

We are one of the leading electricity distribution service providers in the northeastern US, as measured by energy delivered, and one of the largest utilities in the US, as measured by the number of electricity distribution customers.

Our electricity distribution system spans upstate New York, Massachusetts, Rhode Island and New Hampshire, which, together with the system on Long Island owned by the Long Island Power Authority (LIPA), provides energy to homes, small businesses, and large commercial and industrial enterprises.

We are responsible for building, operating and maintaining our electricity distribution networks in New England and New York, and LIPA's transmission and distribution networks on Long Island. Our work is essential to the economies of the regions in which we operate and contributes to the comfort and well-being of the millions of people who depend on our services.

Through our electricity distribution networks we serve approximately 3.4 million electricity customers over a network of approximately 116,700 circuit kilometres (72,500 miles) in New England and New York.

We strive to provide a reliable, high quality distribution network to our customers. In all that we do, we are committed to safeguarding our global environment for future generations.

On Long Island, we are responsible for managing the electricity transmission and distribution system on behalf of LIPA. The LIPA service territory consists of most of Nassau and Suffolk counties on Long Island, together with the Rockaway Peninsula which forms part of Queens County (part of New York City). It covers approximately 3,200 square kilometres, encompassing nearly 90% of Long Island's total land area. LIPA owns approximately 2,100 kilometres (1,300 miles) of transmission line facilities that deliver power to approximately 177 substations in its electricity system. From these substations, approximately 24,100 circuit kilometres (15,000 miles) of distribution facilities distribute electricity to 1.1 million customers.

Our responsibilities include managing the day-to-day operations and maintenance of LIPA's transmission and distribution system, providing services to LIPA's retail customers, purchasing and selling electricity on behalf of LIPA and managing the delivery of the energy that we produce under contract to LIPA.

4.1 GW	38 TWh	£426m	670
Generation facilities on Long Island	Annual electricity procurement	Stranded cost recoveries	Substations

Generation

We own 57 electricity generation units on Long Island that together provide 4.1 GW of power under contract to LIPA. We also manage the fuel supplies for LIPA to fuel our plants and purchase energy, capacity and ancillary services in the open market on LIPA's behalf.

Our plants consist of oil and gas fired steam turbine, gas turbine and diesel driven generating units. The smallest are 2 MW diesel driven units on the eastern end of Long Island and the largest are 375 MW steam units based at Northport. Any available power not purchased by LIPA is made available for sale in the open market.

Stranded cost recoveries

Stranded cost recoveries capture the recovery of some of our historical investments in generating plants that were divested as part of the restructuring process and wholesale power deregulation process in New England and New York. This includes the recovery of certain above market costs of commodity purchase contracts we are committed to purchasing that were in place at the time of restructuring and deregulation.

We are able, with the approval of the utility commissions in the states in which we operate, to recover most of these costs through a special rate charged to electricity customers.

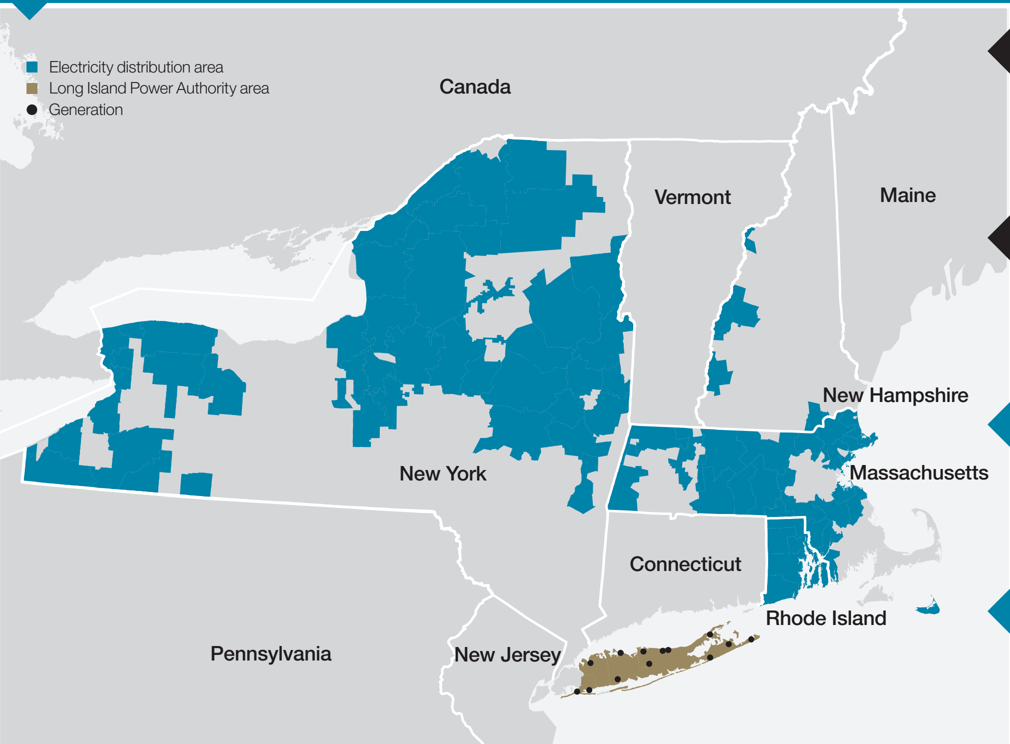
Pursuant to the settlement and stranded cost recovery agreements in effect in each of the states in which National Grid operates, this revenue stream will decline as the recovery of stranded costs is completed. As a consequence, we do not consider this to be part of our business performance and so this is excluded from adjusted operating profit.

Energy procurement

We are responsible for the planning, procurement and administration of natural gas and electricity commodity supply for our customer base within our Electricity Distribution & Generation and Gas Distribution US businesses. Delivering on our commitment to achieve the highest reliability at low cost, we transact with a diverse group of creditworthy energy companies in order to supply approximately 500 billion standard cubic feet of natural gas, and procure 38 TWh of electricity annually across four states. We maintain a diversified and flexible portfolio of gas supply, transmission and storage assets, and are the largest shipper on major inter-state pipelines including Tennessee, Dominion, Algonquin and Iroquois. We transport 30% of all gas consumed in the northeast region of the US. We are also responsible for optimising our gas transmission and storage assets in order to provide additional benefits for our customers and shareholders.

We also provide fuel management services to power generators including LIPA and procure natural gas and oil to supply the 57 generation units on Long Island. We also provide LIPA with energy trading services.

Electricity Distribution & Generation service area



$57 million planned investment in smart grid pilot involving approximately 15,000 customers in Massachusetts.

Proposed 5 MW of solar generation in Massachusetts, which has the capacity to power 1,200 homes cleanly.

Working with multiple policy makers in Washington, DC to help shape energy and climate change legislation.

Recipient of the Sustained Excellence Award for long standing commitment to energy efficiency.

Electricity Distribution & Generation continued

Regulation

The prices we set in the US are based on a cost of service model, whereby the prices established by our regulators are designed to cover the costs we incur in providing services to customers, together with a return on capital invested.

Customer bills typically comprise a commodity rate, covering the cost of electricity delivered and a delivery rate, covering our electricity delivery service. Delivery rates comprise a combination of a per customer charge, a demand charge and a price per additional kilowatt hour of electricity delivered. The allocation and applicability among these components vary by size of customer.

Prices set by our rate plans are based on estimates of costs and our return and estimates of volumes expected to be delivered, which may differ from actual amounts. A substantial proportion of our costs, in particular electricity purchases for supply to customers, are pass-through costs, in that prices are adjusted on a regular basis to ensure that over- or under-recovery of these costs is returned to or recovered from customers. As a consequence, we have no economic exposure to such costs, however, there can be timing differences between the financial period when we incur such costs and the financial period when our prices are adjusted to return or charge for any over- or under-recovery.

Our Long Island generation plants sell capacity to LIPA under a contract, approved by the Federal Energy Regulatory Commission (FERC), which provides a similar economic effect to cost of service rate regulation.

Our rate plans include sharing arrangements, which allow us to retain some of the benefit of efficiency improvements in excess of those built into rate plan assumptions. Typically we retain all the benefits up to a certain level of return on equity, after which we retain only a proportion of the benefits, with the balance returned to customers. A summary of the key features of our rate plans is provided below.

Rate plan	Equity return	Equity to debt ratio	Sharing arrangements
Upstate New York	10.6%	47/53	100% to 11.75%, 50% to 14%, 25% to 16%, 10% above 16%
Massachusetts	*	*	Not specified
Rhode Island	10.5%	50/50	50% from 10.5-11.5%, 25% above 11.5%
New Hampshire	9.67%	50/50	50% above 11%

* Massachusetts returns are based on the average of a peer group of utilities until 31 December 2009

We also have a number of service standards for our operations. These vary among our rate plans, but include reliability levels, customer satisfaction levels, customer complaints, customer meter reading performance, customer call answering, energy efficiency programmes and other measures. Many of these service standards have penalties if we do not achieve certain specified minimum standards.

The upstate New York rate plan also allows for subsequent recovery of specified electricity related costs and revenue items that have occurred since the rate plan was established, once these amounts exceed individual item thresholds and $100 million (£69 million) in total. These deferral account items include changes from the levels of pension and post-retirement benefit expenses from levels specified in the rate plan, as well as various other items, including storms, environmental remediation costs, and certain rate discounts provided to customers, together with costs and revenues from changes in tax, accounting and regulatory requirements.

The fourth and final filing for recovery of actual and projected deferral costs up to 31 December 2011 is anticipated to be made in August 2009 for recovery over a two year period commencing 1 January 2010.

Current and future developments

In addition to the current and future developments described on pages 22 and 23, the following developments are relevant to the Electricity Distribution & Generation business.

Environment

We aim to be a leader in the energy policy agenda by progressing efforts in energy efficiency and climate change. The US administration and Congress are working to pass legislation driving a federal renewable portfolio standard, an energy efficiency standard, and potentially a cap and trade regime for CO_2 reduction in advance of the Copenhagen climate change meeting in December 2009. National Grid is working closely with Congress, and the states to assist in the analysis of policy options and their impact on our industry and service area. We continue to lead on emissions reduction initiatives and collaborate with like minded companies through the US Clean Energy Group and community organisations.

LIPA Power Supply Agreement (PSA) rate adjustment

On 30 January 2009, we filed with the FERC for a rate increase for the power supplied to LIPA. Rates pursuant to the PSA agreement are in effect until May 2013. They were initially set in 1998 and are reset every five years. Rates were last reset in 2004. The PSA also allows for certain annual rate adjustments such as property tax increases and certain inflationary increases. The filing seeks an increase of $92 million, $60 million of which would be allowable under the annual rate adjustment provisions. On 31 March 2009, the FERC accepted our proposed tariff effective from 1 February 2009, subject to refund. The order also encourages a negotiated settlement. Absent a settlement, the issues would be ruled on later this year by a FERC administrative law judge.

37% reduction	$71m	114 minutes	Rate filings
In lost time injury frequency rate	Investment in energy efficiency programmes	SAIDI network reliability	New rate filings for New York and LIPA

Upstate New York capital expenditure rate filing

In New York, capital expenditure in the rate plan for electricity distribution is set at historic levels that are significantly lower than those currently required to maintain a safe and reliable network. On 21 December 2007, we petitioned the New York Public Services Commission (NYPSC) for deferred recovery of incremental investment on major capital programmes for calendar year 2008, as permitted under our rate plan.

On 5 September 2008, the NYPSC ordered that we should only file for deferred recovery of incremental investment once the calendar year of spend had finished. We filed a new petition in April 2009 for deferred recovery of incremental investments in 2008. We anticipate that we will also petition for deferred recovery of qualifying incremental investment for calendar years 2009 to 2011.

Massachusetts and Rhode Island rate plans

In both the Massachusetts and Rhode Island rate plans, we have the right to file for rate adjustments effective from 1 January 2010. In both jurisdictions, rate applications to increase electricity distribution rates will be filed during 2009.

Performance against our objectives

Descriptions of our progress against all National Grid's objectives are set out on pages 30 to 39. We include below further information specific to Electricity Distribution & Generation with respect to the objectives that are closely aligned to the lines of business.

Driving improvements in our safety, customer and operational performance

Safety

Our objective is to reduce employee lost time injuries to zero.

To monitor our safety performance we use employee lost time injury frequency rate as our key performance indicator.

The number of employee lost time injuries in Electricity Distribution & Generation decreased to 37 compared with 53 in 2007/08 (based on National Grid's definition that aligns the measure between the UK and the US). Our lost time injury frequency rate for 2008/09 was 0.22, representing a 37% decrease over the prior year's rate of 0.35. The data for 2007/08 has been restated as if the KeySpan acquisition had occurred at the beginning of the year. Improvement programmes implemented in 2008/09 were aimed at aligning our merged operations in key areas of safety and occupational health management and to promote one positive safety culture. The key safety initiatives during 2008/09 were as follows:

- integration of a safety observations programme focused on fostering open communications and promoting safe behaviours. A new online system was developed to support the programme;
- a new safety performance committee structure was established to drive safety initiatives and promote communication;
- implementation of the soft tissue injury prevention programme continued to improve our approach to preventing soft tissue or musculoskeletal injuries, which make up 60% of injuries;
- an attendance management programme was initiated to increase supervisors' focus on non occupational absence reduction; and
- as part of our trusted to work responsibly strategy, we continue to address the 'golden rules' of safety that involve the most critical areas of safety and set clear expectations of the workforce.

In 2009/10, our safety objectives include implementing a safe driving policy, incorporating techniques in the field to help address transitional risk and hazard identification, improving the quality of incident investigation and analysis to ensure we consistently identify underlying causes and help to prevent recurrence, and promote union involvement through increased participation in the safety advocate and other programmes.

Customer service

In addition to meeting customer service objectives agreed with our regulators, our objective is to be within the upper quartile of customer satisfaction in the territories we operate in.

To monitor our customer service performance we use customer satisfaction surveys as our performance indicator.

Reliability and service issues are key factors contributing to customer satisfaction. Our investment in enhanced reliability will increasingly improve customer perceptions. We are taking steps to improve our customer satisfaction, manage cost and use, enhance billing quality, and increase responsiveness to customer queries, regulatory complaints and call handling. Recent performance against our peers shows we need to substantially improve customer satisfaction. A key customer satisfaction metric is the J.D. Power and Associates customer satisfaction study. A global marketing information company, J.D. Power conducts independent and unbiased surveys of customer satisfaction, product quality and buyer behaviour. In the most recent surveys, we rank in the lower quartile for large east coast utilities. Our objective is to achieve first quartile performance in all J.D. Power customer satisfaction surveys by 2013.

To drive immediate and sustained improvements, ownership of the major survey components has been assigned to senior management who will develop and implement action plans designed to improve our ranking each year for the next three years. The National Grid customer experience team identified the following priority areas:

- communications and price;
- corporate citizenship;
- billing, payment and collections;
- gas and electricity quality, reliability and safety;
- customer field services; and
- customer operations.

Electricity Distribution & Generation has established a customer steering committee that will work in partnership with National Grid's customer experience team to drive improvement in customer satisfaction in 2009/10. Detailed customer feedback identified targeted improvement opportunities, including:

- outage communications and estimated time of restoration accuracy;
- customer education, relevance, and frequency of communications associated with forestry related work; and
- customer facing skills to ensure customers feel valued.

Electricity Distribution & Generation continued

Energy efficiency provides our customers with long-term cost saving opportunities. For more than 20 years National Grid has offered a comprehensive portfolio of energy efficiency programmes to customers. These nationally recognised programmes have saved billions of kilowatt hours of electricity, eliminated millions of dollars in energy costs and have reduced millions of tonnes of greenhouse gas emissions associated with electricity production. In 2008/09, energy efficiency programmes helped customers mitigate the rising costs of energy and educated them on conservation methods.

National Grid has received national recognition from the US Environmental Protection Agency and the US Department of Energy for our leadership and outstanding contribution to energy savings and mitigating the effects of climate change.

Using our proven performance in delivering energy efficiency programmes, we aim to significantly expand programme funding through initiatives under way in Rhode Island, New York, and Massachusetts. We are also continuing to develop new and creative ways to provide our customers with end-to-end energy solutions that help them manage their energy use and reduce their carbon footprint.

LIPA and National Grid are in discussions as to whether we have achieved the customer satisfaction metrics in the management services agreement for the years 2006 to 2008. Failure to meet these metrics for all three years could constitute an event of default under the agreement.

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

Returns on investment

Our aim is to meet the base financial returns in our rate plans by delivering on long-term contracts that provide value.

The performance indicator we use to monitor our return on investment is the defined regulatory return on equity under the terms of each rate plan.

A summary of returns under our rate plans is provided below.

Regulatory entity	Asset base* 2008	Asset base* 2007	Return on equity* 2008	Return on equity* 2007	Allowed return current
Niagara Mohawk (Electric)	**$4,609m**	$4,882m	**6.7%**	9.1%	10.6%
Massachusetts (Electric)	**$1,495m**	$1,373m	**7.0%**	9.5%	11.0%
Narragansett Electric (Dist Only)	**$564m**	$543m	**2.3%**	6.8%	10.5%
Long Island Generation	**$574m**	$621m	**7.1%**	9.5%	9.5%

* Based on regulatory returns for the 12 months ended either 31 October or 31 December

Our US electricity businesses are operating under long-term rate plans which are reaching their conclusion. Current returns for our New York, Massachusetts, and Rhode Island (Narragansett) electricity operations are below allowed returns, primarily due to higher levels of investment and continued cost pressures, particularly bad debts and storm costs. In Massachusetts and Rhode Island, we anticipate filing for rate adjustments to be effective 1 January 2010, the earliest that rates are eligible for adjustment pursuant to the rate plans.

In New York, the regulatory return on equity includes electricity transmission, electricity distribution and stranded cost recoveries. For the rate year ended 31 December 2008, the reported return on equity was 5.2%. When adjusted for the Company's share of merger savings allocated to electricity and certain one-off costs, the return was 6.7%. The long-term electricity rate plan concludes on 31 December 2011 at which time electricity rate adjustments would become effective. In April 2009, we filed for recovery of incremental investment above the amount included in the electricity rate plan, and plan on filing for this relief in each of the remaining rate plan years.

Our Long Island generation business has filed with the FERC for a rate increase effective 1 February 2009, subject to refund, as described on page 68. Resolution of this case is expected in the latter part of 2009.

Modernising and extending our networks

Reliability

In addition to meeting reliability performance targets agreed with our regulators, our objective is to improve reliability.

To monitor our reliability performance we use industry average outage frequency and duration as our key performance indicator.

The system average interruption duration (SAIDI) for 2008/09, being the time the average customer is without power during the year, was 114 minutes, compared with a target of below 120 minutes and 110 minutes in 2007/08.

Our customers depend on a reliable electricity distribution service. In 2008, we achieved our regulatory targets for our Rhode Island, Massachusetts and upstate New York electricity operations, while Long Island operations continued to achieve first quartile reliability performance based on 2007 data. Although we did not meet the LIPA management service agreement metric for average customer interruption duration, no monetary penalties were incurred as strong performances against other operational metrics provided an offset.

In 2009, we intend to meet internal targets that move towards achieving first quartile reliability performance by 2013. A key element to delivering these targets and achieving sustainable improvements in reliability will be the continued investment in our distribution infrastructure.

7.0%	6.7%	$750m	$7.2bn
2008 regulatory return on equity for Massachusetts Electric	2008 regulatory return on equity for Niagara Mohawk (Electric)	Planned capital spend on infrastructure in 2009/10	Estimated rate base (based on latest filings)

As we enter the fourth year of the five year reliability enhancement programme, we are now realising the benefits. We will continue to replace ageing underground cables, overhead lines, protection/control systems and substation infrastructure as part of our asset replacement programme, and continue our ongoing reliability enhancement programme. This programme also includes:

- feeder hardening – upgrading our worst performing overhead electricity circuits by replacing aged and deteriorated components and protecting against lightning strikes and animal contacts; and
- inspection and maintenance – increasing our preventative maintenance and repair activities to find potential faults before they occur to improve reliability and public safety.

We will also continue our vegetation management programme across all operating areas, increasing our focus on dealing with hazardous trees.

We plan to invest over $520 million in our networks across New England and New York during 2009/10, delivering on our commitment to invest $1.47 billion in upstate New York over four years. In addition, with the asset replacement programme agreed with LIPA, we will be investing an estimated $237 million in the LIPA distribution and transmission infrastructure.

Overall, we propose to invest over $750 million in the renewal of our infrastructure during 2009/10.

Capital investment

Our objective is to deliver our capital investment plans over the next five years.

Capital investment in the replacement, reinforcement and extension of our US electricity distribution networks was £355 million in 2008/09, £257 million in 2007/08, and £218 million in 2006/07. After excluding the effect of exchange movements of £79 million in 2008/09 compared with 2007/08, capital investment increased by £19 million. This reflects a £10 million increase from a full year of generation capital expenditure compared with a partial year in 2007/08 following the KeySpan acquisition, higher investment at the Port Jefferson and Northport generating stations of £7 million, increased capital related storm costs of £6 million, and other investment including asset replacement of £23 million. This higher expenditure has been partially offset by decreased capital lease additions of £15 million relating to vehicles and lower investment in new business installations of £12 million as a result of the downturn in the US economy.

After excluding the effect of exchange movements of £11 million in 2007/08 compared with 2006/07, capital investment increased by £50 million. This reflected an increase of £17 million in spend related to our reliability enhancement programme, recognition of finance leases related to vehicles of £18 million, other increases in capital investment of £11 million and £13 million of capital investment in the operations acquired with KeySpan, partially offset by a non-recurring benefit capitalisation adjustment made in 2006/07 of £9 million.

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

Key areas of focus

Our focus includes building upon our high performance safety culture while executing on our reliability enhancement programme, creating a branded customer experience and delivering on our electricity distribution operations transformation programme.

We have a clear focus on an operating model that encourages collaboration with other business units and ensures continued efficiency gains through common practices and policies. Ensuring the reliability of our system, operating safely, and improving relationships with stakeholders, are our main objectives.

Our aim is to be recognised as an industry leader and help to transform the current traditional utility model into a business that is able to deliver sustained improvements in operating performance.

Transform operations

We are undergoing a major transformation programme that will significantly improve the performance of the business. The impetus for this transformation includes ageing infrastructure, increased customer expectations, changing technology, challenging economic environment and the desire to improve service to our customers and the communities we serve. We are in the deployment and implementation phase of this multi-phase transformation programme that will extend to the year 2012. The focus of the current phase is on implementing our new operating model and organisation structure; designing, testing and implementing new capabilities, processes and systems; and realising targeted benefits. We will enhance our asset management expertise and discipline by utilising the benefits of a common operating model and greater standardisation across the business. Our implementation effort is structured around six core work streams:

- manage the assets – integrated planning and efficient capital allocation;
- customer management – single point of contact for the customer while ensuring end-to-end coordination for all processes that affect the customer;
- contracting strategies – effective management of all contracts and arrangements;
- deliver the work – optimise work coordination to maximise crew efficiency while increasing productive time;
- design – centralised to drive productivity and standards focused on core design and field support activities; and
- operate the network – consolidation of control centres while ensuring standardisation across all regions.

In addition, we have begun to execute an integrated change plan to engage employees and facilitate smooth transitions.

Customer experience

Our business is fundamentally about serving our customers and providing them with a positive customer experience while delivering safe, reliable and efficient energy services to homes, businesses, schools and other customer segments across our service areas.

Electricity Distribution & Generation continued

Our customer transformation efforts are focused on delivering an unparalleled customer experience and providing customers with products and services that help them not only manage their energy use, but to also reduce their impact on the environment. We are collaborating across our business areas to instil a stronger customer focus and to align processes to deliver a National Grid branded customer experience. Our customer transformation initiatives are targeting the following areas:

- customer focused culture – building clear focus and a customer first culture through clear accountability and aligned goals and metrics across our business areas;
- customer experience initiatives – improving processes that directly impact customer satisfaction such as billing, collections, contact centre performance, self service options, outage communications and field service;
- sustainable products and services – delivery of targeted energy efficiency programmes and other energy management solutions that help customers manage their energy use; and
- building our brand – through marketing and integrated communications that reinforce our commitment to the environment and the communities we serve.

Efficiency

Our objective is to develop consistent processes and implement actions that will deliver cost efficiencies across our business, including the development of a cost conscious culture.

Improving the efficiency of our business continues to be one of our key priorities.

Delivering on many of the initiatives developed under our transformation programme is one way we can continue to improve efficiency. Some of the areas where we continue to focus and expand our efficiency efforts include:

- additions – by prioritising and optimising our investment programmes in both distribution and generation;
- materials – by optimising both use and stock levels;
- procurement – through longer term visibility of equipment needs and optimal balance between workload and resources; and
- generation – optimising generation plant performance.

We also continue to make progress on location efficiency with the consolidation and reconfiguration of key locations. With the opening of our new Reservoir Woods office in Waltham, Massachusetts we will bring together people from across the business and from multiple locations. We will work as one integrated team in a new state of the art leadership in energy and environmental design (LEED) certified, environmentally friendly office, providing a vibrant work environment.

Efficiency is reflected in our financial performance.

Financial performance

Profit

Our objective is to increase profits each year.

Adjusted operating profit was £166 million lower in 2008/09 than 2007/08 on a constant currency basis, a decrease of 39%, largely driven by higher storm costs resulting primarily from the December 2008 ice storm, higher purchased electricity costs and higher capital related costs associated with the increasing capital programme, partially offset by a full year of KeySpan results. Further information is included below.

Financial results

The results of the Electricity Distribution & Generation segment for the years ended 31 March 2009, 2008 and 2007 were as follows:

	Years ended 31 March **2009** **£m**	2008 £m	2007 £m
Revenue excluding stranded cost recoveries	**4,537**	3,126	3,004
Operating costs excluding exceptional items and remeasurements	**(4,272)**	(2,796)	(2,640)
Adjusted operating profit	**265**	330	364
Exceptional items	**(51)**	(104)	(9)
Remeasurements	**(109)**	91	81
Stranded cost recoveries	**426**	379	423
Operating profit	**531**	696	859

2008/09 compared with 2007/08

The principal movements between 2007/08 and 2008/09 can be summarised as follows:

	Revenue and other operating income £m	Operating costs £m	Operating profit £m
2007/08 results	3,508	(2,812)	696
Add back exceptional items	–	104	104
Add back remeasurements	–	(91)	(91)
Add back stranded cost recoveries	(382)	3	(379)
2007/08 adjusted results	3,126	(2,796)	330
Exchange movements	957	(856)	101
2007/08 adjusted results at constant currency	4,083	(3,652)	431
Purchased electricity	176	(187)	(11)
Volume, price and weather	6	–	6
LIPA capital recovery	74	(74)	–
Generation	124	(114)	10
LIPA contribution	77	(65)	12
Bad debt expense	–	(14)	(14)
Storms	–	(74)	(74)
Other direct costs	–	(53)	(53)
Depreciation and amortisation	–	(10)	(10)
Other	(3)	(29)	(32)
2008/09 adjusted results	4,537	(4,272)	265
Exceptional items	–	(51)	(51)
Remeasurements	–	(109)	(109)
Stranded cost recoveries	435	(9)	426
2008/09 results	4,972	(4,441)	531

Reservoir Woods	£265m	£4,537m
New England LEED certified office	Adjusted operating profit	Revenue

Comparability of our financial results between 2008/09 and 2007/08 are affected by having a full year contribution from KeySpan operations in 2008/09 compared with a partial contribution in 2007/08 following the acquisition on 24 August 2007. In 2008/09, KeySpan operations contributed £662 million, £607 million and £55 million to revenue and other operating income (excluding stranded cost recoveries), adjusted operating costs and adjusted operating profit respectively, compared with £383 million, £350 million and £33 million in 2007/08 on a constant currency basis.

Excluding stranded cost recoveries, revenue increased by £454 million in 2008/09 on a constant currency basis as compared with 2007/08. This was primarily due to the recognition of higher LIPA capital recoveries, LIPA contribution and generation revenues reflecting the full year KeySpan contribution. LIPA capital recovery relates to assets which are owned by LIPA but are constructed on behalf of LIPA by National Grid. These costs are fully recoverable. LIPA also contributes under management contracts for the ongoing maintenance of these assets. The revenue and costs associated with this activity are included as part of the LIPA contribution movement. The generation business results also increased compared with 2007/08 reflecting a full year KeySpan contribution. Generation revenues further increased following the reset of generation capacity charges which were retrospectively applied to January 2008. There is a corresponding increase in costs to partly offset some of this benefit.

Revenues also increased compared with 2007/08 reflecting the pass-through of higher purchased electricity costs. These commodity costs are recovered in full from customers although the recovery of these costs can occur in more than one financial year resulting in a year-on-year operating profit impact.

Excluding stranded cost recoveries, operating costs increased by £620 million on a constant currency basis. This is primarily due to the higher costs associated with LIPA distribution and generation and purchased electricity as referred to above in addition to higher storm costs associated mainly with the December 2008 ice storm. A portion of storm costs incurred during 2008/09 will be recovered in future periods.

The £166 million decrease on a constant currency basis in adjusted operating profit from Electricity Distribution & Generation in 2008/09 compared with 2007/08 was primarily due to higher storm costs, higher capital related costs which impacted depreciation and other direct costs and higher purchased electricity partially offset by the benefits of a full year of KeySpan.

Exceptional costs for 2008/09 primarily relate to the electricity distribution operations transformation initiatives and merger related integration costs.

2007/08 compared with 2006/07

The principal movements between 2006/07 and 2007/08 can be summarised as follows:

	Revenue and other operating income £m	Operating costs £m	Operating profit £m
2006/07 results	3,430	(2,571)	859
Add back exceptional items	–	9	9
Add back remeasurements	–	(81)	(81)
Add back stranded cost recoveries	(426)	3	(423)
2006/07 adjusted results	3,004	(2,640)	364
Exchange movements	(150)	132	(18)
2006/07 adjusted results at constant currency	2,854	(2,508)	346
Purchased electricity	(47)	20	(27)
Volumes, including weather	17	–	17
Depreciation and amortisation	–	(7)	(7)
Reliability enhancement	–	(13)	(13)
Bad debts	–	(17)	(17)
Storms	–	33	33
KeySpan acquisition	293	(268)	25
Other	9	(36)	(27)
2007/08 adjusted results	3,126	(2,796)	330
Exceptional items	–	(104)	(104)
Remeasurements	–	91	91
Stranded cost recoveries	382	(3)	379
2007/08 results	3,508	(2,812)	696

Excluding stranded cost recoveries, revenue increased by £272 million in 2007/08 on a constant currency basis as compared with 2006/07. This was primarily due to the acquisition of KeySpan partially offset by lower purchased electricity costs. Commodity costs are recovered in full from customers although the recovery of these costs can occur in more than one financial year.

Excluding stranded cost recoveries, exceptional items and remeasurements, operating costs increased by £288 million in 2007/08 on a constant currency basis. This was primarily due to the acquisition of KeySpan and higher bad debt costs of £17 million. Investment in our reliability enhancement programme also increased in 2007/08. These items were partially offset by lower purchased electricity and other pass-through costs of £20 million, which are recovered from customers as described above, and storm costs which were £33 million lower in 2007/08. A portion of storm costs incurred in 2007/08 will be recovered in future periods.

The £16 million decrease on a constant currency basis in adjusted operating profit from Electricity Distribution & Generation in 2007/08 compared with 2006/07 was primarily due to higher bad debts and other expenses including an expected increase in our reliability enhancement spend, the timing of commodity cost recovery and the non-recurrence of one-off items incurred in 2006/07. These were partially offset by lower storm costs of £33 million, increased deliveries, including the effect of weather, of £17 million, and the acquisition of KeySpan.

Non-regulated businesses and other

This year has seen further expansion activity at our liquefied natural gas (LNG) importation terminal on the Isle of Grain. Through the commissioning of phase II, the site now has annual import capacity of 9.9 million tonnes. We are continuing to invest in Grain LNG and by 2010, with the phase III expansion, it will have the capacity to import 14.8 million tonnes per annum, around 20% of the UK's forecast gas demand.

During the year, approximately 645,000 new meters were installed by OnStream, our competitive metering business, comprising approximately 375,000 gas and 270,000 electricity meters.

We are undergoing a programme of land remediation at many of our brownfield sites, including legacy gas sites.

Key Facts

- Metering and meter reading services for around 20 million meters in the UK
- Property portfolio of over 800 sites comprising buildings and land of around 1,600 hectares
- Phase III Grain LNG completion anticipated in 2010

Adjusted operating profit	Capital investment
£65m	**£427m**
2007/08: £129m	2007/08: £383m

Employees	LNG imported to the UK through Isle of Grain (tonnes)
3,597*	**1,229,000**
2007/08: 3,155	2007/08: 590,000

* Excluding shared services employees

About our non-regulated businesses

Our non-regulated businesses and other activities are located principally in the UK. For reporting purposes, they are not treated as a segment, but are instead reported within other activities.

This section should be read in conjunction with the rest of this Operating and Financial Review, in particular the external market and regulatory environment; current and future developments; business drivers; vision, strategy and objectives; and risks and opportunities set out on pages 20 to 27 and page 40.

Principal operations

Metering
National Grid Metering and OnStream provide installation and maintenance services to energy suppliers in the regulated and unregulated markets respectively. OnStream also provides meter reading services. Our metering businesses provide services for an asset base of about 20 million domestic, industrial and commercial meters.

Grain LNG
National Grid Grain LNG is the first new LNG importation terminal constructed in the UK for some 30 years, with construction divided into phases I, II and III.

UK Property
National Grid Property is responsible for managing our occupied properties in the UK, and for the management, clean up and disposal of surplus sites, most of which are former gasworks.

BritNed
BritNed is a joint venture between National Grid and TenneT, the Dutch transmission system operator, to build and operate a 1,000 MW, 260 kilometre subsea electricity link between The Netherlands and the UK.

US non-regulated businesses
Includes LNG storage, LNG road transportation, unregulated transmission pipelines, West Virginia gas fields and home energy service activities.

In addition to our businesses above, other activities comprise the following other operations and corporate activities.

xoserve
xoserve delivers transportation transactional services on behalf of all the major gas network transportation companies in Great Britain, including National Grid.

Fulcrum
Fulcrum is a leading provider of gas connections and associated design services in the UK. As an independent gas transporter, Fulcrum owns and operates gas distribution networks. Fulcrum also installs electricity and water distribution infrastructure.

Blue-NG
Blue-NG is a joint venture between National Grid and 2OC Ltd to construct and operate a new type of highly efficient power station that reduces the gas pressure in the grid as required and simultaneously generates renewable power and heat.

£300m	Grain LNG	Blue-NG	£427m
Planned investment in Grain LNG phase III	Largest ever delivery of LNG to the UK was imported at Grain in November 2008	New technology: one of the most efficient renewable energy sources in the world	Total capital investment in non-regulated businesses and other activities

Corporate activities and shared services function
Corporate activities comprise central overheads, insurance and expenditure incurred on business development.

Millennium pipeline
We own a 26% interest in the Millennium pipeline, a natural gas pipeline system in New York state.

Business drivers

The principal business drivers for our non-regulated businesses and other activities include the following:

Multi-year contractual arrangements
The majority of National Grid Metering's domestic meters are covered by long-term contracts with gas suppliers.

OnStream has a long-term contract with British Gas for the provision of gas and electricity meters, and a range of contracts with other suppliers.

Phase I of Grain LNG is underpinned by a long-term contract with BP/Sonatrach. Phase II, completed in December 2008, is underpinned by long-term contracts signed with Centrica, Gaz de France Suez and Sonatrach. Phase III, anticipated for completion in 2010, also has long-term contracts for all the capacity with E.ON, Iberdrola and Centrica.

Competition
OnStream operates in the competitive market for the provision of new meters and its revenues are therefore determined by how successful it is in obtaining business from customers.

Capital investment
OnStream are investing in technology such as smart metering capabilities to grow our metering business. There is also significant investment in infrastructure projects such as Grain LNG and BritNed.

Efficiency
Efficiency in delivering capital programmes and in operating our businesses and corporate activities result in driving improved financial performance.

External market and regulatory environment

The majority of our non-regulated businesses and other activities either operate in markets related to those of our principal businesses or provide support to our own businesses.

With the exception of National Grid Metering and Fulcrum's independent gas transporter (IGT) business, our non-regulated businesses and other activities are only indirectly affected by the relevant regulatory regimes. National Grid Metering, in its capacity as National Grid Gas's service provider, is regulated by Ofgem and retains a large share of the legacy installed base of gas meters in the UK and it is subject to a tariff cap price control. Fulcrum's IGT business is regulated under the terms of its gas transporter licence.

OnStream operates in the competitive market for the provision of new meters to gas and electricity suppliers who wish to install or replace meters as required. Grain LNG has been granted exemptions by Ofgem from the regulated third party access provisions for phases I, II and III of its development. These exemptions introduced certain obligations for effective measures to allow third parties to access unused capacity and are similar in nature to those in place at other new UK gas supply projects.

Current and future developments

Metering competition investigation

An update on the ongoing metering competition investigation that was reported in last year's Annual Report and Accounts is provided on page 85.

British Gas metering insourcing programme

British Gas have reviewed their strategy with regard to their metering operations and have decided to take some of these activities in-house. British Gas is OnStream's most significant customer and this decision will adversely impact its metering operations in the future.

Performance against our objectives

Our progress against all National Grid's objectives is set out on pages 30 to 39. We include below further specific information with respect to the objectives that are closely aligned to the non-regulated businesses and other activities.

Driving improvements in our safety, customer and operational performance

Safety, reliability and customer service

Our objectives include zero employee lost time injuries and to operate reliably. We also aim to improve the quality of service to our customers.

There was an increase in the total number of employee lost time injuries in non-regulated businesses and other activities to 17 in 2008/09 compared with 15 in 2007/08. Data for 2007/08 has been restated as if the KeySpan acquisition had occurred at the beginning of the year.

National Grid Metering has met 17 out of 18 standards of service in the year ended 31 March 2009.

Modernising and extending our networks

Capital investment

Our objective is to deliver on our capital investment programme for non-regulated businesses and other activities.

During the year ended 31 March 2009, we invested £427 million in our non-regulated businesses and other activities, £44 million higher than in 2007/08, which had been £125 million higher than capital expenditure in 2006/07.

Non-regulated businesses and other continued

We invested £137 million (2007/08: £126 million, 2006/07: £149 million) in our metering businesses. OnStream continues to invest in new and replacement meters, and smart metering capabilities. National Grid Metering invested in new and replacement meters.

We continue to invest in our Grain LNG facility with capital expenditure of £213 million in 2008/09 compared with £221 million in 2007/08. The investment related to the completion of phase II of the facility during 2008/09 and the continued construction on phase III. Phase III involves construction of a second unloading jetty, an additional 190,000 cubic metre LNG storage tank and associated processing equipment. Phase III is expected to increase the capacity available at the terminal to 14.8 million tonnes per annum, equivalent to around 20% of anticipated UK gas demand for 2010/11. The total planned investment in phase III is approximately £300 million, excluding capitalised interest and gas blending expenditure.

During 2008/09, we invested £77 million in the remaining non-regulated and other activities compared with £36 million in 2007/08. The 2008/09 investment principally consists of: £19 million on new software (SAP) licences; £25 million on leasehold improvements on our new Reservoir Woods office and information systems in the US; £9 million on our UK property business; and £6 million on both the US non-regulated and Fulcrum businesses.

In addition to the capital expenditure discussed above, we have invested a further £73 million (2007/08: £21 million, 2006/07: £nil) in joint venture arrangements. The majority of this expenditure relates to BritNed in which we invested £47 million. During the year, work has progressed well on the construction of the link. Preparation of the sites in the UK and The Netherlands for the building of the two converter stations at the ends of the link commenced in mid 2008; this work is progressing well and is on course for completion in the second half of 2010. Over 60% of the cable which will join the two converter stations has been manufactured and activity during 2009 will see the land cable and the in-shore sections of the subsea cable laid. The remaining subsea cable will be laid during 2010 in anticipation of the link being fully operational in the first quarter of 2011.

During 2008/09, £2.5 million was invested in the Blue-NG joint venture to enable finalisation of the development phase. In 2009, Blue-NG plans to sign a construction contract for the first two sites which should commission in 2011, generating renewable local energy using National Grid's assets.

In addition, we invested £24 million in relation to the completion of the Millennium pipeline.

Under our existing agreement with Elia, we have now concluded the initial feasibility study into the viability of an electricity interconnector to Belgium. The project is still at a development stage and, while initial results are encouraging, further work and approvals are required before construction can begin.

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

Key areas of focus

Driving efficiencies and reducing controllable costs.

In line with National Grid's objective to reduce controllable costs, our non-regulated businesses and other activities are reviewing their systems and processes to improve efficiency and reduce costs.

During 2008/09, we have finalised the process of allocating overall responsibility for each of these businesses to an Executive Director. The allocation process of the non-regulated business and other activities is determined by the markets in which they operate and the regulated business to which they are most closely aligned.

Efficiency is reflected in our financial performance, which is discussed below.

Financial performance

The results for non-regulated businesses and other activities for the years ended 31 March 2009, 2008 and 2007 were as follows:

	Years ended 31 March 2009 £m	2008 £m	2007 £m
Revenue	**719**	642	567
Other operating income	**31**	67	71
Operating costs excluding exceptional items	**(685)**	(580)	(505)
Adjusted operating profit	**65**	129	133
Exceptional items	**(64)**	(57)	(1)
Operating profit	**1**	72	132

2008/09 compared with 2007/08

The principal movements between 2008/09 and 2007/08 can be summarised as follows:

	Revenue and other operating income £m	Operating costs £m	Operating profit £m
2007/08 results	709	(637)	72
Add back exceptional items	–	57	57
2007/08 adjusted results	709	(580)	129
Exchange movements	26	(26)	–
2007/08 constant currency results	735	(606)	129
Metering	7	22	29
Property	(49)	(43)	(92)
Grain LNG	33	(24)	9
US non-regulated businesses	42	(44)	(2)
Other activities	(18)	10	(8)
2008/09 adjusted results	750	(685)	65
Exceptional items	–	(64)	(64)
2008/09 results	750	(749)	1

£133m	£92m	£21m	£65m
Metering adjusted operating profit	Decrease in UK Property adjusted operating profit	Grain LNG adjusted operating profit	Total adjusted operating profit for our non-regulated businesses and other activities

Revenue primarily increased due to a full year of contribution from the US non-regulated businesses acquired with KeySpan, a £33 million increase in revenue from Grain LNG at £74 million in 2008/09 compared with a £26 million increase in 2007/08 due to movements in exchange rates. The increased revenue from Grain LNG is due to a full year contribution from phase I of the facility and three months contribution from phase II. These increased revenues were partially offset by a decrease of £49 million in revenue and other operating income in our property business. This resulted from a decrease in the level of property sales in 2008/09. The reduction in property sales reflects the significant decrease in property prices during 2008/09. Due to the current state of the property market, we do not anticipate continuing sales of our non operational sites that are surplus to our requirements in the near-term and believe that at present we can derive greater shareholder value by their retention.

Operating costs excluding exceptional items increased by £105 million in 2008/09 compared with 2007/08 primarily reflecting an increase resulting from a full year of contribution from the US non-regulated businesses acquired with KeySpan. In addition, Property and Grain LNG were £43 million and £24 million higher respectively. This was partially offset by a fall in metering costs.

Contributions to adjusted operating profit include: £133 million (2007/08: £104 million) from Metering; £1 million (2007/08: £93 million) from Property; £21 million (2007/08: £12 million) from Grain LNG; and a loss of £4 million (2007/08: loss £2 million) from US non-regulated businesses.

Exceptional items of £64 million in 2008/09 primarily relates to our property business that recognised a £24 million exceptional charge relating to significant changes to our environmental provision, and £40 million relating to restructuring charges incurred in the US non-regulated businesses and corporate activities. The environmental charge arose as a result of an increase in estimated site remediation costs following changes in landfill tax legislation in the UK and the significant reduction in the discount rate driven by a fall in the risk free rates in light of the current instability in the financial markets. The real discount rate used in the UK decreased from 2.5% in 2007/08 to 2.0% in 2008/09.

2007/08 compared with 2006/07

The principal movements between 2007/08 and 2006/07 can be summarised as follows:

	Revenue and other operating income £m	Operating costs £m	Operating profit £m
2006/07 results	638	(506)	132
Add back exceptional items	–	1	1
2006/07 adjusted results	638	(505)	133
Metering	14	(13)	1
Property	–	7	7
Grain LNG	3	–	3
Advantica	(37)	34	(3)
US non-regulated businesses	49	(51)	(2)
Fulcrum and other activities	42	(52)	(10)
2007/08 adjusted results	709	(580)	129
Exceptional items	–	(57)	(57)
2007/08 results	709	(637)	72

Revenue and other operating income from non-regulated businesses and other activities increased by £71 million from £638 million in 2006/07 to £709 million in 2007/08. The principal reasons for this increase were the inclusion of £49 million with respect to seven months of non-regulated businesses acquired with KeySpan and an increase of £14 million in our metering businesses, reflecting portfolio growth at OnStream. Increased revenue for our other operations principally relates to Fulcrum. This was partially offset by a £37 million reduction in revenue following the disposal of Advantica in August 2007.

Operating costs excluding exceptional items were £75 million higher in 2007/08 compared with 2006/07, comprising an increase of £51 million from non-regulated businesses acquired with KeySpan and an increase of £13 million in our metering businesses as a result of increased volumes, together with £52 million from Fulcrum and other activities, partially offset by a reduction in costs following the disposal of Advantica of £34 million.

Contributions from non-regulated businesses to adjusted operating profit comprised £104 million (2006/07: £103 million) from Metering; £93 million (2006/07: £86 million) from Property; £12 million (2006/07: £9 million) from Grain LNG; a £1 million loss (2006/07: profit £2 million) from Advantica and a loss of £2 million (2006/07: n/a) from US non-regulated businesses acquired with KeySpan.

Exceptional items of £57 million in 2007/08 includes £44 million arising from an increase in the provision for environmental remediation of historically contaminated sites in the UK following a review conducted during the year, £15 million relating to costs incurred with respect to the potential disposal of the UK property business and £4 million of restructuring costs, partially offset by a £6 million gain on the disposal of Advantica. This compared with £1 million in exceptional items in 2006/07. As a consequence, adjusted operating profit excluding exceptional items, for other activities decreased by £4 million and operating profit decreased by £60 million.

Discontinued operations

Ravenswood	$2.9bn	Non-core businesses sold
Sold	Ravenswood sale proceeds	Programme of planned disposals of our material non-core businesses is complete

About discontinued operations

Principal operations

During 2008/09, our discontinued operations comprised the Ravenswood generation station that was sold on 26 August 2008, KeySpan Communications that was sold on 25 July 2008 and the KeySpan engineering companies, one of which was sold on 11 July 2008 with another two sold subsequent to the year end. The Ravenswood generation station was sold to TransCanada for $2.9 billion (£1.6 billion).

During 2007/08, in addition to the above activities, discontinued operations also included our UK and US wireless infrastructure operations, and our Basslink electricity interconnector in Australia that we sold on 3 April, 15 August and 31 August 2007 respectively.

Ravenswood

The Ravenswood generation station, a 2,480 MW facility in Queens in New York, is primarily fuelled by natural gas, and provides more than 20% of New York City's electricity supply. The sale of Ravenswood was a condition of the New York Public Service Commission order approving the acquisition of KeySpan by National Grid.

KeySpan Communications and KeySpan engineering companies

KeySpan Communications operated a fibre optic telecommunications network that extended through parts of New York City, Long Island and New Jersey with over 1,600 route kilometres of network and over 120,000 kilometres of fibre. It also had access to transatlantic cable systems linking Long Island with Paris and London.

The KeySpan engineering companies provided engineering, design and consulting services for commercial, institutional and industrial customers and operated within the northeastern US.

Performance against our objectives

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

Our programme of disposals of material non-core businesses enables us to focus our operations on electricity and gas infrastructure and related businesses in the UK and the US.

Financial performance

The operating results for discontinued operations for the years ended 31 March 2009, 2008 and 2007 were as follows:

	Years ended 31 March		
Discontinued operations	**2009 £m**	2008 £m	2007 £m
Revenue	**97**	201	383
Operating costs excluding exceptional items and remeasurements	**(84)**	(166)	(266)
Adjusted operating profit	**13**	35	117
Exceptional items and remeasurements	**–**	–	(55)
Operating profit	**13**	35	62
Net finance income before remeasurements	**–**	–	(2)
Remeasurement finance income	**–**	8	37
Profit before tax	**13**	43	97
Taxation	**(4)**	(7)	(11)
Profit after tax	**9**	36	86
Gains on disposal of operations	**27**	1,586	–
Taxation on gains	**(11)**	(4)	–
Total profit for the year	**25**	1,618	86

In 2008/09, revenue, operating costs and operating profit decreased compared with 2007/08 primarily due to a five month contribution of Basslink in 2007/08 prior to its disposal on 31 August 2008. The £27 million pre-tax gain on disposal of operations primarily related to our sale of the Ravenswood generation station.

In 2007/08, revenue, operating costs and operating profit decreased compared with 2006/07 primarily as a consequence of the sales of the UK wireless operations on 3 April 2007 and the US wireless operations and Basslink in August 2007, partially offset by contributions from the Ravenswood generation station, KeySpan Communications and the KeySpan engineering companies from 24 August 2007 onwards. The pre-tax exceptional gain on disposal of operations includes £1,506 million from our UK and US wireless disposals and an £80 million gain on disposal of Basslink.

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 Liquidity and treasury management on page 80 and in note 33(c) to the consolidated financial statements.

Financial position

Balance sheet

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

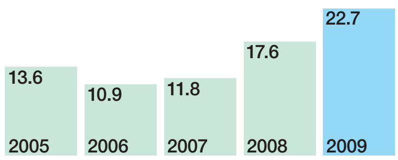
	Assets £m	Liabilities £m	Net assets £m
Property, plant and equipment and non-current intangible assets	29,915	–	29,915
Goodwill and non-current investments	5,752	–	5,752
Current assets and liabilities	3,228	(3,466)	(238)
Other non-current assets and liabilities	106	(3,543)	(3,437)
Post-retirement obligations	269	(3,080)	(2,811)
Deferred tax	137	(2,661)	(2,524)
Total before net debt	39,407	(12,750)	26,657
Net debt	5,060	(27,733)	(22,673)
Total as at 31 March 2009	44,467	(40,483)	3,984
Total as at 31 March 2008	37,771	(32,397)	5,374

The decrease in net assets from £5,374 million at 31 March 2008 to £3,984 million at 31 March 2009 resulted from the profit for the year of £947 million, losses recognised directly in equity of £913 million, dividends payable of £838 million, movements in treasury shares of £597 million, and other items totalling £11 million.

Net debt

Net debt increased by £5,032 million from £17,641 million at 31 March 2008 to £22,673 million at 31 March 2009. Cash flow from operations (net of tax) of £3.4 billion and disposal proceeds (net of tax) from the sale of Ravenswood and KeySpan Communications of £1.0 billion provided £4.4 billion of funds, offset by capital expenditure of £3.3 billion, payment of dividends of £0.8 billion, share repurchases of £0.6 billion and interest paid of £1.1 billion, resulting in a net cash outflow of £1.4 billion. In addition, the impact of the movement in the US dollar exchange rate on our dollar denominated debt and other fair value movements, increased net debt by a further £3.6 billion.

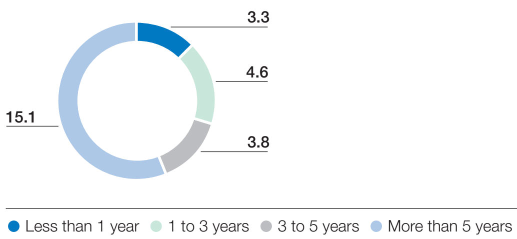
Net debt at 31 March
£bn



At 31 March 2009, net debt comprised borrowings of £26,793 million (2008: £21,003 million) including bank overdrafts of £17 million (2008: £10 million), less cash and cash equivalents of £737 million (2008: £174 million), financial investments of £2,197 million (2008: £2,095 million) and derivative financial instruments with a net carrying value of £1,186 million (2008: £1,093 million).

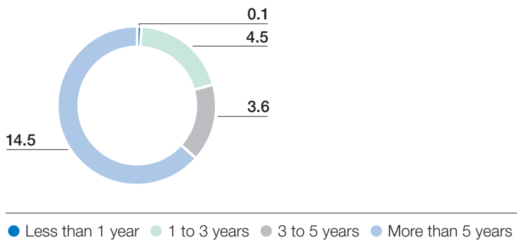
The maturity of borrowings is provided in note 21 to the consolidated financial statements. At 31 March 2009 it can be summarised as follows:

Maturity of borrowings at 31 March 2009
£bn



The maturity of net debt (defined as borrowings plus derivative financial liabilities, less cash and cash equivalents, financial investments and derivative financial assets) can be summarised as follows:

Maturity of net debt at 31 March 2009
£bn



Capital structure

The principal measure of our balance sheet efficiency is our interest cover ratio as described under Financial discipline on page 41. Our long-term target range for interest cover is between 3.0 and 3.5, which we believe is consistent with single A range long-term senior unsecured debt credit ratings within our main UK operating companies (National Grid Electricity Transmission plc and National Grid Gas plc), based on guidance from the rating agencies.

Interest cover for the year ended 31 March 2009 decreased to 3.1 from 3.2 for the year ended 31 March 2008. The decrease occurred primarily as a result of a full year's interest charge relating to the KeySpan acquisition debt partially offset by higher cash flows generated from continuing operations.

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

Financial position and financial management continued

appropriate for these businesses, at around 60%. The table below shows the RAV gearing for NGET plc and for the regulated transmission and distribution businesses within NGG plc as at 31 March 2009 (estimated) and 31 March 2008 (actual). To calculate RAV gearing for the regulated transmission and distribution businesses within NGG plc, we exclude an element of debt that is associated with funding the metering business within NGG plc.

RAV gearing	2009 %	2008 %
Regulated transmission and distribution businesses within National Grid Gas plc	60	55
National Grid Electricity Transmission plc	58	52

Some of our regulatory agreements impose lower limits for either the long-term credit ratings that certain companies within the group must hold or the amount of equity within their capital structures. These requirements are monitored on a regular basis in order to ensure compliance.

Gearing at 31 March 2009 and 31 March 2008, calculated as net debt expressed as a percentage of net debt plus net assets shown in the balance sheet, amounted to 85% and 77% respectively. We do not consider that this gearing ratio is an appropriate measure of our balance sheet efficiency as it does not reflect the economic value of the assets of our UK and US regulated businesses.

Liquidity and treasury management

Treasury policy

Funding and treasury risk management for National Grid is carried out by the Treasury function under policies and guidelines approved by the Finance Committee of the Board. The Finance Committee (for further details see page 94) has authority delegated from the Board, and is responsible for the regular review and monitoring of treasury activity and for the approval of specific transactions, the authority for which may be further 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 Board and the Finance Committee.

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.

Contracts and derivatives entered into in respect of gas and electricity commodities are used in support of the businesses' operational requirements and the policy regarding their use is explained on page 84.

Current condition of the financial markets

During 2008/09 there has been a deterioration in the world economic situation. In particular, we have seen a crisis in the banking system, the failure or near failure of individual banks and increased restrictions on lending across the capital and money markets. This has been accompanied by a significant widening in credit spreads. However, with our low risk business model and cash flows that are largely stable over a period of years, we have been able to continue to access the markets and during 2008/09 have issued £4.9 billion of long-term debt. In addition, we have issued £2.9 billion of commercial paper and drawn down £943 million of uncommitted bank lines for short-term liquidity purposes, with £871 million of this still outstanding as at 31 March 2009, and remain confident of our ability to access the public debt markets going forward. Our effective interest rate has decreased from around 6.3% in 2007/08 to around 5.7% in 2008/09.

Cash flow and cash flow forecasting

Cash flows from our operations are largely stable over a period of years. Our electricity and gas transmission and distribution operations in the UK and US are subject to multi-year rate agreements with regulators. In the UK we have largely stable annual operating cash flows. However, in the US our operating cash flows are dependent on the price of gas and electricity and the timing of customer payments, and the regulatory mechanisms for recovering costs from customers can result in very significant cash flow swings from year to year. Significant changes in volumes in the US, for example as a consequence of weather conditions, can affect cash inflows in particular, with abnormally mild or extreme weather driving volumes down or up respectively.

Our capital investment programme is financed through a combination of internal cash flows and borrowings. During the year we incurred £3.2 billion of expenditure on capital investment, with a similar level of investment planned each year until 2012.

Our reported cash flows arising in the US are exposed to movements in the US dollar exchange rate, although our foreign exchange risk management policy aims to limit this exposure. Further detail is provided under the foreign exchange risk management section on page 82.

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 are undertaking a project to enhance our cash flow forecasting processes. Cash flow forecasts, supplemented by a financial headroom analysis, are supplied to the Finance Committee of the Board 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 require us to maintain adequate financial resources within certain parts of our operating businesses and restrict our ability to make dividend payments, lend cash or levy charges between certain subsidiary companies. Our assessment of National Grid's liquidity takes into account these restrictions.

Funding and liquidity management

We maintain a number of medium-term note and commercial paper programmes in both the UK and the US companies to facilitate long- and short-term debt issuance into the capital and money markets. National Grid plc also has an SEC-registered debt shelf in place to facilitate long-term debt issuance specifically into the US capital markets. The table below shows the programmes that we had as at 31 March 2009, together with the level of utilisation of each:

£44.5bn	£4.0bn	£22.7bn	3.1x
Total assets	Net assets	Net debt	Interest cover

Programme	Amount	Status
National Grid plc		
US commercial paper programme	$3.0 billion	Unutilised
US SEC-registered debt shelf	Unlimited	$1.0 billion issued
Euro commercial paper programme	$1.5 billion	£743 million (equivalent) issued
National Grid Electricity Transmission plc		
US commercial paper programme	$1.0 billion	Unutilised
Euro commercial paper programme	$1.0 billion	€30 million issued
National Grid plc and National Grid Electricity Transmission plc		
Euro medium-term note programme	€15.0 billion	€9.3 billion issued
National Grid Gas plc		
US commercial paper programme	$2.5 billion	Unutilised
Euro commercial paper programme	$1.25 billion	Unutilised
Euro medium-term note programme	€10.0 billion	€6.1 billion issued
National Grid USA		
US commercial paper programme	$2.0 billion	Unutilised
Euro medium-term note programme	€4.0 billion	€0.1 billion issued
KeySpan Corporation		
US commercial paper programme	$1.5 billion	Unutilised

In addition, we have both committed and uncommitted bank borrowing facilities that are available for general corporate purposes to support our liquidity requirements. The vast majority of our committed borrowing facilities are used to provide back up to our commercial paper programmes. To date these have never been drawn and there is currently no intention to draw them in the future.

During the year, the $1.5 billion short-term committed facility within National Grid plc expired and was renewed at a reduced level and now stands at $850 million. This was due to a number of reasons, including the economic situation affecting the banking industry, the merger of some banks within our relationship group, and the desire of certain banks to rebalance their commitments to us away from undrawn committed lines of credit in favour of drawn loans.

At 31 March 2009, we had the following undrawn committed and uncommitted facilities, providing liquidity support to the group.

Facility	Amount
National Grid plc	
Short-term committed facilities	$850 million
National Grid Gas plc	
Long-term committed facilities	£755 million
National Grid Electricity Transmission plc	
Long-term committed facilities	£425 million
National Grid's US subsidiaries	
Committed facilities	$1,730 million
National Grid plc and certain subsidiaries	
Uncommitted borrowing facilities	£528 million

The short-term committed facilities within National Grid plc include an option to extend these facilities for a further 364 days.

Note 35 to the consolidated financial statements shows the maturity profile of undrawn committed borrowing facilities in sterling at 31 March 2009.

To facilitate debt issuance into the capital and money markets, many of the companies within National Grid maintain credit ratings. At 31 March 2009, the long-term senior unsecured debt and short-term debt credit ratings respectively provided by Moody's, Standard & Poor's and Fitch were as follows:

Facility	Moody's	S&P	Fitch
National Grid plc	Baa1/P2	BBB+/A2	BBB+/F2
National Grid Holdings One plc	–	BBB+/A2	–
National Grid Electricity Transmission plc	A3/P2	A-/A2	A/F2
National Grid Gas plc	A3/P2	A-/A2	A/F2
National Grid Gas Holdings Ltd	A3	A-*	A
National Grid USA	A3/P2	BBB+/A2	–
Niagara Mohawk Power Corp.	A3	A-/A2	–
Massachusetts Electric Co.	A3^/P2	A-/A2	–
New England Power Co.	A3/P2	A-/A2	–
The Narragansett Electric Co.	A3^	A-*/A2	–
KeySpan Corporation	Baa1/P2	A-/A2	A-
The Brooklyn Union Gas Company	–	A	A+
KeySpan Gas East Corporation	A3	A	A
Boston Gas Company	Baa1	A-	–
Colonial Gas Company	A3	A-*	–
National Grid Generation LLC	Baa1^	A-*	–

* Corporate credit rating
^Issuer rating

Standard & Poor's and Fitch have current outlooks of stable on all National Grid companies. Moody's have a current outlook of negative on all National Grid companies which we expect to be resolved during the summer of 2009.

We invest surplus funds on the money markets, usually in the form of short-term fixed deposits and placements with money market funds that are invested in highly liquid instruments of high credit quality. Investment of surplus funds is subject to our counterparty risk management policy, and we continue to believe that our cash management and counterparty risk management policies provide appropriate liquidity and credit risk management in light of the current crisis in the financial markets. Details relating to cash, short-term investments and other financial assets at 31 March 2009 are shown in notes 15 and 20 to the consolidated financial statements.

We believe that maturing amounts in respect of contractual obligations as shown in Commitments and contingencies in note 29 to the consolidated financial statements can be met from existing cash and investments, operating cash flows and other financings that we reasonably expect to be able to secure in the future, together with the use of committed facilities if required.

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 derivative financial instruments, to manage exposures of this type. Our policy is not to use derivative financial instruments for trading purposes. Derivative positions are managed in a non speculative manner, such that all transactions in derivative financial instruments are matched to an underlying current or anticipated business requirement.

More details on derivative financial instruments are provided in note 17 to the consolidated financial statements.

Financial position and financial management continued

Refinancing risk management

The Board controls refinancing risk mainly by limiting the amount of debt maturities (both principal and interest) arising on borrowings in any financial year.

Note 21 to the consolidated financial statements sets out the contractual maturities of our borrowings over the next 5 years together with the total contracted borrowings, which mature over a period of 50 years. This shows that, at 31 March 2009, we have £3.3 billion of debt (including £1.8 billion of bonds, pre-derivatives) maturing in 2009/10, and no more than £2.6 billion of debt maturing in each of the next four financial 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 2009.

Interest rate risk management

Our interest rate exposure arising from borrowings and deposits is managed by the use of fixed-rate and floating-rate debt and derivative financial instruments, including interest rate swaps, swaptions and forward rate agreements. 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) subject to constraints so that, even with an extreme movement in interest rates, neither the interest cost nor the total financing cost is expected to exceed pre-set limits with a high degree of certainty.

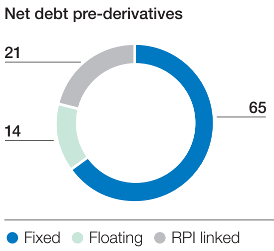
Within these constraints, we actively manage our interest rate risk, with over 50% of our debt exposed to floating or index-linked interest rates in the longer term. In 2009/10 we expect our financing costs to benefit from lower inflation and interest rates, some of which have already been locked in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

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

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

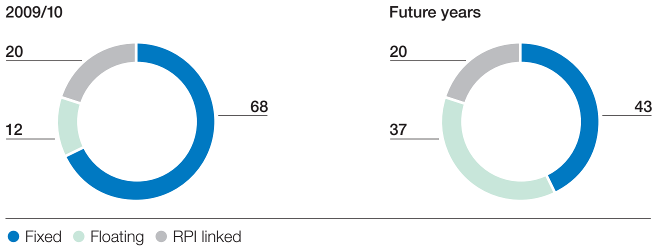
The chart below shows the interest rate profile of our net debt before derivatives.

Interest rate profile pre-derivatives at 31 March 2009
%



The following charts show the impact, as at 31 March 2009, of derivatives on our net debt for 2009/10 and for future years. The 2009/10 position reflects the use of derivatives, including forward rate agreements, to lock in interest rates in the short term. The future years' position excludes derivatives that mature within the next year.

Interest rate profile post-derivatives at 31 March 2009
%



More information on the interest rate profile of our debt is included in note 33 to the consolidated financial statements.

Foreign exchange risk management

The principal foreign exchange risk to which we are exposed is translation risk arising from assets and liabilities denominated in US dollars. In relation to these risks, our objective is to maintain the ratio of US dollar denominated financial liabilities to US dollar denominated gross assets between 85% and 95%, by using debt and foreign exchange derivatives, so as to provide an economic offset of our cash flows that arise in US dollars against the servicing of those liabilities. In addition, we maintain a small amount of euro denominated debt to provide a hedge against the translation risk arising from assets and liabilities denominated in euros relating to our BritNed investment.

We have a policy of managing our foreign exchange transaction risk by hedging contractually committed foreign exchange transactions occurring in currencies other than the US dollar over a prescribed minimum size. This covers a minimum of 75% of such transactions occurring in the next 6 months and a minimum of 50% of such transactions occurring between 6 and 12 months in the future. In addition, where foreign currency cash flow forecasts are uncertain and a judgement has to be made, our policy is to hedge a proportion of such cash flows based on the likelihood of them occurring, with the aim of hedging substantially all the cash flows without overhedging. Cover generally takes the form of forward sale or purchase of foreign currencies and must always relate to forecast underlying operational cash flows.

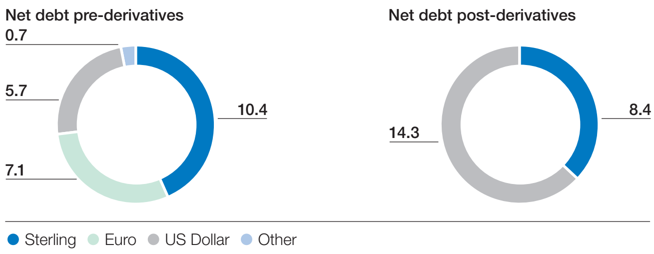
The result of this hedging activity is that National Grid's cash flow has limited exposure to foreign currencies.

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

50 years	58%	60%	£4.9bn
Longest maturity of our borrowings	RAV gearing of NGET plc	RAV gearing of the regulated transmission and distribution businesses within NGG plc	New debt issuances

The currency compositions of net debt before and after derivatives is shown in the chart below. More details can be found in note 33 to the consolidated financial statements.

Currency profile at 31 March 2009
£bn



Counterparty risk management

Counterparty risk arises within Treasury from the investment of surplus funds and from the use of derivative instruments, and outside Treasury from commercial contracts entered into by the businesses, including commodity contracts. The Finance Committee has agreed a policy for managing such risk. This policy sets limits as to the exposure that National Grid can have with any one counterparty, based on that counterparty's credit rating from independent rating agencies. National Grid's exposure to individual counterparties is monitored on a frequent basis and counterparty limits are regularly updated for changes in credit ratings. Treasury is responsible for managing the policy. Where contracts are entered into outside Treasury, 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 master netting arrangement is usually put in place to reduce our exposure to credit risk of that counterparty. We use standard International Swap Dealers Association (ISDA) documentation, which provides for netting in respect of all transactions governed by a specific ISDA agreement with a counterparty, when transacting interest rate and exchange rate derivatives.

Further information on the management of counterparty risk is provided in note 33 to the consolidated financial statements.

Valuation and sensitivity analysis

We calculate the fair value of debt and derivative financial instruments by discounting all future cash flows by the market yield curve at the balance sheet date, and in the case of derivative financial instruments 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 derivative instruments that include options (swaptions), 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 33 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. This analysis does not take account of the change in value in our income stream or in the value of our US operations that certain of these financial instruments are being used to hedge.

	2008/09		2007/08	
	Income statement £m	**Other equity reserves £m**	Income statement £m	Other equity reserves £m
UK retail price index ±0.50%	**17**	**–**	16	–
UK interest rates ±0.50%	**67**	**77**	46	57
US interest rates ±0.50%	**63**	**13**	31	7
US dollar exchange rate ±10%	**55**	**880**	38	590

Commodity contracts

We purchase electricity and gas in order to supply our customers in the US and also to meet our own energy requirements, primarily in the UK. We also enter into physical and financial derivative transactions to manage electricity and gas cost volatility on behalf of customers in the US. Substantially all our costs of purchasing electricity and gas for supply to customers are recoverable at an amount equal to cost. The timing of recovery of these costs can vary between financial periods leading to an under- or over-recovery within any particular financial period.

Our US operating companies participate in the physical and financial markets related only to those commodities for which we or our customers have a physical market requirement, and transact only within predefined risk parameters. These parameters are approved by the energy procurement risk management committee, which operates in accordance with authority delegated to it by the Finance Committee and Executive Committee of the Board.

The most significant gas purchases for our own use relate to the operation of our gas transmission and gas distribution networks, mainly in the UK. We also purchase fuel for our vehicle fleets in the UK and the US.

In the US, we also had a management contract with Merrill Lynch Trading, under which we and Merrill Lynch Trading shared the responsibilities for managing upstream gas distribution assets associated with our Massachusetts gas distribution operations, as well as providing city-gate delivered supply. This contract allowed for both parties to employ derivative instruments to maximise the profitability of the portfolio of gas distribution assets. During the final year of the management contract, Bank of America announced a transaction to acquire Merrill Lynch. Upon that announcement, we decided to reduce our financial exposure significantly by recalling all the gas storage assets that were being managed by Merrill Lynch. Profits associated with these activities were shared between us, Merrill Lynch Trading and our customers in Massachusetts. This contract expired on 31 March 2009 and will be replaced by a similar contract with Conoco Phillips pending approval by the Massachusetts regulatory bodies.

In the US, we have a fuel management agreement with the Long Island Power Authority (LIPA), under which we are responsible for the procurement of gas and petroleum-based fuels for use at the Long Island power plants which we operate under contract with LIPA. We also sell gas produced by our West Virginia gas fields.

Financial position and financial management continued

In our UK gas transmission operation, we are obliged to offer for sale, through a series of auctions (both short- and long-term), a predetermined quantity of entry capacity for every day in the year at predefined locations. Where, on the day, the gas transmission system's capability is constrained, such that gas is prevented from entering the system for which entry capacity rights have been sold, then UK gas transmission is required to buy back those entry capacity rights sold in excess of system capability. Forward and option contracts are used to reduce the risk and exposure to on-the-day entry capacity prices.

Our UK electricity transmission operations have also entered into electricity contracts, pursuant to the requirement to balance the electricity market in Great Britain through the operation of the British Electricity Trading and Transmission Arrangements (BETTA). 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 UK electricity transmission licence. We have not and do not expect to enter into any significant derivatives in connection with our Great Britain System Operator role.

Additionally, we buy back capacity rights already sold in accordance with our UK gas transporter licences and Uniform Network Code obligations as part of our management of the gas transmission and distribution networks in the UK.

Energy purchase contracts

The majority of our electricity contracts and certain of our gas contracts are entered into to meet our expected purchase, sale or usage requirements and so are accounted for as ordinary sales or purchase contracts. These included contractual commitments to purchase energy under long-term contracts amounting to £3,645 million as at 31 March 2009 (2008: £2,061 million) of which £990 million is due within one year (2008: £794 million). Further information is included in note 29 to the consolidated financial statements.

Commodity purchase contracts accounted for as derivative contracts

Certain of our forward purchases of electricity, gas and electricity capacity do not meet the own use exemption for accounting purposes and hence are accounted for as derivatives. Mark-to-market changes in the value of these contracts are reflected through earnings under the heading of commodity remeasurements. The fair value of these contracts includes contracts with a positive value of £35 million (2008: £43 million), recorded as assets in our balance sheet and contracts with a negative value of £155 million (2008: £89 million) recorded as liabilities.

Commodity purchase contracts accounted for as derivatives include contracts for the forward purchase of electricity that reverted back to us as part of the settlement arising from USGen's bankruptcy in 2005, which were originally entered into prior to the restructuring of the electricity industry in New England. The electricity purchased under these contracts is not required for our normal activities and is sold in the energy markets at prices which are currently significantly below the amount we are required to pay. The fair value of these contracts amounted to a £121 million liability at 31 March 2009 (2008: £47 million liability).

Derivative financial instruments linked to commodity prices

We also enter into derivative financial instruments linked to commodity prices, including index-linked swaps and futures contracts. These derivative financial instruments are used to reduce market price volatility and are principally used to manage commodity prices associated with our gas and electricity delivery operations in the US on behalf of our customers.

Derivative financial instruments are carried at fair value in the balance sheet and mark-to-market changes in the value of these contracts are reflected through earnings with the exception of those related to our West Virginia gas fields that are designated as cash flow hedges.

In addition, we use NYMEX electricity and gas futures to reduce the cash flow variability associated with the purchase price for a portion of future electricity and gas purchases associated with certain of our electricity and gas distribution operations in the US. These had a negative fair value at 31 March 2009 of £59 million (2008: £19 million), but the liability on the balance sheet has been reduced by the amount of collateral paid to counterparties in respect of these contracts due to accounting netting requirements for such instruments.

We also utilise over-the-counter swaps and options to reduce the cash flow variability associated with the purchase price for a portion of future electricity and gas purchases associated with certain of our electricity and gas distribution operations in the US. These had a net negative fair value at 31 March 2009 of £190 million (2008: positive fair value of £39 million).

We also utilise over-the-counter gas swaps in the US to hedge the cash flow variability associated with forecasted sales of a portion of gas production from our West Virginia gas fields. At 31 March 2009, we had hedge positions in place for approximately 66% of our estimated 2009 gas production (2008: 70% of our estimated 2008 and 2009 gas production), net of gathering costs. We use forward prices from a third party vendor to value these swap positions and they are designated as cash flow hedges.

Sensitivity analysis

As described in note 34 to the consolidated financial statements, movements in commodity prices would have the following estimated impact on the financial statements as a consequence of changes in the value of commodities. This analysis does not take account of any change in our commodity portfolio.

	2008/09		2007/08	
	Income statement £m	**Other equity reserves £m**	Income statement £m	Other equity reserves £m
10% increase in commodity prices	**56**	**(1)**	25	(1)
10% decrease in commodity prices	**(72)**	**1**	(22)	1

Baa1/BBB+	A3/A-/A	A3/BBB+	Baa1/A-/A-
Moody's/S&P and Fitch senior unsecured credit ratings for National Grid plc	Moody's/S&P/Fitch senior unsecured credit ratings for NGG plc and NGET plc	Moody's/S&P senior unsecured credit ratings for National Grid USA	Moody's/S&P/Fitch senior unsecured credit ratings for KeySpan Corporation

Commitments and contingencies

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

	2009 £m	2008 £m
Future capital expenditure contracted but not provided for	**1,493**	1,097
Total operating lease commitments	**946**	737
Power commitments	**3,645**	2,061
Other commitments, contingencies and guarantees	**1,666**	1,387

Information regarding obligations under pension and other post-retirement benefits is given on page 86 under the heading Retirement arrangements.

The energy commitments shown in the commitments and contingencies table above reflect obligations to purchase energy under long-term contracts. These contracts are used in respect of our normal sale and purchase requirements and do not include commodity contracts carried at fair value as described above.

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.

Contractual obligations at 31 March 2009

The table of contractual obligations shown below analyses our long-term contractual obligations according to payment period.

Purchase obligations reflect commitments under power contracts and future capital expenditure contracted for but not provided. The other long-term liabilities reflected in the balance sheet at 31 March 2009 comprise commodity contracts carried at fair value and other creditors that represent contractual obligations falling due after more than one year.

Interest on borrowings is calculated based on borrowings at 31 March 2009 and does not reflect future debt issues. Floating-rate interest has been estimated using future interest rate curves at 31 March 2009.

	Less than 1 year £m	1-3 years £m	3-5 years £m	More than 5 years £m	Total £m
Financial liabilities					
Borrowings	2,839	4,406	3,777	15,279	**26,301**
Interest payments on borrowings	1,031	1,885	1,578	7,878	**12,372**
Finance lease liabilities	46	110	38	124	**318**
Other non-interest bearing liabilities	2,303	396	–	–	**2,699**
Derivatives payments	598	2,477	975	1,179	**5,229**
Derivatives receipts	(1,057)	(2,795)	(490)	(1,184)	**(5,526)**
Commodity contracts	601	486	87	127	**1,301**
Other contractual obligations					
Capital commitments	1,167	287	33	6	**1,493**
Operating leases	82	152	163	549	**946**
Energy commitments	990	1,436	791	428	**3,645**
Total at 31 March 2009	**8,600**	**8,840**	**6,952**	**24,386**	**48,778**

Off balance sheet arrangements

There were no significant off balance sheet arrangements other than the contractual obligations and commitments and contingencies described above.

Details of material litigation as at 31 March 2009

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

Metering competition investigation

In February 2008 the Gas and Electricity Markets Authority (GEMA) issued a decision to fine us £41.6 million for a breach of the UK Competition Act 1998 in respect of term contracts with gas suppliers entered into by our UK metering services business in 2004. We subsequently appealed this decision to the Competition Appeal Tribunal (the Tribunal). On 29 April 2009, the Tribunal overturned the decision in part and reduced the fine to £30 million but also upheld the original decision in part. We continue to review the Tribunal's ruling and are considering our legal position, including potential grounds for appeal.

Gas Distribution mains replacement investigation

In October 2008, we informed Ofgem that our mains replacement activity carried out within the UK's West Midlands Alliance partnership may have been misreported. National Grid and Ofgem have jointly appointed Ernst & Young to carry out a full investigation to determine the extent of the issue. At present it is too early to determine the likely outcome of the investigation and any potential consequences.

KeySpan Department of Justice investigation

As previously reported, in May 2007 KeySpan received a civil investigative demand from the Antitrust Division of the United States Department of Justice, requesting the production of documents and information relating to its investigation of competitive issues in the New York City electricity capacity market prior to our acquisition of KeySpan. The civil investigative demand is a request for information in the course of an investigation and does not constitute the commencement of legal proceedings, and no specific allegations have been made against KeySpan. In April 2008, we received a second civil investigative demand in connection with this matter. We believe that KeySpan's activity in the capacity market has been consistent with all applicable laws and regulations. The investigation is ongoing and we continue to cooperate fully.

Related party transactions

We provide services to and receive services from related parties, principally joint ventures. In the year ended 31 March 2009, we charged £4 million and received charges of £44 million from related parties (other than Directors) compared with £3 million and £33 million in 2007/08 and £4 million and £26 million in 2006/07 respectively.

Further information relating to related party transactions is contained within note 30 to the consolidated financial statements. Details on amounts paid to Directors are included within the Directors' Remuneration Report on pages 102 to 112.

Financial position and financial management continued

Retirement arrangements

We operate pension arrangements on behalf of our employees in both the UK and the US and also provide post-retirement healthcare and life insurance benefits to qualifying retirees in the US.

In the UK, the defined benefit section of the National Grid UK Pension Scheme and the National Grid section of the Electricity Supply Pension Scheme (National Grid Electricity Supply Pension Scheme) are closed to new entrants. Membership of the defined contribution section of the National Grid UK Pension Scheme is offered to all new employees in the UK.

In the US, we operate a number of pension plans, which provide both defined benefits and defined contribution benefits.

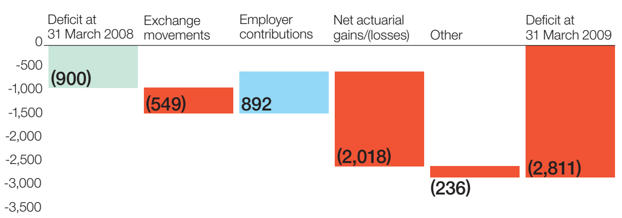
We also provide post-retirement benefits other than pensions to the majority of employees in the US. Benefits include healthcare and life insurance coverage to eligible retired employees. Eligibility is based on certain age and length of service requirements and in most cases retirees must contribute to the cost of their coverage.

Net pension and other post-retirement obligations

The following table summarises the pension and other post-retirement obligations recorded in the consolidated financial statements:

Net plan asset/(liability)	UK £m	US £m	Total £m
As at 1 April 2008	415	(1,315)	(900)
Exchange movements	–	(549)	(549)
Pension service cost	(64)	(104)	(168)
Expected return less interest	25	(39)	(14)
Curtailments, settlements and other	(13)	(41)	(54)
Actuarial gains/(losses)			
– on plan assets	(2,477)	(1,475)	(3,952)
– on plan liabilities	1,472	462	1,934
Employer contributions	488	404	892
As at 31 March 2009	**(154)**	**(2,657)**	**(2,811)**
Plan assets	12,185	3,334	15,519
Plan liabilities	(12,339)	(5,991)	(18,330)
Net plan liability	(154)	(2,657)	(2,811)

Movement in net pension and other post-retirement obligations
£m



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

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

Actuarial position

The last completed full actuarial valuation of the National Grid UK Pension Scheme was as at 31 March 2007. This concluded that the pre-tax funding deficit was £442 million in the defined benefit section on the basis of the funding assumptions. Employer cash contributions for the ongoing cost of this plan are currently being made at a rate of 32.6% of pensionable payroll.

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

Contributions

In addition to ongoing employer contributions we have agreed to make additional deficit contributions to certain of the above plans as follows:

- National Grid UK Pension Scheme: the Company made deficit contributions of £295 million during 2008/09 and £59 million in April 2009 along with payments made in the previous year to ensure that the deficit reported at the 2007 valuation is paid in full; and
- National Grid Electricity Supply Pension Scheme: the Company made deficit contributions of £90 million during 2008/09 and £90 million in April 2009. The remaining deficit contributions will be payable monthly from April 2012 to March 2017.

The next valuations of these schemes are due as at 31 March 2010.

In accordance with our funding policy for US pension and other post-retirement benefit plans we expect to contribute approximately £445 million to these plans during 2009/10.

Plan assets

Our plans in both the UK and the US are trustee administered and the trustees are responsible for setting the investment strategy and monitoring investment performance, consulting with us where appropriate.

At 31 March 2009, plan assets totalled £15,519 million (2008: £17,273 million).

Accounting policies

Basis of accounting

The consolidated financial statements present our results for the years ended 31 March 2009, 2008 and 2007 and our financial position as at 31 March 2009 and 2008. They have been prepared using the accounting policies shown, in accordance with International Financial Reporting Standards (IFRS).

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

Choices permitted under IFRS

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

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

Transition date
Our opening IFRS balance sheet was established as at 1 April 2004. As a consequence, goodwill amortisation ceased on this date and we used certain balances in our previous UK GAAP financial statements as the basis for our opening IFRS balance sheet.

Business combinations
Business combinations prior to 1 April 2004 were not changed retrospectively. In particular, we retained the use of merger accounting for the business combination with Lattice Group.

Financial instruments
We adopted IAS 39 on 1 April 2005. We chose to apply IAS 39 prospectively from that date and accordingly did not restate prior periods. As a consequence, the accounting for financial instruments differs from that which would have been presented had we always applied IAS 39.

Carrying value of assets at transition
In most cases, we used brought forward depreciated cost, as adjusted for changes in accounting policies to conform with IFRS, to be the opening carrying value under IFRS.

Share-based payments
We recognised all active share option grants retrospectively.

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

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

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

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

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

Joint ventures
We use equity accounting for jointly controlled entities instead of the alternative proportional consolidation method.

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

Capital contributions
Contributions received towards capital expenditure are recorded as deferred income and amortised in line with the depreciation on the associated asset.

Timing of goodwill impairment reviews
Goodwill impairment reviews are carried out annually in the final quarter of the financial year.

Financial instruments
We normally opt to apply hedge accounting in most circumstances where this is permitted. For net investment hedges, we have chosen to use the spot rate method, rather than the alternative forward rate method.

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

Segmental reporting

In addition to presenting the consolidated financial results and financial position in the financial statements, we provide a breakdown of those results and balances into our business segments. The presentation of segment information is based on management responsibilities that existed at 31 March 2009 and the external and regulatory environments in which we operate. Our business segments are Transmission UK, Transmission US, Gas Distribution UK, Gas Distribution US and Electricity Distribution & Generation US, with our non-regulated businesses, other operations and corporate activities, including business development, being aggregated within other activities. Our geographical segments reflect our principal activities in the UK and the US.

Discontinued operations comprise the Ravenswood generation station in New York City, sold on 26 August 2008, KeySpan Communications, sold on 25 July 2008 and our KeySpan engineering companies, one of which was sold on 11 July 2008. Subsequent to the year end two further engineering companies were sold.

Discontinued results in prior years also include the results of our wireless infrastructure operations in the UK and the US, and the Basslink electricity interconnector in Australia which were sold on 3 April, 15 August and 31 August 2007 respectively.

Critical accounting policies

The application of accounting principles requires us to make estimates, judgements 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.

Accounting policies continued

Certain accounting policies have been identified as critical accounting policies, as these policies involve particularly complex or subjective decisions or assessments. The discussion of critical accounting policies below should be read in conjunction with the description of our accounting policies set out in our consolidated financial statements on pages 116 to 123.

Our critical accounting policies and accounting treatments are considered to be:

Estimated economic lives of property, plant and equipment

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

Depreciation and amortisation in 2008/09 for continuing operations amounted to £1,058 million and £69 million respectively (2007/08: £940 million and £54 million, 2006/07: £830 million and £41 million).

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. Our total assets at 31 March 2009 were £44,467 million, including £29,545 million of property, plant and equipment, £5,391 million of goodwill and £370 million of other intangible assets (31 March 2008: £37,771 million including £24,331 million, £3,904 million and £271 million respectively).

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

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

Revenue

Revenue includes an assessment of energy and accruals for transportation services, supplied to customers between the date of the last meter reading and the year end. Changes to the estimate of the energy or transportation services supplied during this period would have an impact on our reported results.

Unbilled revenues at 31 March 2009 are estimated at £522 million in the US and £315 million in the UK compared with £511 million and £243 million respectively at 31 March 2008.

Assets and liabilities carried at fair value

Certain assets and liabilities, principally financial investments, derivative financial instruments and certain commodity contracts 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 and those commodity contracts carried at fair value are valued using financial models, which include judgements on, in particular, future movements in exchange and interest rates as well as equity and commodity prices.

Hedge accounting

We use derivative financial instruments to hedge certain economic exposures arising from movements in exchange and interest rates or other factors that could affect either the value of our assets or liabilities or our future cash flows. Movements in the fair values of derivative financial instruments may be accounted for using hedge accounting where we meet the relevant eligibility, documentation and effectiveness testing requirements. If a hedge does not meet the strict criteria for hedge accounting, or where there is ineffectiveness or partial ineffectiveness, then the movements will be recorded in the income statement immediately instead of being recognised in the statement of recognised income and expense or by being offset by adjustments to the carrying value of debt.

Pensions and other post-retirement obligations

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

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

Businesses held for sale

At 31 March 2008, the planned disposal of the Ravenswood generation station, KeySpan Communications and the KeySpan engineering companies in the US were considered operations that met the criteria to be classified as assets held for sale.

At 31 March 2007, our wireless infrastructure operations in the UK and the US and our interconnector in Australia were classified as assets held for sale.

The results of these operations have been classified as discontinued operations for all years presented.

The date that the planned sales met the criteria to be classified as businesses held for sale is a matter of judgement by management, with consequential impact on balance sheet presentation, the amount of depreciation and the classification of results as discontinued operations.

Exceptional items, remeasurements and stranded cost recoveries

Exceptional items, remeasurements, stranded cost recoveries and amortisation of acquisition-related intangibles 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 our financial performance and distort the comparability of our financial performance between periods.

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

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

Stranded cost recoveries relate to the recovery, through charges to electricity customers in upstate New York and in New England of costs mainly incurred prior to divestiture of electricity generation. These are expected to expire in 2011.

Provisions
Provisions are made for liabilities that are uncertain in estimate. These include provisions for the cost of environmental restoration and remediation, the decommissioning of nuclear facilities that we no longer own but still have a responsibility to contribute towards, 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 significant. The costs and timing of cash flows relating to these liabilities are based on management estimates supported by external consultants.

At 31 March 2009, provisions totalled £1,699 million (2008: £1,397 million), including £1,104 million and £108 million (2008: £837 million and £87 million) in respect of environmental liabilities and decommissioning respectively.

Tax estimates
Our 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.

Energy commitments
Our energy commitments relate to contractual commitments to purchase electricity or gas to satisfy physical delivery requirements to our customers or for energy that we use ourselves. In management's judgement these commitments meet the normal purchase, sale or usage exemption in IAS 39 and are not recognised in the financial statements.

If these commitments were deemed not to meet the exemption under IAS 39 they would have to be carried in the balance sheet at fair value as derivative instruments, with movements in their fair value shown in the income statement under remeasurements.

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

Asset useful lives
An increase in the useful economic lives of assets of one year on average would reduce our annual depreciation charge on property, plant and equipment by £35 million (pre-tax) and our annual amortisation charge on intangible assets by £7 million (pre-tax).

Revenue accruals
A 10% change in our estimate of unbilled revenues at 31 March 2009 would result in an increase or decrease in our recorded net assets and profit for the year by approximately £54 million net of tax.

Assets carried at fair value
A 10% change in assets and liabilities carried at fair value would result in an increase or decrease in the carrying value of derivative financial instruments and commodity contract liabilities of £119 million and £(31) million respectively.

Hedge accounting
If using our derivative financial instruments, hedge accounting had not been achieved during the year ended 31 March 2009 then the profit for the year would have been £1,481 million lower than that reported net of tax, and net assets would have been £300 million lower.

Pensions and other post-retirement obligations
Our 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 £233 million, £116 million and £541 million and a change in the annual pension cost of £4 million, £5 million and £5 million respectively.

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 £170 million.

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

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

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

Accounting developments
New accounting standards and interpretations which have been issued but not yet adopted by National Grid are discussed in the financial statements on pages 124 and 125.

Corporate Governance

Chairman's foreword

At this time of global economic turbulence there are many questions being rightfully raised about the governance and effectiveness of boards. Good corporate governance, using the Combined Code as a guide to the components of good practice, is an integral part of the Company's drive to deliver unparalleled safety, reliability and efficiency vital to the well-being of our customers and communities. Delivering sustainable value depends on the trust and confidence of all our stakeholders, and this can only be earned by conducting our business responsibly. Good governance practices develop over time and we aim to be at the forefront of best practice in order to deliver the Company's vision and, by doing so, promote the success of the business for the benefit of shareholders.

While I, with assistance from the Company Secretary & General Counsel, lead the governance process, it is a matter which is reserved to the whole Board for consideration and I believe that the Board considers such matters in an holistic manner rather than as a separate compliance exercise. By doing so, I believe that the Board and the Company are well placed to face the challenges arising from this current economic environment.

Again this year, we have carried out an in depth review of the Board's effectiveness and have produced, as we have done for several years, an action plan to ensure constant improvement. However, an overriding acid test question for a Chairman to answer is – does the Board have the breadth of skills and experience to address and challenge adequately the key business decisions and risks that confront it? Related questions include: do the Non-executive Directors attend sufficient meetings and spend sufficient time overall on Company issues to fully understand the business and the risks it faces? Would each Non-executive Director be regarded as capable of challenging management and influencing outturns either in the Board or in its Committees? Would the Non-executive Directors as a body be capable of overturning proposals from the management which they did not consider were in the interests of shareholders or where they consider that the inherent risks were in excess of those assessed by management?

These questions have concerned us in our Nominations Committee over the past years as we have carefully recruited Non-executive and Executive Directors to build the Board we have today. I therefore believe we not only have the Board focused on good governance but we have the right Board composition and that the Board works effectively, allowing us to respond to the challenges of these difficult times.

Sir John Parker
Chairman

Governance framework

The Company is committed to operating our businesses in a sustainable and responsible manner. Our corporate governance framework forms an integral part of this approach in order to safeguard shareholder value. Our Company wide policies and procedures including risk management, which are referred to later in this report, are considered as part of the overall governance of the business; however, this report focuses on the Company's approach to corporate governance as provided in the Combined Code on Corporate Governance as revised in 2006, (the Code), applicable to UK listed companies. The Company also has regard to, and regularly reviews, developing corporate governance best practice including matters contained in the various investor guidelines.

The Board considers that it complied in full with the Code during the year.

During the year, the Board has reviewed its role and matters reserved for its consideration as part of a review of the Delegations of Authority. The Board's role includes: approval of the overall business strategy for National Grid; approval of the business plan and budget; approval of the financial policy; approval of acquisitions or divestments; oversight of governance including Policy and Procedure statements, Codes of Conduct, Delegations of Authority, the Framework for Responsible Business and Standards of Ethical Business Conduct for all employees. The framework and standards described above, together with other documentation relating to National Grid's governance, are available on our website at: www.nationalgrid.com.

The Board of National Grid during the year was composed as set out in the following table. Biographical details for all the Directors can be found on pages 16 and 17 together with details of Board Committee memberships. Attendance at Board meetings was as indicated from a total of 10 meetings held during the year (the March 2009 meeting being held on 1 April):

Name	Attendance*
Chairman	
Sir John Parker	10 of 10
Chief Executive	
Steve Holliday	10 of 10
Executive Directors	
Bob Catell (Deputy Chairman)	10 of 10
Steve Lucas	10 of 10
Nick Winser	10 of 10
Tom King	10 of 10
Mark Fairbairn	10 of 10
Edward Astle (to 30 April 2008)	1 of 1
Non-executive Directors	
Ken Harvey (Senior Independent Director)	10 of 10
Linda Adamany	10 of 10
John Allan	8 of 10
Stephen Pettit	10 of 10
Maria Richter	10 of 10
George Rose	7 of 10
Philip Aiken	8 of 8

* Attendance is expressed as number of meetings attended out of number possible or applicable for the individual Director

Board members are required to attend Board and Committee meetings regularly in order to ensure they are kept up to date with business and accordingly can contribute to meetings. Directors are informed of proposed meeting dates in advance in order to diarise these. Acknowledging that Non-executive Directors in particular will have other commitments, if they are unable to attend meetings, the Chairman is informed and the reasons recorded. Instances of non attendance during the year were considered and determined as being reasonable in each case due to the individual circumstances. Attendance at meetings is considered as part of the one-to-one Director performance evaluations conducted by the Chairman.

Directors are sent papers for meetings of the Board and those Committees of which they are a member. Should any Directors be unable to attend a meeting, they are encouraged to communicate their views and comments on the matters to be considered via the relevant Committee chairman or the Chairman of the Board.

In addition to the performance evaluation described on page 92, shareholders have the opportunity to consider formally the appointment and performance of each Director by voting in relation to their re-election as a Director. In accordance with the Articles of Association, Directors submit themselves for re-election by shareholders at the first Annual General Meeting (AGM) following their initial appointment to the Board and then at subsequent AGMs at least once every three years. Further details regarding those Directors due for re-election at the 2009 AGM can be found in the Notice of 2009 AGM.

In order to ensure transparency regarding the terms of their appointment, the service contracts (Executive Directors) and letters of appointment (Non-executive Directors) of Board members are available to our shareholders and may also be inspected at the AGM prior to the meeting. Further details regarding the Directors' service contracts and letters of appointment can be found in the Directors' Remuneration Report on pages 102 to 112. In preparation for changes introduced in the Companies Act in October 2008, the Board conducted a thorough review of potential conflicts of interest that each Director may have. Guidance on the law and developing best practice, taking into account that provided by the GC100 group of FTSE100 General Counsel and Company Secretaries, was provided to each Director together with a questionnaire for completion and subsequent verification by the Company Secretary & General Counsel. The Board considered the results of the questionnaire, and, where appropriate, approved the potential conflict (the conflicted Director not voting on the matter). Directors are reminded of their continuing obligations in relation to conflicts at each Board meeting.

Non-executive Director independence
In order for the Non-executive Directors to contribute fully to the unitary Board, and in particular to challenge the Executive Directors over strategic matters where appropriate, it is important that the Non-executive Directors bring experience, probity and independence to the Board. Accordingly, the independence of the Non-executive Directors is considered at least annually as part of the performance evaluation. This assessment also considers the character, judgement and commitment of each Non-executive Director as well as their performance on the Board and relevant Committees. The Board in its deliberations specifically took into consideration the Code and examples of indicators of potential non independence including length of service on the Board of greater than nine years. Following such evaluation, each of the Non-executive Directors has been determined by the Board to be independent.

Roles of the Chairman, Chief Executive and Senior Independent Director
In order to avoid the potential for apparent concentration of power in one individual, the Chairman and the Chief Executive have separate roles and responsibilities, which have been approved by the Board. The Chairman's main responsibility is the leadership and management of the Board and its governance. He chairs the Board meetings including, for example, ensuring that the forward agendas are appropriate, that relevant business is brought to the Board for consideration in accordance with the Matters Reserved for the Board, the Delegations of Authority and the Board's strategic remit, and that each Director has the opportunity to consider the matters brought to the meeting and to contribute accordingly. His contractual commitment to National Grid is two days per week but in practice this is often exceeded. The Board is satisfied that the Chairman, and other Non-executive Directors if required, would be available as needed outside their contracted hours. The number and perceived responsibility of other directorships are considered as part of the performance evaluation to satisfy the Board that Directors do not have excessive commitments that could potentially restrict their commitment as a Director of the Company.

The Chief Executive, as leader of the Company's executive team, retains responsibility for the leadership and day-to-day management of the Company and the execution of its strategy as approved by the Board. In addition to the other Executive Directors, key corporate executives report directly to the Chief Executive.

The Senior Independent Director is Ken Harvey. He was appointed to this role in 2004 and his responsibilities include leading the Non-executive Directors' annual consideration of the Chairman's performance and holding discussions with Non-executive Directors without management present. He is also available to shareholders in the event they feel it inappropriate to communicate via the Chairman, the Chief Executive or the Finance Director. No such requests were received from shareholders during the year.

Director development
The Chairman, with the support of the Company Secretary & General Counsel, is responsible for the induction of new directors and for the ongoing development of Directors. Upon appointment to the Board, new Non-executive Directors receive a tailored induction programme including the provision of recent Board materials and presentations, visits to businesses, one-to-one meetings with Executive Directors and other senior management, and a directors' information pack to provide background reference information on the Company's businesses and operations including issues relating to corporate responsibility. Board meetings are regularly held at the Company's sites and additional site visits are organised in order for the Directors to develop their understanding of the business.

Particular ongoing development attention is given to current issues including, for example, the economic and regulatory environment, the Company's businesses and governance best practice, emerging developments and director effectiveness. This includes, for Non-executive Directors:
- informing them at each Board meeting of the latest training courses which may be of interest;
- attendance at key site visits;
- informing Directors of legal and corporate governance updates and best practice; and
- management presentations.

For Executive Directors, coaching and development programmes include:
- internal and external mentoring;
- attendance at external courses and business schools; and
- experience of other boardrooms through non-executive appointments.

Accordingly as part of their development and with the agreement of the Board; the Chief Executive, Steve Holliday, is a Non-executive Director of Marks and Spencer Group plc, Steve Lucas, Finance Director, is a Non-executive Director of Compass Group plc and Nick Winser, Executive Director, Transmission, is a Non-executive Director of Kier Group plc. As part of her development, the Company Secretary & General Counsel is a Non-executive Director of Aga Rangemaster Group plc. The fees for these positions are retained by the Directors and the Company Secretary & General Counsel respectively. Details are on page 106.

Corporate Governance continued

The Company Secretariat is available to provide assistance and information on governance, corporate administration and legal matters to Directors as appropriate. Directors may also seek advice on such matters, or on other business related matters, directly from independent professional advisors should they so wish. This is in addition to the advice provided by independent advisors to the Board Committees. No requests for external professional advice were received during the year.

Performance evaluation

Directors are encouraged to challenge Board and Committee processes and procedures as part of the continual development of best practice. As part of this process, in each financial year since 2003/04, the Board has undertaken a formal evaluation of its performance and that of its Committees and individual Directors. The Board considers annually whether to use an external body to manage the performance evaluation process. It concluded this year that the approach used by the Company remained appropriate and robust.

Accordingly, the Chairman, assisted by the Company Secretary & General Counsel, led the evaluation process, which was in the form of a confidential survey completed by all Directors in relation to the Board and any Committee of which they were a member. In addition, meetings were held between the Chairman and each Director. Regular attendees at specific Committee meetings were also asked to complete surveys in relation to the relevant Committee.

The Company Secretary & General Counsel collated the evaluation results and these were considered by the Board and each Committee. Comparison was made to the prior year's report as a result of which a number of actions had been implemented including: a review of the rolling business agenda to include a greater emphasis on strategic external factors such as climate change; increasing the number of informal meetings of Board members; and consideration of the interaction between Committees. In accordance with established practice, the Board and each of the Committees separately review the matters highlighted by the evaluation and a formal response and action plan is produced as appropriate and approved by the Board.

Overall the results showed an improvement from the previous year indicating that the Directors considered that no major changes were required to Board and Committee processes and procedures. The Chairman's performance was reviewed and his leadership and performance were considered to have been of a high standard. Areas highlighted by the Board and Committees for consideration following the latest review included:

- to review the agendas to include, for example, inclusion and diversity issues and strategic business trends analysis;
- to consider further development of the use of video conferencing for Committee meetings; and
- to provide a brief overview (including career history) of each presenter to the Board.

In addition, the meeting held by the Non-executive Directors further suggested:

- receipt of Board and Committee papers normally five business days in advance of the meeting in order to enable more opportunity for discussions with Executive Directors prior to the meeting;
- arranging for potential successors to the Executive Directors to receive sufficient visibility by the Board; and
- holding an additional meeting annually for Non-executive Directors chaired by the Senior Independent Director with the Chairman and Chief Executive to attend by invitation.

The Board and its Committees

The Board reserves a number of matters for its sole consideration where these matters impact the strategic direction and effective oversight of the Company and its businesses. Examples include:

- corporate governance;
- strategy, finance and approval of the budget and business plan;
- Director/employee issues such as Director succession planning (with input and recommendations from the Nominations Committee); and
- stock exchange and listing requirements such as dividend approval/recommendation and approval of results announcements, interim management statements and the Annual Report and Accounts.

In addition to the Matters Reserved for the Board, a full description of which is available on our website at www.nationalgrid.com, certain items of strategic or governance importance are considered at every scheduled Board meeting including:

- safety, health and the environment;
- the financial status of the Company;
- operational headlines from the Company's businesses together with a detailed update from one of the lines of business on a rotating basis;
- updates on business development and strategy implementation;
- updates on external matters affecting the Company; and
- reports from the Company Secretary & General Counsel including an update on the governance of the Company and its businesses, and any legal or new risk issues that the Board ought to be aware of.

In order to have the opportunity to discuss matters, for example relating to governance, independently of management, the Chairman and Non-executive Directors meet formally at least once a year without any management present and formally at least once a year with the Chief Executive. Ad hoc meetings may be held as required. In order to operate effectively and to give appropriate attention and consideration, the Board has delegated authority to its Committees to carry out certain tasks as defined in, and regulated by, the Committees' terms of reference, which are available on our website at www.nationalgrid.com.

These Committees comprise the Audit, Executive, Finance, Nominations, Remuneration and Risk & Responsibility Committees. The Board is kept appraised by the Committee chairmen through the provision of a summary of the issues discussed and decisions taken by the Committee. Minutes of Committee meetings are circulated to other Directors once available.

The following sections explain the areas that each Board Committee has responsibility for and the areas that they covered during the year.

Audit Committee

Key functions of the Audit Committee, whose members are all independent Non-executive Directors, include: review of the effectiveness of the Company's financial reporting and internal controls; the procedures for the identification, assessment and reporting of risks; the appropriateness of the auditors in carrying out certain non-audit work; and the level of audit and non-audit fees payable to the auditors.

The Committee considers that both management and the external auditors should attend meetings where possible in order to provide the members of the Committee with the information that they require, to answer questions and to challenge them as appropriate.

Accordingly, others invited to attend meetings include the Chairman, Chief Executive, Finance Director, head of internal audit, financial controller, Company Secretary & General Counsel and external auditors. Additionally, the Executive Directors, director of tax and treasury and risk & compliance manager are invited to attend Audit Committee meetings, as necessary, to provide updates and background information.

Meetings are held at least four times a year and membership and attendance at meetings was as follows during 2008/09 from a total of six meetings:

Name	Attendance*
George Rose (chairman)	6 of 6
Linda Adamany	6 of 6
John Allan	1 of 1
Maria Richter	5 of 5
Philip Aiken	4 of 5

* Attendance is expressed as number of meetings attended out of number possible or applicable for the individual Director

Due to the technical nature of some of the financial and accounting issues that come before it, all of the Committee's members are required to have an understanding of financial matters and experience of dealing with such issues at a senior executive level. In addition, the Board has determined that George Rose, Finance Director of BAE Systems plc, has recent and relevant financial experience in accordance with the Combined Code and deems him to be a suitably qualified financial expert as required by the Audit Committee's terms of reference and US requirements.

In accordance with its terms of reference and business and accounting developments during the year, matters considered by the Committee included:

In respect of auditors:-

- the level and constitution of external audit and non-audit fees;
- the independence and objectivity of the external auditors;
- an evaluation of the external audit process globally including the expertise of the audit firm;
- monitoring and reviewing the effectiveness of internal audit activities including discussions with the head of internal audit without management present; and
- reviewing Financial Reporting Council Guidance on Audit Committees.

In respect of internal controls and risk management:-

- reviewing the effectiveness of the Company's financial reporting, internal controls and compliance with applicable legal requirements;
- monitoring risk and compliance management procedures across the Company and reviewing specific risks (details of such risks can be found on pages 97 to 99);
- receiving reports from the business separation compliance officer, as required under National Grid Gas plc's gas transporter licences; and
- receiving reports and technical updates including from the director of tax and treasury.

In respect of financial matters:-

- reviewing the Company's results statements, interim management statements and Annual Report and Accounts before publication and making appropriate recommendations to the Board following review;
- reviewing accounting policies in light of international accounting developments;
- receiving reports where appropriate in accordance with its terms of reference on business conduct issues, including any instances of alleged fraud and actions taken as a result of investigations; and
- receiving reports from the Company's cross functional steering group that has been established to ensure appropriate awareness of and actions in relation to risks arising from the current economic climate.

The Committee works closely with both the internal and external auditors. In relation to internal audit, it receives, reviews and approves the internal audit plan and ensures that the internal audit function has sufficient resources to carry out its work. The appointment and removal of the head of internal audit is subject to the approval of the Committee.

In relation to the external auditors, the Committee is solely and directly responsible for and approves the appointment, reappointment, fees and oversight of the external auditors, subject to the requirement for shareholder approval each year at the AGM. The Committee receives the external audit plan so that the external auditors have the opportunity to raise any matters in confidence, and meetings are held with the Committee at least annually without management present.

In order to ensure the external auditors remain objective and independent, in accordance with best practice, all non-audit work carried out by the external auditors is subject to Audit Committee pre-approval. The engagement of the external auditors for non-audit services is restricted by the Sarbanes-Oxley Act which prohibits them from providing certain services. Where a service is permissible, the Company's policy is that the external auditors will not be used for non-statutory audit work unless it can be demonstrated as part of the approval process that the engagement is a natural extension of their audit work or there are other overriding reasons that make them the most suitably qualified to undertake it. The non-audit services related primarily to tax and audit-related work. Details of the fees paid to the external auditors for non-audit work carried out during the year can be found in note 3e to the accounts on page 134.

A review is carried out annually of the service provided by the external auditors and, if it is determined that the audit might be provided more efficiently or effectively by an alternative audit firm, the Company may put the audit out to tender. Following the latest review, the service was considered satisfactory and the auditors will be recommended for reappointment to shareholders at the AGM. No auditor liability agreement has been entered into by the Company.

Executive Committee

The Committee oversees the financial, operational and safety performance of the Company and implements the strategy approved by the Board. The Committee comprises the Chief Executive, who is its chairman, the Executive Directors and the Company Secretary & General Counsel. In addition, the global directors of human resources, strategy, corporate affairs and IS are regular attendees of meetings. Senior management personnel are invited to attend meetings of the Executive Committee as necessary to keep it fully appraised of the Company's businesses.

Corporate Governance continued

Executive Committee membership and attendance at meetings was as follows during 2008/09 from a total of 11 meetings:

Name	Attendance*
Steve Holliday (chairman)	11 of 11
Bob Catell	11 of 11
Mark Fairbairn	10 of 11
Steve Lucas	11 of 11
Tom King	11 of 11
Nick Winser	11 of 11
Edward Astle (to 30 April 2008)	1 of 1
Helen Mahy, Company Secretary & General Counsel	11 of 11

* Attendance is expressed as number of meetings attended out of number possible or applicable for the individual Director

Particular examples of matters that the Committee considered during the year included:
- the financial, operational and safety performance of the Company and its businesses;
- strategic business development and implementation including updates on the integration of the KeySpan businesses;
- approving capital and operational expenditure under the specific authorities delegated to it by the Board;
- global outsourcing;
- global human resource leadership; and
- global IS strategic issues.

At each meeting there are in depth review sessions on key business areas for the Company.

Finance Committee

The Finance Committee is responsible for setting policy and granting authority for short- and long-term financing decisions and for recommending for consideration by the Board the treasury, tax, pensions and insurance management policies of the Company. The Finance Committee is made up of three Non-executive Directors, one of whom is chairman of the Committee, and the Chief Executive and Finance Director. The director of tax and treasury is invited to attend Committee meetings on a regular basis.

Membership and attendance at meetings was as follows during 2008/09 from a total of four meetings:

Name	Attendance*
Maria Richter (chairman)	4 of 4
Steve Holliday	3 of 4
Steve Lucas	4 of 4
Stephen Pettit	4 of 4
John Allan	2 of 4

* Attendance is expressed as number of meetings attended out of number possible or applicable for the individual Director

Examples of matters that the Committee considered during the year included:
- long-term funding requirements including consideration of matters affecting the Company arising out of the global economic downturn;
- setting and reviewing treasury management guidelines and policy in light of market conditions;
- taxation issues for the Company;
- treasury performance updates;
- insurance updates; and
- pensions updates.

Nominations Committee

The Nominations Committee, consisting of the Chairman and Non-executive Directors, is responsible for considering the structure, size and composition of the Board and for identifying and proposing individuals to be Directors and senior management. A key consideration is succession planning for the Board and senior management and the Committee considered this in detail during the year. External recruitment consultants are generally used as part of any appointments process. Changes to the Board require Board approval following recommendation from the Committee.

The Nominations Committee membership and attendance at meetings was as follows during 2008/09 from a total of five meetings:

Name	Attendance*
Sir John Parker (chairman)	5 of 5
Ken Harvey	5 of 5
Maria Richter	5 of 5
George Rose	3 of 5

* Attendance is expressed as number of meetings attended out of number possible or applicable for the individual Director

The Chief Executive is invited to attend Nominations Committee meetings on a regular basis. Advice is sought from the global human resources director and external advice is sought as appropriate.

Matters that the Committee considered during the year included:
- the size of the Board, its structure and composition;
- changes to the composition of Board Committees;
- succession planning for Board members; and
- development and succession plans for senior management, as developed by the Chief Executive and global human resources director.

Remuneration Committee

The Remuneration Committee, consisting of Non-executive Directors, is responsible for developing executive remuneration policy, including the composition and balance between salary and short- and long-term incentives and for determining the remuneration of the Executive Directors and executives below Board level who report directly to the Chief Executive. It also monitors the remuneration of other senior employees of the Company and provides direction over the Company's share plans.

Further details of the policy on remuneration and details of individual remuneration are available in the Directors' Remuneration Report on pages 102 to 112.

The Remuneration Committee membership and attendance at meetings was as follows during 2008/09 from a total of six meetings:

Name	Attendance*
John Allan (chairman)	4 of 6
Ken Harvey	6 of 6
Stephen Pettit	6 of 6
George Rose	3 of 6

* Attendance is expressed as number of meetings attended out of number possible or applicable for the individual Director

The global human resources director and global head of compensation & benefits provide advice on remuneration policies and practices in the markets in which the Company operates and are usually invited to attend meetings, along with the Chairman and the Chief Executive. External independent advisors are also utilised by the Committee.

Risk & Responsibility Committee

The Risk & Responsibility Committee, consisting of Non-executive Directors plus Bob Catell, is responsible for reviewing the strategies, policies, targets and performance of the Company within its Framework for Responsible Business (a copy of which is available on the National Grid website). The Committee reviews the Company's risks for which it has oversight and in this regard the Committee interfaces with and works closely with the Audit Committee.

Accordingly it reviews matters such as: safety – including public and process safety; the environment; employee occupational health; inclusion and diversity; security and human rights issues; and business ethics and conduct.

The Risk & Responsibility Committee membership and attendance at meetings was as follows during 2008/09 from a total of four meetings:

Name	Attendance*
Stephen Pettit (chairman)	4 of 4
Linda Adamany	4 of 4
Philip Aiken	3 of 4
Ken Harvey	3 of 4
Bob Catell	4 of 4

* Attendance is expressed as number of meetings attended out of number possible or applicable for the individual Director

The Chief Executive, Company Secretary & General Counsel, director of UK safety, health and environment & corporate security and US senior VP safety, health and environment are invited to attend Risk & Responsibility Committee meetings. Executive Directors and others, including business representatives, are invited to attend as necessary.

During the year, the Committee:

- considered the current and projected environmental impact of the Company, including climate change;
- considered specific identified future risks and plans for minimising such risks;
- reviewed safety, health and environment audit plans and the outcome of such audits;
- reviewed serious incident reports;
- reviewed reports on business conduct issues;
- reviewed progress in embedding a process safety culture; and
- considered reports and updates from external advisors.

Disclosure Committee

National Grid has established disclosure committees that are tasked with various duties relating to the material disclosures made to the market by the Company and relevant subsidiaries. The Disclosure Committee of the Company is chaired by the Finance Director and its members are the Company Secretary & General Counsel, director of tax and treasury, financial controller, director of investor relations, head of internal audit and corporate counsel and head of company secretariat and such other members and/or attendees as the Committee from time to time considers appropriate.

The Committee's role is to assist the Chief Executive and Finance Director in fulfilling their responsibility for oversight of the accuracy and timeliness of the disclosures made by the Company. Accordingly, during the year the Committee reviewed the process and controls over external disclosures and key documents before release including the Annual Report and Accounts, preliminary and half year results statements, interim management statements and other material stock exchange announcements and presentations to analysts.

Shareholders

In accordance with the Schedule of Matters Reserved for the Board and the Code, the Board has responsibility for ensuring effective communication takes place with all shareholders and it considers carefully all major announcements to the market. Relations with shareholders are managed mainly by the Chief Executive, Finance Director and director of investor relations. Meetings are held regularly throughout the year with institutional investors, fund managers and analysts to discuss the public disclosures and announcements made by the Company.

The Chairman also writes to major shareholders following the announcement of the Company's interim and preliminary results to offer them the opportunity to meet with him, the Senior Independent Director or any of the Non-executive Directors. This specifically enables major shareholders to take up with these individuals any issue they feel unable to raise with the Chief Executive and Finance Director. Major shareholders are also invited to meet newly appointed Directors.

In order that all Board members are made aware of and understand the views of shareholders about the Company, the Board receives feedback on shareholders' views from the Company's brokers, supported by the director of investor relations and notes from a number of analysts in the energy sector are also circulated regularly to Directors.

Smaller shareholder issues are considered by the Board, including annual updates at Board meetings on matters relevant to smaller shareholders and initiatives by the Company. For example, during the year the Company initiated a dividend reunification programme, tracing 190,000 current and past shareholders who had not cashed dividends, some dating back in excess of 12 years. Additionally a low cost share dealing service was offered by which shareholders could buy or sell shares cheaply. Meetings were held during the year by the Chairman and the Chief Executive with the UK Shareholders Association and Directors met retail shareholders at shareholder networking events, details of which can be found in the Shareholder information section on page 198.

Change of control provisions

As at 31 March 2009, the Company had borrowing facilities with a number of its banks in the amounts of US$2.35 billion (undrawn) and £1.7 billion (drawn) which, on a change of control of the Company following a takeover bid, may alter or terminate. All of the Company's share plans contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time.

No other agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid are considered to be significant in terms of their potential impact on the business as a whole.

Corporate governance practices: differences from New York Stock Exchange (NYSE) listing standards

As the Company has a US listing, it is required to disclose differences in corporate governance practices adopted by the Company as a UK listed company, compared to those of a US company. The corporate governance practices of the Company are primarily based on UK requirements but substantially conform to those required of US companies listed on the NYSE. The principal differences between the Company's governance practices pursuant to the Combined Code and UK best practice and the Section 303A Corporate Governance Rules of the NYSE are:

- different tests of independence for Board members are applied under the Combined Code and Section 303A;
- there is no requirement for a separate corporate governance committee in the UK; all Directors on the Board discuss and decide upon governance issues and the Nominations Committee makes recommendations to the Board with regard to certain of the responsibilities of a corporate governance committee;
- while the Company reports compliance with the Combined Code in each Annual Report and Accounts, there is no requirement to adopt and disclose separate corporate governance guidelines; and
- while the Audit Committee, having a membership of four independent Non-executive Directors, exceeds the minimum membership requirements under Section 303A of three independent Non-executive Directors, it should be noted that the quorum for a meeting of the Audit Committee, of two independent Non-executive Directors, is less than the minimum membership requirements under Section 303A.

Risk management and internal control

In order to understand the risks and potential control issues facing the Company, the following sections as well as page 40 in the Operating and Financial Review should be considered. The system of internal control and, in particular our risk management policies, has been designed to manage rather than eliminate material risks to the achievement of our strategic and business objectives while also recognising that any such process can provide only reasonable, and not absolute, assurance against material misstatement or loss. This process complies with the Turnbull working party guidance (revised October 2005) in this matter and, in addition, contributes toward our compliance with our obligations under the Sarbanes-Oxley Act as well as other internal assurance activities.

The Board considers that a sound system of internal control contributes to safeguarding the Company's assets and reputation, and, as a result, the interests of our shareholders. Effective operational and financial controls, including the maintenance of qualitative financial records, are an important element of internal control.

In accordance with the Combined Code and the Schedule of Matters Reserved for the Board, the Board retains overall responsibility for the Company's system of internal control and monitoring its effectiveness. There is an established system of internal control throughout the Company and its businesses. This system depends on thorough and systematic processes for the identification and assessment of business-critical risks and their management and monitoring over time. In depth reports are provided from both line managers and certain internal assurance providers such as Internal Audit and Risk & Compliance. These reports are provided to Board Committees in relation to their specific areas of responsibility. The Board's Committees then provide reports to the Board in this regard.

The Board reviews the internal control process and its effectiveness on an annual basis to ensure it remains robust and to identify any control weaknesses. The latest review covered the financial year to 31 March 2009 and included the period to the approval of this Annual Report and Accounts.

This review includes:

- the receipt of a Letter of Assurance from the Chief Executive, which consolidates key matters of interest raised through the year-end assurance process;
- assurance from its Committees as appropriate, with particular reference to the reports received from the Audit Committee and Risk & Responsibility Committee on the reviews undertaken by them at their respective Committee meetings; and
- assurances in relation to the Certifications required to be given under the US Sarbanes-Oxley Act, required as a result of the Company's New York Stock Exchange listing.

Internal control – information assurance

The Board considers that it is imperative to have accurate and reliable information within the Company to enable informed decisions to be taken that further the Company's objectives. This is supported by a risk-based approach that deals with information assurance as a business critical function. Key elements in managing information assurance risks are education, training and awareness. These initiatives emphasise the importance of information security, the quality of data collection and the affirmation process that supports our business transactions, evidencing our decisions and actions. The Company continues to work collaboratively with a variety of organisations and professional bodies to develop and implement best practice.

Internal control over financial reporting – Sarbanes-Oxley

National Grid has carried out an assessment of its internal control over financial reporting pursuant to s404 of the Sarbanes-Oxley Act 2002. The management of the Company, which is responsible under the Act for establishing and maintaining an adequate system of internal control over financial reporting, evaluated the effectiveness of that system using the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework. Based on that evaluation, the management of the Company expects to conclude in its Annual Report on Form 20-F filing with the US Securities and Exchange Commission that the system of internal control over financial reporting was effective as at 31 March 2009.

Risk management

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

The Company has embedded risk management into its business decision making process. Within the business the risk management process continues to be based on both bottom-up and top-down assessments of operational, including safety, financial and other business or project risks. From the bottom-up, business units and Corporate Centre functions prepare and maintain risk registers that capture their key risks and the actions being taken to manage them. Executive Directors and other senior management are closely involved at critical stages in the review process. Their review, challenge, and debate of the outputs of the bottom-up assessment against their top-down views produce an overall evaluation of the risks that are faced by National Grid. The Executive Committee, the Risk & Responsibility Committee and the Audit Committee review the risk profile and any changes, and the Audit Committee reviews the overall risk management process.

Compliance management

Our enterprise-wide compliance management process is established and continues to raise visibility over key obligations. The process provides assurance to the Executive Directors and senior management on the effectiveness of control frameworks to manage key internal and external obligations, and also highlights instances of significant non-compliance with those obligations. External obligations are driven primarily by key legal and regulatory requirements whereas internal obligations focus more on compliance with National Grid's own corporate policies and procedures. A network of compliance coordinators and champions exists within the businesses and Corporate Centre functions to enable the top-down/bottom-up alignment of Executive Directors' obligations to be established and reported.

Furthermore, experts for each key obligation interface with relevant business contacts to ensure the quality of information reported upwards is validated. The compliance management process is consistent with, and complementary to, our risk management process and essentially provides, among other things, a more detailed breakdown of the risk of non-compliance with laws, regulations or standards of service as well as corporate policies and procedures.

Twice a year, the Executive, Risk & Responsibility and Audit Committees receive a report setting out the key obligations across National Grid and any significant non-compliance with those obligations, together with compliance opinions and action plans to improve controls where necessary. As with the risk management process, the Audit Committee also reviews the compliance management process at least once a year and reports on this to the Board. The compliance management process also contributes toward the entity level testing that is performed under the Sarbanes-Oxley Act, as well as some of our other internal assurance activities. The compliance management process was also subject to a detailed review by internal audit during the year; the outcome was satisfactory.

Risk factors

Our risk management process has identified the following risk factors that could have a material adverse effect on our business, financial condition, results of operations and reputation, as well as the value and liquidity of our securities. Not all of these factors are within our control. In addition, other factors besides those listed below may have an adverse effect on National Grid. Any investment decision regarding our securities and any forward-looking statements made by us should be considered in the light of these risk factors and the cautionary statement set out on page 200.

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

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

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

Aspects of our activities are potentially dangerous, such as the operation and maintenance of electricity generation facilities and electricity lines and the transmission and distribution of gas. Electricity and gas utilities also typically use and generate in their operations hazardous and potentially hazardous products and byproducts. In addition, there may be other aspects of our operations that are not currently regarded or proved to have adverse effects but could become so; for example, the effects of electric and magnetic fields. We are subject to laws and regulations relating to pollution, the protection of the environment, and how we use and dispose of hazardous substances and waste materials. These expose us to costs and liabilities relating to our operations and our properties whether current, including those inherited from predecessor bodies, or formerly owned by us. We are also subject to laws and regulations governing health and safety matters protecting the public and our employees. We are increasingly subject to regulation in relation to climate change. We commit significant expenditure toward complying with these laws and regulations and to meeting our obligations under negotiated settlements. If additional requirements are imposed or our ability to recover these costs changes, this could have a material impact on our businesses and our results of operations and financial position. Any breach of these obligations, or even incidents that do not amount to a breach, could adversely affect our results of operations and our reputation.

Corporate Governance continued

For further information about environmental and health and safety matters relating to our businesses, see the Our Responsibility section of our website at www.nationalgrid.com.

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

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

Business development activity, including acquisitions and disposals, may be based on incorrect assumptions or conclusions; significant liabilities may be overlooked or there may be other unanticipated or unintended effects.
Business development activities, including acquisitions and disposals, may be based on incorrect assumptions or conclusions; significant liabilities may be overlooked or there may be other unanticipated or unintended effects. There is no certainty that planned levels of synergy and efficiency savings from acquisitions will be achieved. This could impact our ability to enter into other transactions.

For further details concerning transactions that we have undertaken over the period, see the performance against our objectives section of the Operating and Financial Review on page 33.

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

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

Fluctuations in exchange rates (in particular in the US dollar exchange rate), interest rates and commodity price indices could have a significant impact on our results of operations.
We have significant operations in the US and we are therefore subject to the risks normally associated with non-domestic operations, including the need to translate US assets and liabilities, and income and expenses, into sterling, our primary reporting currency. In addition, our results of operations may be affected because a significant proportion of our borrowings, derivative financial instruments and commodity contracts are affected by changes in exchange rates, interest rates and commodity price indices, in particular the US dollar to sterling exchange rate.

For further information see the financial performance section of the Operating and Financial Review.

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

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

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

Future funding requirements of our pension schemes could adversely affect our results of operations.
We participate in a number of pension schemes that together cover substantially all our employees. In both the UK and the US, the principal schemes are defined benefit schemes where the scheme assets are held independently of our own financial resources. Estimates of the amount and timing of future funding for these schemes are based on various actuarial assumptions and other factors including, among other things, the actual and projected market performance of the scheme assets, future long-term bond yields, average life expectancies and relevant legal requirements. The impact of these assumptions and other factors may require us to make additional contributions to these pension schemes which, to the extent they are not recoverable under our price controls or state rate plans, could adversely affect our results of operations.

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

Customers and counterparties to our transactions may fail to perform their obligations, or arrangements we have may be terminated, which could harm our results of operations.
Our operations are exposed to the risk that customers and counterparties to our transactions that owe us money or commodities will not perform their obligations, which could cause us to incur additional costs. This risk is most significant where our subsidiaries have concentrations of receivables from gas and electricity utilities and their affiliates, as well as industrial customers and other purchasers and may also arise where customers are unable to pay us as a result of increasing commodity prices.

A substantial portion of our KeySpan business's revenues are derived from a series of agreements with the Long Island Power Authority (LIPA) pursuant to which we manage LIPA's transmission and distribution system and supply the majority of LIPA's customers' electricity needs. These operating agreements provide LIPA with the right to terminate the agreements for poor performance or upon the occurrence of certain other limited events of default.

Our operating results may fluctuate on a seasonal and quarterly basis.
Our electricity and gas businesses are seasonal businesses and are subject to weather conditions. In particular, revenues from our gas distribution networks in the US are weighted towards the end of our financial year, when demand for gas increases due to colder weather conditions. As a result, we are subject to seasonal variations in working capital because we purchase gas supplies for storage in the first and second quarters of our financial year and must finance these purchases. Accordingly, our results of operations for this business fluctuate substantially on a seasonal basis. In addition, portions of our electricity businesses are seasonal and subject to weather and related market conditions. Sales of electricity to customers are influenced by temperature changes. Significant changes in heating or cooling requirements, for example, could have a substantial effect. As a result, fluctuations in weather and competitive supply between years may have a significant effect on our results of operations for both gas and electricity businesses.

Directors' Report

for the year ended 31 March 2009

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

Directors

The biographies of the persons serving as Directors as at the date of this report are set out on pages 16 and 17. The names of all persons serving as Directors during the financial year are included on page 112, detailed in the table setting out Directors' beneficial interests. The Directors' interests in shares and in options to receive shares, and any changes that have occurred since 31 March 2009, are set out in the Directors' Remuneration Report on pages 102 to 112. Directors' and Officers' liability insurance cover is arranged and qualifying third party indemnities are in place for each Director.

Code of Ethics

In accordance with US legal requirements, the Board has adopted a Code of Ethics for senior financial professionals. This code is available on our website at www.nationalgrid.com (where any amendments or waivers will also be posted). There were no amendments to, or waivers of, our Code of Ethics during the year.

Principal activities and business review

A full description of the Company's principal activities, significant contracts, business and principal risks and uncertainties, environmental, employee and social and community issues are contained in the Operating and Financial Review, on pages 18 to 89, and the Corporate Governance section, on pages 90 to 99, which are incorporated by reference into this report.

Dividends

The Directors are recommending a final dividend of 23.00 pence per ordinary share ($1.7437 per American Depositary Share) to be paid on 19 August 2009 to shareholders on the Register at 5 June 2009. An ordinary resolution will be proposed at the Annual General Meeting to allow for a scrip dividend to be available. A scrip dividend allows a dividend to be taken in shares rather than cash with no dealing costs or stamp duty payable. Further details in respect of dividend payments can be found on page 41.

Political donations and expenditure

National Grid made no political donations in the UK or European Union during the year (including donations as defined for the purposes of the Political Parties, Elections and Referendums Act 2000). National Grid USA and certain subsidiaries made political donations in the US of $180,000 (£116,959) during the year to affiliated New York State political action committees (PACs). National Grid USA's federal and state PACs gave $156,975 (£101,998) to political committees in 2008/09. National Grid USA's affiliated federal PACs were funded wholly by voluntary employee contributions. National Grid USA's affiliated New York State PACs were funded partly by contributions from National Grid USA and partly by employee contributions.

Charitable donations

During 2008/09, approximately £10 million (2007/08: £9.2 million) was invested in support of community initiatives and relationships. The London Benchmarking Group model was used to assess this overall community investment. Direct donations to charitable organisations amounted to £1.4 million (2007/08: £0.6 million). In addition to our charitable donations, financial support was provided for our affordable warmth programme, education programme, university research and our Young Offenders Programme.

Financial instruments

Details on the use of financial instruments and financial risk management are included on pages 81 to 84 and on page 87 in the Operating and Financial Review.

Contractual arrangements

Details concerning our rate plans and price controls, which we consider to be our primary contractual arrangements, can be found in the Operating and Financial Review under current and future developments sections on pages 23, 52, 60 and 68.

Post balance sheet events

On 29 April 2009, the Competition Appeal Tribunal announced its decision not to uphold in full Ofgem's 2008 decision in relation to Metering contracts. Further information is provided in the Operating and Financial Review on page 85.

Change of control provisions

The significant agreements that are affected upon a change of control of the Company as detailed on page 95 of the Corporate Governance section are included by reference into this report. No compensation would be paid for loss of office of Directors on a change of control of the Company.

Future developments

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

Research and development

Expenditure on research and development during the year was £10 million (2007/08: £13 million).

Share capital

At the Company's 2008 Annual General Meeting (AGM) shareholder authority was given to purchase up to 10% of the Company's ordinary shares. The Directors intend to seek shareholder approval to renew this authority at this year's AGM.

The Company's interim results statement for the six months to 30 September 2006 included the announcement of a share repurchase programme to return around $1.9 billion (£1 billion) to shareholders. The ordinary share repurchase programme commenced on 20 November 2006 and in May 2007 it was extended to return £1.8 billion of the proceeds of the sale of our wireless businesses. As announced with the half year results for 2008/09, we have completed the return of £1.8 billion and the US stranded asset post tax cash flows for 2008/09. During 2008/09, the Company purchased 85,457,497 shares representing 3.3% of the issued ordinary share capital at an aggregate consideration of £593,545,263. In total, as at the date of this report, 307,992,296 ordinary shares (representing approximately 11.9% of our issued ordinary share capital) had been repurchased since November 2006 for an aggregate consideration of £2,270 million. Of the shares repurchased as at 12 May 2009, 149,276,986 were held in treasury and 9,509,217 have been transferred to employees under the employee share plans.

Shares and ADRs purchased on behalf of the Company by the Employee Share Trusts (see notes 25 and 26 to the consolidated financial statements on pages 154 and 155 of the accounts) are used for employee share incentive plans.

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

Some of the Company's employee share plans include restrictions on transfer of shares while the shares are subject to the plan.

Where, under an employee share plan operated by the Company, participants are the beneficial owners of the shares but not the registered owner, the voting rights may be exercised by the registered owner at the direction of the participant.

Employees

The Company employs over 27,500 people. Communication is a key theme both at a corporate and business level. The Company wide internet based publication National Grid One provides employees with an overview of performance and updates on relevant acquisitions, alongside material setting out the strategy and operating model for National Grid. This publication is only one example of the multiple communication channels, including the use of various business specific intranets, which the Company has established and continues to develop to ensure the timely cascade of critical information to employees.

Feedback has been provided by employees in confidence via a Company wide employee engagement survey conducted in 2009; 91.8% of employees took part in the process. Action plans will be developed by each of the businesses to address their key priorities for improvement.

National Grid's core values are respect, ownership, integrity and working together. National Grid's inclusion and diversity vision is to develop and operate its business in a way that results in a more inclusive and diverse culture. This supports the attraction and retention of the best people, improves effectiveness, delivers superior performance and enhances the success of the Company. Employees are provided with the opportunity to develop to their full potential regardless of race, gender, nationality, age, disability, sexual orientation, gender identity, religion and background. The employee share schemes, available to encourage the involvement of employees in the Company's performance, are explained further on page 104.

Policy and practice on payment of creditors

It is National Grid's policy to include in contracts, or other agreements, terms of payment with suppliers. Once agreed, National Grid aims to abide by these payment terms. The average creditor payment period at 31 March 2009 for National Grid's principal operations in the UK was 13 days (18 days at 31 March 2008).

Audit information

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

Articles of Association

The Articles of Association set out the internal regulation of the Company and cover such matters as the rights of shareholders, the appointment or removal of Directors and the conduct of the Board and general meetings. Copies are available upon request and are displayed on the National Grid website at www.nationalgrid.com. In accordance with the Articles of Association, Directors can be appointed or removed by the Board or shareholders in general meeting. Amendments to the Articles of Association have to be approved by at least 75% of those voting in person or by proxy at a general meeting of the Company. Subject to company law and the Articles of Association, the Directors may exercise all the powers of the Company, and may delegate authorities to Committees and day-to-day management and decision making to individual Executive Directors. Details of the main Board Committees can be found on pages 92 to 95. In order to update for Companies Act 2006 changes, special resolutions will be put to the 2009 Annual General Meeting to adopt the Articles of Association with effect from the AGM, and to adopt new Articles of Association effective from 1 October 2009.

Material interests in shares

As at the date of this report, National Grid had been notified of the following holdings in voting rights of 3% or more in the issued share capital of the Company:

	% of voting rights
Legal and General Investment Management Ltd	5.46
Fidelity	3.06

No further notifications have been received.

Annual General Meeting

National Grid's 2009 AGM will be held on Monday 27 July 2009 at The International Convention Centre in Birmingham. Details are set out in the Notice of AGM.

On behalf of the Board

Helen Mahy
Company Secretary & General Counsel
13 May 2009

National Grid plc, 1-3 Strand, London WC2N 5EH
Registered in England and Wales No. 4031152

Directors' Remuneration Report

We are pleased to present the Directors' Remuneration Report for 2008/09. Our policy of relating pay to the performance of the Company continues to be a strong principle underlying the Remuneration Committee's consideration of executive remuneration. We aim to ensure the Company continues to attract, motivate and retain high calibre individuals to deliver the highest possible performance for our shareholders.

We have made no changes to our arrangements this year and firmly believe the changes we have made over the last few years continue to provide an appropriate and balanced opportunity for executives. Our incentive plans remain aligned with the Company's strategic objectives and our shareholders' interests, while continuing to motivate and engage the team leading the Company to achieve stretching targets.

We believe salary levels and the mix between fixed and variable compensation continues to be appropriate, however, we shall continue to review the remuneration package on a regular basis to ensure it remains so.

Overall, Company performance has been strong for the last year and therefore Annual Performance Plan (bonus plan) awards to the Executive Directors and their teams reflect that strong performance.

In recognition of the external economic market conditions, the Executive Directors have decided voluntarily they will forego salary increases in June 2009. It is anticipated their salaries will next be reviewed in 2010.

Edward Astle left National Grid on 30 April 2008, following the sale of parts of the non-regulated portfolio, including National Grid Wireless which was sold for a price that was significantly in excess of market expectations at that time. Details of Edward's leaving arrangements follow later in this report.

Bob Catell retired as an Executive Director on 31 March 2009 and became a Non-executive Director as well as being Deputy Chairman and Non-executive Chairman of National Grid USA, which will be effective until the conclusion of the Company's Annual General Meeting on 27 July 2009 when Bob will leave the Company. Bob will not receive any payments on leaving, other than with respect to his contractual pension rights and an Annual Performance Plan award reflecting the performance year 2008/09 (details of this award can be found on page 107).

John Allan
Chairman of the Remuneration Committee

Remuneration Committee

The Remuneration Committee members are John Allan, Ken Harvey, Stephen Pettit and George Rose. Each of these Non-executive Directors is regarded by the Board as independent and served throughout the year.

The Global Human Resources Director and Global Head of Compensation & Benefits provide advice on remuneration policies and practices and are usually invited to attend meetings, along with the Chairman and the Chief Executive.

No Director or other attendee is present during any discussion regarding his or her own remuneration.

The Remuneration Committee is responsible for developing Company policy regarding executive remuneration and for determining the remuneration of the Executive Directors and executives below Board level who report directly to the Chief Executive. It also monitors the remuneration of other senior employees of the Company and provides direction over the Company's share plans.

The Board has accepted all the recommendations made by the Remuneration Committee during the year.

The Remuneration Committee has authority to obtain the advice of external independent remuneration consultants. It is solely responsible for their appointment, retention and termination; and for approval of the basis of their fees and other terms.

In the year to 31 March 2009, the following advisors provided services to the Remuneration Committee:

- Deloitte LLP, independent remuneration advisors. It also provides taxation and financial advice to the Company;
- Alithos Limited, provision of Total Shareholder Return calculations for the Performance Share Plan and Executive Share Option Plan;
- Linklaters LLP, advice relating to Directors' service contracts as well as providing other legal advice to the Company; and
- Mercer Human Resource Consulting Limited, advice relating to pension taxation legislation. It also provides general advice with respect to human resource issues across the Company.

Remuneration policy

The Remuneration Committee determines remuneration policy and practices with the aim of attracting, motivating and retaining high calibre Executive Directors and other senior employees to deliver value for shareholders and high levels of customer service, safety and reliability in an efficient and responsible manner. The Remuneration Committee sets remuneration policies and practices in line with best practice in the markets in which the Company operates. Remuneration policies continue to be framed around the following key principles:

- total rewards should be set at levels that are competitive in the relevant market. For UK-based Executive Directors, the primary focus is placed on companies ranked (in terms of market capitalisation) 11-40 in the FTSE 100. This peer group is therefore weighted towards companies smaller than National Grid and positioning the package slightly below median against this group is considered to be appropriate for a large, international but predominately regulated business. For US-based Executive Directors, the primary focus is placed on US utility companies;
- a significant proportion of the Executive Directors' total reward should be performance based. Performance based incentives will be earned through the achievement of demanding targets

for short-term business and individual performance as well as long-term shareholder value creation, consistent with our Framework for Responsible Business which can be found at: www.nationalgrid.com/corporate/About+Us/CorporateGovernance/Other;
- for higher levels of performance, rewards should be substantial but not excessive; and
- incentive plans, performance measures and targets should be stretching and aligned as closely as possible with shareholders' interests.

It is currently intended to continue this policy in subsequent years.

Executive Directors' remuneration

Remuneration packages for Executive Directors consist of the following elements:
- salary;
- Annual Performance Plan including the Deferred Share Plan;
- long-term incentive, the Performance Share Plan;
- all-employee share plans;
- pension contributions; and
- non-cash benefits.

Salary

Salaries are reviewed annually and targeted broadly at the median position against the relevant market. In determining the relevant market, the Remuneration Committee takes account of the regulated nature of the majority of the Company's operating activities along with the size, complexity and international scope of the business. For UK-based and US-based Executive Directors, UK and US markets are used respectively. In setting individual salary levels, the Remuneration Committee takes into account business performance, the individual's performance and experience in the role together with salary practices prevailing for other employees in the Company.

Annual Performance Plan including the Deferred Share Plan (DSP)

The Annual Performance Plan (bonus plan) is based on the achievement of a combination of demanding Company, individual and, where applicable, divisional targets. The principal measures of Company performance are adjusted earnings per share (EPS), see page 43 for further details; consolidated cash flow and return on equity. The main divisional measures are operating profit and line of business returns targets. Financial targets represent 70% of the plan. Individual targets, representing 30% of the plan, are set in relation to key operating and strategic objectives. The Remuneration Committee sets targets at the start of the year and reviews performance against those targets at year end. The Remuneration Committee may use its discretion to reduce payments to take account of significant safety or service standard incidents; or to increase them in the event of exceptional value creation. The Remuneration Committee also has discretion to consider environmental, social and governance issues when determining payments to Executive Directors.

Performance against Company and divisional financial targets for this year is shown in the following table:

	Level of performance achieved in 2008/09 as determined by the Remuneration Committee	
Financial measures	Company targets	Divisional targets
Adjusted EPS	Between target and stretch	
Consolidated cash flow	Stretch	
Return on equity	Between target and stretch	
Operating profit		Varied performance (i) (ii) (iii)
Line of business returns targets		Varied performance (iv) (v) (vi)

(i) Electricity Distribution & Generation between threshold and target.
(ii) Gas Distribution between target and stretch.
(iii) Transmission at stretch.
(iv) Electricity Distribution & Generation below threshold.
(v) Gas Distribution between target and stretch.
(vi) Transmission between target and stretch.

In 2008/09, the maximum opportunity under the Annual Performance Plan for Executive Directors was 150% of base salary, with 40% of the plan (60% of salary) being paid for target performance. One half of any award earned is automatically deferred into National Grid shares (ADSs for US-based Executive Directors) through the DSP. The shares are held in trust for three years before release. During this time, they are not owned by the Executive Directors and, therefore, no dividends are paid. The Remuneration Committee may, at the time of release of the shares, use its discretion to pay a cash amount equivalent to the value of the dividends that would have accumulated on the deferred shares. For the 2007/08 plan year and onwards, the deferred shares may be forfeited if the Executive Director ceases employment during the three year holding period as a 'bad leaver', for example, resignation. We believe the forfeiture provision serves as a strong retention tool.

The Remuneration Committee believes that requiring Executive Directors to invest a substantial amount of their Annual Performance Plan award in National Grid shares increases the proportion of rewards linked to both short-term performance and longer-term total shareholder returns (TSR). This practice also ensures that Executive Directors share a significant level of personal risk with the Company's shareholders. Awards for UK-based Executive Directors are not pensionable but, in line with current US market practice, US-based Executive Directors' awards are pensionable.

Long-term incentive – Performance Share Plan (PSP)

Executive Directors and approximately 400 other senior employees who have significant influence over the Company's ability to meet its strategic objectives, may receive an award which will vest subject to the achievement of performance conditions set by the Remuneration Committee at the date of grant. The value of shares (ADSs for US-based Executive Directors and relevant employees) constituting an award (as a percentage of salary) varies by grade and seniority subject to a maximum, for Executive Directors, of 200% of salary. Typically awards of 200% of salary have been awarded to Executive Directors. The provisions in the PSP rules allow awards up to a maximum value of 250% of salary, in order to provide a degree of flexibility for the future.

Shares vest after three years, conditional upon the satisfaction of the relevant performance criteria. Vested shares must then be held for a further period (the retention period) after which they are released to the participant on the fourth anniversary of the date of grant. During the retention period, the Remuneration Committee has discretion to pay an amount, in cash or shares, equivalent to the dividend which would have been paid on the vested shares.

Under the terms of the PSP, the Remuneration Committee may allow shares to vest early to departing participants, including Executive Directors, to the extent the performance condition has been met, in which event the number of shares that vest will be pro rated to reflect the proportion of the performance period that has elapsed at the date of departure.

Awards from 2005 onwards vest based on the Company's TSR performance when compared to the FTSE 100 at the date of grant (50% of the award) and the annualised growth of the Company's EPS (50% of the award). This approach will continue going forward.

These measures are used because the Remuneration Committee continues to believe they offer a balance between meeting the needs of shareholders (by measuring TSR performance against other large UK companies) and providing a measure of performance (EPS growth) over which the Executive Directors have direct influence. The Remuneration Committee considers the PSP performance conditions to be stretching.

In calculating TSR it is assumed that all dividends are reinvested. No shares will be released under the TSR part of the award if the Company's TSR over the three year performance period, when ranked against that of the FTSE 100 comparator group, falls below the median. For TSR at the median, 30% of those shares will be released, 100% will be released where National Grid's TSR performance on an annualised compound basis is 7.5% above that of the median company in the FTSE 100 (upper target).

The EPS measure is calculated by reference to National Grid's real EPS growth, see page 43 for further details. Where annualised growth in adjusted EPS (on a continuing basis and excluding exceptional items, remeasurements and stranded costs) over the three year performance period exceeds the average annual increase in RPI (the general index of retail prices for all items) over the same period by 3% (threshold performance), 30% of the shares under the EPS part of the award will be released. 100% of the shares will be released where EPS growth exceeds RPI growth by 8% (upper target). For awards made prior to 2007, the upper target for EPS was 6%. The Remuneration Committee considers the adjusted upper target to be more challenging to achieve.

For performance, under each measure, between threshold and the upper target, the number of shares released is pro rated on a straight-line basis.

If the Remuneration Committee considers, in its absolute discretion, the underlying financial performance of the Company does not justify the vesting of awards, even if either or both the TSR measure and the EPS measure are satisfied in whole or in part, it can declare that some or all of the award lapses.

No re-testing of performance is permitted for any of the PSP awards that do not vest after the three year performance period and any such awards lapse.

Vested 2005 PSP award

The upper targets for both the EPS and TSR performance criteria were reached for the 2005 award, which has resulted in 100% vesting. The shares from this award will be transferred to participants in July 2009, following the completion of the retention period. The Remuneration Committee agreed to pay a cash amount equivalent in value to the net dividends (after taxes, commissions and any other charges) that would be paid during the retention period in respect of the shares comprised in the vested award. These payments were made in August 2008 and February 2009, to align broadly with dividend payments to our shareholders.

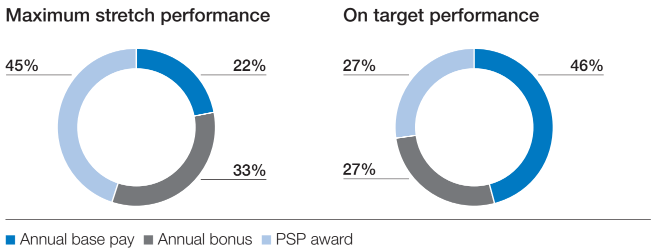
Recruitment Promise – Special Retention Award (SRA)

As part of a contractual commitment made at the time of Tom King's recruitment, Tom received a Special Retention Award in November 2007. This one-off award of National Grid ADSs vests in equal tranches, over three years, on the anniversary of the award (November 2008 through to November 2010) subject to his continued employment. There are no performance conditions attached to this award. Details of the vested ADSs representing the first tranche of this award can be found on page 111.

Executive Directors' remuneration package

Illustrated below is the current remuneration package for Executive Directors (excluding pensions, all-employee share plans and non-cash benefits) for both 'maximum stretch' performance and assuming 'on target' performance based on 40% (60% of salary) for the Annual Performance Plan; and TSR and EPS performance such that 30% (60% of salary) of PSP awards are released to participants at the end of the performance period and subsequent retention period. All Executive Directors have the same proportion of fixed and variable remuneration in this respect.

Executive Directors' remuneration package
2008/09 UK & US



Note: Excludes Tom King's Special Retention Award.

All-employee share plans

- Sharesave: Employees resident in the UK, including UK-based Executive Directors, are eligible to participate in HM Revenue & Customs approved all-employee Sharesave schemes. Under these schemes, participants may contribute between £5 and £250 in total each month, for a fixed period of three years, five years or both. Contributions are taken from net salary. At the end of the savings period, these contributions can be used to purchase ordinary shares in National Grid at a discount capped at 20% of the market price set at the launch of each scheme.
- Share Incentive Plan (SIP): Employees resident in the UK, including UK-based Executive Directors, are eligible to participate in the SIP. Contributions up to £125 are deducted from participants' gross salary and used to purchase ordinary shares in National Grid each month. The shares are placed in trust and if they are left in trust for at least five years, they can be removed free of UK income tax and National Insurance Contributions.
- US Incentive Thrift Plans: Employees of National Grid's US companies (including US-based Executive Directors) are eligible to participate in the Thrift Plans, which are tax-advantaged

savings plans (commonly referred to as 401(k) plans). These are defined contribution pension plans that give participants the opportunity to invest up to applicable Federal salary limits ie a maximum of 50% of salary (pre-tax) limited to US$15,500 for those under the age of 50 and US$20,500 for those over 50 for calendar year 2008 and US$16,500 and US$22,000 respectively for 2009; and/or up to 15% of salary (post-tax) up to applicable limits (US$230,000 for calendar year 2008 and US$245,000 for 2009). The Company matches 100% of the first 2% and 75% of the next 4% of salary contributed, resulting in a maximum matching contribution of 5% of salary up to the Federal salary cap. For employees in legacy KeySpan plans, the Company matches 50% of employees' contributions up to a maximum Company contribution of 3%. Employees may invest their own and Company contributions in National Grid shares or various mutual fund options. Legacy KeySpan employees who invest in National Grid shares do so with a 10% discount.

- Employee Stock Purchase Plan (ESPP): Employees of National Grid's US companies (including US-based Executive Directors) are eligible to participate in the ESPP (commonly referred to as a 423b plan). Eligible employees have the opportunity to purchase ADSs on a monthly basis at a 10% discounted price. Under the plan employees may contribute up to 20% of base pay each year up to a maximum annual contribution of US$20,000 to purchase ADSs in National Grid. Any ADSs purchased through the ESPP may be sold at any time, however, there are tax advantages for ADSs held for at least two years from the offer date.

Pensions

Current UK-based Executive Directors are provided with final salary pension benefits. The pension provisions for the UK-based Executive Directors are designed to provide a pension of one thirtieth of final salary at age 60 for each year of service subject to a maximum of two thirds of final salary, including any pension rights earned in previous employment. Within the pension schemes, the pensionable salary is normally the base salary in the twelve months prior to leaving the Company. Life assurance provision of four times pensionable salary and a spouse's pension equal to two thirds of the Executive Director's pension are provided on death.

UK-based Executive Directors have elected to participate in the unfunded scheme in respect of any benefits in excess of the Lifetime Allowance or their Personal Lifetime Allowance. An appropriate provision in respect of the unfunded scheme has been made in the Company's balance sheet. These Executive Directors are able to cease accrual in the pension schemes and take a 30% cash allowance in lieu of pension if they so wish. These choices are in line with those offered to current senior employees in the Company, except the cash allowance varies depending upon organisational grade.

US-based Executive Directors participate in a qualified pension plan and an executive supplemental retirement plan provided by National Grid's US companies. These plans are non-contributory defined benefit arrangements. The qualified plan is directly funded, while the executive supplemental retirement plan is indirectly funded through a 'rabbi trust'. Benefits are calculated using a formula based on years of service and highest average compensation over five or three consecutive years. In line with many US plans, the calculation of benefits under the arrangements takes into account salary, Annual Performance Plan awards and incentive share awards (DSP) but not share options or PSP awards. The normal retirement age under the qualified pension plan is 65. The executive supplemental retirement plan provides unreduced pension benefits from age 55. On the death of the Executive Director, the plans also provide for a spouse's pension of at least 50% of that accrued by the Executive Director. Benefits under these arrangements do not increase once in payment.

Non-cash benefits

The Company provides competitive benefits to Executive Directors, such as a fully expensed car or a cash alternative in lieu of car, use of a driver when required, private medical insurance and life assurance. Business expenses incurred are reimbursed in such a way as to give rise to no benefit to the Executive Director. We have recently ceased the provision of fuel cards for senior employees to align with our climate change initiative. Buyout payments were made to any senior employees, including Executive Directors, who had previously chosen to retain a fuel card, details of these payments can be found in Table 1A on page 107.

Flexible benefits plan

Additional benefits may be purchased under the flexible benefits plan (the Plan), in which UK-based Executive Directors, along with most other UK employees, have been given the opportunity to participate. The Plan operates by way of salary sacrifice, that is, the participants' salaries are reduced by the monetary value used to purchase benefits under the Plan. Many of the benefits are linked to purchasing additional healthcare and insurance products for employees and their families. A number of the Executive Directors participate in this Plan and details of the impact on their salaries are shown in Table 1A on page 107.

Similar plans are offered to US-based employees. However, they are not salary sacrifice plans and therefore do not affect salary values. Both Tom King and Bob Catell (when an Executive Director) were participants in such plans during the year.

Share ownership guidelines

Executive Directors are required to build up and retain a shareholding representing at least 100% of annual salary. This will be achieved by retaining at least 50% of the after-tax gain on any options exercised or shares received through the long-term incentive or all-employee share plans and will include any shares held beneficially.

Share dilution through the operation of share-based incentive plans

Where shares may be issued or treasury shares reissued to satisfy incentives, the aggregate dilution resulting from executive incentives will not exceed 5% in any ten year period. Dilution resulting from all incentives, including all-employee incentives, will not exceed 10% in any ten year period. The Remuneration Committee reviews dilution against these limits regularly and under these limits, the Company currently has headroom of 3.77% and 5.62% respectively.

Executive Directors' service contracts

Service contracts for all Executive Directors provide for one year's notice by either party.

Entitlement to payment of 12 months' remuneration on early termination for Executive Directors is not automatic and is determined by the Remuneration Committee exercising its sole discretion, taking into account the circumstances of the termination. In determining any other such payments, the Remuneration Committee gives due regard to the comments and recommendations in the UK Listing Authority's Listing Rules, the Combined Code on Corporate Governance, as revised in 2006; and other requirements of legislation, regulation and good governance.

Directors' Remuneration Report continued

The Remuneration Committee operates a policy of mitigation of losses in the event of an Executive Director's employment being terminated by the Company. If this occurs, the departing Executive Director would normally be expected to mitigate any losses incurred as a result of the termination.

	Date of contract	Notice period
Executive Directors		
Steve Holliday	1 April 2006	12 months
Steve Lucas	13 June 2002	12 months
Nick Winser	28 April 2003	12 months
Mark Fairbairn	23 January 2007	12 months
Tom King	11 July 2007	12 months
Edward Astle (i)	27 July 2007	12 months
Bob Catell (ii)	26 October 2007	12 months

(i) Edward Astle left the Board on 30 April 2008.
(ii) Bob Catell ceased being an Executive Director on 31 March 2009. His employment agreement was terminated and replaced with a Non-executive Director contract for services and he will retire from the Board at the conclusion of the Company's AGM on 27 July 2009.

External appointments and retention of fees

With the approval of the Board in each case, Executive Directors may normally accept an external appointment as a non-executive director of another company and retain any fees received for this appointment. The table below details the Executive Directors who served as non-executive directors in other companies during the year ended 31 March 2009.

	Company	Retained fees (£)
Executive Directors		
Steve Holliday	Marks and Spencer Group plc	67,000
Steve Lucas	Compass Group PLC	82,500
Nick Winser (i)	Kier Group plc	3,400
Bob Catell (ii)	Keyera Energy Management Ltd (a), Sovereign Bancorp Inc Advisory Board (b) and JP Morgan Chase Inc Metropolitan Advisory Board (c)	56,374

(i) Reflects retained fees for the period 1 March 2009 to 31 March 2009 only.
(ii) The retained fees comprise the following: (a) £10,890, (b) £42,235 and (c) £3,249. The exchange rate used for (a) is Canadian$1.9058:£1 and US$1.539:£1 for (b) and (c).

Non-executive Directors' remuneration

Non-executive Directors' fees are determined by the Executive Directors subject to the limits applied by National Grid's articles of association. Non-executive Directors' remuneration comprises an annual fee (£45,000) and a fee for each Board meeting attended (£1,500) with a higher fee for meetings held outside the Non-executive Director's country of residence (£4,000). An additional fee of £12,500 is payable for chairmanship of a board committee and for holding the position of Senior Independent Director. The Audit Committee chairman receives a chairmanship fee of £15,000 to recognise the additional responsibilities commensurate with this role. The Chairman is covered by the Company's personal accident and private medical insurance schemes and the Company provides him with life assurance cover, a car (with driver when appropriate) and fuel expenses. Non-executive Directors do not participate in either any annual bonus plan or long-term incentive plan, nor do they receive any pension benefits from the Company.

Non-executive Directors' letters of appointment

The Chairman's letter of appointment provides for a period of six months' notice by either party to give the Company reasonable security with regard to his service. The terms of engagement of Non-executive Directors other than the Chairman are also set out in letters of appointment. For all Non-executive Directors, their initial appointment and any subsequent reappointment is subject to election by shareholders. The letters of appointment do not contain provision for termination payments.

	Date of letter of appointment(i)	Date of next election
Non-executive Directors		
Sir John Parker	11 May 2009	2009 AGM
Ken Harvey	4 November 2004	2009 AGM
Linda Adamany	20 October 2006	2010 AGM
Philip Aiken (ii)	14 May 2008	2011 AGM
John Allan	27 April 2005	2011 AGM
Stephen Pettit	22 November 2004	2009 AGM
Maria Richter	25 June 2007	2010 AGM
George Rose	5 June 2003	2009 AGM

(i) Date of original appointment or most recent Non-executive role.
(ii) Philip Aiken joined the Board on 15 May 2008.

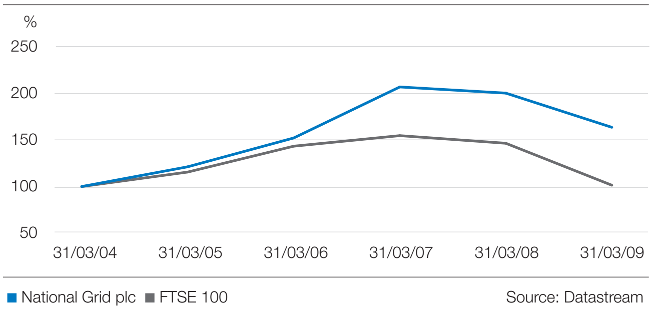
Performance graph

The graph below represents the comparative TSR performance of the Company from 31 March 2004 to 31 March 2009.

This graph represents the Company's performance against the performance of the FTSE 100 index, which is considered suitable for this purpose as it is a broad equity market index of which National Grid is a constituent. This graph has been produced in accordance with the requirements of Schedule 7A to the Companies Act 1985.

In drawing this graph it has been assumed that all dividends have been reinvested. The TSR level shown at 31 March each year is the average of the closing daily TSR levels for the 30 day period up to and including that date.

National Grid plc
TSR v FTSE 100



Remuneration outcomes during the year ended 31 March 2009

Sections 1, 2, 3, 4 and 6 comprise the 'auditable' part of the Directors' Remuneration Report, being the information required by Part 3 of Schedule 7A to the Companies Act 1985.

1. Directors' emoluments

The following tables set out the pre-tax emoluments for the years ended 31 March 2009 and 2008, including bonuses but excluding pensions, for individual Directors who held office in National Grid during the year ended 31 March 2009.

Table 1A	Year ended 31 March 2009						Year ended 31 March 2008
	Salary(i) £000s	Annual Performance Plan (bonus) £000s	Benefits in kind(ii) (cash) £000s	Benefits in kind(ii) (non-cash) £000s	Other emoluments £000s	Total £000s	Total £000s
Executive Directors							
Steve Holliday	917	1,265	12	12	–	2,206	2,062
Steve Lucas (iii)	516	709	6	28	–	1,259	1,183
Nick Winser	459	620	–	17	–	1,096	963
Mark Fairbairn (iii)	458	598	8	25	–	1,089	1,010
Tom King (iv)	677	704	5	10	–	1,396	1,149
Edward Astle (v)	37	–	1	–	440	478	1,070
Bob Catell (iv) (vi)	825	1,090	6	28	–	1,949	818
Total	**3,889**	**4,986**	**38**	**120**	**440**	**9,473**	**8,255**

(i) The Executive Directors decided voluntarily to forego salary increases in 2009. It is anticipated their salaries will next be reviewed in 2010.
(ii) Benefits in kind comprise benefits such as private medical insurance, life assurance, either a fully expensed car or cash in lieu of a car, use of a driver when required; and for this year a fuel card buyout.
(iii) These Executive Directors participate in the UK flexible benefits plan which operates by way of salary sacrifice, therefore, their salaries are reduced by the benefits they have purchased. The value of these benefits is included in the Benefits in kind (non-cash) figure. The values are: Steve Lucas £5,522 and Mark Fairbairn £786.
(iv) For US-based Executive Directors, the exchange rate averaged over the year 1 April 2008 to 31 March 2009 to convert US dollars to UK pounds sterling is US$1.539:£1.
(v) Edward Astle left National Grid on 30 April 2008. He received a contractual entitlement of one year's additional salary, part of which was payable in 6 monthly instalments and was subject to mitigation had he taken employment during the period.
(vi) Bob Catell ceased being an Executive Director on 31 March 2009. His employment agreement was terminated and replaced with a Non-executive Director contract for services and he will retire from the Board at the conclusion of the Company's AGM on 27 July 2009. He did not, nor will he, receive any termination payments.

Table 1B	Year ended 31 March 2009			Year ended 31 March 2008
	Fees £000s	Other emoluments £000s	Total £000s	Total £000s
Non-executive Directors				
Sir John Parker (i)	542	62	604	559
Ken Harvey	83	–	83	79
Linda Adamany	75	–	75	77
Philip Aiken (ii)	59	–	59	n/a
John Allan	76	–	76	71
Stephen Pettit	84	–	84	79
Maria Richter	92	–	92	92
George Rose	84	–	84	82
Total	**1,095**	**62**	**1,157**	**1,039**

(i) Sir John Parker's other emoluments comprise a fully expensed car, private medical insurance and life assurance.
(ii) Philip Aiken joined the Board on 15 May 2008.

Directors' Remuneration Report continued

2. Directors' pensions

The table below gives details of the Executive Directors' pension benefits in accordance with both Schedule 7A of the Companies Act 1985 and the UK Listing Authority's Listing Rules.

Table 2	Personal contributions made to the scheme during the year £000s	Additional benefit earned during year ended 31 March 2009 pension £000s	Accrued entitlement as at 31 March 2009 pension £000s	Transfer value of accrued benefits as at 31 March (i) 2009 £000s	Transfer value of accrued benefits as at 31 March (i) 2008 £000s	Increase in transfer value less Director's contributions (ii) £000s	Additional benefit earned in the year ended 31 March 2009 (excluding inflation) pension £000s	Transfer value of increase in accrued benefit in the year ended 31 March 2009 (excluding inflation & Director's contributions) £000s
Steve Holliday (iii)	18	49	280	4,740	4,730	(8)	37	591
Steve Lucas	31	25	250	4,877	3,680	1,165	17	293
Nick Winser (iv)	28	16	186	2,802	3,237	(463)	7	76
Mark Fairbairn (v)	28	26	186	3,084	3,340	(284)	18	249
Tom King (vi)	–	49	126	442	207	235	49	174
Edward Astle (vii)	19	16	112	2,939	1,997	924	15	385
Bob Catell (vi) (viii)	–	256	1,754	20,431	12,774	7,657	256	2,812

(i) The transfer values shown at 31 March 2008 and 2009 respectively represent the value of each Executive Director's accrued benefits based on total service compared to the relevant date. The transfer values for the UK Executive Directors at 31 March 2008 have been calculated in accordance with guidance note 'GN11'; transfer values for the UK Executive Directors at 31 March 2009 have been calculated in line with new transfer value bases agreed with the UK Pension Scheme Trustees. The transfer values for the US Executive Directors have been calculated using discount rates based on high quality US corporate bonds and associated yields at the relevant dates.

(ii) Figures for the increase in transfer value less Director's contributions include the impact of changes during the year to the UK transfer value bases for UK Directors and exchange rate movements for US Directors. The figures excluding these impacts were Steve Holliday £625,000, Steve Lucas £464,000, Nick Winser £62,000, Mark Fairbairn £233,000, Tom King £114,000, Edward Astle £1,166,000 and Bob Catell £2,052,000.

(iii) In addition to the pension above, there is an accrued lump sum entitlement of £107,000 as at 31 March 2009. The increase to the accumulated lump sum including inflation was £7,000 and excluding inflation was £3,000 in the year to 31 March 2009. The transfer value information above includes the value of the lump sum.

(iv) In addition to the pension above, there is an accrued lump sum entitlement of £258,000 as at 31 March 2009. The increase to the accumulated lump sum including inflation was £8,000 and excluding inflation was nil in the year to 31 March 2009. The transfer value information above includes the value of the lump sum.

(v) In addition to the pension above, there is an accrued lump sum entitlement of £278,000 as at 31 March 2009. The increase to the accumulated lump sum including inflation was £23,000 and excluding inflation was £11,000 in the year to 31 March 2009. The transfer value information above includes the value of the lump sum.

(vi) The exchange rate as at 31 March 2009 was US$1.4368:£1 and as at 31 March 2008 was US$1.98:£1.

(vii) It was agreed that £344,754, representing the value of 49,032 shares which Edward Astle would otherwise have received in respect of his PSP awards (see Table 4 on page 111), instead be transferred into his pension fund. This is equivalent to one additional year of pension credit and is included above. Edward received an immediate unreduced pension on cessation of employment under the standard redundancy terms of the Trust Deed and Rules of the Pension Scheme.

(viii) Bob Catell retired as an Executive Director on 31 March 2009 and was eligible to draw immediate pension benefits. In addition to the pension quoted above, through participation in the Thrift Plan in the US, the Company made contributions worth £4,948 to a defined contribution arrangement.

3. Directors' interests in share options

The table below gives details of the Executive Directors' holdings of share options awarded under the Executive Share Option Plan (ESOP), the Share Matching Plan (Share Match) and Sharesave schemes.

Table 3	Options held at 1 April 2008	Options exercised or lapsed during the year	Market price at exercise (pence)	Options granted during the year	Options held at 31 March 2009 or, if earlier, on retirement †	Exercise price per share (pence)	Normal exercise period
Steve Holliday							
ESOP	67,497	–	–	–	67,497	481.5	June 2005 to June 2012
Share Match	10,350	–	–	–	10,350	100 in total	June 2005 to June 2012
	14,083	–	–	–	14,083	100 in total	June 2006 to June 2013
	18,713	–	–	–	18,713	nil	May 2007 to May 2014
	9,983(i)	9,983	663	–	–	nil	June 2008 to June 2015
Sharesave	4,692	4,692	660.5	–	–	350	Mar 2008 to Aug 2008
	2,564	2,564	–	–	–	655	Apr 2013 to Sep 2013
	–	–	–	3,432	3,432	488	Apr 2014 to Sep 2014
Total	**127,882**	**17,239**		**3,432**	**114,075**		
Steve Lucas							
ESOP	54,404	–	–	–	54,404	434.25	Dec 2005 to Dec 2012
Share Match	14,778(ii)	14,778	663	–	–	nil	June 2008 to June 2015
Sharesave	1,693	–	–	–	1,693	558	Apr 2010 to Sep 2010
Total	**70,875**	**14,778**		**–**	**56,097**		
Nick Winser							
ESOP	19,755	–	–	–	19,755	531.5	June 2003 to June 2010
Share Match	11,581(iii)	11,581	663	–	–	nil	June 2008 to June 2015
Total	**31,336**	**11,581**		**–**	**19,755**		
Mark Fairbairn							
ESOP	2,180	–	–	–	2,180	435.75	July 2002 to July 2009
	33,489	–	–	–	33,489	531.5	June 2003 to June 2010
	31,152	–	–	–	31,152	481.5	June 2005 to June 2012
Share Match	2,134(iv)	2,134	663	–	–	nil	June 2008 to June 2015
Sharesave	862	–	–	–	862	383	Apr 2010 to Sep 2010
	1,760	–	–	–	1,760	558	Apr 2012 to Sep 2012
	512	–	–	–	512	655	Apr 2013 to Sep 2013
Total	**72,089**	**2,134**		**–**	**69,955**		
Edward Astle							
ESOP (v)	67,497	–	–	–	67,497†	481.5	May 2008 to Apr 2009
Share Match (v)	6,553	–	–	–	6,553†	100 in total	May 2008 to Oct 2008
	13,812	–	–	–	13,812†	100 in total	May 2008 to Oct 2008
	15,716	–	–	–	15,716†	nil	May 2008 to Oct 2008
	14,637	–	–	–	14,637†	nil	May 2008 to Oct 2008
Total	**118,215**	**–**		**–**	**118,215†**		

(i) Steve Holliday exercised a Share Match award over 9,983 shares. The market price at the date of exercise was 663p. He received £9,739 in respect of a cash payment in lieu of dividends. He also exercised, on its five year maturity, a Sharesave option over 4,692 shares with an option price of 350p. In addition, he cancelled an existing Sharesave contract over 2,564 shares with an option price of 655p in order to commence a Sharesave contract over 3,432 shares with an option price of 488p.

(ii) Steve Lucas exercised a Share Match award over 14,778 shares. The market price at the date of exercise was 663p. He also received £17,761 in respect of a cash payment in lieu of dividends.

(iii) Nick Winser exercised a Share Match award over 11,581 shares. The market price at the date of exercise was 663p. He also received £14,078 in respect of a cash payment in lieu of dividends.

(iv) Mark Fairbairn exercised a Share Match award over 2,134 shares. The market price at the date of exercise was 663p. He also received £3,050 in respect of a cash payment in lieu of dividends.

(v) On leaving, Edward Astle was permitted 12 months from his termination date in which to exercise his ESOP awards and 6 months for his Share Match awards. This aligns with normal practice for such leavers under the plan rules.

Directors' Remuneration Report continued

3. Directors' interests in share options continued

Executive Share Option Plan (ESOP)

No further awards will be made under this plan but there are outstanding options granted in previous years. Such options will normally be exercisable between the third and tenth anniversary of the date of grant, subject to a performance condition. The performance condition attached to the outstanding ESOP options is set out below. If the performance condition is not satisfied after the first three years, it will be re-tested as indicated.

Options worth up to 100% of an optionholder's base salary will become exercisable in full if TSR, measured over the period of three years beginning with the financial year in which the option is granted, is at least median compared with a comparator group of companies.

Grants in excess of 100% of salary vest on a sliding scale, becoming fully exercisable if the Company's TSR is in the top quartile.

Grants made in 2000

The performance condition attached to options granted in June 2000 is tested annually throughout the lifetime of the option. These options remain unvested. The final re-test will be in March 2010 and if the performance criterion is not reached at that time the options will lapse in full.

The comparator group for the 2000 award is unaudited and this information follows below. The Remuneration Committee at that time believed the group to be an appropriate mix of energy distribution sector companies, including UK and international utilities.

Allegheny Energy, Inc.
BG Group plc
British Energy plc
Central & South West Corporation
Consolidated Edison, Inc.
Duke Energy Corporation
Energy East Corporation
FPL Group, Inc.
GPU, Inc.
Innogy Holdings plc
International Power plc
Niagara Mohawk Holdings, Inc.
NSTAR
Powergen plc
Progress Energy, Inc.
Public Service Enterprise Group, Inc.
Scottish & Southern Energy plc
Scottish Power plc
The Southern Company, Inc.
TXU, Corp
United Utilities plc
Xcel Energy, Inc.

4. Directors' interests in the PSP, DSP and SRA

The table on page 111 gives details of the Executive Directors' holdings of conditional shares awarded under the PSP whereby Executive Directors receive a conditional award of shares, up to a current maximum of 200% of salary, which is subject to performance criteria over a three year performance period. Awards vest based on the Company's TSR performance when compared to the FTSE 100 at the date of grant (50% of the award) and the annualised growth of the Company's EPS (50% of the award), see pages 103 and 104 for further information. Shares are then released on the fourth anniversary of the date of grant, following a retention period. The table includes conditional share awards under the DSP, where Executive Directors receive an award of shares representing one half of any Annual Performance Plan award earned in the year. The deferred shares are held in trust for three years before release. As part of a contractual commitment made at the time of Tom King's recruitment, Tom received a SRA. The one-off award of National Grid ADSs vests in equal tranches, over three years, on the anniversary of the award (November 2008 through to November 2010) subject to continued employment. There are no performance conditions attached to the award.

4. Directors' interests in the PSP, DSP and SRA continued

Table 4	Type of award	PSP, DSP and SRA conditional awards at 1 April 2008	Awards lapsed during year	Awards vested in year	Awards granted during year	Market price at award (pence except#)	Date of award	Conditional awards at 31 March 2009 or, if earlier, on retirement†	Release date
Steve Holliday	PSP	100,801(i)	–	100,801	–	527.03	June 2005	100,801	June 2009
	PSP	126,788	–	–	–	591.5382	June 2006	126,788	June 2010
	PSP	139,217	–	–	–	740.75	June 2007	139,217	June 2011
	PSP	77,247	–	–	–	800.9919	Nov 2007	77,247	Nov 2011
	PSP	–	–	–	276,947	667.9967	June 2008	276,947	June 2012
	DSP	36,389	–	–	–	583.96	June 2006	36,389	June 2009
	DSP	42,435	–	–	–	726.87	June 2007	42,435	June 2010
	DSP	–	–	–	85,307	697.48	June 2008	85,307	June 2011
Total		**522,877**	**–**	**100,801**	**362,254**			**885,131**	
Steve Lucas	PSP	99,615(i)	–	99,615	–	527.03	June 2005	99,615	June 2009
	PSP	101,430	–	–	–	591.5382	June 2006	101,430	June 2010
	PSP	84,930	–	–	–	740.75	June 2007	84,930	June 2011
	PSP	47,125	–	–	–	800.9919	Nov 2007	47,125	Nov 2011
	PSP	–	–	–	157,186	667.9967	June 2008	157,186	June 2012
	DSP	34,882	–	–	–	583.96	June 2006	34,882	June 2009
	DSP	29,276	–	–	–	726.87	June 2007	29,276	June 2010
	DSP	–	–	–	47,263	697.48	June 2008	47,263	June 2011
Total		**397,258**	**–**	**99,615**	**204,449**			**601,707**	
Nick Winser	PSP	91,314(i)	–	91,314	–	527.03	June 2005	91,314	June 2009
	PSP	88,751	–	–	–	591.5382	June 2006	88,751	June 2010
	PSP	75,008	–	–	–	740.75	June 2007	75,008	June 2011
	PSP	41,620	–	–	–	800.9919	Nov 2007	41,620	Nov 2011
	PSP	–	–	–	138,413	667.9967	June 2008	138,413	June 2012
	DSP	31,316	–	–	–	583.96	June 2006	31,316	June 2009
	DSP	25,596	–	–	–	726.87	June 2007	25,596	June 2010
	DSP	–	–	–	36,008	697.48	June 2008	36,008	June 2011
Total		**353,605**	**–**	**91,314**	**174,421**			**528,026**	
Mark Fairbairn	PSP	40,225(i)	–	40,225	–	527.03	June 2005	40,225	June 2009
	PSP	40,572	–	–	–	591.5382	June 2006	40,572	June 2010
	PSP	67,499	–	–	–	740.75	June 2007	67,499	June 2011
	PSP	37,453	–	–	–	800.9919	Nov 2007	37,453	Nov 2011
	PSP	–	–	–	138,324	667.9967	June 2008	138,324	June 2012
	DSP	10,800	–	–	–	583.96	June 2006	10,800	June 2009
	DSP	13,867	–	–	–	726.87	June 2007	13,867	June 2010
	DSP	–	–	–	40,646	697.48	June 2008	40,646	June 2011
Total		**210,416**	**–**	**40,225**	**178,970**			**389,386**	
Tom King	PSP	ADSs 24,006	–	–	–	$83.3121#	Nov 2007	ADSs 24,006	Nov 2011
	PSP	–	–	–	ADSs 32,099(ii)	$65.4211#	June 2008	ADSs 32,099	June 2012
	SRA	ADSs 35,487	–	ADSs 11,829(iii)	–	$84.5360#	Nov 2007	ADSs 23,658	Nov 2008 to Nov 2010
	DSP	–	–	–	ADSs 4,843(ii)	$68.1174#	June 2008	ADSs 4,843	June 2011
Total ADSs		**ADSs 59,493**	**–**	**ADSs 11,829**	**ADSs 36,942**			**ADSs 84,606**	
Edward Astle	PSP	94,872(iv)	–	–	–	527.03	June 2005	94,872†	April 2008
	PSP	88,751(iv)	–	–	–	591.5382	June 2006	88,751†	April 2008
	PSP	74,249(iv)	–	–	–	740.75	June 2007	74,249†	April 2008
	PSP	41,198(iv)	–	–	–	800.9919	Nov 2007	41,198†	April 2008
	DSP	28,769	–	–	–	583.96	June 2006	28,769†	April 2008
	DSP	27,927	–	–	–	726.87	June 2007	27,927†	April 2008
Total		**355,766**	**–**	**–**	**–**			**355,766†**	
Bob Catell	PSP	ADSs 17,084(v)	–	–	–	$83.3121#	Nov 2007	ADSs 17,084	Nov 2011
	PSP	–(v)	–	–	ADSs 39,146(ii)	$65.4211#	June 2008	ADSs 39,146	June 2012
	DSP	–(v)	–	–	ADSs 7,225(ii)	$68.1174#	June 2008	ADSs 7,225	June 2011
Total		**ADSs 17,084**	**–**	**–**	**ADSs 46,371**			**ADSs 63,455**	

Directors' Remuneration Report continued

(i) The 2005 PSP award vested in full in June 2008 but the shares under this award are subject to a retention period in order that shares may only be transferred to participants on or after the fourth anniversary of the date of grant. The Remuneration Committee determined cash equivalent dividend payments would be made to participants whilst the shares were in the retention period, therefore, Steve Holliday received £23,856 in August 2008 and £14,157 in February 2009; Steve Lucas £23,576 and £13,990; Nick Winser £21,611 and £12,825 and Mark Fairbairn £9,520 and £5,649 respectively.

(ii) Awards were made over ADSs and each ADS represents five ordinary shares.

(iii) Tom King received a Special Retention Award as part of a contractual commitment made at the time of his recruitment. The award vests in three equal parts over three years, the first vesting for which was November 2008 for 11,829 ADSs. The ADS price on vesting for the first tranche was US$47.4920.

(iv) Shortly after leaving, Edward Astle received 207,905 PSP shares that vested as a result of the performance criteria having been met and taking into account his contribution and in particular the sale of National Grid Wireless being significantly in excess of market expectations. As outlined in Table 2 on page 108, it was also agreed that instead of Edward receiving a further 49,032 PSP shares an equivalent monetary value (using a share price of 705p) would be transferred into his pension fund. All remaining PSP shares shown in the table on page 111 lapsed.

(v) As Bob Catell ceased being an Executive Director on 31 March 2009, his PSP award will be transferred to him from this date subject to performance criteria and following time pro ration. His DSP award will also be transferred to him. This treatment aligns with normal practice for such leavers under the plan rules.

5. Directors' beneficial interests

The Directors' beneficial interests (which include those of their families) in National Grid ordinary shares of $11\frac{17}{43}$ pence each are shown below.

Table 5	Ordinary shares at 31 March 2009 or, if earlier, on retirement †(i)	Ordinary shares at 1 April 2008 or, if later, on appointment *	Options/awards over ordinary shares at 31 March 2009 or, if earlier, on retirement †	Options/awards over ordinary shares at 1 April 2008 or, if later, on appointment*
Sir John Parker	81,337	77,115	–	–
Steve Holliday (ii) (iii)	39,285	28,488	999,206	650,759
Steve Lucas (ii) (iv)	88,192	79,438	657,804	468,133
Nick Winser (ii)	83,518	69,937	547,781	384,941
Mark Fairbairn (ii) (iii)	48,305	28,584	459,341	282,505
Tom King	59,145	–	423,030	297,465
Edward Astle	28,428†	28,428	473,981†	473,981
Bob Catell	40,000	15,000	317,275	85,420
Ken Harvey	3,740	3,740	–	–
Linda Adamany	2,000	2,000	–	–
Philip Aiken	2,000	–*	–	–*
John Allan	2,000	2,000	–	–
Stephen Pettit	2,632	2,632	–	–
Maria Richter	5,255	3,255	–	–
George Rose	4,852	4,852	–	–

(i) There has been no other change in the beneficial interests of the Directors in ordinary shares between 1 April 2009 and 13 May 2009, except in respect of routine monthly purchases under the SIP (see note (iii) below).

(ii) Each of the Executive Directors, with the exception of Bob Catell and Tom King, was for Companies Act purposes deemed to be a potential beneficiary under the National Grid plc 1996 Employee Benefit Trust and the National Grid Employee Share Trust; Steve Holliday, Steve Lucas, Nick Winser and Mark Fairbairn thereby have an interest in 264,878 and 160,696 ordinary shares in the aforementioned trusts respectively, as at 31 March 2009 (with the latter holding 6,294 ADSs in addition).

(iii) Beneficial interest includes shares purchased under the monthly operation of the SIP in the year to 31 March 2009. In April and May 2009 a further 45 shares were purchased on behalf of Steve Holliday and a further 91 shares were purchased on behalf of Mark Fairbairn thereby increasing their beneficial interests.

(iv) Steve Lucas was for Companies Act purposes deemed to be a potential beneficiary in 4,057 ordinary shares held by Lattice Group Trustees Limited as trustee of the Lattice Group Employee Share Ownership Trust as at 31 March 2009.

6. National Grid share price range

The closing price of a National Grid ordinary share on 31 March 2009 was 535.5p. The range during the year was 749.5p (high) and 515p (low). The Register of Directors' Interests contains full details of shareholdings and options/awards held by Directors as at 31 March 2009.

On behalf of the Board

Helen Mahy
Company Secretary & General Counsel
13 May 2009

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Statement of Directors' responsibilities

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

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

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

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

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company on a consolidated and individual basis and to enable them to ensure that the consolidated financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation and the Company financial statements and the Directors' Remuneration Report comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and its subsidiaries and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the Directors, whose names and functions are listed in the Business Overview section of the Annual Report and Accounts on pages 16 and 17, confirms that, to the best of their knowledge:

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

By order of the Board

Helen Mahy
Company Secretary & General Counsel
13 May 2009

Independent Auditors' report to the Members of National Grid plc

We have audited the consolidated and Company financial statements (the 'financial statements') of National Grid plc for the year ended 31 March 2009, which comprise the consolidated income statement, the consolidated and Company balance sheets, the consolidated cash flow statement, the consolidated statement of recognised income and expense, the accounting policies and Company accounting policies, the adoption of new accounting standards, the notes to the consolidated financial statements and the notes to the Company financial statements. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of Directors and auditors

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

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

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

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

We review whether the Corporate Governance statement reflects the Company's compliance with the nine provisions of the Combined Code (2006) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

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

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

Opinion

In our opinion:

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

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
13 May 2009

Accounting policies

for the year ended 31 March 2009

A. Basis of preparation of consolidated financial statements under IFRS

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

The Company has its primary listing on the London Stock Exchange and is also quoted on the New York Stock Exchange. These consolidated financial statements were approved for issue by the Board of Directors on 13 May 2009.

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 2009 and in accordance with the Companies Act 1985 applicable to companies reporting under IFRS and Article 4 of the European Union IAS Regulation. The 2008 and 2007 comparative financial information has also been prepared on this basis.

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

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

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

Our Ravenswood generation station, KeySpan Communications business and KeySpan engineering companies, which were either sold during the year ended 31 March 2009 or subsequent to it, were classified as held for sale in the consolidated balance sheet at 31 March 2008 and as discontinued operations in the consolidated income statement, in accordance with our accounting policy I.

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

B. Basis of consolidation

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

A subsidiary is defined as an entity controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. A joint venture is an entity established to engage in economic activity, which the Company jointly controls with its fellow venturers. An associate is an entity which is neither a subsidiary nor a joint venture, but over which the Company has significant influence.

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

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

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

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

C. Foreign currencies

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

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

On consolidation, the assets and liabilities of operations that have a functional currency different from the Company's functional currency of pounds sterling, principally our US operations that have a functional currency of US dollars, are translated at exchange rates prevailing at the balance sheet date. Income and expense items are translated at the weighted average exchange rates for the period. Exchange differences arising are classified as equity and transferred to the consolidated translation reserve.

D. Goodwill

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

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

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

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

E. Intangible assets other than goodwill

With the exception of goodwill, as described above, identifiable intangible assets are recorded at cost less accumulated amortisation and any provision for impairment.

Internally generated intangible fixed assets, such as software, are recognised only if an asset is created that can be identified; it is probable that the asset created will generate future economic benefits; and 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.

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

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

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

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

F. Property, plant and equipment

Property, plant and equipment is recorded at cost or deemed cost at the date of transition to IFRS, less accumulated depreciation and any impairment losses.

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

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

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

Contributions received 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.

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

Other property, plant and equipment is depreciated, principally on a straight-line basis, at rates estimated to write off their book values over their estimated useful economic lives. In assessing estimated useful economic lives, which are reviewed on a regular basis, consideration is given to any contractual arrangements and operational requirements relating to particular assets. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of property, plant and equipment are, in general, as shown in the table below:

Depreciation periods	Years
Freehold and leasehold buildings	up to 65
Plant and machinery	
Electricity transmission plant	15 to 60
Electricity distribution plant	15 to 60
Electricity generation plant	20 to 40
Interconnector plant	15 to 60
Gas plant – mains, services and regulating equipment	30 to 100
Gas plant – storage	40
Gas plant – meters	10 to 33
Motor vehicles and office equipment	up to 10

Following a review of the useful economic lives of property, plant and equipment, the depreciation periods of certain assets within the category Gas plant – mains, services and regulating equipment have been amended. This has resulted in a decrease in the depreciation charge and a corresponding increase in operating profit for the year ended 31 March 2009 of £43m.

Accounting policies continued

G. Impairment of assets

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

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

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

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

H. Taxation

Current tax

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

Deferred tax and investment tax credits

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

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

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

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

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

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

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

I. Discontinued operations, assets and businesses held for sale

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

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

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

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

J. Inventories

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

K. Decommissioning and environmental costs

Provision is made for decommissioning and environmental costs, based on future estimated expenditures, discounted to present values. Where appropriate, the establishment of a provision is recorded as part of the original cost of the related property, plant and equipment.

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

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

L. Revenue

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

US stranded costs are various generation related costs incurred prior to the divestiture of generation assets beginning in the late 1990s and costs of legacy contracts that are in general being recovered over the period up to 2011. The recovery of stranded costs and other amounts allowed to be collected from customers under regulatory arrangements are recognised in the period in which they are recoverable from customers.

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

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

M. Segmental information

Segmental information is presented in accordance with the management responsibilities and economic characteristics, including consideration of risks and returns, of business activities. The Company assesses the performance of its businesses principally on the basis of operating profit before exceptional items, remeasurements and stranded cost recoveries. The primary reporting format is by business and the secondary reporting format is by geographical area.

N. Pensions and other post-retirement benefits

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

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

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

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

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

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

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

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

Accounting policies continued

O. Leases

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

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

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

P. Financial instruments

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

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

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

Other financial investments are recognised at fair value plus, in the case of available-for-sale financial investments, directly related incremental transaction costs and are subsequently carried at fair value on the balance sheet. Changes in the fair value of investments classified as fair value through profit and loss are included in the income statement, while changes in the fair value of investments classified as available-for-sale are recognised directly in equity, until the investment is disposed of or is determined to be impaired. At this time the cumulative gain or loss previously recognised in equity is included in the income statement for the period. In the case of securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. Investment income on investments classified as fair value through profit and loss and on available-for-sale investments is recognised on an effective interest basis and taken through interest income in the income statement.

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

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

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

Where we have derivatives embedded in financial instruments or other contracts that are closely related to those instruments or contracts, no adjustment is made with respect to such derivative clauses. In particular, interest payments on UK RPI debt are linked to movements in the UK retail price index. The link to RPI is considered to be an embedded derivative, which is closely related to the underlying debt instrument based on the view that there is a strong relationship existing between interest rates and inflation in the UK economy. Consequently these embedded derivatives are not accounted for separately from the debt instrument. Where there are embedded derivatives in host contracts not closely related, the embedded derivative is separately accounted 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 by using valuation techniques which are consistent with techniques commonly used by the relevant market. The techniques use observable market data.

Q. Commodity contracts

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

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

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

Energy purchase contracts for the forward purchase of electricity or gas that are used to satisfy physical delivery requirements to our customers or for energy that we use ourselves meet the normal purchase, sale or usage exemption of IAS 32 'Financial Instruments: Presentation'. They are, therefore, not recognised in the financial statements. Disclosure of commitments under such contracts is made in the notes to the financial statements (see note 29).

R. Hedge accounting

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

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

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

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

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

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

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

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

S. Share-based payments

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

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

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

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

Accounting policies continued

Exceptional items, remeasurements, stranded cost recoveries and amortisation of acquisition-related intangibles are items of income and expense that, in the judgement of management, should be disclosed separately on the basis that they are material, either by their nature or their size, to an understanding of our financial performance and significantly distort the comparability of financial performance between periods.

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

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

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

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

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

U. Other operating income

Other operating income relates to income which is considered to be part of normal recurring operating activities, but which does not represent revenue (see accounting policy L and note 2).

V. Emission allowances

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

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

W. Cash and cash equivalents

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

X. Other equity reserves

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

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

Y. Dividends

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

Z. Areas of judgement and key sources of estimation uncertainty

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

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

- The categorisation of certain items as exceptional items, remeasurements and stranded cost recoveries and the definition of adjusted earnings – notes 4 and 10.
- The exemptions adopted on transition to IFRS on 1 April 2004 including, in particular, those relating to business combinations.
- Classification of business activities as held for sale and discontinued operations – accounting policy I.
- Hedge accounting – accounting policy R.
- Energy purchase contracts – classification as being for normal purchase, sale or usage – accounting policy Q and note 29.

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

- Impairment of goodwill – accounting policy D and note 11.
- Review of residual lives, carrying values and impairment charges for other intangible assets and property, plant and equipment – accounting policies E, F and G.
- Estimation of liabilities for pensions and other post-retirement benefits – note 5.
- Valuation of financial instruments and derivatives – notes 17 and 32.
- Revenue recognition and assessment of unbilled revenue – accounting policy L.
- Recoverability of deferred tax assets – accounting policy H and note 16.
- Environmental and decommissioning provisions – note 24.
- Fair values of acquired assets and liabilities – note 28.

Adoption of new accounting standards

New IFRS accounting standards and interpretations adopted in 2008/09

During the year ended 31 March 2009, the Company adopted the following amendments to International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and 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.

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

New IFRS accounting standards and interpretations not yet adopted

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

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

New IFRS accounting standards and interpretations not yet adopted continued

Amendments to IAS 32 and IAS 1 on puttable financial instruments and obligations arising on liquidation	Addresses the classification as a liability or as equity of certain puttable financial instruments and instruments, or components thereof, which impose upon an entity an obligation to deliver a pro rata share of net assets on liquidation. The amendments to IAS 32 and IAS 1 have been adopted by the Company with effect from 1 April 2009.
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. The amendments to IFRS 1 and IAS 27 have been adopted by the Company with effect from 1 April 2009.
Improvements to IFRS 2008	Contains amendments to various existing standards. The amendments are effective, in most cases, from 1 January 2009, or otherwise for annual periods beginning on or after 1 July 2009.
IFRIC 15 on agreements for the construction of real estate	Addresses the timing of revenue recognition for entities engaged in the construction of real estate for their customers. IFRIC 15 will be adopted by the Company with effect from 1 April 2009, subject to endorsement by the European Union.
IFRIC 16 on hedges of a net investment in a foreign operation	Clarifies that a hedged risk may be designated at any level in a group and hedging instruments may be held by any company in a group (except the foreign entity being hedged), that net investment hedge accounting may not be adopted in respect of a presentation currency and that on disposal the amounts to be reclassified from equity to profit or loss are any cumulative gain or loss on the hedging instrument and the cumulative translation difference on the foreign operation disposed of. IFRIC 16 will be adopted by the Company with effect from 1 April 2009, subject to endorsement by the European Union.
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 will be adopted by the Company with effect from 1 April 2010, subject to endorsement by the European Union.
Amendment to IAS 39 Financial Instruments: Recognition and measurement: Reclassification of Financial Assets: Effective Date and Transition	Clarifies the effective date of the reclassification of financial assets. The amendment is effective under IFRS but has not yet been endorsed by the European Union and has therefore not been adopted by the Company. Adoption of the amendment would not have any impact on consolidated results or assets and liabilities.
Revised IFRS 1 on first-time adoption of IFRS	Changes the structure, while retaining the substance, of the previously issued version of IFRS 1. The revised version of IFRS 1 will be adopted by the Company with effect from 1 April 2010, subject to endorsement by the European Union.
IFRIC 17 on 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 will be adopted by the Company with effect from 1 April 2010, subject to endorsement by the European Union.
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. IFRIC 18 will be adopted by the Company with effect from 1 July 2009, subject to endorsement by the European Union.
Amendment to IFRS 7 on improving disclosures about financial instruments	Enhances disclosures about fair value and liquidity risk. The amendment will be adopted by the Company with effect from 1 April 2009, subject to endorsement by the European Union.
Amendments to IAS 39 and IFRIC 9 on embedded derivatives	Requires 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. The amendment will be adopted by the Company with effect from 1 April 2009, subject to endorsement by the European Union.
Improvements to IFRS 2009	Contains amendments to various existing standards. The amendments will be adopted by the Company with effect from 1 April 2010, subject to endorsement by the European Union.

Consolidated income statement

for the years ended 31 March

	Notes	2009 £m	2009 £m	2008* £m	2008* £m	2007 £m	2007 £m
Revenue	1(a)		**15,624**		11,423		8,695
Other operating income	2		**63**		75		83
Operating costs	3		**(13,064)**		(8,534)		(6,265)
Operating profit							
Before exceptional items, remeasurements and stranded cost recoveries	1(b)	**2,915**		2,595		2,031	
Exceptional items, remeasurements and stranded cost recoveries	4	**(292)**		369		482	
Total operating profit	1(b)		**2,623**		2,964		2,513
Interest income and similar income	6		**1,315**		1,275		1,144
Interest expense and other finance costs							
Before exceptional items and remeasurements	6	**(2,465)**		(2,045)		(1,691)	
Exceptional items and remeasurements	4,6	**(84)**		(16)		(217)	
	6		**(2,549)**		(2,061)		(1,908)
Share of post-tax results of joint ventures and associates			**5**		4		2
Profit before taxation							
Before exceptional items, remeasurements and stranded cost recoveries		**1,770**		1,829		1,486	
Exceptional items, remeasurements and stranded cost recoveries	4	**(376)**		353		265	
Total profit before taxation			**1,394**		2,182		1,751
Taxation							
Before exceptional items, remeasurements and stranded cost recoveries	7	**(517)**		(579)		(442)	
Exceptional items, remeasurements and stranded cost recoveries	4,7	**45**		(28)		1	
Total taxation	7		**(472)**		(607)		(441)
Profit from continuing operations after taxation							
Before exceptional items, remeasurements and stranded cost recoveries		**1,253**		1,250		1,044	
Exceptional items, remeasurements and stranded cost recoveries	4	**(331)**		325		266	
Profit for the year from continuing operations			**922**		1,575		1,310
Profit for the year from discontinued operations							
Before exceptional items and remeasurements	8	**9**		28		104	
Exceptional items and remeasurements	8	**16**		1,590		(18)	
	8		**25**		1,618		86
Profit for the year			**947**		3,193		1,396
Attributable to:							
Equity shareholders of the parent			**944**		3,190		1,394
Minority interests			**3**		3		2
			947		3,193		1,396
Earnings per share from continuing operations							
Basic	10		**37.4p**		60.3p		48.1p
Diluted	10		**37.1p**		59.9p		47.8p
Earnings per share							
Basic	10		**38.5p**		122.3p		51.3p
Diluted	10		**38.2p**		121.6p		50.9p

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

The notes on pages 130 to 186 form part of the consolidated financial statements.

Consolidated balance sheet

at 31 March

	Notes	2009 £m	2008* £m
Non-current assets			
Goodwill	11	**5,391**	3,904
Other intangible assets	12	**370**	271
Property, plant and equipment	13	**29,545**	24,331
Deferred tax assets	16	**137**	–
Pension asset	5	**269**	846
Other non-current assets	14	**106**	164
Financial and other investments	15	**361**	251
Derivative financial assets	17	**1,533**	1,063
Total non-current assets		**37,712**	30,830
Current assets			
Inventories and current intangible assets	18	**556**	438
Trade and other receivables	19	**2,672**	2,265
Financial and other investments	15	**2,197**	2,095
Derivative financial assets	17	**593**	463
Cash and cash equivalents	20	**737**	174
Total current assets		**6,755**	5,435
Assets of businesses held for sale		**–**	1,506
Total assets	1(d)	**44,467**	37,771
Current liabilities			
Borrowings	21	**(3,253)**	(3,882)
Derivative financial liabilities	17	**(307)**	(114)
Trade and other payables	22	**(2,835)**	(2,480)
Current tax liabilities		**(383)**	(295)
Provisions	24	**(248)**	(375)
Total current liabilities		**(7,026)**	(7,146)
Non-current liabilities			
Borrowings	21	**(23,540)**	(17,121)
Derivative financial liabilities	17	**(633)**	(319)
Other non-current liabilities	23	**(2,092)**	(1,721)
Deferred tax liabilities	16	**(2,661)**	(3,259)
Pensions and other post-retirement benefit obligations	5	**(3,080)**	(1,746)
Provisions	24	**(1,451)**	(1,022)
Total non-current liabilities		**(33,457)**	(25,188)
Liabilities of businesses held for sale		**–**	(63)
Total liabilities	1(d)	**(40,483)**	(32,397)
Net assets		**3,984**	5,374
Equity			
Called up share capital	25	**294**	294
Share premium account	26	**1,371**	1,371
Retained earnings	26	**7,135**	8,943
Other equity reserves	26	**(4,830)**	(5,252)
Shareholders' equity		**3,970**	5,356
Minority interests	26	**14**	18
Total equity		**3,984**	5,374

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

These financial statements comprising the consolidated income statement, consolidated balance sheet, consolidated statement of recognised income and expense, consolidated cash flow statement, accounting policies, adoption of new accounting standards and the notes to the consolidated financial statements 1 to 38, were approved by the Board of Directors on 13 May 2009 and were signed on its behalf by:

Sir John Parker Chairman
Steve Lucas Finance Director

Consolidated statement of recognised income and expense

for the years ended 31 March

	Notes	2009 £m	2008* £m	2007 £m
Exchange adjustments		**464**	(25)	(179)
Actuarial net (loss)/gain	5	**(2,018)**	432	365
Deferred tax on actuarial net gains and losses	7	**678**	(98)	(70)
Net (losses)/gains taken to equity in respect of cash flow hedges		**(1)**	(32)	47
Transferred to profit or loss on cash flow hedges		**(53)**	(7)	(45)
Deferred tax on cash flow hedges	7	**19**	2	(10)
Net gains/(losses) taken to equity on available-for-sale investments		**9**	6	(3)
Transferred to profit or loss on sale of available-for-sale investments		**(18)**	–	(1)
Deferred tax on available-for-sale investments	7	**7**	2	(1)
Net (expense)/income recognised directly in equity		**(913)**	280	103
Profit for the year		**947**	3,193	1,396
Total recognised income and expense for the year		**34**	3,473	1,499
Attributable to:				
Equity shareholders of the parent		**26**	3,470	1,498
Minority interests		**8**	3	1
		34	3,473	1,499

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

Consolidated cash flow statement

for the years ended 31 March

	Notes	2009 £m	2008 £m	2007 £m
Cash flows from operating activities				
Total operating profit		**2,623**	2,964	2,513
Adjustments for:				
Exceptional items, remeasurements and stranded cost recoveries		**292**	(369)	(482)
Depreciation and amortisation		**1,122**	994	871
Share-based payment charge		**22**	18	15
Changes in working capital		**54**	(150)	127
Changes in provisions		**(99)**	(5)	(31)
Changes in pensions and other post-retirement benefit obligations		**(678)**	(333)	(125)
Cash flows relating to exceptional items		**(131)**	(132)	(86)
Cash flows relating to stranded cost recoveries		**359**	278	288
Cash flows generated from continuing operations		**3,564**	3,265	3,090
Cash flows relating to discontinued operations (excluding tax)	27(a)	**(8)**	10	181
Cash generated from operations		**3,556**	3,275	3,271
Tax paid		**(143)**	(110)	(313)
Net cash inflow from operating activities		**3,413**	3,165	2,958
Cash flows from investing activities				
Acquisition of subsidiaries, net of cash acquired	28	**–**	(3,502)	(269)
Acquisition of other investments		**(73)**	(26)	–
Sale of investments in subsidiaries and other investments		**–**	55	19
Purchases of intangible assets		**(78)**	(45)	(33)
Purchases of property, plant and equipment		**(3,107)**	(2,832)	(2,185)
Disposals of property, plant and equipment		**27**	26	21
Interest received		**85**	206	216
Purchases of financial investments		**(6,173)**	(8,788)	(3,699)
Sales of financial investments		**6,272**	8,833	1,974
Cash flows used in continuing operations – investing activities		**(3,047)**	(6,073)	(3,956)
Cash flows relating to discontinued operations – investing activities (net of tax)	27(b)	**1,049**	3,050	(105)
Net cash flow used in investing activities		**(1,998)**	(3,023)	(4,061)
Cash flows from financing activities				
Proceeds from issue of share capital and sale of treasury shares		**8**	23	16
Proceeds from loans received		**4,892**	1,568	5,519
Repayment of loans		**(2,618)**	(650)	(2,311)
Net movements in short-term borrowings and derivatives		**(633)**	671	(163)
Interest paid		**(1,061)**	(900)	(813)
Exceptional finance costs on the repayment of debt		**–**	–	(45)
Dividends paid to shareholders		**(838)**	(780)	(730)
Cash paid to shareholders under B share scheme		**–**	(26)	(26)
Repurchase of share capital and purchase of treasury shares		**(627)**	(1,498)	(169)
Net cash flow (used in)/from financing activities		**(877)**	(1,592)	1,278
Net increase/(decrease) in cash and cash equivalents		**538**	(1,450)	175
Exchange movements		**18**	4	(14)
Cash included within assets of businesses held for sale		**–**	23	(23)
Net cash and cash equivalents at start of year		**164**	1,587	1,449
Net cash and cash equivalents at end of year (i)	20	**720**	164	1,587

(i) Net of bank overdrafts of £17m (2008: £10m; 2007: £6m).

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

1. Segmental analysis

The following segmental analysis is presented in accordance with management responsibilities and economic characteristics, including consideration of the risks and returns, of our business activities. The Company assesses the performance of its businesses principally on the basis of operating profit before exceptional items, remeasurements and stranded cost recoveries. The primary reporting format is by business and the secondary reporting format is by geographical area. The following table describes the main activities for each business segment:

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

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

Discontinued operations comprise the Ravenswood generation station in New York City and the engineering and communications operations in the US acquired as part of the KeySpan acquisition. The Ravenswood generation station was sold on 26 August 2008, KeySpan Communications was sold on 25 July 2008 and one of our KeySpan engineering companies was sold on 11 July 2008. Subsequent to the year end, two further engineering companies were sold. For the year ended 31 March 2008, discontinued operations also include the wireless infrastructure and communications operations in the UK and the US and an electricity interconnector in Australia. The wireless infrastructure operations in the UK were sold on 3 April 2007; the US wireless operations were sold on 15 August 2007; and the Basslink electricity interconnector in Australia was sold on 31 August 2007. The results for discontinued operations are disclosed in note 8.

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

(a) Revenue

	Total sales 2009 £m	**Sales between businesses 2009 £m**	**Sales to third parties 2009 £m**	Total sales 2008 £m	Sales between businesses 2008 £m	Sales to third parties 2008 £m	Total sales 2007 £m	Sales between businesses 2007 £m	Sales to third parties 2007 £m
Business segments – continuing operations									
Transmission UK	**3,487**	**2**	**3,485**	2,956	16	2,940	2,816	18	2,798
Transmission US	**420**	**83**	**337**	299	61	238	270	47	223
Gas Distribution UK	**1,466**	**79**	**1,387**	1,383	70	1,313	1,193	92	1,101
Gas Distribution US	**4,786**	**3**	**4,783**	2,845	2	2,843	638	–	638
Electricity Distribution & Generation US	**4,972**	**1**	**4,971**	3,508	2	3,506	3,430	2	3,428
Other activities	**719**	**58**	**661**	642	59	583	567	60	507
	15,850	**226**	**15,624**	11,633	210	11,423	8,914	219	8,695
Total excluding stranded cost recoveries			**15,189**			11,041			8,269
Stranded cost recoveries			**435**			382			426
			15,624			11,423			8,695
Geographical segments									
UK			**5,334**			4,787			4,397
US			**10,290**			6,636			4,298
			15,624			11,423			8,695

The table above represents revenue from continuing operations only, as disclosed in the consolidated income statement. For additional disclosures relating to discontinued operations, refer to note 8.

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

1. Segmental analysis continued

Approximately 6% (2008: 9%; 2007: 9%) of revenue for the year ended 31 March 2009 amounting to approximately £1.0bn (2008: £1.0bn; 2007: £0.8bn) derives from a single customer, the Centrica group. The majority of this revenue is in the Gas Distribution UK segment with lesser amounts in the Transmission UK segment and in other activities.

In accordance with the Company's accounting policy on revenue recognition, where revenue received or receivable exceeds the maximum amount permitted by regulatory agreement and adjustments will be made to reflect the over-recovery, no liability is recognised. Similarly, no asset is recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery. In the UK, there was an under-recovery of £52m at 31 March 2009 (2008: £23m; 2007: £33m). In the US, under-recoveries and other regulatory entitlements to future revenue (including stranded cost recoveries) amounted to £2,289m at 31 March 2009 (2008: £1,652m 2007: £1,930m).

(b) Operating profit

	Before exceptional items, remeasurements and stranded			After exceptional items, remeasurements and stranded		
	2009 £m	2008 £m	2007 £m	**2009 £m**	2008 £m	2007 £m
Business segments – continuing operations						
Transmission UK	**1,126**	1,021	946	**1,063**	1,013	936
Transmission US	**175**	128	108	**173**	122	107
Gas Distribution UK	**672**	595	409	**629**	574	412
Gas Distribution US	**612**	392	71	**226**	487	67
Electricity Distribution & Generation US	**265**	330	364	**531**	696	859
Other activities	**65**	129	133	**1**	72	132
	2,915	2,595	2,031	**2,623**	2,964	2,513
Geographical segments						
UK	**1,875**	1,752	1,491	**1,729**	1,667	1,482
US	**1,040**	843	540	**894**	1,297	1,031
	2,915	2,595	2,031	**2,623**	2,964	2,513

The table above represents operating profit from continuing operations only, as disclosed in the consolidated income statement, and excludes the results of discontinued operations. For additional disclosures relating to discontinued operations, refer to note 8.

(c) Capital expenditure and depreciation

	Capital expenditure			Depreciation and amortisation		
	2009 £m	2008 £m	2007 £m	**2009 £m**	2008 £m	2007 £m
Business segments – continuing operations						
Transmission UK	**1,259**	1,600	1,235	**353**	372	352
Transmission US	**182**	111	108	**56**	40	41
Gas Distribution UK	**598**	514	490	**177**	181	170
Gas Distribution US	**421**	188	36	**172**	91	24
Electricity Distribution & Generation US	**355**	257	218	**223**	146	127
Other activities	**427**	383	258	**146**	164	157
	3,242	3,053	2,345	**1,127**	994	871
Discontinued operations	**–**	1	30	**–**	–	72
	3,242	3,054	2,375	**1,127**	994	943
Geographical segments						
UK	**2,270**	2,493	2,007	**679**	709	739
US	**972**	560	365	**448**	285	196
Rest of the world	**–**	1	3	**–**	–	8
	3,242	3,054	2,375	**1,127**	994	943

Capital expenditure comprises additions to property, plant and equipment and other non-current intangible assets amounting to £3,164m (2008: £3,009m; 2007: £2,343m) and £78m (2008: £45m; 2007: £32m) respectively.

Depreciation and amortisation includes expensed depreciation of property, plant and equipment and amortisation of other intangible assets amounting to £1,058m (2008: £940m; 2007: £889m) and £69m (2008: £54m; 2007: £54m) respectively.

Notes to the consolidated financial statements continued

1. Segmental analysis continued
(d) Total assets and total liabilities

	Total assets		Total liabilities	
	2009 £m	2008* £m	**2009 £m**	2008* £m
Business segments – continuing operations				
Transmission UK	**10,451**	10,076	**(1,501)**	(1,455)
Transmission US*	**2,238**	1,565	**(190)**	(83)
Gas Distribution UK	**6,158**	5,765	**(1,279)**	(1,222)
Gas Distribution US*	**10,112**	7,251	**(2,024)**	(1,612)
Electricity Distribution & Generation US*	**7,854**	5,674	**(3,523)**	(2,429)
Other activities*	**2,289**	2,068	**(1,189)**	(523)
	39,102	32,399	**(9,706)**	(7,324)
Discontinued operations*	**–**	1,506	**–**	(83)
	39,102	33,905	**(9,706)**	(7,407)
Joint ventures – continuing operations	**168**	71	**–**	–
Unallocated*	**5,197**	3,795	**(30,777)**	(24,990)
	44,467	37,771	**(40,483)**	(32,397)
Geographical segments				
UK	**18,527**	17,533	**(3,602)**	(3,365)
US*	**20,743**	16,443	**(6,104)**	(4,042)
Unallocated*	**5,197**	3,795	**(30,777)**	(24,990)
	44,467	37,771	**(40,483)**	(32,397)

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28) and adjusted to present comparatives on a basis consistent with current year classification

The analysis of total assets and total liabilities includes all attributable goodwill and excludes inter-business balances. Unallocated total assets comprise cash and cash equivalents, taxation, current financial investments and total derivative financial assets. Unallocated total liabilities comprise bank overdrafts, borrowings, derivative financial liabilities and taxation.

2. Other operating income
Other operating income includes: income on the disposal of property, plant and equipment, principally properties disposed of by our property management business; emissions trading income; pension deficit recovery; and income on the disposal of a telecoms business.

3. Operating costs

	Before exceptional items, remeasurements and stranded			Exceptional items, remeasurements and stranded			Total		
	2009 £m	2008 £m	2007 £m	**2009 £m**	2008* £m	2007 £m	**2009 £m**	2008* £m	2007 £m
Depreciation of property, plant and equipment	**1,058**	940	830	**–**	–	–	**1,058**	940	830
Amortisation of intangible assets	**64**	50	41	**5**	4	–	**69**	54	41
Payroll costs	**1,415**	1,071	794	**34**	108	26	**1,449**	1,179	820
Other operating charges:									
Purchases of electricity	**2,199**	1,589	1,680	**28**	(95)	(87)	**2,227**	1,494	1,593
Purchases of gas	**3,228**	2,011	544	**334**	(141)	–	**3,562**	1,870	544
Rates and property taxes	**881**	608	472	**–**	–	–	**881**	608	472
Electricity transmission services scheme direct costs	**904**	574	558	**–**	–	–	**904**	574	558
Payments to Scottish electricity transmission network owners	**243**	226	237	**–**	–	–	**243**	226	237
Other	**2,345**	1,452	1,165	**326**	137	5	**2,671**	1,589	1,170
	12,337	8,521	6,321	**727**	13	(56)	**13,064**	8,534	6,265
Operating costs include:									
Research expenditure							**10**	13	6
Operating lease rentals									
Plant and machinery							**48**	33	21
Other							**33**	30	63

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

3. Operating costs continued

(a) Payroll costs

	2009 £m	2008 £m	2007 £m
Wages and salaries	**1,615**	1,169	819
Social security costs	**118**	84	65
Other pension costs	**160**	218	132
Share-based payments	**22**	18	15
Severance costs (excluding pension costs)	**16**	14	14
	1,931	1,503	1,045
Less: payroll costs capitalised	**(482)**	(324)	(225)
	1,449	1,179	820

Payroll costs above represent continuing operations only. Payroll costs of discontinued operations for the year ended 31 March 2009 were £11m (2008: £16m; 2007: £37m).

(b) Number of employees

	31 March 2009 Number	Average 2009 Number	31 March 2008 Number	Average 2008 Number
UK	**10,457**	**10,456**	10,223	10,093
US	**17,429**	**17,669**	18,098	14,288
Rest of the world	**–**	**–**	5	5
Continuing operations	**27,886**	**28,125**	28,326	24,386
Discontinued operations	**–**	**83**	204	119
	27,886	**28,208**	28,530	24,505

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

(c) Key management compensation

	2009 £m	2008 £m	2007 £m
Salaries and short-term employee benefits	**11**	9	8
Post-employment benefits	**3**	8	5
Termination benefits	**–**	–	1
Share-based payments	**5**	3	3
	19	20	17

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

(d) Directors' emoluments

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

Notes to the consolidated financial statements continued

3. Operating costs continued

(e) Auditors' remuneration

	2009 £m	2008* £m	2007 £m
Audit services			
Audit of parent company and consolidated financial statements	**1.5**	1.4	1.2
Other services			
Audit of subsidiary financial statements pursuant to legislation	**5.8**	5.1	2.8
Other services supplied pursuant to legislation	**2.4**	2.4	2.2
Services relating to tax compliance	**0.6**	0.7	0.6
Services relating to tax advisory	**0.3**	0.5	0.7
Services relating to corporate finance transactions	**0.1**	0.7	1.4
All other services	**0.8**	0.4	1.3
Fees paid by associated pension schemes			
Audit of pension schemes of the Company pursuant to legislation	**–**	–	0.2
	11.5	11.2	10.4
Total services pursuant to legislation	**9.7**	8.9	6.4
Total other services	**1.8**	2.3	4.0
	11.5	11.2	10.4

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

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

Other services include fees relating to corporate responsibility reporting, treasury related projects and sundry services, all of which have been subject to Audit Committee approval.

4. Exceptional items, remeasurements and stranded cost recoveries

	2009 £m	2008 £m	2007 £m
Exceptional items – restructuring costs (i)	**(192)**	(133)	(22)
Exceptional items – environmental related provisions (ii)	**(78)**	(92)	–
Exceptional items – gain on disposal of subsidiary	**–**	6	–
Exceptional items – other (iii)	**(5)**	(23)	–
Remeasurements – commodity contracts (iv)	**(443)**	232	81
Stranded cost recoveries (v)	**426**	379	423
Total exceptional items, remeasurements and stranded cost recoveries included within operating profit	**(292)**	369	482
Exceptional items – debt restructuring costs (vi)	**–**	–	(45)
Remeasurements – commodity contracts (iv)	**(2)**	(9)	(19)
Remeasurements – net (losses)/gains on derivative financial instruments (vii)	**(82)**	(7)	(153)
Total exceptional items and remeasurements included within finance costs	**(84)**	(16)	(217)
Total exceptional items, remeasurements and stranded cost recoveries before taxation	**(376)**	353	265
Exceptional tax item – deferred tax credit arising from the reduction in the UK tax rate (viii)	**–**	170	–
Exceptional tax item – deferred tax charge arising from change in UK industrial building allowance regime (ix)	**(49)**	–	–
Tax on exceptional items – restructuring costs (i)	**59**	49	12
Tax on exceptional items – environmental related provisions (ii)	**16**	20	–
Tax on exceptional items – gain on disposal of subsidiary	**–**	(4)	–
Tax on exceptional items – other (iii)	**2**	5	–
Tax on remeasurements – commodity contracts (iv)	**179**	(90)	(25)
Tax on exceptional items – debt restructuring costs (vi)	**–**	–	14
Tax on remeasurements – derivative financial instruments (vii)	**8**	(28)	169
Tax on stranded cost recoveries (v)	**(170)**	(150)	(169)
Tax on exceptional items, remeasurements and stranded cost recoveries	**45**	(28)	1
Total exceptional items, remeasurements and stranded cost recoveries	**(331)**	325	266
Total exceptional items after taxation	**(247)**	(2)	(41)
Total commodity contract remeasurements after taxation	**(266)**	133	37
Total derivative financial instrument remeasurements after taxation	**(74)**	(35)	16
Total stranded cost recoveries after taxation	**256**	229	254
Total exceptional items, remeasurements and stranded cost recoveries after taxation	**(331)**	325	266

(i) Restructuring costs include costs related to the integration of KeySpan (£53m), planned cost reduction programmes in our UK businesses (£21m), the restructuring of our liquefied natural gas (LNG) storage facilities (£50m), and transformation related initiatives (£68m). For the year ended 31 March 2008, restructuring costs included pension related costs of £83m arising as a result of actual and planned redundancies.

(ii) Environmental charges include £42m due to significant movements in discount rates arising from reductions in market risk free rates due to the current economic conditions together with £25m arising from changes in landfill tax legislation in the UK. For the year ended 31 March 2009, the UK charge was £37m and the US charge £41m. For 2008, the revision of cost estimates for environmental provisions resulted in a charge in the UK of £44m and a charge of £48m in the US. Costs incurred with respect to US environmental provisions are substantially recoverable from customers.

(iii) Other costs for the year ended 31 March 2009 include an amortisation charge on acquisition-related intangibles of £5m (2008: £4m).

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

(v) Stranded cost recoveries include the recovery of some of our historical investments in generating plants that were divested as part of the restructuring and wholesale power deregulation process in New England and New York during the 1990s. Stranded cost recoveries on a pre-tax basis consist of revenue of £435m (2008: £382m; 2007: £426m) and operating costs of £9m (2008: £3m; 2007: £3m).

(vi) Debt restructuring costs in the year ended 31 March 2007 represent debt redemption costs related to the restructuring of our debt portfolio.

(vii) Remeasurements – net gains/(losses) on derivative financial instruments comprise gains/(losses) arising on derivative financial instruments reported in the income statement. These exclude gains and losses for which hedge accounting has been effective, which have been recognised directly in equity or which are offset by adjustments to the carrying value of debt. At 31 March 2008, these remeasurements included a loss of £3m relating to pre-tax losses on investment related derivative financial instruments that offset on a post-tax basis. The tax charge in the year ended 31 March 2009 includes a £1m (2008: £11m) adjustment in respect of prior years. For the year ended 31 March 2007, remeasurements include a loss of £126m relating to pre-tax losses on investment related derivative financial instruments.

(viii) The exceptional tax credit in the prior period of £170m arose from a reduction in the UK corporation tax rate from 30% to 28% included in the 2007 Finance Act. This resulted in a reduction in deferred tax liabilities.

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

Notes to the consolidated financial statements continued

5. Pensions and other post-retirement benefits

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

In the UK the principal schemes are the National Grid UK Pension Scheme and the National Grid section of the Electricity Supply Pension Scheme. In the US we have a number of defined benefit and defined contribution pension plans and we also provide healthcare and life insurance benefits to eligible retired US employees. The fair value of plan assets and present value of defined benefit obligations as incorporated in these financial statements are updated annually. For further details regarding the nature and terms of each scheme/plan and the actuarial assumptions used to value the associated assets and pension or other post-retirement benefit obligations, refer to note 31.

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

	Pensions			US other post-retirement benefits		
	2009 £m	2008 £m	2007 £m	**2009 £m**	2008 £m	2007 £m
Defined contribution scheme costs	**5**	5	3	**–**	–	–
Defined benefit scheme costs						
Current service cost	**134**	125	113	**32**	21	15
Past service cost	**–**	5	–	**7**	5	7
Curtailment gain on redundancies	**(4)**	(16)	(10)	**–**	(4)	–
Settlements on redundancies	**–**	16	–	**–**	–	–
Special termination benefits on redundancies	**19**	80	23	**–**	1	–
Curtailment cost – augmentations	**6**	3	3	**–**	–	–
Total in payroll costs – continuing	**160**	218	132	**39**	23	22
Curtailment gain on sale of subsidiary undertaking	**–**	(12)	–	**–**	–	–
Interest cost	**1,106**	912	806	**144**	89	63
Expected return on plan assets	**(1,163)**	(1,014)	(885)	**(73)**	(50)	(41)
Total in finance costs – continuing	**(57)**	(102)	(79)	**71**	39	22
Current service cost	**2**	2	2	**–**	1	–
Interest cost	**–**	–	2	**–**	–	–
Expected return on plan assets	**–**	–	(2)	**–**	–	–
Total in discontinued operations	**2**	2	2	**–**	1	–

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

	Pensions			US other post-retirement benefits		
	2009 £m	2008 £m	2007 £m	**2009 £m**	2008 £m	2007 £m
Actuarial net (loss)/gain during the year	**(1,906)**	497	357	**(112)**	(65)	8
Exchange differences	**(141)**	3	40	**(408)**	3	75
Total recognised for the year	**(2,047)**	500	397	**(520)**	(62)	83
Cumulative actuarial (loss)/gain	**(584)**	1,322	825	**(203)**	(91)	(26)

5. Pensions and other post-retirement benefits continued

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

	Pensions			US other post-retirement benefits		
	2009 £m	2008 £m	2007 £m	**2009 £m**	2008 £m	2007 £m
Present value of funded obligations	**(15,797)**	(16,233)	(16,044)	**(2,299)**	(1,784)	(1,126)
Fair value of plan assets	**14,797**	16,536	15,468	**722**	737	531
	(1,000)	303	(576)	**(1,577)**	(1,047)	(595)
Present value of unfunded obligations	**(203)**	(158)	(83)	**–**	–	–
Other post-employment liabilities	**–**	–	–	**(74)**	(34)	(33)
Unrecognised past service cost	**–**	–	–	**43**	36	42
Net (liability)/asset in the balance sheet	**(1,203)**	145	(659)	**(1,608)**	(1,045)	(586)
Liabilities	**(1,472)**	(701)	(696)	**(1,608)**	(1,045)	(586)
Assets	**269**	846	37	**–**	–	–
Net (liability)/asset	**(1,203)**	145	(659)	**(1,608)**	(1,045)	(586)
Changes in the present value of the defined benefit obligations						
Opening defined benefit obligations (including unfunded obligations)	**(16,391)**	(16,127)	(16,616)	**(1,784)**	(1,126)	(1,223)
Current service cost	**(136)**	(127)	(115)	**(32)**	(22)	(15)
Interest cost	**(1,106)**	(912)	(808)	**(144)**	(89)	(63)
Actuarial gains/(losses)	**1,719**	1,335	450	**215**	8	(4)
Curtailment gain on redundancies	**4**	16	10	**–**	4	–
Curtailment gain on sale of subsidiary undertaking	**–**	12	–	**–**	–	–
Net transfers and disposals	**3**	8	(1)	**–**	–	–
Special termination benefits	**(19)**	(80)	(23)	**–**	(1)	–
Curtailment cost – augmentations	**(6)**	(3)	(3)	**–**	–	–
Acquisition of subsidiary undertakings	**–**	(1,362)	(89)	**–**	(639)	(19)
Plan amendments	**–**	(5)	–	**–**	–	(6)
Employee contributions	**(13)**	(15)	(14)	**–**	–	–
Benefits paid (including unfunded obligations)	**1,003**	875	845	**116**	78	62
Transferred to liabilities of businesses held for sale	**–**	–	48	**–**	–	–
Exchange adjustments	**(1,058)**	(6)	189	**(670)**	3	142
Closing defined benefit obligations (including unfunded obligations)	**(16,000)**	(16,391)	(16,127)	**(2,299)**	(1,784)	(1,126)
Changes in the fair value of plan assets						
Opening fair value of plan assets	**16,536**	15,468	15,341	**737**	531	568
Expected return on plan assets	**1,163**	1,014	887	**73**	50	41
Actuarial (losses)/gains	**(3,625)**	(838)	(93)	**(327)**	(73)	12
Assets distributed on settlements and transfers	**–**	(16)	–	**–**	–	–
Transfers (out)/in	**(3)**	(8)	1	**–**	–	–
Employer contributions	**799**	465	276	**93**	46	28
Employee contributions	**13**	15	14	**–**	–	–
Acquisition of subsidiary undertakings	**–**	1,302	82	**–**	259	7
Benefits paid	**(1,003)**	(875)	(845)	**(116)**	(76)	(58)
Transferred to liabilities of businesses held for sale	**–**	–	(46)	**–**	–	–
Exchange adjustments	**917**	9	(149)	**262**	–	(67)
Closing fair value of plan assets	**14,797**	16,536	15,468	**722**	737	531
Actual return on plan assets	**(2,462)**	176	794	**(254)**	(23)	53
Expected contributions to defined benefit plans in the following year	**552**	581	307	**123**	128	27

Notes to the consolidated financial statements continued

6. Finance income and costs

	2009 £m	2008* £m	2007 £m
Interest income and similar income			
Expected return on pension and other post-retirement benefit plan assets	**1,236**	1,064	926
Interest income on financial instruments:			
Interest income from bank deposits and other financial assets	**60**	209	214
Interest receivable on finance leases	**1**	2	3
Gains transferred from equity on disposal of available-for-sale investments	**18**	–	1
	1,315	1,275	1,144
Interest expense and other finance costs			
Before exceptional items and remeasurements	**(2,465)**	(2,045)	(1,691)
Exceptional items and remeasurements	**(84)**	(16)	(217)
	(2,549)	(2,061)	(1,908)
Net finance costs	**(1,234)**	(786)	(764)
Interest expense and other finance costs comprise the following:			
Interest on pension and other post-retirement benefit plan obligations	**(1,250)**	(1,001)	(869)
Interest expense on financial liabilities held at amortised cost:			
Interest on bank loans and overdrafts	**(136)**	(71)	(48)
Interest on other borrowings	**(1,135)**	(990)	(768)
Interest on finance leases	**(14)**	(11)	(1)
Exceptional debt redemption costs	**–**	–	(45)
Interest on derivatives	**5**	(46)	(54)
Unwinding of discounts on provisions	**(68)**	(45)	(21)
Less: Interest capitalised (i)	**133**	119	70
Interest expense and other finance costs before exceptional items and remeasurements	**(2,465)**	(2,045)	(1,736)
Net gains/(losses) on derivative financial instruments included in remeasurements:			
Ineffectiveness on derivatives designated as fair value hedges (ii)	**(34)**	1	18
Ineffectiveness on derivatives designated as cash flow hedges	**(18)**	13	–
Ineffectiveness on derivatives designated as net investment hedges	**(2)**	14	25
On undesignated forward rate risk relating to derivatives designated as net investment hedges	**112**	(53)	(82)
On derivatives not designated as hedges or ineligible for hedge accounting (iii)	**(140)**	18	(114)
Financial element of remeasurements on commodity contracts	**(2)**	(9)	(19)
Net losses on derivative financial instruments included in remeasurements (iv)	**(84)**	(16)	(172)
Interest expense and other finance costs after exceptional items and remeasurements	**(2,549)**	(2,061)	(1,908)

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

(i) Interest on funding attributable to assets in the course of construction was capitalised during the year at a rate of 5.7% (2008: 6.3%; 2007: 5.6%).

(ii) Includes a net gain on instruments designated as fair value hedges of £382m (2008: £87m gain; 2007: £100m loss) less a net loss of £416m (2008: £86m loss; 2007: £118m gain) arising from fair value adjustments to the carrying value of debt.

(iii) Includes a loss of £nil (2008: £3m; 2007: £126m) relating to pre-tax losses on investment related derivative financial instruments which offset on a post-tax basis.

(iv) Includes a net foreign exchange loss on financing activities of £1,500m (2008: £885m loss; 2007: £122m gain). These amounts are offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.

7. Taxation

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

	2009 £m	2008* £m	2007 £m
Taxation before exceptional items, remeasurements and stranded cost recoveries	**517**	579	442
Exceptional tax items (see note 4)	**49**	(170)	–
Taxation on other exceptional items, remeasurements and stranded cost recoveries	**(94)**	198	(1)
Taxation on total exceptional items, remeasurements and stranded cost recoveries (see note 4)	**(45)**	28	(1)
Total tax charge	**472**	607	441

Taxation as a percentage of profit before taxation

	2009 %	2008* %	2007 %
Before exceptional items, remeasurements and stranded cost recoveries	**29.2**	31.7	29.7
After exceptional items, remeasurements and stranded cost recoveries	**33.9**	27.8	25.2

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

	2009 £m	2008* £m	2007 £m
United Kingdom			
Corporation tax at 28% (2008: 30%; 2007: 30%)	**37**	214	66
Corporation tax adjustment in respect of prior years (i)	**(54)**	(156)	(28)
Deferred tax	**339**	42	168
Deferred tax adjustment in respect of prior years (ii)	**–**	67	9
	322	167	215
Overseas			
Corporate tax	**105**	209	109
Corporate tax adjustment in respect of prior years	**38**	31	(149)
Deferred tax	**37**	191	207
Deferred tax adjustment in respect of prior years	**(30)**	9	59
	150	440	226
Total tax charge	**472**	607	441

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

(i) The UK corporation tax adjustment in respect of prior years includes a £2m credit (2008: £9m charge; 2007: £51m credit) that relates to exceptional items, remeasurements and stranded cost recoveries.

(ii) The UK deferred tax adjustment in respect of prior years includes a £1m charge (2008: £2m charge; 2007: £5m credit) that relates to exceptional items, remeasurements and stranded cost recoveries.

Taxation on items (credited)/charged to equity

	2009 £m	2008 £m	2007 £m
Corporation tax credit on share-based payments	**(2)**	(7)	(2)
Deferred tax (credit)/charge on available-for-sale investments	**(7)**	(2)	1
Deferred tax (credit)/charge on revaluation of cash flow hedges	**(19)**	(2)	10
Deferred tax charge/(credit) on share-based payments	**3**	12	(11)
Deferred tax (credit)/charge on actuarial (losses)/gains	**(678)**	98	70
	(703)	99	68
Total tax (credit)/charge recognised in the consolidated statement of recognised income and expense	**(704)**	94	81
Total tax charge/(credit) relating to share-based payments recognised directly in equity	**1**	5	(13)
	(703)	99	68

Notes to the consolidated financial statements continued

7. Taxation continued

The tax charge for the year after exceptional items, remeasurements and stranded cost recoveries is higher (2008: lower; 2007: lower) than the standard rate of corporation tax in the UK of 28% (2008: 30%; 2007: 30%). The differences are explained below:

	Before exceptional items, remeasurements and stranded cost recoveries 2009 £m	**After exceptional items, remeasurements and stranded cost recoveries 2009 £m**	Before exceptional items, remeasurements and stranded cost recoveries 2008* £m	After exceptional items, remeasurements and stranded cost recoveries 2008* £m	Before exceptional items, remeasurements and stranded cost recoveries 2007 £m	After exceptional items, remeasurements and stranded cost recoveries 2007 £m
Profit before taxation						
Before exceptional items, remeasurements and stranded cost recoveries	**1,770**	**1,770**	1,829	1,829	1,486	1,486
Exceptional items, remeasurements and stranded cost recoveries	**–**	**(376)**	–	353	–	265
Profit before taxation from continuing operations	**1,770**	**1,394**	1,829	2,182	1,486	1,751
Profit from continuing operations multiplied by rate of corporation tax in the UK of 28% (2008: 30%; 2007: 30%)	**496**	**390**	549	655	446	525
Effects of:						
Adjustments in respect of prior years	**(45)**	**(46)**	(60)	(49)	(53)	(109)
Expenses not deductible for tax purposes	**76**	**82**	102	117	44	111
Non-taxable income	**(35)**	**(34)**	(75)	(51)	(61)	(154)
Adjustment in respect of foreign tax rates	**38**	**32**	25	67	22	70
Impact of share-based payments	**1**	**1**	2	2	9	9
Remeasurement of deferred tax – change in UK tax rate	**–**	**–**	–	(170)	–	–
Other	**(14)**	**47**	36	36	35	(11)
Total taxation from continuing operations	**517**	**472**	579	607	442	441

	%	**%**	%	%	%	%
Effective income tax rate	**29.2**	**33.9**	31.7	27.8	29.7	25.2

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

Factors that may affect future tax charges

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

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

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

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

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

In addition, a number of changes to the US tax system have also been signed into law as part of the US stimulus package. It is not expected that these changes will affect the Company's overall future tax charge but, similar to the UK's temporary changes to its capital allowances regime, they are expected to have a positive impact on the Company and its subsidiaries' tax cash flow.

8. Discontinued operations

Discontinued operations are businesses that have been sold, or which are held for sale. Discontinued operations comprise the Ravenswood generation station in New York City and the engineering and communications operations in the US acquired as part of the KeySpan acquisition. The Ravenswood generation station was sold on 26 August 2008, KeySpan Communications was sold on 25 July 2008 and one of our KeySpan engineering companies was sold on 11 July 2008. Subsequent to the year end two further engineering companies were sold.

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

Results of discontinued operations

	2009 £m	2008 £m	2007 £m
Revenue	**97**	201	383
Operating costs	**(84)**	(166)	(321)
Operating profit before exceptional items, remeasurements and stranded cost recoveries	**13**	35	117
Exceptional items (i)	**–**	–	(55)
Total operating profit from discontinued operations	**13**	35	62
Net finance costs before remeasurement finance income	**–**	–	(2)
Remeasurement finance income (ii)	**–**	8	37
Profit before tax from discontinued operations	**13**	43	97
Taxation	**(4)**	(7)	(11)
Profit after tax from discontinued operations	**9**	36	86
Gain on disposal of Ravenswood	**27**	–	–
Gain on disposal of UK and US wireless operations	**–**	1,506	–
Gain on disposal of Basslink	**–**	80	–
Gain on disposal of discontinued operations before tax	**27**	1,586	–
Taxation (iii)	**(11)**	(4)	–
Gain on disposal of discontinued operations	**16**	1,582	–

Total profit for the year from discontinued operations

Before exceptional items, remeasurements and stranded cost recoveries	**9**	28	104
Exceptional items, remeasurements and stranded cost recoveries	**16**	1,590	(18)
	25	1,618	86

(i) The exceptional item for the year ended 31 March 2007 reflects an impairment of goodwill within the US wireless infrastructure operations.

(ii) Remeasurement finance income for the year ended 31 March 2008 comprised £8m of mark-to-market gains on financial instruments (2007: £13m) and for the year ended 31 March 2007 an additional £24m relating to the recognition of gains on the termination of a hedging arrangement.

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

9. Dividends

The following table shows the dividends paid to equity shareholders:

	2009 pence (per ordinary share)	**2009 £m**	2008 pence (per ordinary share)	2008 £m	2007 pence (per ordinary share)	2007 £m
Ordinary dividends:						
Interim dividend for the year ended 31 March 2009	**12.64**	**307**	–	–	–	–
Final dividend for the year ended 31 March 2008	**21.30**	**531**	–	–	–	–
Interim dividend for the year ended 31 March 2008	**–**	**–**	11.70	300	–	–
Final dividend for the year ended 31 March 2007	**–**	**–**	17.80	480	–	–
Interim dividend for the year ended 31 March 2007	**–**	**–**	–	–	10.90	297
Final dividend for the year ended 31 March 2006	**–**	**–**	–	–	15.90	433
	33.94	**838**	29.50	780	26.80	730

In addition, the Directors are proposing a final dividend for 2009 of 23.00p per share that will absorb approximately £560m of shareholders' equity (assuming all amounts are settled in cash). It will be paid on 19 August 2009 to shareholders who are on the register of members at 5 June 2009. A scrip dividend alternative (ie shares in lieu of cash) will be offered subject to shareholders' approval at the Annual General Meeting.

Notes to the consolidated financial statements continued

10. Earnings per share

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

Adjusted earnings per share, excluding exceptional items, remeasurements and stranded cost recoveries, are provided to reflect the business performance subtotals used by the Company as described in accounting policy T. For further details of exceptional items, remeasurements and stranded cost recoveries, refer to note 4.

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

(a) Basic earnings per share

	Earnings 2009 £m	**Earnings per share 2009 pence**	Earnings 2008* £m	Earnings per share 2008* pence	Earnings 2007 £m	Earnings per share 2007 pence
Adjusted earnings – continuing operations	**1,250**	**50.9**	1,247	47.8	1,042	38.3
Exceptional items after taxation	**(247)**	**(10.1)**	(2)	(0.1)	(41)	(1.5)
Commodity contract remeasurements after taxation	**(266)**	**(10.8)**	133	5.1	37	1.3
Derivative financial instrument remeasurements after taxation	**(74)**	**(3.0)**	(35)	(1.3)	16	0.6
Stranded cost recoveries after taxation	**256**	**10.4**	229	8.8	254	9.4
Earnings – continuing operations	**919**	**37.4**	1,572	60.3	1,308	48.1
Adjusted earnings – discontinued operations	**9**	**0.4**	28	1.1	104	3.8
Gain on disposal of operations after taxation	**16**	**0.7**	1,582	60.6	–	–
Other exceptional items and remeasurements	**–**	**–**	8	0.3	(18)	(0.6)
Earnings – discontinued operations	**25**	**1.1**	1,618	62.0	86	3.2
Earnings	**944**	**38.5**	3,190	122.3	1,394	51.3

	2009 millions	2008 millions	2007 millions
Weighted average number of shares – basic	**2,455**	2,609	2,719

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

(b) Diluted earnings per share

	Earnings 2009 £m	**Earnings per share 2009 pence**	Earnings 2008* £m	Earnings per share 2008* pence	Earnings 2007 £m	Earnings per share 2007 pence
Adjusted diluted earnings – continuing operations	**1,250**	**50.6**	1,247	47.5	1,042	38.1
Exceptional items after taxation	**(247)**	**(10.1)**	(2)	(0.1)	(41)	(1.5)
Commodity contract remeasurements after taxation	**(266)**	**(10.8)**	133	5.1	37	1.3
Derivative financial instrument remeasurements after taxation	**(74)**	**(3.0)**	(35)	(1.3)	16	0.6
Stranded cost recoveries after taxation	**256**	**10.4**	229	8.7	254	9.3
Diluted earnings – continuing operations	**919**	**37.1**	1,572	59.9	1,308	47.8
Adjusted diluted earnings – discontinued operations	**9**	**0.4**	28	1.1	104	3.8
Gain on disposal of operations after taxation	**16**	**0.7**	1,582	60.3	–	–
Other exceptional items and remeasurements	**–**	**–**	8	0.3	(18)	(0.7)
Diluted earnings – discontinued operations	**25**	**1.1**	1,618	61.7	86	3.1
Diluted earnings	**944**	**38.2**	3,190	121.6	1,394	50.9

	2009 millions	2008 millions	2007 millions
Weighted average number of shares – diluted	**2,472**	2,624	2,737

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

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

	2009 millions	2008 millions	2007 millions
Weighted average number of ordinary shares – basic	**2,455**	2,609	2,719
Effect of dilutive potential ordinary shares – employee share plan	**17**	15	18
Weighted average number of ordinary shares – diluted	**2,472**	2,624	2,737

11. Goodwill

	£m
Cost at 1 April 2007	1,480
Exchange adjustments	23
Acquisition of subsidiary undertakings (see note 28)*	2,401
Cost at 31 March 2008*	3,904
Exchange adjustments	1,487
Cost at 31 March 2009	5,391
Net book value at 31 March 2009	**5,391**
Net book value at 31 March 2008*	3,904

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

The amounts disclosed above as at 31 March 2009 include balances relating to our US gas operations of £3,251m (2008: £2,355m), our New England electricity distribution operations of £931m (2008: £674m), our operations run by our subsidiary Niagara Mohawk Power Corporation (NIMO) of £949m (2008: £687m) and our New England transmission operations of £260m (2008: £188m).

Goodwill is reviewed annually for impairment.

The recoverability of goodwill at 31 March 2009 has been assessed by comparing the carrying amount of our operations described above (our cash generating units) with the expected recoverable amount on a value-in-use basis. In each assessment the value-in-use has been calculated based on our five year plan projections that incorporate our best estimates of future cash flows, customer rates, costs, future prices and growth. Such projections reflect our current regulatory rate plans taking into account regulatory arrangements to allow for future rate plan filings and recovery of investment. For much of the five year plan period our regulatory rate plans have been agreed with regulators. Our five year plans have proved to be reliable guides in the past and the Directors believe the estimates are appropriate.

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

Cash flow projections have been discounted to reflect the time value of money, using an effective pre-tax discount rate of 10% (2008: 9%). The discount rate represents the estimated weighted average cost of capital of these operations.

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

Notes to the consolidated financial statements continued

12. Other intangible assets

	Software £m	Acquisition-related £m	Other £m	Total £m
Non-current				
Cost at 1 April 2007	286	–	24	310
Exchange adjustments	2	–	2	4
Acquisition of subsidiary undertakings (see note 28)*	42	92	–	134
Additions	44	–	1	45
Disposals	(1)	–	–	(1)
Cost at 31 March 2008*	373	92	27	492
Exchange adjustments	32	37	1	70
Additions	78	–	–	78
Reclassifications (i)	50	–	(12)	38
Disposals	(8)	–	–	(8)
Cost at 31 March 2009	525	129	16	670
Amortisation at 1 April 2007	165	–	1	166
Exchange adjustments	1	–	–	1
Amortisation charge for the year	48	4	2	54
Amortisation at 31 March 2008	214	4	3	221
Exchange adjustments	12	1	1	14
Amortisation charge for the year	59	5	5	69
Reclassifications (i)	5	–	(1)	4
Disposals	(8)	–	–	(8)
Amortisation at 31 March 2009	282	10	8	300
Net book value at 31 March 2009	**243**	**119**	**8**	**370**
Net book value at 31 March 2008*	159	88	24	271

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

(i) Primarily represents reclassifications from other receivables and between categories.

13. Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 April 2007	778	25,466	1,972	771	28,987
Exchange adjustments	3	17	1	–	21
Additions	39	599	2,307	64	3,009
Acquisition of subsidiary undertakings (see note 28)*	347	2,797	129	7	3,280
Disposals	(40)	(135)	–	(56)	(231)
Reclassifications (i)	25	1,840	(1,783)	57	139
Cost at 31 March 2008*	1,152	30,584	2,626	843	35,205
Exchange adjustments	280	3,903	107	2	4,292
Additions	43	2,026	1,005	90	3,164
Disposals	(20)	(204)	(12)	(31)	(267)
Reclassifications	49	1,207	(1,241)	(15)	–
Cost at 31 March 2009	1,504	37,516	2,485	889	42,394
Depreciation at 1 April 2007	192	9,433	–	467	10,092
Exchange adjustments	1	6	–	–	7
Depreciation charge for the year (ii)	26	853	–	75	954
Disposals	(17)	(113)	–	(49)	(179)
Depreciation at 31 March 2008	202	10,179	–	493	10,874
Exchange adjustments	18	1,050	–	3	1,071
Depreciation charge for the year (ii)	36	958	–	83	1,077
Impairment charge for the year	–	29	–	–	29
Disposals	(19)	(157)	–	(26)	(202)
Reclassifications	5	25	–	(30)	–
Depreciation at 31 March 2009	242	12,084	–	523	12,849
Net book value at 31 March 2009	**1,262**	**25,432**	**2,485**	**366**	**29,545**
Net book value at 31 March 2008*	950	20,405	2,626	350	24,331

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

(i) Reclassifications included an amount of £139m transferred to trade and other payables, and other non-current liabilities.

(ii) Includes amounts in respect of capitalised depreciation of £19m (2008: £14m).

The net book value of land and buildings comprised:

	2009 £m	2008* £m
Freehold	**1,191**	904
Long leasehold (over 50 years)	**5**	5
Short leasehold (under 50 years)	**66**	41
	1,262	950

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

The cost of property, plant and equipment at 31 March 2009 included £822m (2008: £674m) relating to interest capitalised.

Included within trade and other payables and other non-current liabilities at 31 March 2009 are contributions to the cost of property, plant and equipment amounting to £37m (2008: £31m) and £1,449m (2008: £1,228m) respectively.

The carrying value of property, plant and equipment held under finance leases at 31 March 2009 was £240m (2008: £193m). Additions during the year included £19m (2008: £26m) of property, plant and equipment held under finance leases.

Notes to the consolidated financial statements continued

14. Other non-current assets

	2009 £m	2008* £m
Lease receivables	**–**	4
Prepayments	**6**	7
Other receivables	**92**	95
Commodity contract assets	**8**	58
	106	164

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

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

For further information on commodity contract assets, refer to note 34. Other receivables include a £61m (2008: £65m) receivable from the Long Island Power Authority.

15. Financial and other investments

	2009 £m	2008 £m
Non-current		
Available-for-sale investments	**193**	180
Investments in joint ventures and associates	**168**	71
	361	251
Current		
Available-for-sale investments	**2,038**	2,062
Loans and receivables	**159**	33
	2,197	2,095
Total financial and other investments	**2,558**	2,346
Financial and other investments include the following:		
Investments in short-term money funds	**1,758**	1,803
UK managed investments in equity and bonds	**240**	224
US managed investments in equity and bonds	**123**	107
Restricted cash balances		
Collateral	**159**	17
Other	**–**	10
Cash surrender value of life insurance policies	**102**	101
Investment in joint ventures and associates	**168**	71
Other investments	**8**	13
	2,558	2,346

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

The maximum exposure to credit risk at the reporting date is the fair value of the financial investments. For further information on our treasury-related credit risk, refer to note 33. None of the financial investments are past due or impaired.

16. Deferred tax assets and liabilities

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

Deferred tax (assets)/liabilities

	Accelerated tax depreciation £m	Share-based payments £m	Pensions and other post-retirement benefits £m	Financial instruments £m	Other net temporary differences £m	Total £m
Deferred tax assets at 31 March 2007	(4)	(29)	(532)	(9)	(452)	(1,026)
Deferred tax liabilities at 31 March 2007	3,290	–	65	30	30	3,415
At 1 April 2007	3,286	(29)	(467)	21	(422)	2,389
Exchange adjustments	(1)	–	–	–	11	10
Charged/(credited) to income statement (i)	123	–	(9)	(2)	196	308
Charged/(credited) to equity	–	12	98	(4)	–	106
Acquisition of subsidiary undertakings (note 28)*	389	–	(250)	(1)	305	443
Other	(2)	1	2	–	2	3
At 31 March 2008*	3,795	(16)	(626)	14	92	3,259
Deferred tax assets at 31 March 2008*	(2)	(16)	(875)	(17)	(382)	(1,292)
Deferred tax liabilities at 31 March 2008*	3,797	–	249	31	474	4,551
At 1 April 2008*	3,795	(16)	(626)	14	92	3,259
Exchange adjustments	471	–	(303)	3	7	178
(Credited)/charged to income statement (i)	(257)	(1)	219	5	(184)	(218)
Charged/(credited) to equity	–	3	(678)	(26)	–	(701)
Other	288	1	–	–	(283)	6
At 31 March 2009	**4,297**	**(13)**	**(1,388)**	**(4)**	**(368)**	**2,524**
Deferred tax assets at 31 March 2009	(2)	(13)	(1,457)	(33)	(504)	(2,009)
Deferred tax liabilities at 31 March 2009	4,299	–	69	29	136	4,533
	4,297	(13)	(1,388)	(4)	(368)	2,524

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

(i) Deferred tax credited to the income statement includes a £564m tax credit (2008: £1m tax credit) reported within profit for the year from discontinued operations.

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

	2009 £m	2008* £m
Deferred tax liabilities	**2,661**	3,259
Deferred tax assets	**(137)**	–
	2,524	3,259

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

At the balance sheet date there were no material current deferred tax assets or liabilities (2008: £nil).

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

	2009 £m	2008 £m
Capital losses	**214**	220
Non-trade deficits	**2**	10
Trading losses	**4**	–

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

The aggregate amount of temporary differences associated with the unremitted earnings of overseas subsidiaries and joint ventures for which deferred tax liabilities have not been recognised at the balance sheet date is approximately £1,137m (2008: £930m). No liability is recognised in respect of the differences because the Company and its subsidiaries are in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Notes to the consolidated financial statements continued

17. Derivative financial instruments

Our use of derivatives may entail a derivative transaction qualifying for one or more hedge type designations under IAS 39. For further information and a detailed description of our derivative financial instruments and hedge type designations, refer to note 32. The fair value amounts by designated hedge type can be analysed as follows:

	2009			2008		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
Fair value hedges						
Interest rate swaps	**193**	**–**	**193**	23	(8)	15
Cross-currency interest rate swaps	**899**	**(26)**	**873**	271	(43)	228
	1,092	**(26)**	**1,066**	294	(51)	243
Cash flow hedges						
Interest rate swaps	**5**	**(94)**	**(89)**	49	(76)	(27)
Cross-currency interest rate swaps	**1,056**	**(5)**	**1,051**	609	(8)	601
Foreign exchange forward contracts	**–**	**–**	**–**	16	(7)	9
	1,061	**(99)**	**962**	674	(91)	583
Net investment hedges						
Cross-currency interest rate swaps	**55**	**(1,033)**	**(978)**	362	(49)	313
Foreign exchange forward contracts	**62**	**–**	**62**	–	(20)	(20)
	117	**(1,033)**	**(916)**	362	(69)	293
Derivatives not in a formal hedge relationship						
Interest rate swaps	**247**	**(257)**	**(10)**	76	(100)	(24)
Interest rate swaptions	**–**	**–**	**–**	–	(6)	(6)
Cross-currency interest rate swaps	**67**	**(9)**	**58**	4	–	4
Foreign exchange forward contracts	**32**	**(1)**	**31**	–	–	–
Forward rate agreements	**–**	**(16)**	**(16)**	–	–	–
Other	**11**	**–**	**11**	–	–	–
	357	**(283)**	**74**	80	(106)	(26)
	2,627	**(1,441)**	**1,186**	1,410	(317)	1,093
Hedge positions offset within derivative instruments	**(501)**	**501**	**–**	116	(116)	–
Total	**2,126**	**(940)**	**1,186**	1,526	(433)	1,093

The maturity of derivative financial instruments is as follows:

	2009			2008		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
In one year or less	**593**	**(307)**	**286**	463	(114)	349
Current	**593**	**(307)**	**286**	463	(114)	349
In more than one year, but not more than two years	**44**	**(28)**	**16**	104	(3)	101
In more than two years, but not more than three years	**259**	**(229)**	**30**	113	(21)	92
In more than three years, but not more than four years	**128**	**(48)**	**80**	358	(68)	290
In more than four years, but not more than five years	**281**	**(113)**	**168**	170	(36)	134
In more than five years	**821**	**(215)**	**606**	318	(191)	127
Non-current	**1,533**	**(633)**	**900**	1,063	(319)	744
	2,126	**(940)**	**1,186**	1,526	(433)	1,093

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

	2009 £m	2008 £m
Interest rate swaps	**(12,382)**	(10,105)
Interest rate swaptions	**–**	(202)
Cross-currency interest rate swaps	**(10,701)**	(7,120)
Foreign exchange forward contracts	**(2,802)**	(2,020)
Forward rate agreements	**(10,388)**	–
Other	**(758)**	–
Total	**(37,031)**	(19,447)

18. Inventories and current intangible assets

	2009 £m	2008* £m
Raw materials and consumables	**163**	116
Work in progress	**13**	16
Fuel stocks	**341**	178
Current intangible assets – emission allowances	**39**	128
	556	438

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

The amount of inventories consumed and recognised within operating costs during the year was £1,068m (2008: £446m; 2007: £97m). The above table includes a £15m provision for obsolescence as at 31 March 2009 (2008: £4m).

19. Trade and other receivables

	2009 £m	2008* £m
Trade receivables	**1,569**	1,158
Other receivables	**47**	80
Commodity contract assets	**41**	78
Prepayments and accrued income	**1,015**	949
	2,672	2,265

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

Trade receivables are non interest-bearing and generally have a 30-90 day term. Due to their short maturities, the fair value of trade and other receivables approximates their book value. Commodity contract assets are recorded at fair value. For further details of commodity risk, refer to note 34. All other receivables are recorded at amortised cost.

Provision for impairment of receivables

	2009 £m	2008* £m
At 1 April	**159**	102
Exchange adjustments	**72**	(1)
Charge for the year, net of recoveries	**206**	108
Acquisition of subsidiary undertaking	**–**	41
Uncollectable amounts written off against receivables	**(134)**	(91)
At 31 March	**303**	159

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

As at 31 March 2009, trade receivables of £283m (2008: £188m) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	2009 £m	2008 £m
Up to 3 months past due	**160**	100
3 to 6 months past due	**45**	36
Over 6 months past due	**78**	52
	283	188

For further information on our wholesale and retail credit risk, refer to note 33. For further information on our commodity risk, refer to note 34.

Notes to the consolidated financial statements continued

20. Cash and cash equivalents

	2009 £m	2008 £m
Cash at bank	**87**	93
Short-term deposits	**650**	81
Cash and cash equivalents excluding bank overdrafts	**737**	174
Bank overdrafts	**(17)**	(10)
Net cash and cash equivalents	**720**	164

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

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

Net cash and cash equivalents held in currencies other than sterling have been converted into sterling at year-end exchange rates. For further information on currency exposures, refer to note 33.

At 31 March 2009, £52m (2008: £61m) of cash and cash equivalents were restricted. This primarily relates to cash held in insurance captive companies.

21. Borrowings

The following table analyses borrowings, including bank overdrafts:

	2009 £m	2008 £m
Current		
Bank loans	**604**	502
Bonds	**1,826**	2,545
Commercial paper	**766**	562
Finance leases	**33**	256
Other loans	**7**	7
Bank overdrafts	**17**	10
	3,253	3,882
Non-current		
Bank loans	**3,140**	1,541
Bonds	**20,002**	15,287
Finance leases	**205**	165
Other loans	**193**	128
	23,540	17,121
Total borrowings	**26,793**	21,003

Total borrowings are repayable as follows:

	2009 £m	2008 £m
In one year or less	**3,253**	3,882
In more than one year, but not more than two years	**2,014**	1,386
In more than two years, but not more than three years	**2,543**	1,413
In more than three years, but not more than four years	**1,400**	1,700
In more than four years, but not more than five years	**2,457**	1,302
In more than five years:		
by instalments	**76**	78
other than by instalments	**15,050**	11,242
	26,793	21,003

The fair value of borrowings at 31 March 2009 was £25,230m (2008: £20,208m). Market values, where available, have been used to determine fair value. Where market values are not available, fair values have been calculated by discounting cash flows at prevailing interest rates. The notional amount outstanding of the debt portfolio at 31 March 2009 was £26,619m (2008: £21,143m).

21. Borrowings continued

Charges over property, plant and other assets were provided as collateral over borrowings totalling £493m at 31 March 2009 (2008: £388m).

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 £473m (2008: £345m) in respect of cash received under collateral agreements. Cash placed under collateral agreements is shown in note 15.

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

	2009 £m	2008 £m
Gross finance lease liabilities repayable as follows:		
In one year or less	**46**	266
In more than one year, but not more than five years	**148**	120
In more than five years	**124**	99
	318	485
Less: finance charges allocated to future periods	**(80)**	(64)
	238	421
The present value of finance lease liabilities is as follows:		
In one year or less	**33**	256
In more than one year, but not more than five years	**117**	94
In more than five years	**88**	71
	238	421

For further details of our bonds in issue and borrowing facilities, refer to note 35.

22. Trade and other payables

	2009 £m	2008* £m
Trade payables	**1,653**	1,708
Commodity contract liabilities	**203**	36
Social security and other taxes	**111**	114
Other payables	**650**	518
Deferred income	**218**	104
	2,835	2,480

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

Due to their short maturities, the fair value of trade and other payables (excluding deferred income) approximates their book value. Commodity contract liabilities are recorded at fair value. For further details of commodity risk, refer to note 34. All other trade and other payables are recorded at amortised cost.

23. Other non-current liabilities

	2009 £m	2008 £m
Commodity contract liabilities	**156**	88
Other payables	**396**	347
Deferred income	**1,540**	1,286
	2,092	1,721

Commodity contract liabilities are recorded at fair value. For further details of commodity risk, refer to note 34. All other non-current liabilities are recorded at amortised cost. There is no material difference between the fair value and the carrying value of other non-current liabilities.

Notes to the consolidated financial statements continued

24. Provisions

	Decom-missioning £m	Environ-mental £m	Emissions £m	Restructuring £m	Other £m	Total provisions £m
At 1 April 2007	70	372	1	56	95	594
Exchange adjustments	–	3	2	–	1	6
Acquisition of subsidiary undertakings*	23	390	111	–	180	704
Additions	5	124	5	25	17	176
Unused amounts reversed	(4)	(14)	(1)	–	(5)	(24)
Unwinding of discount*	6	31	–	–	8	45
Utilised	(13)	(69)	(4)	(15)	(3)	(104)
At 31 March 2008*	87	837	114	66	293	1,397
Exchange adjustments	33	240	33	–	73	379
Additions	4	101	6	43	28	182
Unused amounts reversed	(3)	(23)	(9)	–	–	(35)
Unwinding of discount	2	58	–	–	8	68
Utilised	(15)	(109)	(119)	(9)	(40)	(292)
At 31 March 2009	**108**	**1,104**	**25**	**100**	**362**	**1,699**

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

	2009 £m	2008* £m
Current	**248**	375
Non-current	**1,451**	1,022
	1,699	1,397

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

Decommissioning provision

The decommissioning provision of £108m at 31 March 2009 (2008: £87m) primarily represented the net present value of the estimated expenditure (discounted at a nominal rate of 6%) expected to be incurred in respect of the decommissioning of certain nuclear generating units. It also included £47m (2008: £33m) relating to other asset retirement obligations. Expenditure is expected to be incurred between financial years 2010 and 2061.

Environmental provision

The environmental provision represents the estimated restoration and remediation costs relating to a number of sites owned and managed by subsidiary undertakings. The environmental provision is comprised as follows:

	2009		2008		
	Discounted £m	**Undiscounted £m**	Discounted £m	Undiscounted £m	Nominal discount rate
UK gas site decontamination (i)	**226**	**317**	192	280	5.0%
US sites (ii)	**876**	**1,272**	643	963	5.5%
Other (iii)	**2**	**2**	2	2	n/a
	1,104	**1,591**	837	1,245	

(i) Represents the statutory decontamination costs of old gas manufacturing sites in the UK. The anticipated timing of the cash flows for statutory decontamination cannot be predicted with certainty, but they are expected to be incurred over the financial years 2010 to 2058 with some 50% of the spend over the next six years.

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

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

(ii) The remediation expenditure in the US is expected to be incurred between financial years 2010 and 2059. The uncertainties regarding the calculation of this provision are similar to those considered in respect of UK gas decontamination. However, unlike the UK, with the exception of immaterial amounts of such costs, this expenditure is expected to be recoverable from rate payers under the terms of various rate agreements in the US.

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

24. Provisions continued

Emissions provision

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

Restructuring provision

At 31 March 2009, £30m of the total restructuring provision (2008: £32m) consisted of provisions for the disposal of surplus leasehold interests and rates payable on surplus properties. The remainder of the restructuring provision related to business reorganisation costs in the UK, to be paid during 2009 and 2010.

Other provisions

Other provisions at 31 March 2009 included £61m (2008: £52m) of estimated liabilities in respect of past events insured by insurance subsidiary undertakings, including employer liability claims. In accordance with insurance industry practice, these estimates are based on experience from previous years and there is, therefore, no identifiable payment date. Other provisions at 31 March 2009 also included £12m (2008: £17m) in respect of the sales of four UK gas distribution networks relating to property transfer costs; and £13m (2008: £11m) in respect of obligations associated with investments in joint ventures.

As at 31 March 2009 other provisions also included a £219m (2008: £165m) onerous lease provision. The associated operating lease related to the Ravenswood generation station but the lease commitment remained with National Grid following the sale of Ravenswood.

25. Share capital

	Allotted, called up and fully paid	
Ordinary shares	millions	£m
At 31 March 2006	2,720	310
Issued during the year	4	–
Repurchased during the year (i)	(23)	(2)
At 31 March 2007	2,701	308
Issued during the year ended 31 March 2008 (ii)	8	1
Repurchased during the year ended 31 March 2008 (iii)	(127)	(15)
At 31 March 2008 and 31 March 2009	**2,582**	**294**

(i) From 20 November 2006 to 22 March 2007, the Company repurchased and subsequently cancelled under its share repurchase programme 22,388,381 ordinary shares for aggregate consideration of £169m, including transaction costs. The shares repurchased had a nominal value of £2m and represented approximately 1% of the ordinary shares in issue as at 31 March 2007. The consideration was charged against retained earnings.

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

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

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

B shares

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

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

Notes to the consolidated financial statements continued

25. Share capital continued

Treasury shares

At 31 March 2009, the Company held 153m (2008: 67m; 2007: nil) of its own shares. The market value of these shares as at 31 March 2009 was £821m (2008: £462m; 2007: £nil).

The Company made the following transactions in respect of its own shares during the year ended 31 March 2009:

(i) From 1 April 2008 to 24 September 2008 the Company repurchased, under its share repurchase programme 85m ordinary shares for aggregate consideration of £597m, including transaction costs. The shares repurchased have a nominal value of £10m and represented approximately 3% of the ordinary shares in issue as at 31 March 2009.

(ii) During the year, 1m treasury shares were gifted to a National Grid Employee Share Trust and 2m treasury shares were re-issued in relation to employee share schemes, in total representing approximately 0.1% of the ordinary shares in issue as at 31 March 2009. The nominal value of these shares was £0.3m and the total proceeds received were £8m.

(iii) During the year the Company made gifts totalling £5m to National Grid Employee Share Trusts, outside of its share repurchase programme, to enable the trustees to make purchases of National Grid plc shares in order to satisfy the requirements of employee share option and reward plans.

The maximum number of treasury shares held during the year was 154m ordinary shares (2008: 67m; 2007: nil) representing approximately 6% of the ordinary shares in issue as at 31 March 2009 and having a nominal value of £18m.

Additional information in respect of share capital

	2009 millions	**2009 £m**	2008 millions	2008 £m	2007 millions	2007 £m
Consideration received in respect of ordinary shares issued during the year	**–**	**–**	8	23	4	16
Authorised share capital						
Ordinary shares (i)	**4,392**	**501**	4,392	501	4,388	500
Non-cumulative B shares	**–**	**–**	–	–	3,150	315
	4,392	**501**	4,392	501	7,538	815

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

For details in respect of share options and reward plans, refer to note 36.

26. Reconciliation of movements in total equity

	Called-up share capital £m	Share premium account £m	Retained earnings £m	Other equity reserves £m	Total shareholders' equity £m	Minority interests £m	Total equity £m
At 1 April 2006	310	1,316	6,817	(4,961)	3,482	11	3,493
Total recognised income and expense for the year	–	–	1,689	(191)	1,498	1	1,499
Equity dividends	–	–	(730)	–	(730)	–	(730)
Issue of ordinary share capital	–	16	–	–	16	–	16
Repurchase of shares	(2)	–	(169)	2	(169)	–	(169)
Other movements in minority interests	–	–	–	–	–	(1)	(1)
Share-based payment	–	–	15	–	15	–	15
Tax on share-based payment	–	–	13	–	13	–	13
At 31 March 2007	308	1,332	7,635	(5,150)	4,125	11	4,136
Total recognised income and expense for the year*	–	–	3,524	(54)	3,470	3	3,473
Equity dividends	–	–	(780)	–	(780)	–	(780)
Issue of ordinary share capital	1	12	–	–	13	–	13
B shares converted to ordinary shares	–	27	–	–	27	–	27
Repurchase of share capital and purchase of treasury shares (i)	(15)	–	(1,522)	15	(1,522)	–	(1,522)
Other movements in minority interests	–	–	–	–	–	4	4
Share-based payment	–	–	18	–	18	–	18
Transfer between reserves	–	–	63	(63)	–	–	–
Issue of treasury shares	–	–	10	–	10	–	10
Tax on share-based payment	–	–	(5)	–	(5)	–	(5)
At 31 March 2008*	294	1,371	8,943	(5,252)	5,356	18	5,374
Total recognised income and expense for the year	–	–	(396)	422	26	8	34
Equity dividends	–	–	(838)	–	(838)	–	(838)
Repurchase of share capital and purchase of treasury shares (i)	–	–	(603)	–	(603)	–	(603)
Other movements in minority interests	–	–	–	–	–	(12)	(12)
Share-based payment	–	–	22	–	22	–	22
Issue of treasury shares	–	–	8	–	8	–	8
Tax on share-based payment	–	–	(1)	–	(1)	–	(1)
At 31 March 2009	**294**	**1,371**	**7,135**	**(4,830)**	**3,970**	**14**	**3,984**

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

(i) From 1 April 2008 to 24 September 2008, the Company repurchased under its share repurchase programme 85 million ordinary shares (year ended 31 March 2008: 200 million; year ended 31 March 2007: 22 million) for aggregate consideration of £597m (2008: £1,516m; 2007: £169m) including transaction costs. The shares repurchased have a nominal value of 11 17/43 pence each and represented 3% of the ordinary shares in issue as at 31 March 2009. Included within total equity is a deduction of £1,173m for treasury shares (2008: £570m; 2007: £nil). Further purchases of shares relating to employee share schemes were made for an aggregate consideration of £6m (2008: £6m; 2007: £nil).

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Notes to the consolidated financial statements continued

26. Reconciliation of movements in total equity continued
Other equity reserves

	Translation £m	Cash flow hedge £m	Available-for-sale £m	Capital redemption £m	Merger £m	Total £m
At 1 April 2006	127	37	6	2	(5,133)	(4,961)
Net (expense)/income recognised directly in equity	(175)	(11)	(5)	–	–	(191)
Repurchase of share capital	–	–	–	2	–	2
At 31 March 2007	(48)	26	1	4	(5,133)	(5,150)
Net (expense)/income recognised directly in equity	(25)	(37)	8	–	–	(54)
Repurchase of share capital	–	–	–	15	–	15
Transfer between reserves	–	(31)	–	–	(32)	(63)
At 31 March 2008	(73)	(42)	9	19	(5,165)	(5,252)
Net income/(expense) recognised directly in equity	457	(30)	(5)	–	–	422
At 31 March 2009	**384**	**(72)**	**4**	**19**	**(5,165)**	**(4,830)**

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

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

Gains and losses recognised in the cash flow hedge reserve on interest rate swap contracts as of 31 March 2009 will be continuously transferred to the income statement until the borrowings are repaid (refer to note 21). The amount of the cash flow hedge reserve due to be released from reserves to the income statement within the next year is £12m, with the remaining amount due to be released with the same maturity profile as borrowings due after more than one year as shown in note 21.

The amount of the cash flow hedge reserve transferred against the cost of purchasing property, plant and equipment during the year was £8m, with £nil expected to be transferred within the next year.

27. Consolidated cash flow statement
(a) Cash flow from operating activities – discontinued operations

	2009 £m	2008 £m	2007 £m
Operating profit	**13**	35	62
Adjustments for:			
Exceptional items	**–**	–	55
Depreciation and amortisation	**–**	–	72
Changes in working capital, provisions and pensions	**(21)**	(25)	(8)
Cash flow relating to discontinued operations	**(8)**	10	181

(b) Cash flow from investing activities – discontinued operations

	2009 £m	2008 £m	2007 £m
Disposal proceeds (i)	**1,617**	3,064	27
Tax arising on disposal	**(564)**	–	–
Acquisition of subsidiaries, net of cash acquired	**–**	–	(85)
Other investing activities	**(4)**	(14)	(47)
Cash flow relating to discontinued operations	**1,049**	3,050	(105)

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

27. Consolidated cash flow statement continued

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

	2009 £m	2008 £m	2007 £m
Movement in cash and cash equivalents	**538**	(1,450)	175
(Decrease)/increase in financial investments	**(99)**	(45)	1,725
Increase in borrowings and derivatives	**(1,641)**	(1,589)	(3,045)
Cash paid to shareholders under B share scheme	**–**	26	26
Net interest paid	**956**	694	597
Change in net debt resulting from cash flows	**(246)**	(2,364)	(522)
Changes in fair value of financial assets and liabilities and exchange movements	**(3,625)**	(133)	331
Net interest charge on the components of net debt	**(1,161)**	(901)	(655)
Borrowings of subsidiary undertaking acquired	**–**	(2,446)	(48)
Amounts reclassified to businesses held for sale	**–**	17	(42)
Other non-cash movements	**–**	(26)	(2)
Movement in net debt (net of related derivative financial instruments) in the year	**(5,032)**	(5,853)	(938)
Net debt at start of year	**(17,641)**	(11,788)	(10,850)
Net debt (net of related derivative financial instruments) at end of year	**(22,673)**	(17,641)	(11,788)

(d) Analysis of changes in net debt

	Cash and cash equivalents £m	Bank overdrafts £m	Net cash and cash equivalents £m	Financial investments(i) £m	Borrowings(i) £m	Derivatives(i) £m	Total £m
At 31 March 2006	1,452	(3)	1,449	384	(13,126)	443	(10,850)
Cash flow	178	(3)	175	1,509	(2,233)	27	(522)
Fair value gains and losses and exchange movements	(14)	–	(14)	(9)	511	(157)	331
Interest charges	–	–	–	215	(833)	(37)	(655)
Other non-cash movements	(23)	–	(23)	(1)	(30)	(38)	(92)
At 31 March 2007	1,593	(6)	1,587	2,098	(15,711)	238	(11,788)
Cash flow	(1,446)	(4)	(1,450)	(251)	(729)	66	(2,364)
Fair value gains and losses and exchange movements	4	–	4	4	(990)	849	(133)
Interest charges	–	–	–	211	(1,066)	(46)	(901)
Acquisition of subsidiary undertaking	–	–	–	33	(2,479)	–	(2,446)
Other non-cash movements	23	–	23	–	(18)	(14)	(9)
At 31 March 2008	174	(10)	164	2,095	(20,993)	1,093	(17,641)
Cash flow	545	(7)	538	(184)	(1,316)	716	(246)
Fair value gains and losses and exchange movements	18	–	18	207	(3,222)	(628)	(3,625)
Interest charges	–	–	–	79	(1,245)	5	(1,161)
At 31 March 2009	**737**	**(17)**	**720**	**2,197**	**(26,776)**	**1,186**	**(22,673)**

(i) Includes interest. Accrued interest at 31 March 2009 was £258m (2008: £225m).

Notes to the consolidated financial statements – supplementary information

28. Acquisitions

On 24 August 2007 the acquisition of KeySpan Corporation was completed with 100% of the shares acquired for total cash consideration of £3.8bn including acquisition costs of £25m. The provisional amount of goodwill recorded on the acquisition was £2.3bn based on the provisional fair values that were presented in our financial statements for the year ended 31 March 2008. The fair value exercise has now been completed and the provisional fair values reported in our financial statements for the year ended 31 March 2008 have been updated and are reported in the table below. As a result of the fair value adjustments the final goodwill arising on the acquisition was £2.4bn. Goodwill principally relates to the market and regulatory position and retail customer relationships of the acquired operations, the opportunity to make future capital investment, expected synergies and opportunities for further cost improvements in the future, to the assembled workforce and to the potential for future growth.

The majority of the acquired operations relate to gas distribution and electricity distribution and generation activities and so are presented within the Gas Distribution US and Electricity Distribution & Generation US segments.

The Ravenswood merchant electricity generation business in New York City was sold on 26 August 2008 for consideration of $2.9bn, KeySpan Communications was sold on 25 July 2008 for consideration of $35m, and one of our KeySpan engineering companies was sold on 11 July 2008 for consideration of $7m. The assets and liabilities related to these businesses are included in the 'Assets of businesses held for sale' category in the table below and the results of these discontinued operations are reported in note 8.

	Provisional fair values (as previously reported) £m	Changes to fair values £m	Final fair value £m
Other intangible assets	135	(1)	134
Property, plant and equipment	3,282	(2)	3,280
Financial and other investments – non-current	129	–	129
Other non-current assets	271	(91)	180
Inventories and current intangibles	505	(17)	488
Trade and other receivables	477	(4)	473
Financial and other investments – current	33	–	33
Cash and cash equivalents	260	–	260
Assets of businesses held for sale	1,487	(2)	1,485
Borrowings – current	(545)	–	(545)
Trade and other payables	(654)	(35)	(689)
Current tax liabilities	(95)	(1)	(96)
Borrowings – non-current	(1,934)	–	(1,934)
Other non-current liabilities	(169)	–	(169)
Deferred tax liabilities	(591)	148	(443)
Pensions and other post-retirement benefit obligations	(440)	–	(440)
Provisions	(643)	(61)	(704)
Liabilities of businesses held for sale	(73)	–	(73)
Minority interest	(8)	–	(8)
Net assets acquired	1,427	(66)	1,361
Goodwill arising on acquisition	2,335	66	2,401
Total consideration	3,762	–	3,762

The total consideration net of cash acquired (£260m) was £3,502m.

As required under IFRS 3 'Business Combinations' the comparative amounts presented within the financial statements have been restated for the finalisation of the fair values. The changes made to the comparative balance sheet represent the movements between the provisional fair values in the consolidated balance sheet at 31 March 2008 and final fair values, together with any associated reclassification adjustments. In addition, the consolidated income statement for the year ended 31 March 2008 has been adjusted to reflect an increase in interest expense of £10m and a decrease in taxation of £4m resulting from the finalisation of the fair values.

For the period from 24 August 2007 to 31 March 2008, the KeySpan acquired activities contributed revenue of £2,498m to our continuing operations; contributed a profit from continuing operations after taxation of £219m; and reported an adjusted profit (before exceptional items, remeasurements and stranded cost recoveries) from continuing operations after taxation of £168m. Exceptional items, remeasurements and stranded cost recoveries included pre-tax costs of £53m relating to restructuring costs and pre-tax gains on remeasurements of £138m.

28. Acquisitions continued

Pro forma information

The following summary presents the consolidated results as if KeySpan had been acquired on 1 April 2007. The pro forma information includes the results of KeySpan for the year 1 April 2007 to 31 March 2008, adjusted for the estimated effect of accounting policies adopted by National Grid and the impact of fair value accounting adjustments (eg amortisation of intangible assets) together with the recognition of the impact on pro forma net interest expense as a result of the acquisition. All of the pre-tax pro forma adjustments have been taxed (where appropriate) at the rate of tax pertaining to the jurisdiction in which the pro forma adjustment arose. The pro forma information is provided for comparative purposes only and does not necessarily reflect the actual results that would have occurred, nor is it necessarily indicative of future results of operations of the enlarged National Grid.

	2008* Actual £m	2008* Pro forma £m
Continuing operations		
Revenue	11,423	12,345
Operating profit before exceptional items, remeasurements and stranded cost recoveries	2,595	2,625
Total operating profit	2,964	2,901
Profit after taxation		
Before exceptional items, remeasurements and stranded cost recoveries	1,250	1,165
Exceptional items, remeasurements and stranded cost recoveries	325	268
Profit for the year – continuing operations	1,575	1,433
Attributable to:		
Equity shareholders of the parent	1,572	1,430
Minority interests	3	3
Profit for the year – continuing operations	1,575	1,433

	Earnings per share pence	Earnings per share pence
Adjusted earnings – continuing operations	47.8p	44.5p
Earnings – continuing operations	60.3p	54.8p

*Restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation

29. Commitments and contingencies

(a) Future capital expenditure

	2009 £m	2008 £m
Contracted for but not provided	**1,493**	1,097

(b) Lease commitments

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

	2009 £m	2008 £m
In one year or less	**82**	83
In more than one year, but not more than two years	**79**	83
In more than two years, but not more than three years	**73**	80
In more than three years, but not more than four years	**72**	69
In more than four years, but not more than five years	**91**	66
In more than five years	**549**	356
	946	737

The majority of the leases were in respect of properties.

Notes to the consolidated financial statements continued

29. Commitments and contingencies continued

(c) Energy purchase commitments

At 31 March 2009, there were obligations under contracts for the forward purchase of energy. The following table analyses these commitments, excluding commodity contracts carried at fair value.

	2009 £m	2008* £m
In one year or less	**990**	794
In more than one year, but not more than two years	**816**	491
In more than two years, but not more than three years	**620**	380
In more than three years, but not more than four years	**412**	205
In more than four years, but not more than five years	**379**	43
In more than five years	**428**	148
	3,645	2,061

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

Energy commitments relate to contractual commitments to purchase electricity or gas that are used to satisfy physical delivery requirements to our customers or for energy that we use ourselves. Such commitments are for our normal purchase, sale or usage and hence are accounted for as ordinary purchase contracts.

Details of commodity contracts that do not meet the normal purchase, sale or usage criteria and hence are accounted for as derivative contracts are shown in note 34.

(d) Other commitments, contingencies and guarantees

The value of other commitments, contingencies and guarantees at 31 March 2009 amounted to £1,666m (2008: £1,387m), including guarantees amounting to £1,022m (2008: £925m) and commitments largely relating to gas purchasing and property remediation of £615m (2008: £432m).

Details of the guarantees entered into by the Company or its subsidiary undertakings at 31 March 2009 are shown below:

(i) a guarantee in respect of Ravenswood Unit 40 financing amounting to approximately £268m. This expires in 2040;

(ii) a letter of support of obligations under a shareholders' agreement relating to the interconnector project between Britain and the Netherlands amounting to approximately £264m. This expires in 2010;

(iii) guarantees of certain obligations in respect of the UK Grain LNG Import Terminal amounting to approximately £188m. These run for varying lengths of time, expiring between now and 2028;

(iv) a guarantee amounting to approximately £122m of half of the obligations of the interconnector project between Britain and the Netherlands. This expires in 2010;

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

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

(vii) letters of credit in support of gas balancing obligations amounting to £21m, lasting for less than one year;

(viii) guarantees of £15m relating to certain property obligations. The bulk of these expire by December 2025;

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

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

(xi) other guarantees amounting to £22m arising in the normal course of business and entered into on normal commercial terms. These guarantees run for varying lengths of time.

For a portion of our customers in New England, the Company has entered into fixed price electricity requirement contracts with various counterparties. The contracts do not contain a determinable notional value as they are dependent on future customer demand. The contracts range in term from 3 to 6 months with monthly prices per megawatt-hour ranging from $58 to $123. These do not represent onerous contracts as actual prices incurred are recovered from our customers.

29. Commitments and contingencies continued

(e) Amounts receivable under sublease arrangements

The total of future minimum sublease payments expected to be received under non-cancellable subleases is £28m (2008: £35m).

(f) Litigation and claims

In last year's Annual Report and Accounts we reported a decision by the Gas and Electricity Markets Authority (GEMA) (the 'Decision') to levy on us a fine of £41.6m for a breach of the UK Competition Act 1998 in respect of term contracts with gas suppliers entered into by our UK metering services business in 2004. We also noted that we had appealed the Decision to the Competition Appeal Tribunal (the 'Tribunal'). On 29 April 2009, the Tribunal overturned the Decision in part and reduced the fine to £30m but upheld the original Decision in part.

At the date of signing of these accounts, 13 May 2009, we continue to review the Tribunal's ruling and are considering our legal position including potential grounds for appeal, together with assessing the potential financial and other impacts of the ruling. As at this date therefore, we remain of the view that an outflow of economic benefits is not probable, and as a result, no provision has been made in these accounts either for the reduced fine of £30m, or for any other possible financial impact of the ruling.

In October 2008, we informed Ofgem that our mains replacement activity carried out within the UK's West Midlands Alliance partnership may have been misreported. National Grid and Ofgem have jointly appointed Ernst & Young to carry out a full investigation to determine the extent of the issue. At present it is too early to determine the likely outcome of the investigation and any potential consequences.

As previously reported, in May 2007 KeySpan received a civil investigative demand from the Antitrust Division of the United States Department of Justice, requesting the production of documents and information relating to its investigation of competitive issues in the New York City electricity capacity market prior to our acquisition of KeySpan. The civil investigative demand is a request for information in the course of an investigation and does not constitute the commencement of legal proceedings, and no specific allegations have been made against KeySpan. In April 2008, we received a second civil investigative demand in connection with this matter. We believe that KeySpan's activity in the capacity market has been consistent with all applicable laws and regulations. The investigation is ongoing and we continue to cooperate fully.

30. Related party transactions

The following information is provided in accordance with IAS 24 'Related Party Disclosures', as being material transactions with related parties during the year. These transactions are with joint ventures and associates and a pension plan and were in the normal course of business and are summarised below:

	2009 £m	2008 £m	2007 £m
Sales: Services supplied to a pension plan	**4**	3	4
Purchases: Services received from joint ventures and associates	**44**	33	26

At 31 March 2009, there were amounts receivable and payable from and to related parties amounting to £nil (2008: £nil; 2007: £nil) and £6m (2008: £2m; 2007: £2m) respectively, which are due on normal commercial terms.

Details of investments in principal subsidiary undertakings, joint ventures and associates are disclosed in note 37 and information relating to pension fund arrangements is disclosed in notes 5 and 31. For details of Directors' and key management remuneration, refer to note 3c and the auditable section of the Directors' Remuneration Report.

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

UK pension schemes

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

National Grid UK Pension Scheme

The National Grid UK Pension Scheme provides final salary defined benefits for employees who joined prior to 31 March 2002 and defined contribution benefits for employees joining from 1 April 2002.

The latest full actuarial valuation was carried out by Watson Wyatt LLP as at 31 March 2007. The market value of the scheme's assets was £12,923m and the value of the assets represented 97% of the actuarial value of benefits due to members, calculated on the basis of pensionable earnings and service at 31 March 2007 on an ongoing basis and allowing for projected increases in pensionable earnings. There was a funding deficit of £442m (£318m net of tax) on the valuation date in the light of which the Company agreed a recovery plan with the trustees.

The actuarial valuation showed that, based on long-term financial assumptions, the contribution rate required to meet future benefit accrual was 32.4% of pensionable earnings (29.4% employers and 3% employees). In addition, the employers pay an allowance for administration expenses which was 3.2% of pensionable earnings for 2008/09, giving a total Company rate of 32.6% of pensionable earnings. These contribution rates will be reviewed at the next valuation on 31 March 2010.

In accordance with the recovery plan agreed with the trustees at the 2007 valuation, the Company paid contributions of £295m (£212m net of tax) in the year to 31 March 2009 and a further payment of £59m (£42m net of tax) in April 2009 along with payments made in the previous year to ensure that the deficit reported at the 2007 valuation is paid in full.

Electricity Supply Pension Scheme

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

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

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

Following the 2007 actuarial valuation, the Company and the trustees agreed a recovery plan which will see the remaining deficit paid off by March 2017. The Company paid deficit repair contributions of £90m (£65m net of tax) in the year to 31 March 2009 and a further payment of £90m (£65m net of tax) in April 2009.

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

US pension plans

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

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

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

US retiree healthcare and life insurance plans

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

In the US, there is no governmental requirement to pre fund post-retirement health and welfare plans. However, there may be requirements under the various state regulatory agreements to contribute to these plans. Depending upon the rate jurisdiction and the plan, the funding level may be: equal to the expense as determined under SFAS 106; equal to the amount collected in rates; equal to the maximum tax deductible contribution; or zero. These requirements may change as rate agreements are reset.

National Grid expects to contribute approximately £445m to the US pension and post-retirement benefit plans from 1 April 2009 to 31 March 2010, although this figure may vary due to changes in market conditions and regulatory recovery.

Asset allocations and actuarial assumptions

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

	UK pensions			US pensions			US other post-retirement benefits		
	2009 %	2008 %	2007 %	**2009 %**	2008 %	2007 %	**2009 %**	2008 %	2007 %
Equities (i)	**35.2**	35.9	35.8	**50.4**	60.6	63.7	**63.7**	63.1	68.5
Corporate bonds (ii)	**32.7**	25.0	18.6	**42.3**	33.6	33.5	**34.2**	32.3	31.1
Gilts	**22.2**	29.8	33.9	**–**	–	–	**–**	–	–
Property	**5.4**	6.7	8.5	**–**	–	–	**–**	–	–
Other	**4.5**	2.6	3.2	**7.3**	5.8	2.8	**2.1**	4.6	0.4
Total	**100.0**	100.0	100.0	**100.0**	100.0	100.0	**100.0**	100.0	100.0

(i) Included within equities at 31 March 2009 were ordinary shares of National Grid plc with a value of £17m (2008: £24m; 2007: £24m).

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

In respect of UK schemes, the expected long-term rate of return on assets has been set reflecting the price inflation expectation, the expected real return on each major asset class and the long-term asset allocation strategy adopted for each scheme. The expected real returns on specific asset classes reflect historical returns, investment yields on the measurement date and general future return expectations, and have been set after taking advice from the schemes' actuaries. The current target asset allocation for the National Grid UK Pension Scheme is 34% equities, 58% bonds and 8% property and other. The current target asset allocation for National Grid's section of the Electricity Supply Pension Scheme is 55% equities, 38% bonds, 7% property and other.

In respect of US plans, the estimated rate of return for various passive asset classes is based both on analysis of historical rates of return and forward-looking analysis of risk premiums and yields. Current market conditions, such as inflation and interest rates, are evaluated in connection with the setting of our long-term assumptions. A small premium is added for active management of both equity and fixed income. The rates of return for each asset class are then weighted in accordance with our target asset allocation. The long-term target asset allocation for the National Grid US pension plans is 60% equities, 40% bonds and cash. The long-term target asset allocation for other National Grid US post-retirement benefit plans is 67% equities and 33% bonds. The long-term target asset allocation for other KeySpan post-retirement benefit plans is 70% equities and 30% bonds and cash.

The principal actuarial assumptions used were:

	UK pensions			US pensions			US other post-retirement benefits		
	2009 %	2008 %	2007 %	**2009 %**	2008 %	2007 %	**2009 %**	2008 %	2007 %
Discount rate (i)	**6.8**	6.6	5.4	**7.3**	6.5	5.8	**7.3**	6.5	5.8
Expected return on plan assets	**6.2**	6.4	6.1	**7.8**	7.9	8.3	**7.4**	7.6	8.3
Rate of increase in salaries (ii)	**3.8**	4.6	4.2	**3.5**	4.0	4.1	**3.5**	4.0	4.1
Rate of increase in pensions in payment	**3.0**	3.8	3.3	**–**	–	–	**n/a**	n/a	n/a
Rate of increase in pensions in deferment	**2.9**	3.7	3.2	**–**	–	–	**n/a**	n/a	n/a
Rate of increase in retail price index or equivalent	**2.9**	3.7	3.2	**2.3**	3.0	2.5	**n/a**	n/a	n/a
Initial healthcare cost trend rate	**n/a**	n/a	n/a	**n/a**	n/a	n/a	**9.0**	10.0	10.0
Ultimate healthcare cost trend rate	**n/a**	n/a	n/a	**n/a**	n/a	n/a	**5.0**	5.0	5.0

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

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

Notes to the consolidated financial statements continued

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

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

	2009 UK years	2009 US years	2008 UK years	2008 US years
Today:				
Males	**21.0**	**18.2**	20.9	18.2
Females	**23.3**	**20.5**	23.1	20.5
In 20 years:				
Males	**23.3**	**18.2**	23.2	18.2
Females	**25.6**	**20.5**	25.4	20.5

Sensitivities analysed – all other assumptions held constant:

	Change in pensions and other post-retirement obligation		Change in annual pension cost	
	2009 £m	2008 £m	**2009 £m**	2008 £m
0.1% increase in discount rate	**233**	251	**4**	4
0.5% increase in long-term rate of increase in salaries	**116**	131	**5**	5
Increase of one year to life expectations at age 60	**541**	588	**5**	4

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

	2009 £m	2008 £m	2007 £m
Increase			
Effect on the aggregate of the service costs and interest costs	**29**	16	14
Effect on defined benefit obligations	**294**	251	170
Decrease			
Effect on the aggregate of the service costs and interest costs	**(24)**	(13)	(12)
Effect on defined benefit obligations	**(254)**	(214)	(147)

The history of experience adjustments is as follows:

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Details of experience gains/(losses) for all plans					
Present value of funded and unfunded obligations	**(18,299)**	(18,175)	(17,253)	(17,839)	(16,837)
Fair value of plan assets	**15,519**	17,273	15,999	15,909	14,565
	(2,780)	(902)	(1,254)	(1,930)	(2,272)
Difference between the expected and actual return on plan assets	**(3,952)**	(911)	(81)	1,521	405
Experience (losses)/gains on plan liabilities	**(125)**	152	9	192	42
Actuarial gains/(losses) on plan liabilities	**1,934**	1,343	446	(1,340)	(152)

32. Supplementary information on derivative financial instruments

Derivatives are financial instruments that derive their value from the price of an underlying item such as interest rates, foreign exchange, credit spreads, commodities and equity or other indices. Derivatives enable their users to alter exposure to market or credit risks. We use derivatives to manage both our treasury financing and operational market risks. Operational market risks are managed using commodity contracts which are detailed in note 34.

Treasury financial instruments

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

Hedging policies using derivative financial instruments are further explained in note 33. Derivatives that are held as hedging instruments are formally designated as hedges as defined in IAS 39. Derivatives may qualify as hedges for accounting purposes if they are fair value hedges, cash flow hedges or net investment hedges. These are described as follows:

Fair value hedges

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

Cash flow hedges

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

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

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

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

Net investment hedges

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

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

Derivatives not in a formal hedge relationship

Our policy is not to use derivatives for trading purposes. However, due to the complex nature of hedge accounting under IAS 39 some derivatives may not qualify for hedge accounting, or are specifically not designated as a hedge where natural offset is more appropriate. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in remeasurements within the income statement.

Notes to the consolidated financial statements continued

33. Financial risk

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

Risk management related to financing activities is carried out by a central treasury department under policies approved by the Board of Directors. This department identifies, evaluates and hedges financial risks in close cooperation with the operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity as discussed further in our treasury policy, described on pages 80 to 83.

(a) Market risk

(i) Foreign exchange risk

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

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

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

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

	2009					2008				
	Sterling £m	**Euro £m**	**US dollar £m**	**Other £m**	**Total £m**	Sterling £m	Euro £m	US dollar £m	Other £m	Total £m
Cash and cash equivalents	**632**	**4**	**101**	**–**	**737**	168	6	–	–	174
Financial investments	**1,377**	**132**	**617**	**71**	**2,197**	1,063	92	898	42	2,095
Borrowings (i)	**(12,424)**	**(7,214)**	**(6,435)**	**(720)**	**(26,793)**	(9,111)	(5,342)	(5,769)	(781)	(21,003)
Pre-derivative position	**(10,415)**	**(7,078)**	**(5,717)**	**(649)**	**(23,859)**	(7,880)	(5,244)	(4,871)	(739)	(18,734)
Derivative effect	**2,040**	**7,116**	**(8,622)**	**652**	**1,186**	1,069	5,301	(6,016)	739	1,093
Net debt position	**(8,375)**	**38**	**(14,339)**	**3**	**(22,673)**	(6,811)	57	(10,887)	–	(17,641)

(i) Includes bank overdrafts.

The overall exposure to US dollars largely relates to our net investment hedge activities as described and shown in note 32.

The currency exposure on other financial instruments is as follows:

	2009					2008				
	Sterling £m	**Euro £m**	**US dollar £m**	**Other £m**	**Total £m**	Sterling £m	Euro £m	US dollar* £m	Other £m	Total* £m
Trade and other receivables	**138**	**–**	**1,519**	**–**	**1,657**	182	–	1,134	–	1,316
Trade and other payables	**(1,196)**	**–**	**(1,421)**	**–**	**(2,617)**	(1,290)	–	(1,086)	–	(2,376)
Other non-current liabilities	**1**	**–**	**(553)**	**–**	**(552)**	(18)	–	(417)	–	(435)

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

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

33. Financial risk continued

(ii) Cash flow and fair value interest rate risk

Interest rate risk arises from our borrowings. Borrowings issued at variable rates expose National Grid to cash flow interest rate risk. Borrowings issued at fixed-rates expose National Grid to fair value interest rate risk. Our interest rate risk management policy as further explained on page 82 is to minimise the finance costs (being interest costs and changes in the market value of debt). Some of our borrowings issued are inflation-linked; that is, their cost is linked to changes in the UK retail price index (RPI). We believe that these borrowings provide a good hedge for regulated UK revenues and our UK regulatory asset values that are also RPI-linked.

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

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

	2009 £m	2008 £m
Fixed interest rate borrowings		
In one year or less	**(2,103)**	(2,620)
In more than one year, but not more than two years	**(809)**	(906)
In more than two years, but not more than three years	**(1,398)**	(642)
In more than three years, but not more than four years	**(981)**	(1,008)
In more than four years, but not more than five years	**(1,821)**	(900)
In more than five years	**(8,637)**	(5,579)
	(15,749)	(11,655)
Floating interest rate borrowings (including inflation-linked)	**(11,044)**	(9,348)
Total borrowings	**(26,793)**	(21,003)

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

	2009					2008				
	Fixed-rate £m	**Floating-rate £m**	**Inflation-linked(i) £m**	**Other(ii) £m**	**Total £m**	Fixed-rate £m	Floating-rate £m	Inflation-linked(i) £m	Other(ii) £m	Total £m
Cash and cash equivalents	**–**	**737**	**–**	**–**	**737**	–	174	–	–	174
Financial investments	**217**	**1,922**	**–**	**58**	**2,197**	223	1,835	–	37	2,095
Borrowings (iii)	**(15,749)**	**(6,001)**	**(5,043)**	**–**	**(26,793)**	(11,655)	(4,825)	(4,523)	–	(21,003)
Pre-derivative position	**(15,532)**	**(3,342)**	**(5,043)**	**58**	**(23,859)**	(11,432)	(2,816)	(4,523)	37	(18,734)
Derivative effect (iv)	**148**	**589**	**345**	**104**	**1,186**	1,814	(708)	(2)	(11)	1,093
Net debt position	**(15,384)**	**(2,753)**	**(4,698)**	**162**	**(22,673)**	(9,618)	(3,524)	(4,525)	26	(17,641)

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

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

(iii) Includes bank overdrafts.

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

Notes to the consolidated financial statements continued

33. Financial risk continued

(b) Credit risk

Credit risk is the risk of loss resulting from counterparties' default on their commitments including failure to pay or make a delivery on a contract. This risk is inherent in the Company's commercial business activities and is managed on a portfolio basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Treasury related credit risk

Counterparty risk arises from the investment of surplus funds and from the use of derivative instruments. As at 31 March 2009 the following limits were in place for investments held with banks and financial institutions:

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

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

The counterparty exposure under derivative financial contracts as shown in note 17 was £2,126m (2008: £1,526m); after netting agreements it was £1,674m (2008: £1,277m). This exposure is further reduced by collateral received as shown in note 21. Additional information for commodity contract credit risk is in note 34.

Wholesale and retail credit risk

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

33. Financial risk continued

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

At 31 March 2008	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due 3 years and beyond £m	Total £m
Non derivative financial liabilities					
Borrowings, excluding finance lease liabilities	(3,379)	(1,345)	(1,380)	(14,626)	(20,730)
Interest payments on borrowings (i)	(822)	(728)	(663)	(7,946)	(10,159)
Finance lease liabilities	(266)	(38)	(34)	(147)	(485)
Other non interest-bearing liabilities*	(2,226)	(347)	–	–	(2,573)
Derivative financial liabilities					
Derivative contracts – receipts	990	495	710	5,329	7,524
Derivative contracts – payments	(647)	(364)	(587)	(5,538)	(7,136)
Commodity contracts	(490)	(257)	(188)	(279)	(1,214)
Total at 31 March 2008	(6,840)	(2,584)	(2,142)	(23,207)	(34,773)

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

(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.

(d) Sensitivity analysis

Financial instruments affected by market risk include borrowings, deposits, derivative financial instruments and commodity contracts. The following analysis, required by IFRS 7, is intended to illustrate the sensitivity to changes in market variables, being UK and US interest rates, the UK retail price index and the US dollar to sterling exchange rate, on our financial instruments.

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

The sensitivity analysis has been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 March 2009 and 31 March 2008, 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.

Notes to the consolidated financial statements continued

33. Financial risk continued

The following assumptions were made in calculating the sensitivity analysis:

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

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

	2009		2008	
	Income statement +/- £m	**Other equity reserves +/- £m**	Income statement +/- £m	Other equity reserves +/- £m
UK retail price index +/- 0.50%	**17**	**–**	16	–
UK interest rates +/- 0.50%	**67**	**77**	46	57
US interest rates +/- 0.50%	**63**	**13**	31	7
US dollar exchange rate +/- 10% (i)	**55**	**880**	38	590

(i) Prior year comparatives have been restated for US dollar exchange rate +/- 10% impact on the income statement to present on a basis consistent with current year.

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

The other equity reserves impact does not reflect the exchange translation in our US subsidiary net assets which it is estimated would change by £964m (2008: £718m) in the opposite direction if the US dollar exchange rate changed by 10%.

(e) Capital and risk management

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

The principal measure of our balance sheet efficiency is our interest cover ratio. Interest cover for the year ended 31 March 2009 decreased to 3.1 from 3.2 for the year ended 31 March 2008. Our long-term target range for interest cover is between 3.0 and 3.5, which we believe is consistent with single A range long-term senior unsecured debt credit ratings within our main UK operating companies, National Grid Electricity Transmission plc and National Grid Gas plc, based on guidance from the rating agencies.

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

Some of our regulatory and bank loan agreements impose lower limits for either the long-term credit ratings that certain companies within the group must hold or the amount of equity within their capital structures. These requirements are monitored on a regular basis in order to ensure compliance.

34. Commodity risk

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

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

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

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

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

The counterparty exposure for our commodity derivatives as shown below is £49m (2008: £136m), and after netting agreements it was £43m (2008: £114m).

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

	2009			2008		
	Assets £m	**Liabilities £m**	**Total £m**	Assets* £m	Liabilities* £m	Total* £m
Commodity purchase contracts accounted for as derivative contracts						
Forward purchases of electricity	**–**	**(121)**	**(121)**	–	(47)	(47)
Forward purchases/sales of gas	**35**	**(34)**	**1**	42	(30)	12
Forward purchases of electricity capacity	**–**	**–**	**–**	1	(12)	(11)
Derivative financial instruments linked to commodity prices						
Electricity swaps	**–**	**(30)**	**(30)**	–	(26)	(26)
Gas swaps	**14**	**(173)**	**(159)**	73	(9)	64
Gas options	**–**	**(1)**	**(1)**	1	–	1
NYMEX gas and electricity futures	**–**	**–**	**–**	19	–	19
	49	**(359)**	**(310)**	136	(124)	12

*Comparatives have been adjusted to present items on a basis consistent with the current year categories

Notes to the consolidated financial statements continued

34. Commodity risk continued

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

	2009			2008		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
In one year or less	**41**	**(203)**	**(162)**	78	(36)	42
Current	**41**	**(203)**	**(162)**	78	(36)	42
In more than one year, but less than two years	**6**	**(41)**	**(35)**	40	(36)	4
In more than two years, but less than three years	**2**	**(27)**	**(25)**	14	(12)	2
In more than three years, but less than four years	**–**	**(17)**	**(17)**	4	(18)	(14)
In more than four years, but less than five years	**–**	**(16)**	**(16)**	–	(12)	(12)
In more than five years	**–**	**(55)**	**(55)**	–	(10)	(10)
Non-current	**8**	**(156)**	**(148)**	58	(88)	(30)
Total	**49**	**(359)**	**(310)**	136	(124)	12

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

	2009	2008*
Forward purchases of electricity (i)	**4,524 GWh**	5,467 GWh
Forward purchases/sales of gas (ii)	**298m Dth**	110m Dth
Forward purchases of electricity capacity	**–**	23 GWh
Electricity swaps	**4,090 GWh**	879 GWh
Gas swaps	**88m Dth**	85m Dth
Gas options	**1m Dth**	2m Dth
NYMEX electricity futures	**18 GWh**	581 GWh
NYMEX gas futures (iii)	**30m Dth**	19m Dth

*Comparatives have been adjusted to present items on a basis consistent with the current year categories

(i) Forward electricity purchases have terms up to 12 years. The contractual obligations of these contracts are £348m (2008: £316m).

(ii) Forward gas purchases have terms up to 7 years. The contractual obligations of these contracts are £700m (2008: £873m).

(iii) In 2009 NYMEX futures have been offset with related margin accounts.

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

	2009		2008	
	Income statement £m	**Other equity reserves £m**	Income statement £m	Other equity reserves £m
10% increase in commodity prices	**56**	**(1)**	25	(1)
10% reduction in commodity prices	**(72)**	**1**	(22)	1

The income statement impact illustrated above would affect the commodity remeasurements.

35. Bonds and facilities

The table below shows our significant bonds in issue, being £100m equivalent notional value or greater. Unless otherwise indicated, these instruments were outstanding at both 31 March 2009 and 31 March 2008.

Issuer	Original Notional Value	Description of instrument	Due
Bonds			
British Transco Finance Inc.	USD 300m	6.625% Fixed Rate	2018
British Transco International Finance BV	FRF 2,000m	5.125% Fixed Rate	2009
	USD 1,500m	Zero Coupon Bond	2021
Brooklyn Union Gas Company	USD 153m	NYSERDA 4.7% GFRB's Series 1996	2021
	USD 400m	KEDNY 5.6% Senior Unsecured Note	2016
KeySpan Corporation	USD 700m	KeySpan MTN 7.625%	2010
	USD 250m	KeySpan MTN 8.00%	2030
	USD 160m	KeySpan 4.9% Notes (i)	2008
	USD 307m	KeySpan 5.803% Notes	2035
	USD 150m	KeySpan 4.65% Notes	2013
	USD 150m	KeySpan 5.875% Notes	2033
KeySpan Gas East Corporation (National Grid Energy Delivery Long Island)	USD 400m	KeySpan 7.875% Gas East MTN Program	2010
KeySpan Ravenswood LLC	USD 412m	Ravenswood Master Lease Notes (i)	2009
National Grid Electricity Transmission plc	EUR 600m	4.125% Fixed Rate (i)	2008
	EUR 600m	6.625% Fixed Rate (ii)	2014
	GBP 250m	4.75% Fixed Rate	2010
	GBP 300m	2.983% Guaranteed Retail Price Index-Linked	2018
	GBP 220m	3.806% Retail Price Index-Linked	2020
	GBP 450m	5.875% Fixed Rate	2024
	GBP 360m	6.5% Fixed Rate	2028
	GBP 200m	1.6449% Retail Price Index-Linked	2036
	GBP 150m	1.823% Retail Price Index-Linked	2056
	GBP 150m	1.8575% Index-Linked	2039
	GBP 379m	7.375% Fixed Rate (ii)	2031
National Grid Gas plc	GBP 250m	8.875% Fixed Rate (i)	2008
	AUD 500m	7.0% Fixed Rate (i)	2008
	GBP 300m	5.375% Fixed Rate	2009
	GBP 300m	6.0% Fixed Rate	2017
	GBP 275m	8.75% Fixed Rate	2025
	GBP 100m	1.6747% Retail Price Index-Linked	2036
	GBP 115m	1.7298% Retail Price Index-Linked	2046
	GBP 100m	1.6298% Retail Price Index-Linked	2048
	GBP 100m	1.5522% Retail Price Index-Linked	2048
	GBP 300m	1.754% Retail Price Index-Linked	2036
	GBP 140m	1.7864% Index-Linked	2037
	GBP 100m	1.9158% Index-Linked	2037
	GBP 100m	1.7762% Index-Linked	2037
	GBP 100m	1.7744% Index-Linked	2039
	GBP 100m	1.8625% Index-Linked	2039
	GBP 484m	6.375% Fixed Rate	2020
	GBP 503m	Floating Rate	2009
	GBP 503m	4.1875% Index-Linked	2022
	GBP 503m	7.0% Fixed Rate	2024
	EUR 800m	5.125% Fixed Rate (ii)	2013
	EUR 163m	4.36% EUR-HICP Linked (ii)	2018
	GBP 444m	6.0% Fixed Rate (ii)	2038

Notes to the consolidated financial statements continued

35. Bonds and facilities continued

Issuer	Original Notional Value	Description of instrument	Due
National Grid plc	CAD 200m	4.98% Fixed Rate	2011
	EUR 500m	3.75% Fixed Rate (i)	2008
	EUR 1,000m	4.125% Fixed Rate	2013
	EUR 600m	5.0% Fixed Rate	2018
	EUR 500m	4.375% Fixed Rate	2020
	EUR 600m	Floating Rate	2010
	EUR 750m	Floating Rate	2012
	EUR 300m	Floating Rate	2009
	EUR 450m	Floating Rate (i)	2008
	GBP 300m	5.25% Fixed Rate	2011
	GBP 310m	5.5% Fixed Rate	2013
	USD 1,000m	6.3% Fixed Rate	2016
	EUR 578m	6.5% Fixed Rate (ii)	2014
	GBP 400m	6.125% Fixed Rate (ii)	2014
NGG Finance plc	EUR 750m	6.125% Fixed Rate	2011
Niagara Mohawk Power Corporation	USD 600m	7.75% Senior Notes (i)	2008
Bank loans and other loans			
National Grid plc	USD 250m	Floating Rate (ii)	2011
	USD 150m	Floating Rate (ii)	2011
	USD 150m	Floating Rate	2011
	USD 200m	Floating Rate (ii)	2010
National Grid Grain LNG Limited	GBP 120m	Floating Rate	2014
	GBP 140m	Floating Rate	2023
National Grid Electricity Transmission plc	GBP 200m	Floating Rate	2012
	GBP 200m	Floating Rate	2017
National Grid Gas plc	GBP 200m	Floating Rate	2012
	GBP 180m	1.88% Retail Price Index-Linked	2022
	GBP 190m	2.14% Retail Price Index-Linked	2022
National Grid USA	USD 150m	Floating Rate	2011
National Grid Holdings Limited	GBP 250m	4.13794% Fixed Rate (ii)	2011
NGT Five Limited	GBP 500m	5.917% Index-Linked (ii)	2013

(i) Matured during the year ended 31 March 2009.
(ii) Issued during the year ended 31 March 2009.

No significant bonds have been announced to the market or issued subsequent to 31 March 2009, up to the date of the signing of the accounts.

Borrowing facilities

At 31 March 2009, there were bilateral committed credit facilities of £1,273m (2008: £1,315m), of which £1,180m (2008: £1,235m) were undrawn. In addition, there were committed credit facilities from syndicates of banks of £1,796m at 31 March 2009 (2008: £1,628m), of which £1,796m (2008: £1,628m) were undrawn. An analysis of the maturity of these undrawn committed facilities is shown below:

Undrawn committed borrowing facilities

	2009 £m	2008 £m
Expiring:		
In one year or less	**1,155**	756
In more than one year, but not more than two years	**1,820**	408
In more than two years	**–**	1,699
	2,975	2,863

At 31 March 2009, of the unused facilities £2,816m (2008: £2,747m) was held as back-up to commercial paper and similar borrowings.

36. Share options and reward plans

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

Active share plans

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

Under the PSP, awards have been made to Executive Directors and approximately 400 senior employees. Awards made from 2005, have a criteria of 50% based on the Company's total shareholder return (TSR) performance when compared to the FTSE 100 and 50% based on the annualised growth of the Company's EPS compared to the growth in RPI (the general index of retail prices for all items). Awards are delivered in National Grid plc shares (ADSs for US participants).

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

Retention Awards have been made to a small number of senior employees following the acquisition of KeySpan. Awards were made in November 2007 in National Grid ADSs and will vest in three equal tranches over three years, provided the employee remains employed by the Company. The Retention Awards are conditional share awards with no performance conditions attached.

Additional information in respect of active share plans

	2009 millions	2008 millions	2007 millions
Performance Share Plan			
Awards of ordinary share equivalents at 1 April	**7.5**	8.0	9.2
Awards made	**3.5**	3.1	2.6
Lapses/forfeits	**(0.7)**	(3.4)	(3.8)
Awards vested	**(0.8)**	(0.2)	–
Awards of ordinary share equivalents at 31 March	**9.5**	7.5	8.0
Conditional awards available for release at 31 March	**1.8**	–	–
Deferred Share Plan			
Awards of ordinary share equivalents at 1 April	**0.5**	0.4	–
Awards made	**0.6**	0.2	0.4
Awards vested	**(0.1)**	(0.1)	–
Awards of ordinary share equivalents at 31 March	**1.0**	0.5	0.4
Conditional awards available for release at 31 March	**–**	–	0.1
Retention Award Plans			
Awards of ordinary share equivalents at 1 April	**0.8**	–	–
Awards made	**–**	0.8	–
Awards vested	**(0.3)**	–	–
Awards of ordinary share equivalents at 31 March	**0.5**	0.8	–
Conditional awards available for release at 31 March	**–**	–	–

Notes to the consolidated financial statements continued

36. Share options and reward plans continued

Non-active share plans

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

The Executive Share Option Plan applied to senior executives, including Executive Directors. Options granted were subject to the achievement of performance targets related to TSR over a three year period and those for 2000 are subject to a final retest in 2010 after which they will lapse if the performance criterion is not met. The share options are generally exercisable between the third and tenth anniversaries of the date of grant if the relevant performance target is achieved.

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

Additional information in respect of non-active share plans

	2009 000s	2008 000s	2007 000s
Share Matching Plan			
Awards at 1 April	**202**	384	436
Dividend reinvestment shares	**–**	1	–
Awards exercised	**(113)**	(183)	(52)
Awards at 31 March	**89**	202	384
Options exercisable at 31 March	**89**	109	164
Transitional Share Awards/Special Share Awards			
Awards of ordinary share equivalents at 1 April	**3**	77	133
Lapses/forfeits	**–**	(1)	(6)
Awards vested	**(3)**	(73)	(50)
Awards of ordinary share equivalents at 31 March	**–**	3	77
Conditional awards available for release at 31 March	**–**	3	1

Share options

Movement in options to subscribe for ordinary shares under the Company's various options schemes for the three years ended 31 March 2009 is shown below and includes those options related to shares issued by employee benefit trusts:

	Sharesave scheme options		Executive Plan options		
	Weighted average price £	millions	Weighted average price £	millions	Total options millions
At 31 March 2006	3.68	19.9	5.01	7.2	27.1
Granted	5.58	4.2	–	–	4.2
Lapsed – expired	3.82	(0.9)	5.48	(1.9)	(2.8)
Exercised	3.43	(1.9)	5.00	(2.1)	(4.0)
At 31 March 2007	4.07	21.3	4.74	3.2	24.5
Granted	6.55	2.9	–	–	2.9
Lapsed – expired	4.43	(1.0)	5.31	(0.1)	(1.1)
Exercised	3.37	(6.3)	4.45	(1.1)	(7.4)
At 31 March 2008	4.74	16.9	4.87	2.0	18.9
Granted	4.88	7.4	–	–	7.4
Lapsed – expired	6.07	(2.2)	4.16	(0.1)	(2.3)
Exercised	3.81	(2.0)	4.81	(0.4)	(2.4)
At 31 March 2009	**4.74**	**20.1**	**4.95**	**1.5**	**21.6**

Included within options outstanding at 31 March 2009, 31 March 2008 and 31 March 2007 were the following options that were exercisable:

At 31 March 2009	**4.57**	**0.1**	**4.81**	**1.0**	**1.1**
At 31 March 2008	3.74	0.5	4.78	1.3	1.8
At 31 March 2007	3.17	4.1	4.63	2.4	6.5

36. Share options and reward plans continued

The weighted average remaining contractual life of options in the employee Sharesave scheme at 31 March 2009 was 2 years and 5 months. These options have exercise prices between £3.17 and £6.55 per ordinary share.

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

	2009 £	2008 £	2007 £
Sharesave scheme options	**6.99**	7.79	6.50
Executive Plan options	**6.81**	7.68	6.68

Additional information in respect of share options

	2009 £m	2008 £m	2007 £m
Share options exercised			
Cash received on exercise of all share options during the year	**8**	23	16
Tax benefits realised from share options exercised during the year	**4**	10	5

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

	Weighted average exercise price of exercisable options £	Number exercisable millions	Weighted average exercise price of outstanding options £	Number outstanding millions	Exercise price per share pence	Normal dates of exercise years
Executive Plan options	5.33	0.1	5.33	0.1	424.0-566.5	2003-2010
	5.27	0.1	5.26	0.6	526.0-623.0	2004-2011
	4.68	0.8	4.68	0.8	434.5-481.5	2006-2013
	4.81	**1.0**	**4.95**	**1.5**		

The aggregate intrinsic value of all options outstanding and exercisable at 31 March 2009 amounted to £16m and £1m respectively.

Share-based payment charges

The charge to the income statement for the year ended 31 March 2009 was £22m (2008: £18m; 2007: £15m). The related tax credit recognised in the income statement was £1m (2008: £1m charge; 2007: £9m charge).

Awards under share option plans

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

	2009	2008	2007
Average share price	**684.0p**	846.0p	746.0p
Average exercise price	**488.0p**	655.0p	558.0p
Average fair value	**153.7p**	190.0p	166.8p

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

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

	2009	2008	2007
Dividend yield (%)	**5.0**	4.5	4.5
Volatility (%)	**22.4-26.1**	15.6-18.9	15.6-18.9
Risk-free investment rate (%)	**2.5**	4.2	4.2
Average life (years)	**4.2**	4.1	3.9

Notes to the consolidated financial statements continued

36. Share options and reward plans continued

The fair values of awards under the Sharesave scheme have been calculated using the Black-Scholes European model. This is considered appropriate given the short exercise window of Sharesave options. The fair values of awards made in 2007 and 2008 have been calculated by reference to the 2006 Black-Scholes European model calculation.

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

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

(ii) historical volatility of the Company's shares over a term commensurate with the expected life of each option; and

(iii) implied volatility of comparator companies where options in their shares are traded.

Awards under other share plans

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

	2009	2008	2007
Average share price	**670.1p**	766.9p	594.0p
Average fair value	**458.1p**	522.8p	403.1p

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

	2009	2008	2007
Dividend yield (%)	**4.4**	4.4	4.4
Risk-free investment rate (%)	**2.5**	4.1	4.1

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

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

37. Subsidiary undertakings, joint ventures and associates

Principal subsidiary undertakings

The principal subsidiary undertakings included in the consolidated financial statements at 31 March 2009 are listed below. These undertakings are wholly-owned and, unless otherwise indicated, are incorporated in Great Britain.

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

(i) Issued ordinary share capital held by subsidiary undertakings.

(ii) Issued ordinary share capital held by National Grid plc.

Principal joint ventures and associates

The principal joint ventures and associated undertakings included in the financial statements at 31 March 2009 are listed below. These undertakings are incorporated in Great Britain (unless otherwise indicated).

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

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

Notes to the consolidated financial statements continued

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

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

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

This parent company-only financial information should be read in conjunction with the Company's financial statements and footnotes presented in our 2008/09 Annual Report and Accounts.

Summary income statements are presented, on a consolidating basis, for the three years ended 31 March 2009. Summary income statements of National Grid plc and National Grid Gas plc are presented under IFRS measurement principles, as modified by the inclusion of the results of subsidiary undertakings on the basis of equity accounting principles.

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

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

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

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

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

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

Notes to the consolidated financial statements continued

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

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

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc* £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries* £m	Consolidation adjustments* £m	National Grid consolidated* £m
Revenue	–	2,108	–	2,459	7,104	(248)	11,423
Other operating income	–	–	–	8	67	–	75
Operating costs							
Depreciation and amortisation	–	(101)	–	(432)	(461)	–	(994)
Payroll costs	–	(201)	–	(226)	(752)	–	(1,179)
Purchases of electricity	–	(609)	–	–	(744)	–	(1,353)
Purchases of gas	–	(297)	–	(110)	(1,604)	–	(2,011)
Rates and property taxes	–	(93)	–	(227)	(288)	–	(608)
Electricity transmission services scheme direct costs	–	–	–	–	(574)	–	(574)
Payments to Scottish electricity transmission network owners	–	–	–	–	(226)	–	(226)
Other operating charges	–	(248)	–	(514)	(1,075)	248	(1,589)
	–	(1,549)	–	(1,509)	(5,724)	248	(8,534)
Operating profit	–	559	–	958	1,447	–	2,964
Net finance costs*	(116)	(116)	–	(298)	(256)	–	(786)
Dividends receivable	–	–	–	–	500	(500)	–
Interest in equity accounted affiliates*	1,705	–	–	(27)	(7)	(1,667)	4
Profit before taxation*	1,589	443	–	633	1,684	(2,167)	2,182
Taxation	(14)	(194)	–	(141)	(258)	–	(607)
Profit for the year from continuing operations*	1,575	249	–	492	1,426	(2,167)	1,575
Profit for the year from discontinued operations	1,618	–	–	3	1,615	(1,618)	1,618
Profit for the year*	3,193	249	–(i)	495	3,041	(3,785)	3,193
Attributable to:							
Equity shareholders	3,190	249	–	495	3,038	(3,782)	3,190
Minority interests	3	–	–	–	3	(3)	3
	3,193	249	–(i)	495	3,041	(3,785)	3,193

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

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

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

Summary income statements for the year ended 31 March 2007 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Revenue	–	2,189	–	2,231	4,593	(318)	8,695
Other operating income	–	–	–	6	77	–	83
Operating costs							
Depreciation and amortisation	–	(102)	–	(389)	(380)	–	(871)
Payroll costs	–	(209)	–	(228)	(383)	–	(820)
Purchases of electricity	–	(633)	–	–	(960)	–	(1,593)
Purchases of gas	–	(309)	–	(113)	(122)	–	(544)
Rates and property taxes	–	(104)	–	(211)	(157)	–	(472)
Electricity transmission services scheme direct costs	–	–	–	–	(558)	–	(558)
Payments to Scottish electricity transmission network owners	–	–	–	–	(237)	–	(237)
Other operating charges	(2)	(154)	–	(531)	(801)	318	(1,170)
	(2)	(1,511)	–	(1,472)	(3,598)	318	(6,265)
Operating profit	(2)	678	–	765	1,072	–	2,513
Net finance income/(costs)	18	(131)	–	(280)	(371)	–	(764)
Dividends receivable	–	–	–	–	1,850	(1,850)	–
Interest in equity accounted affiliates	1,286	–	–	15	(1)	(1,298)	2
Profit before taxation	1,302	547	–	500	2,550	(3,148)	1,751
Taxation	8	(238)	–	(239)	28	–	(441)
Profit for the year from continuing operations	1,310	309	–	261	2,578	(3,148)	1,310
Profit for the year from discontinued operations	86	–	–	13	73	(86)	86
Profit for the year	1,396	309	–(i)	274	2,651	(3,234)	1,396
Attributable to:							
Equity shareholders	1,394	309	–	274	2,649	(3,232)	1,394
Minority interests	2	–	–	–	2	(2)	2
	1,396	309	–(i)	274	2,651	(3,234)	1,396

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

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

Balance sheets as at 31 March 2009 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Non-current assets							
Goodwill	–	779	–	–	4,612	–	5,391
Other intangible assets	–	12	–	73	285	–	370
Property, plant and equipment	–	3,941	–	10,370	15,234	–	29,545
Deferred tax assets	3	145	–	–	–	(11)	137
Other non-current assets	–	4	–	6	365	–	375
Amounts owed by subsidiary undertakings	1,796	–	–	5,611	1,911	(9,318)	–
Financial and other investments (i)	6,398	23	–	15	9,606	(15,681)	361
Derivative financial assets	558	–	–	688	287	–	1,533
Total non-current assets	8,755	4,904	–	16,763	32,300	(25,010)	37,712
Current assets							
Inventories and current intangible assets	–	52	–	34	470	–	556
Trade and other receivables	4	511	–	264	1,893	–	2,672
Amounts owed by subsidiary undertakings	11,153	–	213	225	9,099	(20,690)	–
Financial and other investments	275	17	–	989	916	–	2,197
Derivative financial assets	329	–	–	122	142	–	593
Cash and cash equivalents	235	4	–	–	498	–	737
Total current assets	11,996	584	213	1,634	13,018	(20,690)	6,755
Total assets	**20,751**	**5,488**	**213**	**18,397**	**45,318**	**(45,700)**	**44,467**
Current liabilities							
Borrowings	(1,422)	(64)	(5)	(913)	(849)	–	(3,253)
Derivative financial liabilities	(209)	–	–	(67)	(31)	–	(307)
Trade and other payables	(28)	(263)	–	(580)	(1,964)	–	(2,835)
Amounts owed to subsidiary undertakings	(7,064)	(491)	–	(1,551)	(11,584)	20,690	–
Current tax liabilities	–	(122)	–	(31)	(230)	–	(383)
Provisions	–	(21)	–	(52)	(175)	–	(248)
Total current liabilities	(8,723)	(961)	(5)	(3,194)	(14,833)	20,690	(7,026)
Non-current liabilities							
Borrowings	(6,471)	(573)	(208)	(6,413)	(9,875)	–	(23,540)
Derivative financial liabilities	(511)	–	–	(41)	(81)	–	(633)
Other non-current liabilities	–	(273)	–	(1,103)	(716)	–	(2,092)
Amounts owed to subsidiary undertakings	(1,062)	(849)	–	–	(7,407)	9,318	–
Deferred tax liabilities	–	–	–	(1,778)	(894)	11	(2,661)
Pensions and other post-retirement benefit obligations	–	(1,217)	–	–	(1,863)	–	(3,080)
Provisions	–	(238)	–	(98)	(1,115)	–	(1,451)
Total non-current liabilities	(8,044)	(3,150)	(208)	(9,433)	(21,951)	9,329	(33,457)
Total liabilities	**(16,767)**	**(4,111)**	**(213)**	**(12,627)**	**(36,784)**	**30,019**	**(40,483)**
Net assets (i)	**3,984**	**1,377**	**–**	**5,770**	**8,534**	**(15,681)**	**3,984**
Equity							
Called up share capital	294	130	–	45	182	(357)	294
Share premium account	1,371	2,053	–	204	7,183	(9,440)	1,371
Retained earnings	7,135	(805)	–	4,184	7,471	(10,850)	7,135
Other equity reserves	(4,830)	(1)	–	1,336	(6,301)	4,966	(4,830)
Total shareholders' equity (i)	**3,970**	**1,377**	**–**	**5,769**	**8,535**	**(15,681)**	**3,970**
Minority interests	14	–	–	1	(1)	–	14
Total equity (i)	**3,984**	**1,377**	**–**	**5,770**	**8,534**	**(15,681)**	**3,984**

(i) Includes parent Company's subsidiaries, associates and joint ventures presented on an equity accounted basis.

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

Balance sheets as at 31 March 2008 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc* £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries* £m	Consolidation adjustments* £m	National Grid consolidated* £m
Non-current assets							
Goodwill	–	564	–	–	3,340	–	3,904
Other intangible assets	–	12	–	56	203	–	271
Property, plant and equipment	–	2,756	–	9,761	11,814	–	24,331
Deferred tax assets	3	67	–	–	–	(70)	–
Other non-current assets	–	–	–	–	1,010	–	1,010
Amounts owed by subsidiary undertakings	–	–	–	5,630	1,067	(6,697)	–
Financial and other investments (i)	3,183	20	–	19	11,082	(14,053)	251
Derivative financial assets	751	–	–	101	211	–	1,063
Total non-current assets	3,937	3,419	–	15,567	28,727	(20,820)	30,830
Current assets							
Inventories and current intangible assets	–	18	–	31	389	–	438
Trade and other receivables	3	401	–	254	1,607	–	2,265
Amounts owed by subsidiary undertakings	11,350	–	154	125	6,465	(18,094)	–
Financial and other investments	787	2	–	499	807	–	2,095
Derivative financial assets	341	–	–	81	41	–	463
Cash and cash equivalents	–	5	–	3	166	–	174
Total current assets	12,481	426	154	993	9,475	(18,094)	5,435
Assets of businesses held for sale	–	–	–	–	1,506	–	1,506
Total assets	**16,418**	**3,845**	**154**	**16,560**	**39,708**	**(38,914)**	**37,771**
Current liabilities							
Borrowings	(1,019)	(351)	(3)	(680)	(1,829)	–	(3,882)
Derivative financial liabilities	(79)	–	–	(27)	(8)	–	(114)
Trade and other payables	(51)	(231)	–	(580)	(1,618)	–	(2,480)
Amounts owed to subsidiary undertakings	(4,804)	(170)	–	(1,490)	(11,630)	18,094	–
Current tax liabilities	–	(41)	–	(27)	(227)	–	(295)
Provisions	–	(16)	–	(50)	(309)	–	(375)
Total current liabilities	(5,953)	(809)	(3)	(2,854)	(15,621)	18,094	(7,146)
Non-current liabilities							
Borrowings	(4,460)	(417)	(151)	(4,906)	(7,187)	–	(17,121)
Derivative financial liabilities	(179)	–	–	(83)	(57)	–	(319)
Other non-current liabilities	–	(188)	–	(1,043)	(490)	–	(1,721)
Amounts owed to subsidiary undertakings	(452)	(615)	–	–	(5,630)	6,697	–
Deferred tax liabilities	–	–	–	(1,630)	(1,699)	70	(3,259)
Pensions and other post-retirement benefit obligations	–	(784)	–	–	(962)	–	(1,746)
Provisions	–	(166)	–	(64)	(792)	–	(1,022)
Total non-current liabilities	(5,091)	(2,170)	(151)	(7,726)	(16,817)	6,767	(25,188)
Liabilities of businesses held for sale	–	–	–	–	(63)	–	(63)
Total liabilities	**(11,044)**	**(2,979)**	**(154)**	**(10,580)**	**(32,501)**	**24,861**	**(32,397)**
Net assets (i)	**5,374**	**866**	**–**	**5,980**	**7,207**	**(14,053)**	**5,374**
Equity							
Called up share capital	294	94	–	45	182	(321)	294
Share premium account	1,371	1,486	–	204	3,642	(5,332)	1,371
Retained earnings	8,943	(723)	–	4,433	10,049	(13,759)	8,943
Other equity reserves	(5,252)	9	–	1,298	(6,666)	5,359	(5,252)
Total shareholders' equity (i)	**5,356**	**866**	**–**	**5,980**	**7,207**	**(14,053)**	**5,356**
Minority interests	18	–	–	–	–	–	18
Total equity (i)	**5,374**	**866**	**–**	**5,980**	**7,207**	**(14,053)**	**5,374**

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation (see note 28)

(i) Includes parent Company's subsidiaries, associates and joint ventures presented on an equity accounted basis.

Notes to the consolidated financial statements continued

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

Cash flow statements

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Year ended 31 March 2009							
Net cash provided by operating activities – continuing operations	–	419	–	1,277	1,725	–	3,421
Net cash used in operating activities – discontinued operations	–	–	–	–	(8)	–	(8)
Net cash provided by operating activities	–	419	–	1,277	1,717	–	3,413
Net cash (used in)/provided by investing activities – continuing operations	(2,426)	(265)	–	(1,569)	(4,974)	6,187	(3,047)
Net cash provided by/(used in) investing activities – discontinued operations	–	–	–	(6)	1,055	–	1,049
Net cash (used in)/provided by investing activities	(2,426)	(265)	–	(1,575)	(3,919)	6,187	(1,998)
Net cash (used in)/provided by financing activities	2,663	(157)	–	291	2,513	(6,187)	(877)
Increase/(decrease) in cash and cash equivalents in the year	**237**	**(3)**	**–**	**(7)**	**311**	**–**	**538**
Year ended 31 March 2008							
Net cash provided by operating activities – continuing operations	4	316	–	1,552	1,283	–	3,155
Net cash provided by operating activities – discontinued operations	–	–	–	–	10	–	10
Net cash provided by operating activities	4	316	–	1,552	1,293	–	3,165
Net cash (used in)/provided by investing activities – continuing operations	1,547	(209)	–	(1,630)	(3,658)	(2,123)	(6,073)
Net cash provided by/(used in) investing activities – discontinued operations	–	–	–	(4)	3,054	–	3,050
Net cash (used in)/provided by investing activities	1,547	(209)	–	(1,634)	(604)	(2,123)	(3,023)
Net cash (used in)/provided by financing activities	(2,302)	(105)	–	(87)	(1,221)	2,123	(1,592)
(Decrease)/increase in cash and cash equivalents in the year	(751)	2	–	(169)	(532)	–	(1,450)
Year ended 31 March 2007							
Net cash provided by operating activities – continuing operations	1	374	–	1,341	1,064	–	2,780
Net cash provided by operating activities – discontinued operations	–	–	–	–	178	–	178
Net cash provided by operating activities	1	374	–	1,341	1,242	–	2,958
Net cash used in investing activities – continuing operations	(1,225)	(140)	–	(1,381)	(403)	(807)	(3,956)
Net cash (used in)/provided by investing activities – discontinued operations	–	–	–	27	(132)	–	(105)
Net cash used in investing activities	(1,225)	(140)	–	(1,354)	(535)	(807)	(4,061)
Net cash provided by/(used in) financing activities	940	(232)	–	(42)	(195)	807	1,278
Increase/(decrease) in cash and cash equivalents in the year	(284)	2	–	(55)	512	–	175

Cash dividends were received by National Grid plc from subsidiary undertakings amounting to £592m during the year ended 31 March 2009 (2008: £2,500m; 2007: £220m).

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 1985.

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

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 230 of the Companies Act 1985. The Company has taken the exemption from preparing a cash flow statement under the terms of FRS 1 (revised 1996) 'Cash flow statements'.

In accordance with exemptions under FRS 8 'Related party disclosures', the Company has not disclosed transactions with related parties, as the Company's financial statements are presented together with its consolidated financial statements. 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 investments

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

C. Taxation

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

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

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

D. Foreign currencies

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

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

E. Financial instruments

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

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

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

Derivative financial instruments ('derivatives') are recorded at fair value, 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.

Company accounting policies continued

Gains and losses arising from changes in fair value are included in the profit and loss account in the period they arise.

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

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

F. Hedge accounting

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

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

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

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

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

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

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

G. Parent Company guarantees

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

H. Share-based payments

The Company issues equity-settled, share-based payments to certain employees of subsidiary undertakings, detailed in the Directors' Report, the Directors' Remuneration Report and in note 36 to the consolidated financial statements.

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

I. Dividends

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

Company balance sheet

at 31 March

	Notes	2009 £m	2008 £m
Fixed assets			
Investments	2	**7,840**	4,276
Current assets			
Debtors (amounts falling due within one year)	3	**11,157**	8,545
Debtors (amounts falling due after more than one year)	3	**1,799**	2,811
Derivative financial instruments (amounts falling due within one year)	5	**329**	341
Derivative financial instruments (amounts falling due after more than one year)	5	**558**	751
Current asset investments	6	**509**	787
Cash at bank		**1**	–
		14,353	13,235
Creditors (amounts falling due within one year)			
Borrowings	7	**(1,422)**	(1,019)
Derivative financial instruments	5	**(375)**	(79)
Other creditors		**(6,926)**	(4,855)
	4	**(8,723)**	(5,953)
Net current assets		**5,630**	7,282
Total assets less current liabilities		**13,470**	11,558
Creditors (amounts falling due after more than one year)			
Borrowings	7	**(6,471)**	(4,460)
Derivative financial instruments	5	**(511)**	(179)
Amounts owed to subsidiary undertakings		**(1,062)**	(452)
		(8,044)	(5,091)
Net assets employed		**5,426**	6,467
Capital and reserves			
Called up share capital	8	**294**	294
Share premium account	9	**1,371**	1,371
Cash flow hedge reserve	9	**12**	14
Other equity reserves	9	**146**	124
Profit and loss account	9	**3,603**	4,664
Total shareholders' funds	10	**5,426**	6,467

Commitments and contingencies are shown in note 11 to the Company financial statements on page 193.

The notes on pages 190 to 193 form part of the individual financial statements of the Company, which were approved by the Board of Directors on 13 May 2009 and were signed on its behalf by:

Sir John Parker Chairman
Steve Lucas Finance Director

Notes to the Company financial statements

1. Adoption of new accounting standards

New financial reporting standards (FRS) and abstracts adopted in 2008/09

During the year the Company has adopted the following amendments to FRSs. None of these had a material impact on the Company's results or assets and liabilities.

Amendments to FRS 26 and FRS 29 on reclassification of financial assets	Permits reclassification of financial assets in certain circumstances.

New FRSs not yet adopted

The Company has yet to adopt the following FRSs, however, they are not expected to have a material impact on the Company's results or assets and liabilities.

Amendment to FRS 20 on share-based payments	Clarifies the definition of vesting conditions and the accounting treatment of cancellations. Vesting conditions are defined as either service conditions or performance conditions. Cancellations by employees are accounted for in the same way as cancellations by the Company. The amendment to FRS 20 has been adopted with effect from 1 April 2009.
Amendments to FRS 25 on puttable financial instruments and obligations arising on liquidation	Addresses the classification as a liability or as equity of certain puttable financial instruments and instruments, or components thereof, which impose upon an entity an obligation to deliver a pro rata share of net assets on liquidation. The amendments to FRS 25 will be adopted on 1 April 2010.
Amendment to FRS 26 Financial Instruments: Recognition and measurement on eligible hedged items	Prohibits designating inflation as a 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 FRS 26 will be adopted on 1 April 2010.
Amendment to FRS 8 on related party disclosures	Changes the definition of related party to be the same as that in law and provides an exemption only in respect of wholly-owned subsidiaries, rather than 90% subsidiaries as previously permitted. The amendment to FRS 8 will be adopted on 1 April 2010.
Improvements to FRS 2008	Contains amendments to various existing standards. The amendments are effective, in most cases, from 1 January 2009, or otherwise for annual periods beginning on or after 1 July 2009.
UITF 46 on hedges of a net investment in a foreign operation	Clarifies that hedged risk may be designated at any level in a group and hedging instruments may be held by any company in a group (except the foreign entity being hedged), that net investment hedge accounting may not be adopted in respect of a presentation currency and that on disposal the amounts to be reclassified from equity to profit or loss are any cumulative gain or loss on the hedging instrument and the cumulative translation difference on the foreign operation disposed of. UITF 46 has been adopted by the Company with effect from 1 April 2009.

2. Fixed asset investments

	Shares in subsidiary undertakings £m	Loan to subsidiary undertaking £m	Total £m
At 31 March 2007	3,380	327	3,707
Additions	896	–	896
Reclassification of loan as amounts owed by subsidiary undertakings	–	(327)	(327)
At 31 March 2008	4,276	–	4,276
Additions	7,103	–	7,103
Disposals	(3,539)	–	(3,539)
At 31 March 2009	**7,840**	**–**	**7,840**

On 31 March 2009, the Company was allotted 127,111,218 ordinary shares of $40 each in NG Luxembourg 3 Sarl for a total consideration of £3,539m. On the same day, the Company sold this investment to National Grid (US) Holdings Limited as part of a group reorganisation, for consideration of £3,539m settled through the allotment of 300,050 ordinary shares of £1 each.

The names of the principal subsidiary undertakings, joint ventures and associates are included in note 37 in the consolidated financial statements.

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

3. Debtors

	2009 £m	2008 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	**11,153**	8,542
Prepayments and accrued income	**4**	3
	11,157	8,545
Amounts falling due after more than one year:		
Amounts owed by subsidiary undertakings	**1,796**	2,808
Deferred taxation	**3**	3
	1,799	2,811

	Deferred taxation £m
At 1 April 2007	3
Credited to equity	4
Charged to the profit and loss account (i)	(4)
At 1 April 2008	3
Credited to equity	1
Charged to the profit and loss account	(1)
At 31 March 2009	**3**

(i) Included is a deferred tax charge of £2m in respect of prior years.

4. Creditors (amounts falling due within one year)

	2009 £m	2008 £m
Borrowings (note 7)	**1,422**	1,019
Derivative financial instruments	**375**	79
Amounts owed to subsidiary undertakings	**6,898**	4,804
Other creditors	**28**	51
	8,723	5,953

5. Derivative financial instruments

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

	2009			2008		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
Current	**329**	**(375)**	**(46)**	341	(79)	262
Non-current	**558**	**(511)**	**47**	751	(179)	572
	887	**(886)**	**1**	1,092	(258)	834

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

	2009 £m	2008 £m
Interest rate swaps	**(6,343)**	(4,952)
Interest rate swaptions	**–**	(202)
Cross-currency interest rate swaps	**(7,612)**	(4,919)
Foreign exchange forward contracts	**(9,013)**	(5,721)
Forward rate agreements	**(5,063)**	–
Total	**(28,031)**	(15,794)

Notes to the Company financial statements continued

6. Current asset investments

	2009 £m	2008 £m
Investments in short term money funds	**166**	787
Short term deposits	**234**	–
Restricted cash balances		
Collateral	**109**	–
	509	787

7. Borrowings

The following table analyses the Company's total borrowings:

	2009 £m	2008 £m
Amounts falling due within one year:		
Bank loans and overdrafts	**942**	192
Bonds	**480**	827
	1,422	1,019
Amounts falling due after more than one year:		
Bank loans	**720**	75
Bonds	**5,751**	4,385
	6,471	4,460
Total borrowings	**7,893**	5,479

	2009 £m	2008 £m
Total borrowings are repayable as follows:		
In one year or less	**1,422**	1,019
In more than one year, but not more than two years	**976**	342
In more than two years, but not more than three years	**1,360**	650
In more than three years, but not more than four years	**933**	999
In more than four years, but not more than five years	**450**	792
In more than five years, other than by instalments	**2,752**	1,677
	7,893	5,479

The notional amount of borrowings outstanding as at 31 March 2009 was £7,776m (2008: £5,417m). For further information on significant borrowings, refer to note 35 of the consolidated financial statements.

8. Called up share capital

	Called up and fully paid	
	millions	£m
At 31 March 2007	2,701	308
Issued during the year ended 31 March 2008 (i)	8	1
Repurchased during the year ended 31 March 2008 (ii)	(127)	(15)
At 31 March 2008 and 31 March 2009	**2,582**	**294**

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

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

For further details on share capital, refer to note 25 in the consolidated financial statements.

9. Reserves

	Share premium account £m	Cash flow hedge reserve £m	Other equity reserves £m	Profit and loss account £m
At 1 April 2007	1,332	22	91	4,582
Net loss transferred from equity in respect of cash flow hedges (net of tax)	–	(8)	–	–
Issue of ordinary share capital	12	–	–	–
B shares converted to ordinary shares	27	–	–	–
Repurchase of share capital and purchase of treasury shares (i)	–	–	15	(1,520)
Issue of treasury shares	–	–	–	12
Share-based payment	–	–	18	–
Retained profit for the year	–	–	–	1,590
At 31 March 2008	1,371	14	124	4,664
Net loss transferred from equity in respect of cash flow hedges (net of tax)	–	(2)	–	–
Repurchase of share capital and purchase of treasury shares (i)	–	–	–	(602)
Issue of treasury shares	–	–	–	8
Share-based payment	–	–	22	–
Loss for the year	–	–	–	(467)
At 31 March 2009	**1,371**	**12**	**146**	**3,603**

(i) From 1 April 2008 to 24 September 2008, the Company repurchased under its share repurchase programme 85m (2008: 200m) ordinary shares for aggregate consideration of £597m (2008: £1,516m) including transaction costs. Further purchases of shares outside the official share repurchase programme were for an aggregate consideration of £5m (2008: £4m).

The Company has not presented its own profit and loss account as permitted by section 230 of the Companies Act 1985. The Company's profit after taxation was £371m (2008: £2,370m). Of the Company's profit and loss account reserve of £3,603m at 31 March 2009 (2008: £4,664m), £1,323m (2008: £1,623m) relating to gains on intra-group transactions was not distributable to shareholders.

10. Reconciliation of movements in shareholders' funds

	2009 £m	2008 £m
Profit for the year after taxation	**371**	2,370
Dividends (i)	**(838)**	(780)
(Loss)/profit for the financial year	**(467)**	1,590
Proceeds of issue of ordinary shares	**–**	13
Proceeds of issue of treasury shares	**8**	12
B shares converted to ordinary shares	**–**	27
Movement on cash flow hedge reserve (net of tax)	**(2)**	(8)
Share-based payment	**22**	18
Repurchase of share capital and purchase of treasury shares	**(602)**	(1,520)
Net (decrease)/increase in shareholders' funds	**(1,041)**	132
Opening shareholders' funds	**6,467**	6,335
Closing shareholders' funds	**5,426**	6,467

(i) For further details of dividends paid and payable to shareholders, refer to note 9 in the consolidated financial statements.

11. Commitments and contingencies

The Company has guaranteed the repayment of the principal sum, any associated premium and interest on specific loans due from certain subsidiary undertakings primarily to third parties. At 31 March 2009, the sterling equivalent amounted to £2,302m (2008: £888m). The guarantees are for varying terms from 2 years to open-ended.

The Company has also guaranteed the lease obligations of a former associate to a subsidiary undertaking, amounting to £4m (2008: £13m).

12. Directors and employees

There are no employees of the Company (2008: nil). The Directors of the Company were paid by subsidiary undertakings in 2009 and 2008. Details of Directors' emoluments are contained in the Directors' Remuneration Report.

Definitions and glossary of terms

Our aim is to use plain English in this Annual Report and Accounts. However, where necessary, we do use a number of technical terms and/or abbreviations and we summarise the principal ones below, together with an explanation of their meanings. The descriptions below are not formal legal definitions.

A

accelerated tax depreciation
Depreciation or amortisation charges that are allowed as deductions for tax purposes. This often differs from the amount of depreciation or amortisation recorded for accounting purposes, resulting in the recognition of deferred tax.

American Depositary Shares (ADSs)
Securities of National Grid listed on the New York Stock Exchange, each of which represents five ordinary shares.

Annual General Meeting (AGM)
Meeting of shareholders of the Company held each year to consider ordinary and special business as provided in the Notice of AGM.

B

B shares
Non-cumulative preference shares of 10 pence nominal value each that were issued in 2005 in connection with a £2 billion return of capital to shareholders. The last remaining B shares were converted into ordinary shares in September 2007.

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

Board
The Board of Directors of the Company (for more information see pages 16 and 17).

brownfield
The term generally used to describe previously developed land, which may or may not be contaminated.

C

consolidated financial statements
Financial statements that include the results and financial position of the Company and its subsidiaries together as if they are a single entity.

called up share capital
Shares (common stock) that have been issued and have been fully paid for.

carrying value
The amount at which an asset or a liability is recorded in the balance sheet.

Combined Code
The Combined Code on Corporate Governance, being guidance on how companies should be governed applicable to UK listed companies, including National Grid.

the Company, National Grid, we, our or us
We use terms 'the Company', 'National Grid', 'we', 'our' or 'us' to refer to either National Grid plc itself or to National Grid plc and its subsidiaries collectively, depending on context.

contingent liability
A possible obligation or potential liability arising from past events for which no provision has been recorded, but for which disclosure in the financial statements is made.

D

deferred tax
For most assets and liabilities, this is the difference between the carrying value for accounting purposes in the balance sheet and the amount of tax that will be deductible (or payable) for that asset or liability in future tax returns.

Dth
A decatherm, being an amount of energy equal to 1 million British thermal units (BTUs), equivalent to approximately 293 kWh.

derivative
A financial instrument or other contract where the value is linked to an underlying index, such as exchange rates, interest rates or commodity prices. In most cases, contracts for the sale or purchase of commodities that are used to supply customers or for our own needs are excluded from this definition.

E

employee engagement index
A key performance indicator, based on the percentage of favourable responses to certain indicator questions repeated in each employee engagement survey, which provides a measure of how employees think, feel and act in relation to National Grid. Research shows that a highly engaged workforce leads to increased productivity and staff retention, therefore we use employee engagement as a measure of organisational health in relation to business performance.

equity
In financial statements, the amount of net assets attributable to shareholders.

F

FERC
The US Federal Energy Regulatory Commission.

finance lease
A lease where the asset is treated as if it was owned for the period of the lease and the obligation to pay future rentals is treated as if they were borrowings. Also known as a capital lease.

financial year
For National Grid this is an accounting year ending on 31 March. Also known as a fiscal year.

FRS
A UK Financial Reporting Standard as issued by the UK Accounting Standards Board. These apply to the Company's individual financial statements on pages 187 to 193, which are prepared in accordance with UK GAAP.

FSA
The UK Financial Services Authority, the financial markets regulator, which includes regulation of companies with listed securities in the UK, including National Grid and certain of its subsidiaries.

G

Great Britain
England, Wales and Scotland.

GW
Gigawatt, being an amount of power equal to 1 billion watts (10^9 watts).

GWh
Gigawatt hours, being an amount of energy equal to delivering 1 billion watts of power for one hour (equivalent to 3.6 million joules).

H

HSE
Health & Safety Executive, the main safety regulator in the UK.

I

IAS or IFRS
An International Accounting Standard or International Financial Reporting Standard, as issued by the International Accounting Standards Board. IFRS is also used as the term to describe international generally accepted accounting principles as a whole.

individual financial statements
Financial statements of a company on its own, not including its subsidiaries or joint ventures.

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

J

joint venture
A company or other entity which is controlled jointly with other parties.

K

KeySpan
KeySpan Corporation and its subsidiaries, acquired by National Grid on 24 August 2007.

kV
Kilovolt, being an amount of electric force equal to 1,000 volts.

kW
Kilowatts, being an amount of power equal to 1,000 watts.

kWh
Kilowatt hours, being an amount of energy equal to delivering 1,000 watts of power for a period of one hour.

L

lifetime allowance
The lifetime allowance is an overall ceiling on the amount of UK tax privileged pension savings that any one individual can draw.

LNG
Liquefied natural gas, being natural gas that has been condensed into a liquid form, typically at temperatures at or below -163°C (-260°F).

lost time injury (LTI)
An incident arising out of National Grid's operations which leads to an injury where the employee or contractor normally has time off the following day or shift following the incident. It relates to one specific (acute) identifiable incident which arises as a result of National Grid's premises, plant or activities, which was reported to the supervisor at the time and was subject to appropriate investigation.

lost time injury frequency
The number of LTIs per 100,000 hours in a 12 month period.

M

m^3
A cubic metre.

mcm
Million standard cubic metres, equivalent to approximately 35.3 million standard cubic feet.

MW
Megawatts, being an amount of power equal to 1 million watts.

MWh
Megawatt hours, being an amount of energy equal to delivering 1 million watts of power for a period of one hour.

N

New England
The term refers to a region within the northeastern US that includes the states of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont. National Grid's New England operations are primarily in the states of Massachusetts, New Hampshire and Rhode Island.

northeastern US
The northeastern region of the US, comprising the states of Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Vermont.

Definitions and glossary of terms continued

O

Ofgem
The UK Office of Gas and Electricity Markets, part of the UK Gas and Electricity Markets Authority (GEMA), which regulates the energy markets in the UK.

ordinary shares
Voting shares entitling the holder to part ownership of a company. Also known as common stock. National Grid's ordinary shares have a nominal value of $11\frac{17}{43}$ pence.

P

PAS 55
PAS (Publicly Available Specification) 55 is a universal benchmark published by the British Standards Institution (BSI) for the optimal management of physical assets.

Personal Lifetime Allowance
The lifetime allowance applicable to individuals who registered their pre 6 April 2006 UK pension benefits for protection.

purchase accounting
The accounting process of aligning the accounting policies of an acquired business with those of National Grid and of adjusting the carrying value of assets and liabilities acquired from their previous accounting book value to their fair values at the date control was acquired by National Grid.

R

regulated controllable operating costs
Total operating costs under IFRS less depreciation and certain regulatory costs where, under our regulatory agreements, mechanisms are in place to recover such costs in current or future periods.

regulatory asset value (RAV)
The value ascribed by Ofgem to the capital employed in the relevant licensed business. It is an estimate of the initial market value of the regulated asset base at privatisation, plus subsequent allowed additions at historical cost, less the deduction of annual regulatory depreciation. Deductions are also made to reflect the value realised from the disposal of certain assets that formed part of the regulatory asset base. It is also indexed to the retail price index to allow for the effects of inflation.

S

scm
Standard cubic metre, a quantity of gas which at 15°C and atmospheric pressure (1.013 bar) occupies the volume of $1m^3$.

SEC
The US Securities and Exchange Commission, the financial regulator for companies with registered securities in the US, including National Grid and certain of its subsidiaries.

share premium
The difference between the amounts shares are issued for and the nominal value of those shares.

subsidiary
A company or other entity that is controlled by National Grid.

T

therm
An amount of energy equal to 10,000 British Thermal Units (BTUs), equivalent to approximately 29.3 kWh, primarily used to measure natural gas.

treasury shares
Shares that have been repurchased but not cancelled.

tonne
A unit of mass equal to 1,000 kilograms, equivalent to approximately 2,205 pounds.

tonnes CO_2 equivalent
A measure of greenhouse gas emissions in terms of the equivalent amount of carbon dioxide.

TWh
Terawatt hours, being an amount of energy equal to delivering 1 billion watts of power for 1,000 hours.

U

UK
The United Kingdom, comprising England, Wales, Scotland and Northern Ireland.

UK GAAP
Generally accepted accounting principles in the UK. These differ from IFRS and from US GAAP.

Uniform Network Code
The legal and contractual framework for the supply and transport of gas in the UK, comprising a common set of rules for all industry participants which ensure competition can be facilitated on level terms.

US
The United States of America.

US GAAP
Generally accepted accounting principles in the US. These differ from IFRS and from UK GAAP.

V

vanilla return
Metric used by Ofgem to define the allowed rate of return within the price control reviews for our UK regulated businesses. Our calculation uses IFRS business performance operating profit adjusted for various items to reflect the replacement of certain IFRS based accounting treatments with a regulatory based treatment, primarily these items are depreciation, capital costs, pensions and taxation. The adjusted IFRS operating profit is divided by the regulatory asset value inflated to mid year to generate a percentage rate of return.

Summary consolidated financial information

Financial summary (unaudited)

The financial summary set out below has been derived from the audited consolidated financial statements of National Grid for the five financial years ended 31 March 2009. It should be read in conjunction with the consolidated financial statements and related notes, together with the Operating and Financial Review. The information presented below for the years ended 31 March 2005, 2006, 2007, 2008 and 2009 has been prepared under IFRS issued by the IASB and as adopted by the European Union.

	31 March 2009 £m	31 March 2008* £m	31 March 2007 £m	31 March 2006 £m	31 March 2005 £m
Summary income statement					
Revenue	**15,624**	11,423	8,695	8,868	7,174
Operating profit					
Before exceptional items, remeasurements and stranded cost recoveries	**2,915**	2,595	2,031	1,968	1,936
Exceptional items, remeasurements and stranded cost recoveries	**(292)**	369	482	406	177
	2,623	2,964	2,513	2,374	2,113
Profit before taxation					
Before exceptional items, remeasurements and stranded cost recoveries	**1,770**	1,829	1,486	1,369	1,235
Exceptional items, remeasurements and stranded cost recoveries	**(376)**	353	265	349	177
	1,394	2,182	1,751	1,718	1,412
Profit for the year attributable to equity shareholders					
Before exceptional items, remeasurements and stranded cost recoveries	**1,259**	1,275	1,146	1,075	1,376
Exceptional items, remeasurements and stranded cost recoveries	**(315)**	1,915	248	2,773	48
	944	3,190	1,394	3,848	1,424
Summary statement of net assets					
Non-current assets	**37,712**	30,830	21,109	22,106	25,596
Current assets	**6,755**	5,435	5,312	3,818	1,964
Assets of businesses held for sale	**–**	1,506	1,968	–	–
Total assets	**44,467**	37,771	28,389	25,924	27,560
Current liabilities	**(7,026)**	(7,146)	(3,360)	(5,683)	(5,974)
Non-current liabilities	**(33,457)**	(25,188)	(20,443)	(16,748)	(19,465)
Liabilities of businesses held for sale	**–**	(63)	(450)	–	–
Total liabilities	**(40,483)**	(32,397)	(24,253)	(22,431)	(25,439)
Net assets	**3,984**	5,374	4,136	3,493	2,121
Summary cash flow statement					
Cash generated from operations					
Continuing operations	**3,564**	3,265	3,090	2,973	2,820
Discontinued operations	**(8)**	10	181	138	638
	3,556	3,275	3,271	3,111	3,458
Tax paid	**(143)**	(110)	(313)	(140)	(150)
Net cash inflow from operating activities	**3,413**	3,165	2,958	2,971	3,308
Net cash flows (used in)/from investing activities	**(1,998)**	(3,023)	(4,061)	4,052	(2,900)
Net cash flows (used in)/from financing activities	**(877)**	(1,592)	1,278	(5,842)	(400)
Net increase/(decrease) in cash and cash equivalents	**538**	(1,450)	175	1,181	8

*Comparatives for the year ended 31 March 2008 have been restated for the finalisation of the fair value exercise on the acquisition of KeySpan Corporation

Shareholder Information

Financial calendar

The following dates have been announced or are indicative of future dates:

3 June 2009	Ordinary shares go ex-dividend for 2008/09
5 June 2009	Record date for 2008/09 final dividend
22 July 2009	Scrip election date for 2008/09 final dividend*
27 July 2009	2009 Annual General Meeting and interim management statement
19 August 2009	2008/09 final dividend paid to qualifying ordinary shareholders
19 November 2009	2009/10 half-year results
2 December 2009	Ordinary shares go ex-dividend
4 December 2009	Record date for 2009/10 interim dividend
20 January 2010	2009/10 interim dividend paid to qualifying ordinary shareholders
Jan/Feb 2010	Interim management statement
May 2010	2009/10 preliminary results

* Please see below for further information about dividends

Dividends

National Grid normally pays dividends twice each year, in accordance with the timetable above. Many shareholders have elected to have their dividends paid to them direct to their bank or building society account. As well as being convenient for the shareholder, as the dividend will normally reach their account on the day of payment, there will be no delays from paying in cheques, and there is no possibility of losing or damaging cheques. This also saves money and paper as fewer cheques need to be produced and sent out. Tax vouchers are still provided for shareholders' records. Overseas shareholders can also have their dividends paid direct to their bank account in their local currency (IPS). As set out in the IPS terms and conditions, charges are payable for this service.

Subject to shareholder approval at the 2009 Annual General Meeting, National Grid will be offering an optional scrip dividend for the 2008/09 final dividend. The scrip dividend will replace the dividend reinvestment plan (DRIP), which will be suspended indefinitely. A scrip dividend enables shareholders to receive new ordinary shares in National Grid instead of cash dividends. This enables shareholders to build up a shareholding in National Grid without going to the market to buy new shares and no dealing costs or stamp duty are incurred (ADR holders are subject to Stamp Duty Reserve Tax).

Shareholders have previously been able to re-invest dividends in further National Grid shares under the DRIP. Shareholders who previously had a DRIP mandate will have to elect for the scrip or alternatively receive a cash dividend. For further information on the scrip dividend, DRIP and IPS and to request direct payment of your dividends, please contact Capita Registrars or register electronically at www.nationalgrid.com/shareholders. If you think you have outstanding dividend payments please contact Capita Registrars who will be able to provide duplicate cheques if necessary (an administrative charge may be payable).

Website and electronic communication

More information about National Grid, including full details of previous dividends and information about proposed dividends, up-to-date announcements and current and historic share prices, is available on the National Grid website at www.nationalgrid.com. Shareholders can manage their holding online at www.nationalgrid.com/shareholders. This allows shareholders to check their shareholding, recent dividend payments and change information such as address and any direct payment details. Shareholder documents are now, following changes in company law and shareholder approval, primarily made available via the Company's website at www.nationalgrid.com/investors unless a shareholder has requested to continue to receive hard copies of such documents. If a shareholder has registered their up-to-date email address an email is sent to that address when such documents are available on the website. If shareholders have not provided an up-to-date email address and have not elected to receive documents in hard copy, a form of notification included within the Performance Summary is sent to their address on the Register notifying them that the documents are available on the website. Shareholders can continue to receive hard copies of shareholder documents by contacting Capita Registrars. If you have not already registered your current email address, you can do so at www.nationalgrid.com/shareholders. Investors who hold their shares via an intermediary should contact the intermediary regarding the receipt of shareholder documents from the Company.

Shareholder networking

National Grid operates a shareholder networking programme, the aim of which is to allow UK resident shareholders to gain a better understanding of the Company. The programme, which is normally run twice a year in June and during early December over two days, includes visits to UK operational sites and presentations by senior managers and employees. Participants also have the opportunity to meet and question Directors. The costs of the programme (including shareholder travel to and from the event) are paid for by National Grid.

If you would like to take part, please write to:

Shareholder Networking Organiser
National Grid House
Warwick Technology Park
Gallows Hill
Warwick CV34 6DA

Participants will be selected by ballot from those applying, with priority given to those who have not recently attended.

Share dealing, individual savings accounts (ISAs) and ShareGift

A share dealing service is available from Capita Registrars, allowing you to buy and sell National Grid shares. Trading by telephone or online enables shareholders to have a more up-to-date indicative share price when dealing than when using the postal dealing service.

For more information please call 0871 664 0445 (8.00am – 4.30pm) or visit www.capitadeal.com. Calls are charged at 10p per minute plus network extras. High street banks may also offer share dealing services. Corporate ISAs for National Grid shares are available from Stocktrade. For more information, call Stocktrade on 0131 240 0443 or write to Stocktrade, 81 George Street, Edinburgh EH2 3ES.

If you hold only a few shares and feel that it is uneconomical or otherwise not worthwhile to sell them, you could consider donating your shares to charity. ShareGift is an independent registered charity (no. 1052686) that provides a free service for shareholders wishing to give holdings of shares to benefit charitable causes. For more information, please visit www.sharegift.org or call Capita Registrars.

These details are provided for information only and any action you take is at your own risk. National Grid cannot advise you on what action, if any, you should take in respect of your shares. If you have any doubt as to the action you should take, you are recommended to seek your own financial advice from your stockbroker, bank manager, accountant or other independent financial advisor authorised pursuant to the Financial Services and Markets Act 2000.

Capital Gains Tax (CGT)

CGT information relating to National Grid shares can be found on our website or obtained from Capita Registrars. Share prices on specific dates can be found at www.nationalgrid.com.

Shareholdings

The following table includes a brief analysis of shareholder numbers and shareholdings as at 31 March 2009:

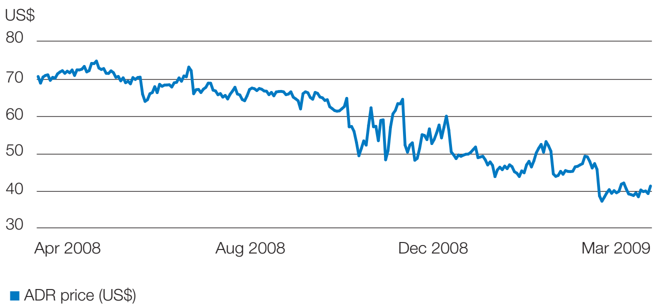
Size of shareholding	Number of shareholders	% of shareholders	Number of shares	% of shares
1-50	218,395	19.0310	6,696,656	0.2594
51-100	341,876	29.7911	23,267,985	0.9012
101-500	488,641	42.5802	97,718,218	3.7846
501-1000	52,955	4.6145	37,343,673	1.4463
1,001-10,000	43,419	3.7835	100,505,395	3.8926
10,001-50,000	1,173	0.1022	22,967,883	0.8895
50,001-100,000	250	0.0218	18,213,246	0.7054
100,001-500,000	454	0.0396	108,346,256	4.1963
500,001-1,000,000	146	0.0127	102,168,112	3.9570
1,000,001+	269	0.0234	2,064,747,427	79.9677
Total	**1,147,578**	**100**	**2,581,974,851**	**100**

Share price

The following graphs represents the movement of National Grid's share price during 2008/09. A graph showing the total shareholder return over the last five years is available on page 106.

Share price

ADR price



06 Shareholder Information

Shareholder Information continued

For queries about ORDINARY SHARES contact:

Capita Registrars

0871 664 0500*
(from outside the UK: +44 20 7098 1198)
(textphone: 18001 0870 242 2379)
*Calls are charged at 10p per minute plus network extras

nationalgrid@capitaregistrars.com
www.nationalgrid.com/shareholders

National Grid Share Register
Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0GA

For queries about AMERICAN DEPOSITARY SHARES (ADSs or ADRs) contact:

The Bank of New York Mellon

1-800-466-7215
(from outside the US: +1-212-815-3700)

shrrelations@mellon.com
www.bnymellon.com/shareowner

The Bank of New York Mellon
Shareholders Correspondence
PO Box 358516
Pittsburgh, PA
15252-8516

Cautionary Statement
This document comprises the Annual Report and Accounts for the year ended 31 March 2009 for National Grid and its subsidiaries. It contains the Directors' Report and Financial Statements, together with the Independent Auditor's Report thereon, as required by the UK Companies Act 1985. The Annual Review of National Grid for the same period is published as a separate document. The Directors' Report on pages 100 and 101 and the Directors' Remuneration Report on pages 102 to 112 have each been drawn up in accordance with the requirements of English law, and liability in respect thereof is also governed by English law. In particular, the liability of the Directors for these reports is solely to National Grid.

This document also contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements include information with respect to our financial condition, our results of operations and businesses, strategy, plans and objectives. Words such as 'anticipates', 'expects', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'may', 'will', 'continue', 'project' and similar expressions, as well as statements in the future tense, identify forward-looking statements. These forward-looking statements are not guarantees of our future performance and are subject to assumptions, risks and uncertainties that could cause actual future results to differ materially from those expressed in or implied by such forward-looking statements. Many of these assumptions, risks and uncertainties relate to factors that are beyond our ability to control or estimate precisely, such as delays in obtaining, or adverse conditions contained in, regulatory approvals and contractual consents, unseasonable weather affecting the demand for electricity and gas, competition and industry restructuring, changes in economic conditions, currency fluctuations, changes in interest and tax rates, changes in energy market prices, changes in historical weather patterns, changes in laws, regulations or regulatory policies, developments in legal or public policy doctrines, the impact of changes to accounting standards, technological developments and the ability to access capital markets and other sources of credit in a timely manner or on acceptable terms, especially considering the recent deterioration of market conditions in the global economy and financial markets. Other factors that could cause actual results to differ materially from those described in this document include the ability to integrate the businesses relating to announced acquisitions with our existing business to realise the expected synergies from such integration, the availability of new acquisition opportunities and the timing and success of future acquisition opportunities, the timing and success or other impact of the sales of our non-core businesses, the failure for any reason to achieve reductions in costs or to achieve operational efficiencies, the failure to retain key management, the behaviour of UK electricity market participants on system balancing, the timing of amendments in prices to shippers in the UK gas market, the performance of our pension schemes and the regulatory treatment of pension costs, and any adverse consequences arising from outages on or otherwise affecting energy networks, including gas pipelines, which we own or operate. For a more detailed description of some of these assumptions, risks and uncertainties, together with any other risk factors, please see our filings with and submissions to the US Securities and Exchange Commission (the 'SEC') (and in particular the Risk factors and Operating and Financial Review sections in our most recent Annual Report on Form 20-F). Except as may be required by law or regulation, National Grid undertakes no obligation to update any of its forward-looking statements. The effects of these factors are difficult to predict. New factors emerge from time to time and we cannot assess the potential impact of any such factor on our activities or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. The content of any website references herein do not form part of this document.

National Grid plc
1-3 Strand, London WC2N 5EH, United Kingdom
Registered in England and Wales No. 4031152

www.nationalgrid.com

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National Grid plc
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Registered in England and Wales No. 4031152

UK Shareholder enquiries: 0871 664 0500
US Shareholder enquiries: 1-800-466-7215

www.nationalgrid.com

Annual Report and Accounts 2009/10

Shaping the future

nationalgrid

The power of action.

Company highlights

We have delivered another strong financial performance this year. Cash generated from operations was more than £4.3 billion, while adjusted operating profit and adjusted earnings per share were higher by 7% and 14% respectively.

For more information and a range of interactive charting and share price tools visit:
www.nationalgrid.com

Revenue *
£13,988m
2008/09: £15,624m (↓**10%**)

Cash generated from operations *
£4,372m
2008/09: £3,564m (↑**23%**)

Adjusted operating profit *†
£3,121m
2008/09: £2,915m (↑**7%**)

Operating profit *
£3,293m
2008/09: £2,623m (↑**26%**)

Adjusted earnings per share *†
57.4p
2008/09: 50.2p (↑**14%**) (i)

Earnings per share *
56.1p
2008/09: 36.9p (↑**52%**) (i)

Capital expenditure
£3,252m
2008/09: £3,242m (↑**0.3%**)

Ordinary dividends
38.49p
2008/09: 35.64p (↑**8%**)

Return on equity † (3 year average)
11.3%
2008/09: 10.8%

Interest cover
3.9x
2008/09: 3.1x

* for continuing operations
† excludes the impact of exceptional items, remeasurements and stranded cost recoveries. See page 38 for more information about these adjusted profit measures

(i) Comparative earnings per share data has been restated for the impact of the scrip dividend issues.

Our financial results are reported in sterling. The average exchange rate, as detailed on page 39, was $1.58 to £1 in 2009/10 compared with the average rate of $1.54 to £1 in 2008/09.

Except as otherwise noted, the figures in this Report are stated in sterling or US dollars and all references to dollars or $ are to the US currency.

→ Safety is critical both to business performance and to defining the culture of our Company for our employees. 2009/10 saw a 40% reduction in lost time injury frequency rate to 0.15 compared with 0.25 in 2008/09.

More information on safety can be found on **page 31**

→ We continue to make progress in the representation of women and ethnic minorities in our workforce, increasing both this year. We are also creating targeted solutions to help employees maximise their performance.

More information on inclusion and diversity and talent can be found on **pages 35 and 36**

→ We are committed to our customers and to providing outstanding customer service. Improvements made during this year include, implementation of a web based outage communication tool and energy efficiency campaigns.

More information on customers and customer service can be found on **pages 22 and 32** respectively

→ We continue to believe that our 45% by 2020 and 80% by 2050 greenhouse gas emissions reduction targets (against our 1990 baseline) are industry leading within the UK and US.

More information on climate change can be found on **page 36**

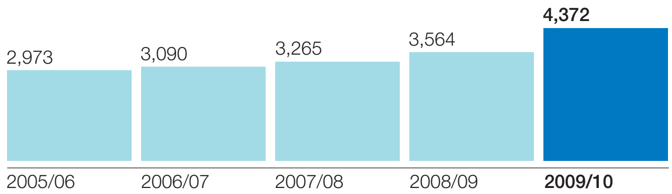
→ Our future organic growth is dependent on the delivery of our capital investment programme. In 2009/10, we invested £3.3 billion and our planned investment for 2010/11 is £3.9 billion.

More information on capital investment can be found on **page 33**

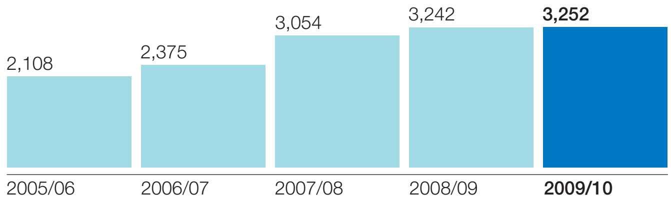
→ In line with our objective to deliver strong, sustainable regulatory and long-term contracts with good returns, we have made significant progress in filing US rate cases.

More information on rate cases can be found on **pages 18 to 21**

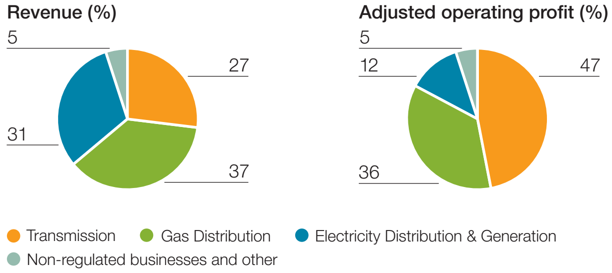
Cash generated from continuing operations
£m



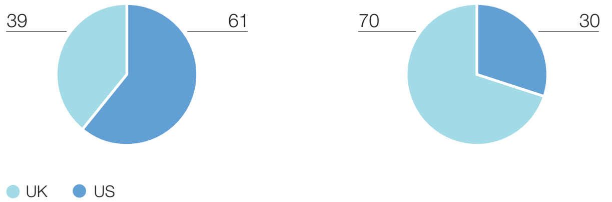
Group capital expenditure
£m



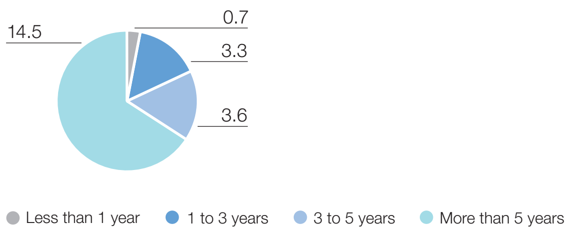
Business analysis 2009/10
Continuing operations



Geographical analysis 2009/10
Continuing operations



Maturity of net debt at 31 March 2010
£bn



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Important notice
This document contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. For a description of factors that could affect future results, reference should be made to the full Cautionary Statement on the back cover of this document and the Risk factors section on pages 93 to 95.

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Chairman's statement

We have stepped up our participation in the debate on shaping the energy future – ensuring that, while we continue to deliver strongly today, we are also planning for tomorrow.

The Board is proposing a recommended final dividend of

24.84p

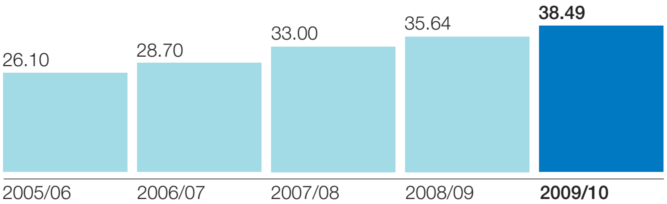
2008/09: 23.00p

We are also targeting an increase of

8%

per annum until 2011/12

Dividends per share
pence



I am pleased to report another strong set of results for 2009/10. Our priorities arising from the Board's strategy are now well embedded and driving performance across the Company. The line of sight concept seeks to link each employee with our corporate vision, which is set out in the Operating and Financial Review.

This year, we experienced difficult weather conditions in both the UK and the US, resulting in high levels of gas demand. Significant reengineering and investment in our UK gas national transmission system has been undertaken over recent years to construct and facilitate additional sources of supply connection as North Sea gas outputs have reduced. However, vital as having made the right hardware and system investment decisions was, it was the skill, dedication and professionalism of our people that allowed us successfully to meet these severe, weather-driven challenges.

Over the last year, we have stepped up our participation in the debate on shaping the energy future – ensuring that, while we continue to deliver strongly today, we are also planning for tomorrow. I am confident National Grid can adapt and deliver the significant changes that the future energy environment will require, while delivering value to our shareholders.

Investment and balance sheet

We maintain a disciplined approach to our capital investment and efficient management of our balance sheet. Since the merger of National Grid and Lattice in 2002, this has enabled us to return almost £10 billion of capital to shareholders, which includes more than doubling our dividend in the process. National Grid plays a vital role in delivering essential UK energy infrastructure and we are entering an era of significantly higher capital investment. We are, therefore, announcing a £3.2 billion rights issue, which we believe will enable us to continue to deliver our growth strategy in the UK and maintain our single A credit ratings in our UK operating companies.

Our people

I believe the commitment of our employees makes possible the delivery of our promises, obligations and ambitions. We seek to develop their talent, through new and innovative ways of enhancing their capabilities and leadership skills. We also strive to ensure National Grid will continue to attract new talent and be seen as an employer of choice.

We encourage the excellence of our employees through the Chairman's awards, in the areas of inclusion and diversity, safety, health, environment, community, and customer delivery. This year, more than 240 nominations were submitted, which allowed us to recognise the outstanding achievements of those employees who go well above and beyond their work requirements.

We recognise that having an appropriately skilled workforce is fundamental both now and into the future and we also acknowledge the challenge achieving this entails. We are taking firm action to ensure we have a robust pool of employees with the right skills and capabilities and in the right roles to achieve our mutual ambitions. We have created a number of targeted solutions to assist our employees in maximising their performance.

Safety and wellbeing

Safety is paramount in all our undertakings and we believe that everyone in National Grid, collectively and individually, has a part to play to achieve it. I am glad to report a further improvement in our safety performance across the Company.

The wellbeing of our employees has been an important consideration for us throughout 2009/10. This is not only important for the health and happiness of our employees but also plays a vital role in our success. We have been encouraging our employees to make a positive impact on their wellbeing and the wellbeing of those around them and have seen good use of health kiosks and cardiovascular screening.

Community

I am encouraged by the career progression of the young people who have completed the Young Offender Programme, which provides skills training and employment for offenders nearing the end of their sentence. Not only is it reducing reoffending from 70% to less than 7% for those completing the programme in our industry, but it also provides talented employees for more than 80 other companies who have been engaged with us on the programme.

I am also proud of the leading role we are taking to aid and educate the communities in which we operate with regards to energy efficiency. Our 3% Less challenge in the US asks all our customers to work with us in reducing their energy consumption by 3% a year for the next 10 years. In the UK, we continue our involvement with the affordable warmth programme, which to date has seen more than 647,000 households benefit from energy efficiency measures. Such programmes see us leading by example. We appreciate the importance of being a positive partner in the communities in which we operate and remain committed to safeguarding our global environment for future generations.

Governance

We have consistently demonstrated a commitment to leading governance at Board level and hence throughout the Company. We welcome recent reviews by the Financial Reporting Council and, based on the December 2009 proposals for the revised UK Corporate Governance Code, we do not anticipate any major changes to our already robust approach to corporate governance matters. However, from the 2010 Annual General Meeting onwards, we intend to introduce an annual re-election for the Chairman and all Directors to enhance further our governance processes.

We also believe that good governance emanates from a quality Board. Critical to this are the breadth of our Non-executive skill set along with specialised knowledge, both of which provide the potential for a healthy and necessary level of challenge in the boardroom. Following our annual appraisal of Board effectiveness, we have again assessed the fitness of our Board to participate meaningfully in the debate and make the objective judgements inevitably required. I am satisfied that the composition of our Board enables it to fulfil its role in an effective way.

Dividend policy

We are again recommending a dividend increase of 8% for 2009/10, giving a final dividend of 24.84 pence per share, with a total for the year of 38.49 pence per share. This brings a 62% increase in our dividend over the last 5 years.

Outlook

The Board continues to have confidence that the strategy and objectives we are pursuing will allow National Grid to grow and deliver our commitment of value creation to our shareholders. In parallel, we remain focused on identifying further improvements in safety, reliability and efficiency, while being a valued partner to our customers and the communities in which we operate. We will also maintain our endeavours to be at the centre of a low carbon economy.

T. John Parker

Sir John Parker

Chairman

Keeping the gas flowing

In January 2010, the UK endured difficult winter weather with an extended period of low temperature and significant volume of snowfall leading to record highs in gas demand on two consecutive days. At the same time, a number of unplanned supply disruptions introduced additional commercial and operational complications. Actions taken in recent years to increase the capacity and flexibility of our infrastructure, together with the dedication of our employees, meant we were able to deliver the security and reliability our customers need and expect.

We have built greater flexibility into our network, with newly commissioned assets providing diversity of supply capability and the reengineering of our existing assets allowing improved efficiency. However, our employees are what makes it work. Our operational employees, both in the field and in the gas national control centre (pictured above), worked tirelessly to ensure supplies were maintained.

Chief Executive's review

I am confident that our focused strategy remains the right one to bring long-term benefits to all our stakeholders.

Planned investment in 2010/11	Reduction in employee lost time injury frequency rate
£3.9bn	40%

The energy industry in 2020 is predicted to look very different to the one we know today. Significant change will be required if we are to ensure security of supply as we move to a low carbon economy where energy efficiency and affordability go hand in hand with responsibility and sustainability. National Grid is at the heart of delivering the UK's energy policy while, at the same time, in the US we are continuing to reset our rate plans.

Financials

Our low risk strategy, combined with our disciplined capital investment approach, continues to enable us to steer a strong path through periods of economic uncertainty. We have delivered another strong financial performance this year. Cash generated from operations was over £4.3 billion, revenue was nearly £14 billion while adjusted operating profit and adjusted earnings per share were higher by 7% and 14% respectively. We continue to deliver energy in a safe, reliable and efficient manner while maintaining our 8% dividend growth target until 2012 for our shareholders.

Controlling our costs remains an important feature benefiting both customers and investors. Last year we announced an additional metric to make our cost performance more transparent. We monitor regulated controllable operating costs. While this remains an important measure of our performance, we believe it is informative to compare those costs to our total regulated assets to measure our efficiency as the business grows. I am delighted to say that this metric has improved this year, with controllable costs falling to 7.6% of regulated assets compared with 8.0% last year.

We are now confident about both the requirement for a step up in investment, which is at the heart of delivering the UK's energy policy, and the level of returns that this will earn. We foresee that over the next 5 years expenditure will be in the order of £22 billion compared with £14 billion during the last 5 years.

The single A ratings of our UK operating companies, together with our disciplined investment approach and proven track record of delivering large scale capital programmes, are at the core of our competitive positioning. We are announcing a £3.2 billion rights issue. We believe that by raising equity now we will be able to strengthen the Company's long-term competitive position, and enable National Grid to take advantage of these growth opportunities, while maintaining our current credit ratings and delivering shareholder value.

Safety

Safety is paramount to National Grid. This year, we achieved a 40% improvement in our employee lost time injury frequency rate, down from 0.25 to 0.15, demonstrating what our individual and collective efforts can achieve. However, we are always mindful that we cannot rest on our success. During the year, we have become increasingly focused on process safety. We have worked to ensure that controls are in place to prevent major incidents and have made significant improvements both in understanding and measuring the associated risks. This will continue to be a major area of focus in coming years.

Strategy

Our strategy remains exactly the same – to build on our core UK and US, electricity and gas businesses, while we maintain the financial discipline to deliver sustainable growth. Last year we further developed our scenario planning models, to help us better predict where to target our investment over the next decade and beyond. It is currently expected that around 25% of existing generating plants in the UK will come offline in the next decade. Our predictions, which are aligned with others in the industry, show that there is a significant need for investment in the UK to address the ageing generation fleet, enable connection of new generation, upgrade our existing systems and replace more aged assets than ever before. What that means for National Grid is that significant investment in our gas and electricity infrastructure will continue to be essential.

Investing for growth

This year we invested £3.3 billion, a new record rate, to satisfy the needs of our customers.

I see these as very exciting times for National Grid and our shareholders. In the coming years, we expect to invest above the record level seen in 2009/10 to make sure that energy supplies are secure and that our essential infrastructure is able to handle the changing energy landscape.

We are seeking to ensure that, when we invest, we either lock in regulatory returns or underpin with long-term contracts. All investments will be evaluated against our disciplined capital investment criteria. Capital is only committed if it meets these criteria and has the ability to deliver acceptable returns.

Regulation

In the US, our focus continues to be on restoring baseline business performance principally by filing new rate plans, which we have done in 65% of our businesses. In each, we seek to establish new rates to recover the cost of running our businesses, to achieve real-time cost recovery of future investment, and to secure and earn acceptable returns.

In the UK, we continue to feed in to Ofgem's RPI-X@20 regulatory reform effort, which seeks to determine if the traditional UK approach to network regulation is fit for the future. As a consequence of this project, the next transmission price control review has been delayed by a year and will be implemented from April 2013. We anticipate that the roll-over year will not introduce fundamentally different arrangements relative to the existing price control.

People and talent

Everything we do is delivered through our people. One of my personal priorities is to ensure National Grid is a place where our employees are able to perform and grow to the best of their abilities. We have embedded a number of tools launched last year, including: an inclusive leadership course; a training course for first line supervisors; and an enhanced course for our top talent in senior management.

In light of research we commissioned this year into the attitudes of young people towards engineering, we reviewed our education and skills programme. One resulting initiative is School Power, where our employees are leading a programme of activities designed to inspire and motivate children to learn about science and technology. As well as striving to make engineering and science an attractive and exciting career choice for young people to aspire to, we are partnering with universities in the UK and US to advance the teaching of engineering, facilitate research and development and increase the pool of potential new talent for the Company.

Looking forward

As we look towards the future, we are seeing a number of exciting UK investment opportunities that range from reinforcing our assets to investing in non-regulated opportunities that will allow us to earn acceptable returns. I am confident that our focused strategy remains the right one to bring long-term benefits to all our stakeholders.

The outlook for 2010/11 is that we will:

- continue to meet society's needs by delivering on our capital investment programme;
- maintain our strong balance sheet;
- invest in our people; and
- continue our leadership role in key UK and US policy areas, such as regulation and raising the profile of engineering.

In the following section of this Report you will see some of the projects that are critical to shaping our future.

Steve Holliday
Chief Executive

Investing for growth

We continue to work with governments and regulators on the reform necessary to create a clear and stable investment framework. Our capital expenditure was £3.3 billion during 2009/10 as we made essential investment to meet our customers' needs and begin to enable connection of changing sources of energy.

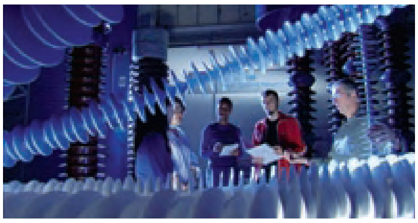
We are also driving improvements in the reliability of our transmission system and, in 2009, a major phase of investment in New England involving seven integrated transmission line and substation projects came into service. The new gas insulated switchgear substation at Wakefield Junction was designed to meet the long-term energy delivery needs of the greater Boston area and also, through removing obsolete sulphur hexafluoride (SF_6) equipment, plays an important role in reducing our own greenhouse gas emissions.

Shaping the future

Operating the system in 2020

As the UK energy industry works to ensure continued security of supply we will face new challenges in operating an electricity transmission system with intermittent renewable generation, new larger nuclear power stations and greater interconnection. We expect that: day-to-day operation of the transmission networks will become more complex; the way we operate and the way the electricity market operates are likely to change; and the way that consumers interact with the market may also change.

We have been working with other energy companies, the UK government and Ofgem to produce a vision of the network reinforcements, market and framework changes required to meet these challenges. In 2009, we published a document describing the likely issues relating to operating the electricity transmission networks in 2020, including the challenges we will face in our role as system operator and an indication of the services we are likely to require going forward. We believe we can address these challenges by building on our expertise in operating transmission networks and by seeking out innovative solutions, which allow more parties to play a role in securing energy supply in the UK.



Innovation

The role of research and development is vital as we strive to be an innovative leader. In 2009, a new National Grid power systems research centre opened at the University of Manchester. The two new laboratories are designed to support research into the reduction of electricity consumption and the development of renewables, energy storage and clean technology. The University is already home to the National Grid High Voltage Research Centre, which is the largest university-based facility of its type in the UK.

Smart grid progress

We are developing a solution combining smart meters, integrated high speed communication, distribution automation and home energy management. This solution could potentially optimise the flow of distributed energy resources; enhance the performance of electricity transmission and distribution systems; and help customers to behave more energy efficiently. We have made significant progress in our plans for the evaluation of smart grid technology, investing in a dedicated smart technology centre to allow extensive testing prior to deployment. This gives us the opportunity to understand the capabilities of potential new solutions. Subject to regulatory approval, our next step is to commence demonstration programmes to learn more about the wider benefits of various smart grid applications.

Carbon capture and storage

Carbon capture and storage has the potential to play a vital role in the decarbonisation of electricity generation, involving the transportation of carbon dioxide produced during electricity generation to suitable storage sites. Having established key partnerships, we are now working on one of the world's first demonstration projects, seeking to reuse one of our high pressure natural gas transmission pipelines. We are investigating how our expertise in gas pipelines can be applied to allow us to contribute to the definition and engineering of a transport and storage solution.

Renewable gas

Renewable gas has the potential to make a significant contribution to renewable energy targets, while also helping to provide diversity and security of supply. National Grid is working to facilitate this important innovation through the development of three renewable gas projects. Newtown Creek in the US, situated at a wastewater treatment plant, is expected to be operational in 2011, subject to regulatory approval. Our two UK projects, in Suffolk and Manchester, are expected to be operational in 2010 and 2011 respectively. Such projects are designed to facilitate the injection of gas from sustainable sources into our existing gas distribution networks, allowing it to be delivered to customers to heat their homes and businesses.

Image source: © New York City Department of Environmental Protection Archives

Changing our energy landscape

Given the central role National Grid plays in the energy industry, we are committed to taking a leading position, alongside governments and regulators, in shaping and facilitating the future energy landscape. Acting as: an innovator in the development of ideas and technologies; partner to create and support a framework through which new technologies can be demonstrated; and contributing actively to the development of policy.

A complex combination of energy sources, technologies and industry frameworks needs to be managed effectively if we are to maintain security of energy supply while moving to a low carbon economy. To achieve this, we need visionary leadership, a supportive regulatory regime and a higher profile for engineering to provide the necessary skills and innovation. National Grid is committed to taking a leading role in shaping this future energy landscape, seeking to ensure efficiency and affordability go hand in hand with responsibility, sustainability and continued security of supply.

Energy efficiency initiatives

We have been offering energy efficiency programmes and initiatives to help customers lower their energy bills and help the environment for more than 20 years in the US. A significant initiative in 2009 was our 3% Less challenge, which asks our customers to commit to using 3% less energy a year for the next 10 years. Our website allows customers to take part in free energy evaluations, learn ways to reduce their energy use and sign a pledge. We have also introduced a home energy programme, where participating customers receive a monthly energy report that compares their actual energy use to that of their neighbours.

In the UK, we have established Affordable Warmth Solutions, an independent community interest company that builds on the expertise and reputation of our former affordable warmth programme. The company brings together funding partners, local authorities and communities to provide efficient gas connections and new gas heating systems for the fuel poor. It has already delivered many schemes with more planned for 2010/11.

We believe that increased awareness and responsibility among energy users, together with a more collective and collaborative approach to meeting shared energy and environmental goals, marks a growing trend in the energy industry.

Reservoir Woods

In May 2009, we opened the doors to Reservoir Woods, our new US headquarters. The office earned Platinum Leadership in Energy and Environmental Design rating for shell and core construction. The building incorporates over 40 environmental design and construction features including: a rainwater recycling system; exterior window shading to reduce cooling needs; and innovative interior lighting design. It not only shows National Grid's environmental commitment, but going forward will also offer cost efficiencies in operation and maintenance, as well as a healthy and productive place to work.

Smart metering

Smart meters are the next generation of gas and electricity meters, offering the ability for customers to manage their energy usage better. In addition, they will offer a platform to maximise the benefits of other new technologies, including: smart grid, home microgeneration and electric vehicles. In line with National Grid's commitment to safeguard our global environment for future generations, OnStream has initiated an extensive transformation programme to deliver efficient customer service and dual fuel smart metering capabilities. In support of this, we have developed new smart electricity and gas meters with an innovative communications platform at their core. In conjunction with two energy suppliers, we intend to launch our field pilot in 2010, prior to full scale roll-out.

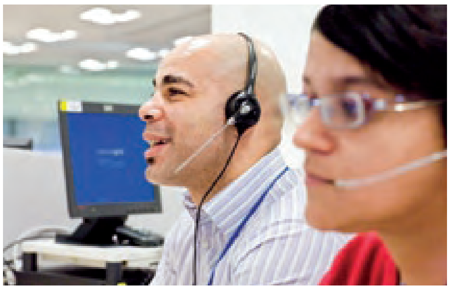
44,000 new US gas heating customers

One of the priorities for our US gas distribution business is to increase the number of consumers who use natural gas. For every new gas heating consumer there is an estimated saving of 36.5 tonnes of carbon dioxide over the 15 year life of the equipment – equivalent to removing 7 cars, each doing approximately 12,000 miles from US roads for a year. In 2009/10, National Grid connected more than 44,000 new gas heating customers.

Energy efficiency

Becoming more energy efficient is vital if we are to meet the challenges facing the energy industry today and into the future. A world in which we use less energy, more efficiently, is needed. National Grid has a central role to play in this by: demonstrating leadership with our own attitude to energy efficiency; facilitating the development of efficient new technologies and technology applications; and educating consumers about their energy use, helping them to make their future energy use more affordable.

Shaping the future continued



Customer service advances

By delivering high standards of service and working in partnership with our customers we can build strong relationships with them and, at the same time, foster goodwill with other stakeholders including regulators and governments. In 2009, one of our actions to improve customer service and meet customer expectations more effectively involved setting up two new departments in the US. Customer energy solutions provides integrated energy solutions to enable our customers to manage their energy choices better. Customer service operations covers end-to-end customer processes to give our customers an improved experience of dealing with us.

Building trust through continued reliability

Reliability is a priority for National Grid, not only to deliver all our current obligations, but also to ensure we continue to be recognised and trusted by governments and regulators. This means delivering a reliable service not just when the weather is making headlines – as it did in the UK and US over the winter of 2009/10 – but all the time. To achieve this, we have been investing in our infrastructure over recent years and are proud that our Transmission and Electricity Distribution & Generation businesses successfully met all of their regulatory reliability targets for the relevant regulatory period this year.

Shaping the regulatory framework for the future

In the UK, as we work to ensure continued security of supply, the significant investment needed to connect new sources of energy combined with the requirement to extensively upgrade ageing infrastructure, brings with it the need for regulation to adapt. We are feeding in to Ofgem's review of energy network regulation (RPI-X@20). This is analysing the current framework in order to determine how best to regulate energy network companies to enable them to meet the challenges and opportunities of delivering a sustainable, low carbon economy.

In the US, as our long-term rate plans expire, we are focusing on filing rate cases to: fully recover the cost of running our business; ensure recovery of future investment; and secure and earn acceptable returns. We are also seeking to introduce features such as timely recovery of non-controllable costs; tracking of capital investment to reduce the time lag between spending capital and receiving income; and decoupling – so that our revenue is not linked directly to our customers' energy usage (allowing us to enhance our energy conservation programmes without impacting on our revenue).

Common operating model

If we are to meet the demands of the future, including ensuring appropriate regulatory funding for our operations, we must have in place a suitable and efficient operating model. As we work to create value through our complementary businesses, we have been seeking to increasingly align our processes and operate to common principles, standards and policies. In Gas Distribution, through collaborative events involving people from across emergency, maintenance, repair and construction, we have developed a plan that will drive operational performance improvements through redesigning our processes and replacing our ageing computer technology. In Transmission, our common operating model project is developing a plan to prepare us for the challenges and opportunities between now and 2020.

Shaping the regulatory and operating structure

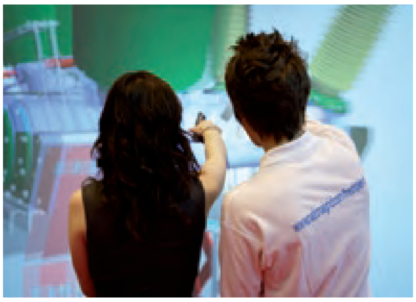
If we are to maintain energy security while moving to a low carbon economy, coordination between industry and government is essential. Regulatory frameworks, planning regimes, and our own operating structure, need to become more transparent as well as being redefined and realigned to resolve today's challenges for tomorrow's world effectively.

Engineering our Future

National Grid's Engineering our Future report was commissioned to provide an assessment of attitudes towards engineering among young people and identify how we can encourage the next generation of engineers. Key findings included that young people often struggle to visualise what professional engineers do, and teachers are often unable to explain engineering.

As a result, in the UK, we have bolstered our existing employee volunteering in local schools through Imagineering and School Power – a new programme of activities to enrich the teaching of energy, forces and materials. We are also working with the Royal Academy of Engineering to create a new residential work experience offering and programmes for engagement with teachers and career advisers.

In the US, we have launched Engineering Pipeline – a six year development programme that creates a recruitment pathway to inspire promising students to pursue an education and career in engineering. We are also maintaining our school engagement programmes through our partnership with Junior Achievement where we have approximately 150 employees volunteering each year to teach business courses, leadership development programmes and introduce students to engineering.



Innovative learning

As we strive to create the future of learning, we are exploring new and innovative ways to impart knowledge and skills. Our 3D virtual learning facilities are already enhancing the learning experience of our employees allowing them to step into a real world environment by interacting virtually with our network, plant and components. Through showcasing this technology, we are generating interest and increasing the potential pool of new talent to the Company.

Learning and development

Investing in training and development is vital to ensuring our employees have the right skills both now and into the future.

In the US, we are standardising and improving the quality of technical training. As a result of operational changes, best practice implementation and new hiring, we increased the overall amount of training by approximately 30% in 2009/10.

In the UK, Ofsted's inspection in January 2010 saw our apprenticeship scheme retain a grade 1 rating – the highest available. The scheme maintains a retention rate of more than 90% since 2004. The excellence and innovation of our training was separately recognised by the Learning and Skills Improvement Service with the award of Beacon status. We continue to work to expand and develop our programmes based on the needs of the business. In 2009, we launched a new construction engineer training programme that combines academic and on-the-job training through a scheme lasting five years.

Leadership

As National Grid continues to grow and evolve, it is critical that we have a talented and diverse population of leaders. These leaders will play an important role in leading the change required to deliver the low carbon and energy security requirements of the future.

In order to provide our leaders with the support they need to be effective, we launched a global development programme in May 2009 – foundations of leadership. Approximately 740 employees have already started on the course. The 15 month programme focuses on providing participants with business fundamentals and leadership skills.

Skills for today and the future

Looking ahead to 2020 and beyond, a challenge exists in guaranteeing the right skills and expertise to manage our future networks. We need to create the next generation of jobs and get people interested in science and technology, as well as foster the talent of our existing workforce, including through embracing inclusion and diversity, giving them every opportunity to reach their full potential.

Board of Directors

Steve Lucas Sir John Parker Tom King Nick Winser

Mark Fairbairn Maria Richter Steve Holliday

Stephen Pettit Linda Adamany Philip Aiken Ken Harvey

John Allan Helen Mahy George Rose

Sir John Parker, Chairman

Nominations Committee (chairman)

Sir John Parker became Chairman in October 2002 following the merger of National Grid Group plc and Lattice Group plc having been Chairman of Lattice Group plc since its demerger from BG Group plc in 2000. Sir John's career has encompassed the engineering, shipbuilding and defence industries. He is Chairman of Anglo American plc and Deputy Chairman of DP World (Dubai). He is also a Non-executive Director of Carnival plc and Carnival Corporation, Inc., and the European Aeronautic Defence and Space Company (EADS) and Chancellor of the University of Southampton. Sir John was previously Senior Non-executive Director (Chair) of the Court of the Bank of England, a former joint Chairman of Mondi plc, a former Chairman of P&O Group and of RMC Group plc, and a former Chairman and Chief Executive of Harland & Wolff plc and Babcock International Group PLC.

Steve Holliday, Chief Executive

Executive Committee (chairman), Finance Committee

Steve Holliday became Chief Executive of National Grid in January 2007 having joined National Grid Group plc as Group Director, UK and Europe in March 2001, becoming responsible for the electricity and gas transmission businesses in October 2002. He was appointed as Group Director responsible for UK Gas Distribution and Business Services in April 2003. He was formerly an Executive Director of British Borneo Oil and Gas. Previously, he spent 19 years with the Exxon Group, where he held senior positions in the international gas business and managed major operational areas such as refining and shipping. He is a Non-executive Director of Marks and Spencer Group plc and Chairman of the UK Business Council for Sustainable Energy, Chair of the National Technician Council and a member of both the Board of Trustee Directors for Business in the Community and Infrastructure UK.

Steve Lucas, Finance Director

Executive Committee, Finance Committee

Steve Lucas has been Finance Director since his appointment in October 2002 following the merger of National Grid Group plc and Lattice Group plc and is additionally responsible for Property and Shared Services. He had been Executive Director, Finance of Lattice Group plc since its demerger from BG Group plc. Previously, he was Treasurer of BG Group plc having joined British Gas plc in 1994. Prior to this, he was with Shell International Petroleum Company for 11 years, occupying a number of finance management positions and treasury roles, including 7 years in Africa and the Far East. Steve is also a Non-executive Director of Compass Group PLC.

Nick Winser, Executive Director

Executive Committee

Nick Winser joined the Board in April 2003 as Executive Director responsible for Transmission. He was previously Chief Operating Officer of the US transmission business for National Grid Transco plc. He joined National Grid Company plc in 1993, becoming Director of Engineering in 2001. Prior to this, he had been with Powergen since 1991 as principal negotiator on commercial matters, having joined the Central Electricity Generating Board in 1983 where he served in a variety of technical engineering roles. He is a Non-executive Director of Kier Group PLC and co-Chair of the Energy Research Partnership.

Mark Fairbairn, Executive Director

Executive Committee

Mark Fairbairn was appointed to the Board in January 2007 as Executive Director with responsibility for Gas Distribution. He joined National Grid in 1989 from BNFL. Previously Chief Operating Officer of the UK gas distribution business, he has played a key role in helping to restructure the UK gas distribution market through the gas networks sale and the creation of National Grid's new gas distribution business. Mark is a member of Living with Environmental Change Business Advisory Board.

Tom King, Executive Director
Executive Committee

Tom King was appointed to the Board as Executive Director in August 2007 with responsibility for Electricity Distribution & Generation operations. Tom was President of PG&E Corporation and Chairman and CEO of Pacific Gas and Electric Company from 2003 to 2007. Before that, he served as Senior Vice President of PG&E Corporation, and as President of PG&E National Energy Group, having joined PG&E Gas Transmission as President in 1998. Prior to PG&E, he served as President and Chief Operating Officer of Kinder Morgan Energy Partners and served for nine years in officer positions in Enron's inter-state pipeline businesses.

Ken Harvey, Non-executive Director and Senior Independent Director
Nominations Committee, Remuneration Committee, Risk & Responsibility Committee

Ken Harvey joined the Board in October 2002 following the merger of National Grid Group plc and Lattice Group plc, having been appointed to the Lattice Group plc board in September 2000. He was appointed Senior Independent Director in October 2004. He is Chairman of Pennon Group plc. A chartered engineer, Ken is a former Chairman and Chief Executive of Norweb plc, and a former Chairman of Comax Holdings Ltd, The Intercare Group plc and Beaufort International Group plc.

Linda Adamany, Non-executive Director
Audit Committee, Risk & Responsibility Committee

Linda Adamany joined the Board in November 2006. Until April 2008, she was Group Vice President, BP plc. Linda has over 35 years' business experience, with 27 years in the international energy sector, having held various executive roles for BP in both the UK and the US, in refining & marketing, exploration & production and petrochemicals businesses, including Chief Executive of BP Shipping and Group Vice President and Commercial Director, BP Refining & Marketing. She also serves as a member of various not-for-profit boards, and formerly held board level positions in international shipping bodies. She is also a certified public accountant, qualifying in 1975.

Philip Aiken, Non-executive Director
Audit Committee, Risk & Responsibility Committee

Philip Aiken joined the Board in May 2008. He is Chairman of Robert Walters plc, a Non-executive and Senior Independent Director of Kazakhmys plc and a Non-executive Director of Miclyn Express Offshore and Essar Energy. Formerly, Group President of BHP Billiton's Energy business, Executive Director of BTR plc and senior positions in BOC Group plc and senior advisor to Macquarie Capital (Europe) Limited.

John Allan, Non-executive Director
Finance Committee, Remuneration Committee (chairman)

John Allan joined the Board in May 2005. He is Chairman of DSG International plc and a Non-executive Director of 3i Group plc and ISS. He is an advisor to Deutsche Bank and a member of the University of Edinburgh Campaign Board. John was previously Chairman of Samsonite Corporation, a Non-executive Director of PHS Group plc, Wolseley plc, Hamleys plc and Connell plc. He retired as CFO of Deutsche Post in 2009, having been appointed to the Management Board following its acquisition of Exel plc in December 2005 where he was Chief Executive. He is a former member of the Supervisory Boards of both Lufthansa AG and Deutsche Postbank.

Stephen Pettit, Non-executive Director
Finance Committee, Remuneration Committee, Risk & Responsibility Committee (chairman)

Stephen Pettit was appointed to the Board in October 2002 following the merger of National Grid Group plc and Lattice Group plc, having been appointed to the Lattice Group plc board in 2001. He is a Non-executive Director of Halma plc and is Chairman of ROK plc. Stephen is also a member of BT plc's Equality of Access Board. He is a former Executive Director of Cable & Wireless plc. Before joining Cable & Wireless, he was Chief Executive, Petrochemicals at British Petroleum.

Maria Richter, Non-executive Director
Audit Committee, Finance Committee (chairman), Nominations Committee

Maria Richter was appointed to the Board in October 2003. Maria worked for Morgan Stanley between 1993 and 2002, most recently as Managing Director of its Corporate Finance Retail Group. Prior to this, she was Managing Director of Investment Banking in the Southern Cone of Latin America, and Executive Director and Head of Independent Power and Structured Finance Business. Previous appointments include Vice President of Independent Power Group for Salomon Brothers, and Vice President of Prudential Capital Corporation and Power Funding Associates. Maria is a Non-executive Director of Pro Mujer International, an international microfinance organisation, The Pantry, Inc., The Vitec Group plc and The Bessemer Group Inc.

George Rose, Non-executive Director
Audit Committee (chairman), Nominations Committee, Remuneration Committee

George Rose was appointed to the Board in October 2002 following the merger of National Grid Group plc and Lattice Group plc, having been appointed to the Lattice Group plc board in September 2000. He has been Finance Director of BAE Systems plc since 1998, having joined the company in 1992. He is a Non-executive Director of SAAB AB and a member of the UK Industrial Development Advisory Board. Formerly a member of the Financial Reporting Review Panel and a Non-executive Director of Orange plc.

Helen Mahy, Company Secretary & General Counsel
Executive Committee

Helen Mahy was appointed Company Secretary in October 2002 following the merger of National Grid Group plc and Lattice Group plc, having been Company Secretary at Lattice Group plc since March 2002. She was additionally appointed General Counsel from October 2003. She is a barrister and an Associate of the Chartered Insurance Institute. Helen is a Non-executive Director of Stagecoach Group plc and was formerly a Non-executive Director of Aga Rangemaster Group plc. She is a former Chair of the GC100 Group.

Operating and Financial Review

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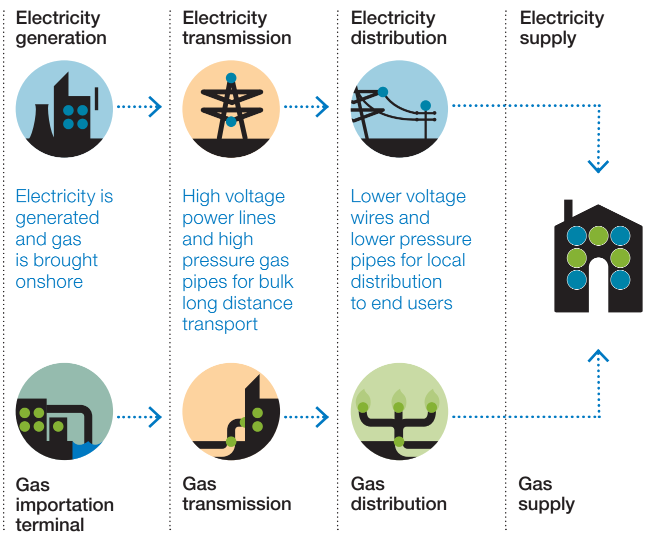
Principal operations

Our principal operations are the ownership and operation of regulated electricity and gas infrastructure networks in the UK and the US, serving around 19 million consumers directly and many more indirectly. We also have interests in related markets.

We have over 28,000 employees in the UK and US.

The performance of our principal businesses is reported by segment, reflecting the management responsibilities and economic characteristics of each activity. Our principal businesses and segments, together with other activities, are described on this page and further details are available on pages 46 to 73.

How the industry operates



Transmission

UK

The transmission of electricity and gas in the UK as owner and operator of the high voltage electricity transmission network in England and Wales, the gas national transmission system in Great Britain, electricity interconnector with France and storage facilities for LNG. The operation, but not ownership, of the electricity transmission networks in Scotland.

US

The transmission of electricity in the northeastern US as owner and operator of high voltage electricity transmission networks in upstate New York, Massachusetts, New Hampshire, Rhode Island and Vermont.

Gas Distribution

UK

The distribution of gas as owner and operator of four of Great Britain's eight gas distribution networks.

US

The distribution of gas in the northeastern US as owner and operator of gas distribution networks in upstate New York, New York City, Long Island, Massachusetts, New Hampshire and Rhode Island.

Electricity Distribution & Generation

US

The distribution and generation of electricity in the northeastern US as owner of electricity distribution networks in upstate New York, Massachusetts, New Hampshire and Rhode Island, as operator and manager of the electricity transmission and distribution network on Long Island on behalf of the Long Island Power Authority and as a generator of electricity on Long Island.

Non-regulated businesses and other

Other services related to our main operations, principally in the UK. Includes metering services, property management, electricity interconnectors and liquefied natural gas (LNG) importation.

This Operating and Financial Review describes the main trends and factors underlying our development, performance and position during the year ended 31 March 2010 as well as those likely to affect us 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.

Organisation and structure

Organisation

Our organisational structure and executive responsibilities ensure a balance between activities that are managed locally, those managed by line of business, and those that are common throughout National Grid.

The Board of Directors has overall responsibility for the governance, strategy and management oversight of National Grid. The Executive Committee, led by the Chief Executive, is responsible for the day-to-day management of National Grid and for the execution of our strategy as approved by the Board.

Board of Directors

Executive Committee

Chief Executive: Steve Holliday

Finance and shared services: Steve Lucas

Transmission: Nick Winser	Gas Distribution: Mark Fairbairn
Electricity Distribution & Generation: Tom King	Non-regulated businesses* and other (including corporate functions and information services)

* Responsibility for our non-regulated businesses is allocated to the Executive Directors based on the nature of each business

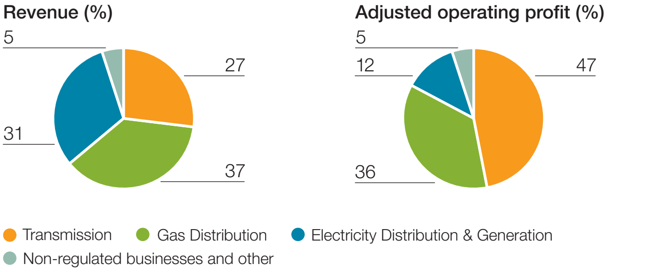
In addition to the Executive Committee, the Board has also established a number of other Committees that assist in exercising governance over National Grid's activities. These are the Audit, Finance, Nominations, Remuneration, Risk & Responsibility and Disclosure Committees.

More information on the roles of the Board and its Committees can be found in the Corporate Governance section on **pages 87 to 91**

Business and geographic analysis

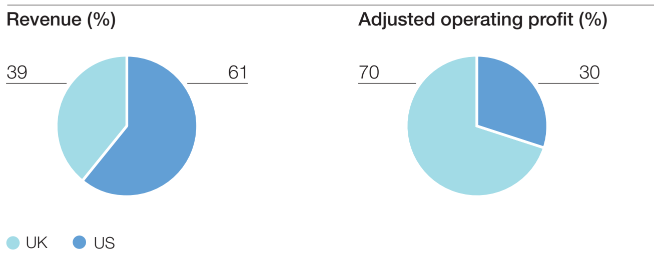
Our continuing operations are organised by lines of business as follows:

Business analysis 2009/10
Continuing operations



Our businesses are divided between the UK and the US as follows:

Geographical analysis 2009/10
Continuing operations



The charts show revenue and adjusted operating profit from continuing operations for the year ended 31 March 2010. Adjusted operating profit excludes exceptional items, remeasurements and stranded cost recoveries.

More information on these adjustments is available on **pages 38 and 39** and in Accounting policies on **page 116**

In the US, we purchase electricity and gas for onward sale to customers, and the amount we receive from customers for these commodities is included in revenue. We make no margin on these purchases and sales. In the UK, we do not purchase or sell the commodities, so there is no equivalent amount included in UK revenue.

History

National Grid originated from the restructurings of the UK gas industry in 1986 and the UK electricity industry in 1990. We entered the US electricity delivery market in 2000 in New England and expanded into upstate New York in 2002. We increased our UK wireless infrastructure activities in 2004 and in 2005 we sold four UK regional gas distribution networks.

In 2006, we acquired the gas distribution network in Rhode Island and, in 2007, we acquired KeySpan. We sold our UK and US wireless infrastructure operations and the Basslink electricity interconnector in Australia during 2007. In 2008, we sold the Ravenswood generation station.

More information on the history of National Grid is available in the Shareholder information section on **page 191**

External market

Markets in which we operate

The principal markets in which we operate are the electricity and gas markets in Great Britain and in Massachusetts, New York, Rhode Island and New Hampshire in the US.

The supply of electricity and gas in the UK and in most of the states in which we operate in the northeastern US is competitive in that consumers can choose their energy supplier. Those suppliers are then responsible for sourcing the energy from electricity generators or from gas extractors or importers as appropriate, as well as arranging for that energy to be delivered through physical delivery networks. These networks, including the ones we operate, are generally monopolies in their local areas because, for the majority of consumers, there are no alternative methods of receiving electricity or gas.

Energy delivery in the UK

In general, in the UK, energy is transported through electricity or gas transmission networks to regional electricity or gas distribution networks that then deliver energy to consumers on behalf of suppliers. This is shown in figure 1. Certain end users, primarily large industrial consumers, receive electricity or gas directly from the relevant transmission network, rather than through a distribution network (not shown in diagram).

We are the owner and operator of the high voltage electricity transmission network in England and Wales; operator, but not owner, of the two electricity transmission networks in Scotland; and owner and operator of the gas national transmission system and of four of the eight regional gas distribution networks in Great Britain. We charge electricity and gas suppliers, electricity generators and gas shippers for our services. There are 14 electricity distribution networks in the UK, owned by 7 different companies. Two companies each own an electricity transmission network in Scotland, which we operate in both cases, and three companies own the four gas distribution networks in Great Britain that we do not own. The ownership of the networks we do not own is set out below.

Network	Owner (and parent where relevant)
Electricity distribution networks in Great Britain (non National Grid)	
West Midlands East Midlands	Central Networks (E.ON)
North West	Electricity North West
North East Yorkshire	CE Electric UK (Berkshire Hathaway)
South Wales South West England	Western Power Distribution
London South East England East of England	EDF Energy Networks (Electricité de France)
Central and Southern Scotland Cheshire, Merseyside and North Wales	Scottish Power (Iberdrola)
Northern Scotland Central Southern England	Scottish and Southern Energy
Electricity transmission networks in Scotland (non National Grid)	
Northern Scotland	Scottish and Southern Energy
Southern Scotland	Scottish Power (Iberdrola)
Gas distribution networks in Great Britain (non National Grid)	
North of England	Northern Gas Networks
Scotland	Scotland Gas Networks (Scotia Gas)
South and South East England	Southern Gas Networks (Scotia Gas)
Wales and West of England	Wales & West Utilities

Energy delivery in the northeastern US

In most of our operating areas in the northeastern US, consumers are able to purchase their energy through independent energy suppliers. While a number of large customers have chosen suppliers other than the local utility provider, the majority of residential and small commercial consumers still purchase electricity or gas from their local electricity or gas distribution network business. The major alternative fuel source to gas is oil, which many consumers use for domestic heating purposes.

Electricity is transported either directly from generators or independent suppliers into local electricity distribution networks or via electricity transmission networks, while gas is obtained from importation terminals, gas producers or independent suppliers transported on gas transmission pipelines and then transported through local gas distribution networks. This is shown in figures 2 and 3. Certain end users, primarily large industrial customers, receive electricity or gas directly from the electricity transmission networks or inter-state gas transmission pipelines (not shown in diagram).

Our US electricity and gas distribution businesses support regulatory policies that encourage customers to purchase their energy from independent suppliers. Where this occurs, we deliver that energy to consumers on behalf of those suppliers. For the majority of consumers in our operating areas who continue to purchase their energy from us, we purchase energy from electricity generators or gas suppliers on behalf of our customers in accordance with regulatory approved arrangements. We are generally responsible for billing customers both for our delivery services and for electricity and gas consumed, on which we do not charge any additional margin.

On Long Island, we operate the electricity transmission and distribution network on behalf of its owner, the Long Island Power Authority (LIPA). We own 57 electricity generation plants on Long Island that supply power under contract to LIPA. Our agreements with LIPA also cover our provision of fuel procurement and management services.

Electricity transmission and distribution networks, including the ones we own, are members of the regional transmission operators or independent system operators that have the responsibility for balancing electricity supply with demand and for the reliability of the regional transmission network. Gas distribution networks, including the ones we own, are each responsible for balancing gas supply with demand within their respective distribution area.

There are more than 25 other companies and organisations that own or operate fuel delivery infrastructure in the northeastern US.

Other markets in which we operate

Our other businesses primarily operate in energy related markets in the UK and the US or are directly related to our regulated businesses described above. This includes our metering services businesses in the UK, incorporating our legacy regulated metering business which owns approximately 75% of the domestic gas meters in the UK, and our competitive metering services business which owns a further 11%. In addition, we have a significant property portfolio and property management business.

Current and future developments

Market structure and ownership

There have been no significant changes in either the structure or ownership of the UK energy infrastructure market during 2009/10. In the northeastern US, there have been no significant changes to the structure or ownership of the electricity and gas networks during the year, although First Energy Corp. has announced a planned acquisition of Allegheny Energy Inc., and PPL Corp. has announced a planned acquisition of E.ON AG's US utilities, both subject to regulatory approval.

Energy market developments

Both the UK and the US energy markets continue to undergo developments driven by: new sources of electricity generation, including renewables; increased focus on security of supply; and the projected increased reliance in the UK on imported gas.

In the UK, the energy sector faces significant challenges relating to the declining gas reserves in the North Sea. Our latest forecast is that the UK will import around 46% of its gas requirements by 2010/11 and 69% by 2018/19. Other challenges include meeting the government's targets on renewable generation, and the retirement of significant parts of the current generation capacity.

In November 2009, the Department of Energy and Climate Change (DECC) issued a consultation document on reforming the planning consent system for nationally significant energy infrastructure projects. The consultation period closed in February 2010 and the outcome is expected to be finalised later in 2010.

In January 2010, The Crown Estate announced the successful bidders for each of the nine Round 3 offshore wind zones within UK waters. These zones have the potential to deliver up to 32 GW of renewable offshore wind generation.

In March 2010, the DECC established a new Office of Carbon Capture and Storage, which is tasked with facilitating the delivery of carbon capture and storage in the UK, and helping to promote its rapid deployment globally.

Following the UK government's support for new nuclear generation announced in January 2008, the Health and Safety Executive is currently assessing generic designs. This assessment is expected to be completed in June 2011 and consideration of specific designs can then begin. The first new nuclear generation is currently expected to be operational by 2017.

Progress is continuing on phase III of our LNG importation facility on the Isle of Grain, with commissioning expected in winter 2010/11. Once fully commissioned, it is anticipated that our facility will have the capacity to import approximately 20% of the UK's gas demand.

In the US, the administration change has brought an increased political desire to tackle the issues around climate change and security of supply. The development of smart grid technologies is expected to enable more efficient use of the transmission and distribution grid, lower line losses, greater use of renewables and the provision of information to utilities and their customers that will lead to greater investment in energy efficiency and reduced peak load demands.

These changes are expected to have an impact on all our electricity and gas transmission networks. In particular, they will require significant investment in our UK electricity and gas transmission networks, while in the US new transmission investment, asset replacement and renewable power developments will require increasing investment in our US electricity transmission and distribution networks.

Figure 1 – Energy transportation in the UK

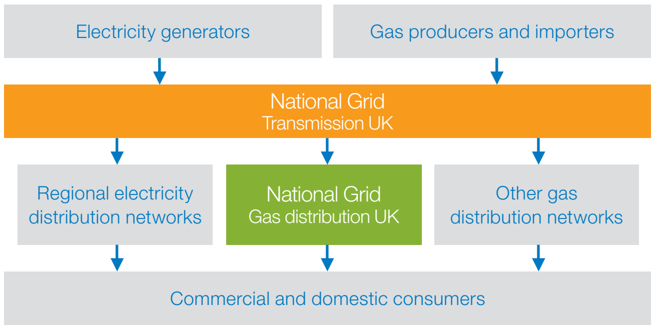


Figure 2 – Electricity transportation in the US

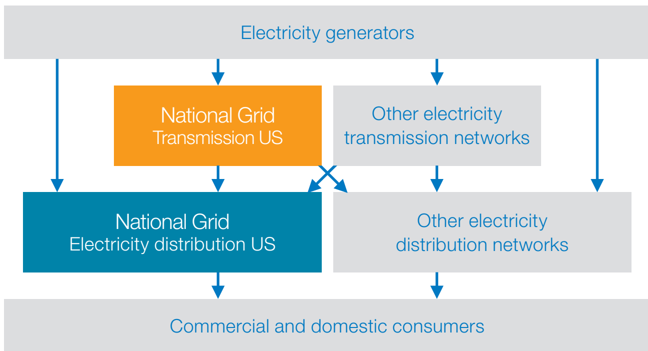
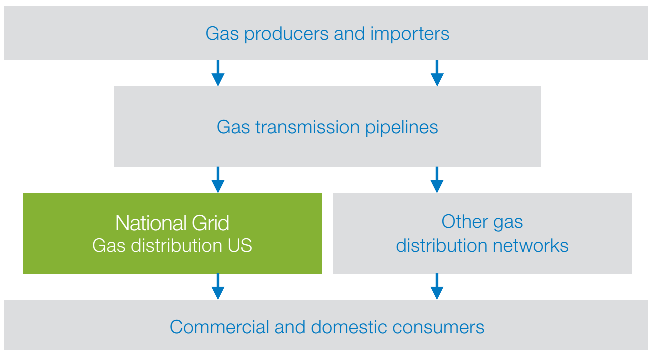


Figure 3 – Gas transportation in the US



Regulatory environment

Utility regulation

Due to our position in, and importance to, the economies we serve, our electricity and gas transmission and distribution businesses are subject to UK, European Union and US federal and state laws and regulations. Therefore, we have a number of regulators, each of which exercises power over how we operate within their respective jurisdictions.

Our principal market regulators and associated rate plans and price controls are illustrated opposite and can be summarised as follows:

UK

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

We have eight price controls in the UK, comprising: two for our UK electricity transmission operations, one covering our role as transmission owner (TO), and the other for our role as system operator (SO); two for our gas transmission operations, again one as TO and one as SO; and one for each of our four regional gas distribution networks. The revenue that we can earn from charging for access to our UK electricity and gas systems is determined by formulae linked to the UK retail price index (RPI). These formulae are based upon Ofgem's estimates of operating expenditure, capital expenditure and asset replacement, together with an allowed rate of return on capital invested in the business, as measured by the regulatory asset value. They provide a financial incentive to operate and invest efficiently and also provide incentives by which we can gain or lose for our performance in managing system operation, in controlling internal costs and for our service quality.

US

In the US, public utilities are regulated by the Federal Energy Regulatory Commission (FERC) and by utility commissions in each of the states, including the New York Public Service Commission, the Massachusetts Department of Public Utilities, the Rhode Island Public Utilities Commission and the New Hampshire Public Utilities Commission. These US regulators set service standards, approve an allowed cost base, determine cost recovery and allowable levels of return and approve mergers and acquisitions of public utilities. The FERC also regulates public utility holding companies, including the US businesses of National Grid.

We have four electricity rate plans and nine sets of gas rates, covering our electricity distribution operations in upstate New York, Massachusetts, Rhode Island and New Hampshire and our gas distribution networks in upstate New York, New York City, Long Island, Massachusetts, New Hampshire and Rhode Island. Our electricity rate plan in upstate New York also covers our electricity transmission network in that state. The rates for our electricity transmission network in New England are subject to federal regulatory approval.

Our rate plans are designed to produce a specific allowed return on equity, by reference to an allowed cost base and an agreed regulatory asset base. Some rate plans include earned savings mechanisms that allow us to retain a proportion of the savings we achieve through improving efficiency, with the balance benefiting customers. We are also permitted to recover commodity and other pass-through costs which we incur, together with the recovery of stranded costs.

We have regulatory arrangements that provide for the recovery of our historical investments in generating plants that were stranded when some of our US subsidiaries divested their generation business as part of the industry restructuring and wholesale power deregulation process in New England and New York, and the recovery of certain above market costs of commodity purchase contracts that were in place at the time of restructuring and deregulation. We recover most of these costs through the rates charged to electricity customers. This revenue stream will decline as the recovery of stranded costs is completed.

Our reliability performance under certain rate plans is subject to performance targets established by the relevant regulator, under which we may be subject to monetary penalties in cases where we do not meet those targets.

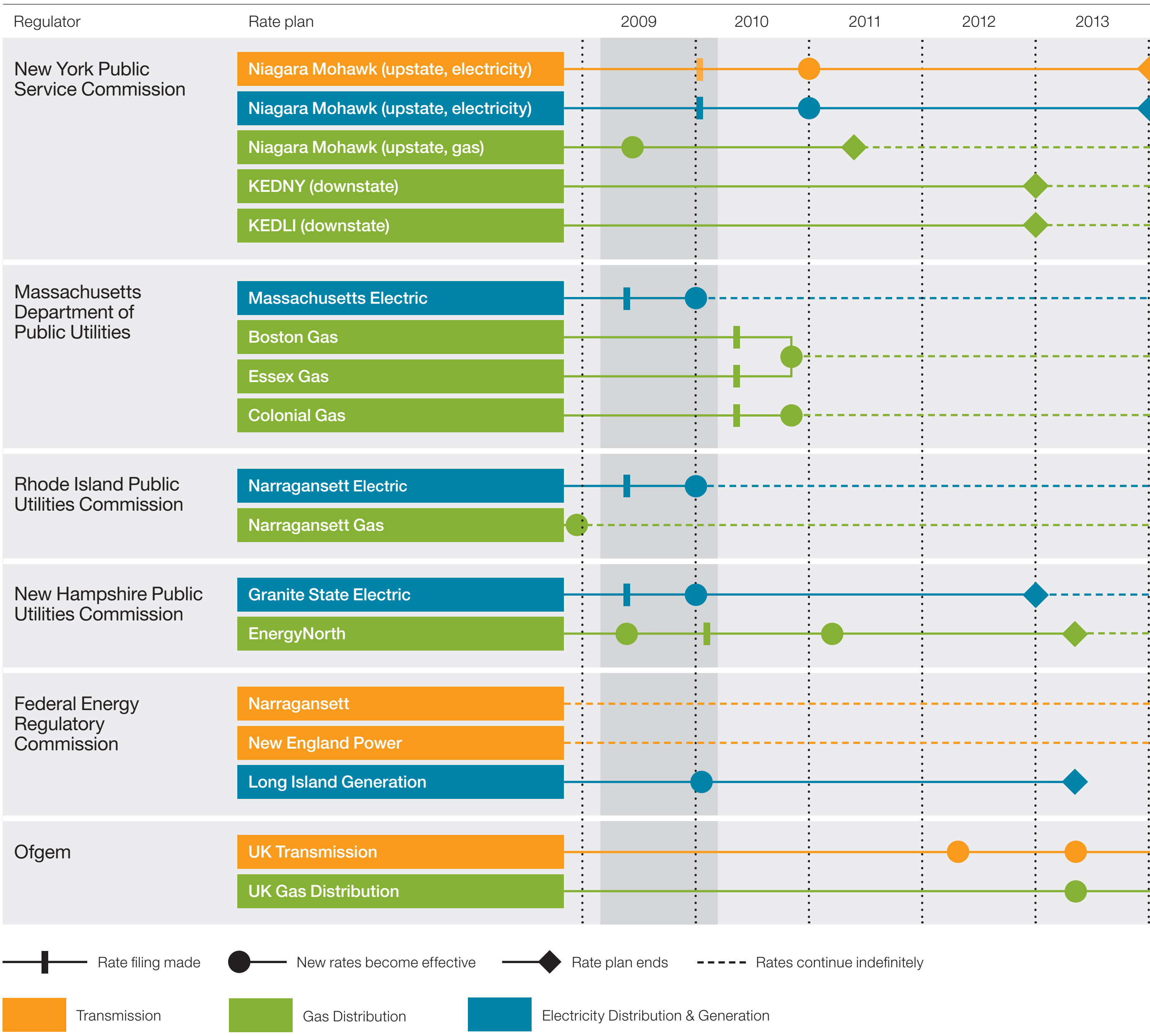
More information about the regulatory environments in which we operate, and on the nature of our rate plans and price controls, is provided in each of the regulated business sections on pages 46 to 53 (Transmission), 54 to 61 (Gas Distribution) and 62 to 69 (Electricity Distribution & Generation).

Other regulation

Our businesses are also subject to safety legislation in the UK and the US, which is enforced by the Health and Safety Executive (HSE) in the UK and by federal safety bodies and state and local authorities in the US. Our UK gas operations work under a permissioning regime, whereby our organisation, processes and procedures are documented in safety cases that are subject to acceptance by the HSE.

As a public company with shares and other securities listed on both the London and New York stock exchanges, we are also subject to regulation by the UK Financial Services Authority, the US Securities and Exchange Commission and the exchanges themselves.

Rate plans and price control calendar



Energy policy, regulatory and other developments

UK and European energy policy

In May 2007, the UK government published a white paper entitled Meeting the Energy Challenge. This document set out the government's strategy to address the issues of climate change and the UK's increasing reliance on imported fuel. The strategy includes: carbon dioxide (CO_2) emission reductions of about 60% by 2050; security of supply; competition in energy markets in the UK and overseas; and adequate and affordable heating for every home.

In November 2008, the government enacted the Climate Change Act, making the UK the first country in the world to have a legally binding long-term framework to cut carbon emissions. The Act provided for targets for reductions in greenhouse gases of 80% by 2050, against a 1990 baseline. It also established a series of five year carbon budgets, and set up a Committee on Climate Change as an expert body to advise the government on those carbon budgets and to advise on the balance between actions to be taken at the domestic, European and international levels. In addition, in his 2009 Budget the then Chancellor Alistair Darling also promised to cut greenhouse gases by 34% by 2020 through the carbon budget provisions previously envisaged in the Act.

In 2009, the Department of Energy and Climate Change issued the UK Low Carbon Transition Plan, setting out plans to meet the 34% cut in emissions by 2020, including measures such as home energy efficiency and smart meters, and a target of 40% of the UK's electricity to be derived from low carbon sources, including nuclear, by 2020.

In December 2008, the European Union approved a number of environmental proposals. Legally binding national targets have been established that dictate the proportion of energy production to be provided from renewable sources by 2020. For the UK the target is 15%. In order to achieve this, it is believed the proportion of electricity generated by renewable sources will need to rise to around 35%.

US energy policy

At the federal level, the Obama administration and Congress have focused on new energy and environmental legislation in two main areas: the economic stimulus bill; and emerging comprehensive climate and energy legislation. The $787 billion American Recovery and Reinvestment Act, passed in February 2009, has significant provisions for the energy industry. The Act provides funding for the expansion of the electricity transmission network with focus on smart grid development, a broad array of energy efficiency programmes, clean fuel transportation incentives and research and development programmes.

The current Congress has made considerable progress on comprehensive climate change legislation. The American Clean Energy and Security Act passed significant cap and trade legislation out of the House of Representatives in the summer of 2009 and the Clean Energy Jobs and American Power Act was passed out of the Senate Environment and Public Works Committee later that year. There has been a bipartisan effort to craft legislation to cover not only climate change and greenhouse gas reductions, but also energy security language that would enhance domestic energy supplies from nuclear power to offshore oil and gas drilling. In President Obama's 2010 State of the Union address, he expressed his vision of a 17% goal in reduction of greenhouse gas emissions by 2020 and 80% by 2050.

Regulatory developments

UK and European regulatory developments

During the year ended 31 March 2010, there were no significant legislative changes in the UK relating to utility regulation.

In March 2008, Ofgem announced a review of the current RPI-X based regulatory framework. The RPI-X@20 review is an assessment of the current regulatory regime and its ability to address the challenges facing energy networks in the future. Ofgem's intention is for the output from this project to feed into future price controls. To allow the output of RPI-X@20 to be fully incorporated into the next full transmission price control review, the current transmission price controls will be rolled over and extended by one year to March 2013. The current gas distribution price control is also scheduled to end in March 2013. The outcome of RPI-X@20 is unlikely to impact our current regulatory settlements, but is expected to influence future price controls from 2013.

In early 2009, Ofgem launched Project Discovery, an examination of the prospects for secure and sustainable energy supplies over the next 10 to 15 years. We will continue to work with Ofgem as they consult on their range of options.

The European Commission's third legislative package of energy proposals for the European gas and electricity markets was passed in July 2009 and must now be implemented in UK domestic legislation by April 2011. The new legislation consists of two directives on rules for the internal gas and electricity markets, two regulations on conditions for access to those markets, and one regulation establishing an Agency for the Cooperation of Energy Regulators. The original legislation, published in September 2007, contained measures to force energy companies to unbundle their transmission businesses from supply and generation activities. The final proposals include alternatives to full unbundling. In summer 2009, the European Commission published an initial proposal for a regulation concerning security of gas supply, and National Grid has worked closely with the UK government and through Gas Infrastructure Europe to help in its development. The legislative processes are expected to complete by the end of 2010. Key features of the new proposed regulation include improving information flows and coordination of actions in an emergency.

US regulatory developments

The principal US regulatory policy developments continue to focus on reducing carbon emissions, through significant increases in energy efficiency and the development of renewable generation. At the state level, regulatory commissions and other policymakers are pursuing carbon reduction targets by requiring reductions in electric load growth, increasing the deployment of utility energy efficiency programmes and mandating renewable generation. Revenue decoupling mechanisms, to address disincentives to utility companies implementing energy efficiency programmes, have been proposed. Massachusetts and New York regulatory bodies have instructed utilities to file decoupling proposals as part of their next rate plans. There is also an increasing interest in exploring the deployment by utilities of smart grid technologies.

Price controls and rate plans

UK price controls

The price controls for the UK electricity and gas transmission businesses were due to be reviewed during 2010 and 2011 but, as noted above, they have been delayed by a year and are now expected to be implemented in April 2013. We were subject to one year system operator price controls for our electricity and gas transmission operations for 2009/10 and new one year controls have been agreed for 2010/11.

US rate plans

In New York, we were granted a 10.2% return on equity (ROE) with a $39.4 million revenue increase for the upstate gas business, effective from 20 May 2009.

In New Hampshire, the Public Utilities Commission issued a rate order for the gas distribution business allowing a 9.54% ROE and a revenue increase of approximately $5 million, effective from 29 May 2009. For retail customers this decision resulted in a reduction in bills from the temporary rates set on 24 August 2008. We filed a Motion for Reconsideration to appeal the ROE determination but the Commission denied our motion. On 26 February 2010, we filed a further rate increase proposal seeking an 11.2% ROE. A decision is expected in January 2011.

In Massachusetts, the electricity distribution business was granted a revenue increase of $42 million effective from 1 January 2010 with an additional $24.1 million to be recovered over the subsequent four year period to recover storm costs. The Commission approved a 10.35% ROE. The Massachusetts rate case decision also allows for revenue decoupling, annual reconciliation of commodity related bad debt expense and pension expense, and a capital tracker to recover investment in the network up to $170 million.

In Rhode Island, the Public Utilities Commission approved a revenue increase of $23.5 million for the electricity distribution business with rates effective from 1 March 2010, retroactive to 1 January 2010. We were granted a 9.80% ROE with a capital structure of 42.75% common equity. We have submitted a filing to the Rhode Island Supreme Court requesting that the court hear our appeal of the Commission's decision and we plan to file a rate case later this year. For information on new rate plans filed, but not yet agreed by the regulators, see page 33.

For details of a rate adjustment in our power supply agreement with the Long Island Power Authority, see page 64.

Legal and related matters

An update on the ongoing Metering competition, gas distribution mains replacement reporting and KeySpan Department of Justice investigations that were reported in last year's Annual Report and Accounts is provided on pages 80 and 81. On 18 March 2010, a putative class action was commenced in New York against KeySpan and Morgan Stanley in relation to a financial swap transaction. Further details of this are also provided on page 81.

Other developments

We are currently evaluating options to allow us to exit our gas and electricity businesses in New Hampshire.

Financing developments

On 19 May 2010, the Board resolved to offer a fully underwritten rights issue to raise approximately £3.2 billion, net of expenses. The proceeds are expected to be used to fund a portion of our capital investment programme and for general corporate purposes. The capital raised will allow us to significantly increase our capital investment in the UK and assist in maintaining single A credit ratings for our UK operating companies, thereby improving our long-term competitive position.

Graeme Steele (above left), National Grid's European Policy and Interconnectors Manager, signs the foundation deed to create the European Network of Transmission System Operators – Gas.

European policy

In July 2009, the European Commission's third legislative package of energy proposals was passed. Among other things, this legislative package creates formal transmission system operator bodies for both gas and electricity. These bodies are charged with developing technical and commercial rules for cross border trading and producing 10 year network development plans. Through Board representation and working level resources, National Grid has established key roles in both organisations. Going forward, we see these organisations and the wider package of legislation as leading to greater cooperation and coordination with our neighbours in northwest Europe.

External relationships

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

Responsibility

Our reputation depends on the trust and confidence of our stakeholders. We will only earn this by working to the highest standards, by trusting our employees to do the right thing and by running our Company responsibly and sustainably.

Our Framework for Responsible Business, first published in 2002, has been extensively revised this year to provide a clearer line of sight from our vision to how we manage our business and our day-to-day dealings with our stakeholders. Our Company wide policies and position statements, available on our website, underpin the Framework.

Our Standards of Ethical Business Conduct provide 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 our core values. We undertake online training for employees annually to ensure they understand the Standards.

In 2009/10, there were 13.6 substantiated breaches of the Standards per 1,000 employees compared with 11.3 in 2008/09 and 11.6 in 2007/08. Offences include such things as fraud, internet and email abuse, drugs and alcohol abuse, and misuse of company vehicles and other assets. We take all breaches very seriously and disciplinary action can range from a verbal warning to dismissal.

In our 2010 employee survey, 66% (2009: 66%) of respondents considered something would be done if they reported an inappropriate business practice or an ethical issue.

We continue to enjoy external acknowledgment of our responsible business approach. In June 2009, we became one of only seven Business in the Community Platinum Plus companies, recognising our long-term commitment to operating responsibly.

The Responsibility section of our website provides performance data on a wide range of environmental, employee, economic and social issues. It also sets out our approach to assuring the corporate responsibility information and data in this report and our other public corporate responsibility reporting.

Investors

Our aim is to ensure the value of our business is fully reflected in our share price. We aim to make National Grid attractive to investors so we can finance our operations as effectively as possible.

In 2009/10, the prevailing economic conditions led to the cancellation of many investor conferences on the utilities conference calendar, but during the year we conducted over 230 investor meetings in the UK and Europe and 228 investor meetings in the US, maintaining a presence at 3 UK and European conferences and at 8 North American conferences. We presented to 11 broker sales teams, held 2 US regulatory updates and 1 UK site visit for analysts and investors.

We also presented to debt investors in the major European financial centres as well as across the US.

We operate a shareholder networking programme, the aim of which is to allow shareholders to gain a better understanding of the business. The programme includes visits to operational sites and presentations by senior managers and employees.

Customers

We aim to treat customers with respect, to communicate clearly with them, and to make their interactions with us as straightforward as possible. We aim at all times to provide a safe, reliable and efficient service to our customers.

We have a very wide range of customers, including: electricity generators and gas shippers; new developers from nuclear to wind, wave and tidal power; gas storage operators; local distribution companies; and approximately 19 million industrial, commercial and domestic consumers.

In 2009, we sought feedback from our UK transmission customers to understand what it was like to do business with us. They told us in a lot of cases we perform well and are knowledgeable about the industry. However, in a number of cases we let them down by our actions – including not communicating effectively and not being accessible. Using the data we gathered, a programme for 2010 has been developed to drive change in our customer focus. The programme sets out clear commitments to our customers, is driven and supported by senior management, and provides accountability and ownership for our employees.

A customer focused Transmission business will ensure we can be flexible in meeting the challenges of our changing customer base. It will allow us to respond proactively to customer requirements by meeting requests wherever we can. In cases where the regulatory frameworks prevent us from doing so, we will explain clearly the reasons and will work with the industry to adapt the frameworks for the future.

In UK Gas Distribution, we have a programme to improve customer service levels. This includes increased staff training, reviewing our processes to make them more customer focused, and a review of all our communications with customers. In addition, we are providing increased support to leaders to assist them as they engage with employees on the importance of customer service. An example of this is a short film that has been produced explaining the important role that all employees play in delivering an excellent customer service.

In the US, we implemented a new customer organisational model during the final quarter of the year, designed to increase our ability to deliver our customer objectives. The new organisation has been designed to be market driven and focused on delivering integrated energy solutions to our customers across all lines of business. For more information, see page 32.

We recognise the difficulties the current state of the economy has caused many of our customers. We understand we have an obligation to balance the payment needs of our customers with our financial responsibility to our shareholders, our regulatory commissions and our remaining customer base. To help balance these needs, we have been implementing a comprehensive bad debt mitigation strategy which includes focusing on early intervention and customer risk segmentation allowing us to better match appropriate collection strategies to individual customers.

Regulators

Our regulators, both in the UK and the US, are concerned with ensuring we can and do provide a safe, reliable and efficient service to our customers. Our ability to deliver that service, and to deliver returns to our investors, depends on our relationships with those regulators.

Our focus on customer service and operational excellence is a critical component of building trust with our regulators. This involves being responsive to the needs of our regulators for high quality information, complying with rules and regulations, operating in an ethical way, responding constructively to consultations and, most importantly, delivering on our promises. In the UK, we continue to work very closely with Ofgem on the renewal of our electricity transmission, gas transmission and gas distribution networks, and on expanding those networks to meet new and changing demand.

In the US, we are committed to maintaining strong relationships with our regulators at the state and federal levels. We want to ensure we deliver on our regulatory commitments, bring benefits to our customers, and shape the future regulatory agenda to deliver a clean energy economy. To that end, we have established a dedicated federal regulatory affairs team in Washington, D.C.

Suppliers

We aim to work in partnership with our suppliers, developing constructive relationships and working together effectively. Our objective is to develop contractual arrangements with our suppliers that align their interests with our own, as far as possible, and share financial risks appropriately.

Considering the environmental impact as part of our procurement decision making is key to developing our leadership position on climate change issues. We are developing a strategy to measure and reduce our supply chain carbon emissions.

The World Resource Institute/World Business Council for Sustainable Development has developed proposals for a Scope 3 greenhouse gas emission reporting protocol. We have been selected to participate in a worldwide pilot study to road test the new protocol. We are also participating in the Carbon Disclosure Project's supply chain initiative where we will be assessing the greenhouse gas emissions of 144 of our top suppliers.

Given the scale of carbon emissions from our UK construction activities, we have undertaken pilots to develop carbon life cycle analysis tools. Working with our alliance partners, we have been driving innovation and sharing best practice in green build techniques and materials management.

We believe small businesses power the economy by creating jobs and contributing to the financial stability of our communities. It is the aim of our US supplier diversity programme to effectively expand business opportunities through outreach, purchasing exchanges and creating powerful partnerships with diverse suppliers to reach our long-term growth objectives. To help increase our base of qualified suppliers we have developed partnerships with numerous organisations that identify and/or certify suppliers.

Communities

We want to be welcomed and seen as a valued partner in the communities we serve. We will prioritise our community investment in areas where we have a business interest as well as knowledge and expertise to share.

Over the last year, we have implemented our new community impact framework.

We have continued to engage more employees in our community volunteering. Our partnership with Special Olympics Great Britain has been very successful with an 82% increase in volunteer hours in company time compared with 2008/09. A small group of our employees have been mentoring athletes. Some of the athletes spoke at the National Summer Games opening ceremony in Leicester, an event to which we sent a team of volunteers for the week. We also sponsored the Torch Run on its journey around the country. In the US, our employees have been involved in various volunteering opportunities, including Earth Day and Junior Achievement.

We continue to use the London Benchmarking Group model (for more information see www.lbg-online.net) to provide a framework for measuring and reporting our community investment contributions. In 2009/10, we invested £11 million (2008/09: £10 million; 2007/08: £9 million) in support of community programmes across our operations.

In our 2010 employee survey, 63% (2009: 64%) of respondents considered National Grid makes a positive contribution to the communities in which we operate.

Investment recovery programme

Our US investment recovery and recycling programme helps us reduce waste and save money by reusing, selling or recycling assets. From electrical and gas equipment to office material and scrap, in 2009/10 we processed over 11,000 tonnes of material. As well as environmental and financial benefits, the programme brings social advantages. Working in partnership with Monarch Industry and Seven Hills Foundation, it provides adults with physical and mental disabilities the opportunity to experience the work environment by performing a variety of tasks.

Vision, strategy and objectives

Vision

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

We, at National Grid, will be the foremost international electricity and gas company, delivering unparalleled safety, reliability and efficiency, vital to the wellbeing 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 overarching principle that provides commercial context to each of the objectives.

We will build on our core UK and US, electricity and gas, regulated business base and financial discipline to deliver sustainable growth and superior financial performance.

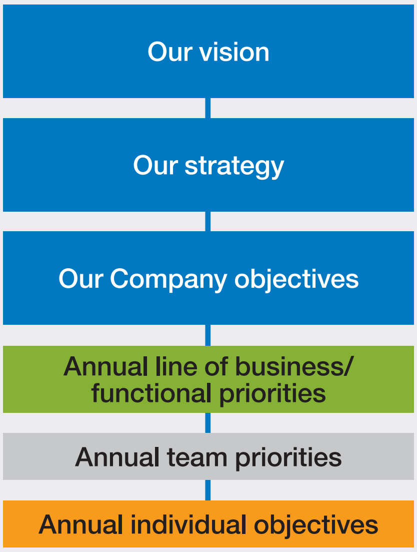
Company objectives

The objectives are the building blocks of the strategy and are fundamental to our business – what we are doing now.

- 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 and distribution networks
- Expanding our capabilities and identifying new financeable opportunities to grow
- 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 in both regions

Line of sight

Line of sight links the vision, strategy and Company objectives to all our employees' individual objectives – how what each of us does contributes to the success of the Company.



Our vision, strategy and Company objectives are the foundation of the annual priorities of each line of business and function.

These annual priorities form the basis of the objectives of the Executive Directors and senior managers, and then flow down the organisation to the individual objectives of every manager and employee. Consequently, the actions required to deliver the strategy are allocated and aligned with employee responsibilities.

Our aim is that every employee is able to trace their objectives through to the Company's objectives, strategy and vision.

Delivering the future through our strategy

We recognise that the geographic areas in which we operate present different challenges, and therefore the implementation of the strategy has a different focus in the UK than in the US. The details of how we plan to deliver the strategy in each region are outlined below and the alignment of the headline priorities of each business segment is illustrated in the diagram.

In the UK, we will seek to grow through replacing and expanding our core networks and investing in other organic growth opportunities relating to climate change and security of supply. In developing the future UK and EU policy and regulatory framework, we will actively influence the energy policy agenda and endeavour to position ourselves as the go-to company for current and future governments both with regard to expert opinion on matters relating to UK energy policy and climate change, and as the company of choice for delivering large energy infrastructure projects. We will look to ensure that future 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 rates of return.

In the US, we will focus on filing rate plans and achieving appropriate outcomes, while also addressing our cost base. We will grow through core business customer growth, and asset replacement and network reinforcement. In developing the future US policy and regulatory framework, we will continue to drive towards achieving rate plans that deliver fair rates of returns, along with operating and capital cost recovery. We will continue to push for decoupling and the extension of energy efficiency programmes. We will also seek to achieve forward-looking rate plans, together with trackers for key areas of increase and volatility such as capital expenditure, pensions and bad debts. We also aim for rate plans to include remuneration for climate change initiatives such as smart grid, solar and transmission projects to connect renewables.

UK strategy
Investment led organic growth

Transmission UK
- Delivering a step change in asset replacement of our transmission infrastructure
- Delivering major new infrastructure investment to facilitate low carbon targets in the UK

Gas Distribution UK
- Improving operating efficiency, safety and customer satisfaction through Gas Distribution front office (see page 58)
- Successfully defending our position through the next price control review

US strategy
Resetting the baseline and focus on growth from core

Transmission US
- Delivering on regulatory agreed ageing asset renewal programmes securing improved safety and reliability in our networks

Gas Distribution US
- Delivering rate plans and closing performance gaps
- Delivering growth through new connections and mains replacement/reinforcement
- Improving customer satisfaction

Electricity Distribution & Generation
- Delivering rate plans and closing performance gap
- Delivering new processes and cost efficiencies that benefit customers and enhance alignment across the US business
- Positioning ourselves as a utility of the future

Values

This year, we are emphasising the link between the line of sight and our values. It is important that we judge our achievements not just on what is delivered but also on how it is done. Our core values are: respect others and value their diversity; take ownership for driving performance; demonstrate integrity and openness in all relationships, and work as one team, one National Grid.

Responsibility

Our vision, strategy and Company objectives are underpinned by our commitment to corporate responsibility. We will operate to the highest standards of corporate governance and conduct our business in an ethical and sustainable manner.

Business drivers, 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 and rate plans

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

Multi-year contracts

Revenues in our Long Island electricity distribution and generation operations are subject to long-term contracts with the Long Island Power Authority. In addition, revenues in our Grain LNG importation terminal are determined by long-term contractual arrangements with blue chip customers.

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.

Risks and opportunities

There are a number of risks that might cause us to fail to achieve our vision or to deliver growth in shareholder value. We can mitigate many of these risks by acting appropriately in response to the factors driving our business. The principal risks are described here. For more detail on risks, see pages 93 to 95.

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, for example in our participation in RPI-X@20 in the UK and in our rate filings in the US. 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, and for increasing shareholder value. 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.

Objectives

We have developed the Company strategy and objectives to address the key business drivers and risks, ensuring we manage the business appropriately so as to mitigate risks and optimise opportunities. For more detail on objectives, see pages 24 and 25.

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

Building trust, transparency, and an inclusive and engaged workforce

Developing our talent, leadership skills and capabilities

Key performance indicators (KPIs)

We use a variety of performance measures to monitor progress against our objectives. Some of these are considered to be key performance indicators and are set out here. For more detail on performance, see pages 28 to 45.

- Adjusted earnings per share
- Group return on equity
- Total shareholder return
- Employee engagement index

Capital investment

Capital investment is a significant driver for organic growth. In our regulated energy networks, the prices we charge include an allowed return for capital investment determined in accordance with our price controls and rate plans. Capital investment in non-regulated assets allows us to develop new revenue streams or to increase revenues from existing assets.

Safety, reliability and efficiency

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

Relationships and responsibility

Our reputation is vitally important to us. We only earn the trust and confidence of our stakeholders by conducting our business in a responsible manner. The quality of our customer service feeds through to the attitudes of regulators and is also linked to our financial performance. 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.

Other investment

Investment in new businesses is also a significant driver of growth, provided we can create value through operational improvements, synergies and financial benefits. Disposals can crystallise value for shareholders, where the price on offer is better than the long-term return we can obtain ourselves or where a business does not fit with our principal operations.

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 operating profits and cash flows 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

Transforming the way we operate by simplifying and standardising our systems and processes will drive efficiency and reduce costs. Transforming our operating model will enable us to deliver increased value to our shareholders. Conversely, if we do not achieve this transformation, or associated 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 to reshape energy markets to address climate issues, and helping our employees, customers and suppliers to change their behaviour to be more environmentally responsible.

Expanding our capabilities and identifying growth opportunities

Identifying, evaluating and acquiring new businesses that build on our core regulated operations are important. If we are unable to acquire businesses with the correct strategic fit it may restrict our future sustainable growth and our ability to increase shareholder value. The acquisition of new businesses is dependent on our ability to fund transactions through internal cash flows or the issuance of new debt or new shares.

Modernising and extending our transmission and distribution networks

Driving improvements in our safety, customer and operational performance

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

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

Expanding our capabilities and identifying new financeable opportunities to grow

Network reliability targets

Employee lost time injury frequency rate

Customer satisfaction

Regulated controllable operating costs

Greenhouse gas emissions

Key performance indicators (KPIs)

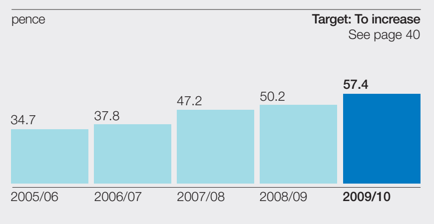
Financial KPIs

Company strategy and objectives	Financial KPIs	Definitions
Sustainable growth and superior financial performance	Adjusted earnings per share	Adjusted earnings* divided by the weighted average number of shares
	Total shareholder return	Growth in share price assuming dividends are reinvested
Delivering strong, sustainable regulatory and long-term contracts with good returns	Group return on equity	Adjusted earnings* with certain regulatory based adjustments divided by equity
Becoming more efficient through transforming our operating model and increasingly aligning our processes	Regulated controllable operating costs	Regulated controllable operating costs as a proportion of regulated assets

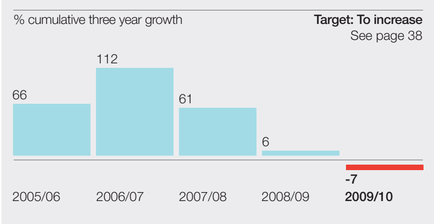
Our performance and the progress we have made against our strategic aims and against the objectives we have set ourselves are described below and on the following pages. Commentary on our overall financial results can be found on pages 38 to 45, and information on the performance and financial results of each line of business is set out on pages 46 to 73.

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 is explained above.

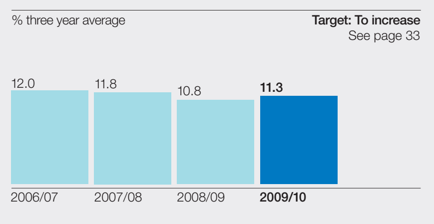
Adjusted earnings per share*+†



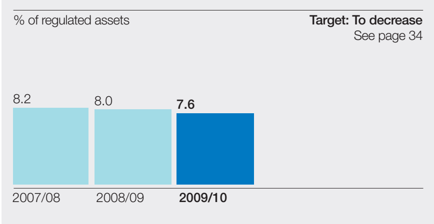
Total shareholder return



Group return on equity^



Regulated controllable operating costs‡



* Adjusted earnings excludes exceptional items, remeasurements and stranded cost recoveries
\+ 2007/08 data includes continuing operations acquired with KeySpan for the period from 24 August 2007 to 31 March 2008 or as at 31 March 2008
^ 2007/08 results include KeySpan operations on a pro forma financial performance basis assuming the acquisition occurred on 1 April 2007
† Comparative data has been restated for the impact of the scrip dividend issues
‡ Comparative data has been restated to present information on a consistent basis with the current year

Non-financial KPIs

Company objectives	Non-financial KPIs	Definitions
Modernising and extending our transmission and distribution networks	Network reliability targets	Various definitions appropriate to the relevant line of business
Driving improvements in our safety, customer and operational performance	Customer satisfaction	Our position in customer satisfaction surveys
	Employee lost time injury frequency rate	Number of employee lost time injuries per 100,000 hours worked on a 12 month basis
Building trust, transparency and an inclusive and engaged workforce	Employee engagement index	Employee engagement index calculated using responses to our annual employee survey
Positively shaping the energy and climate change agenda with our stakeholders in both regions	Greenhouse gas emissions	Percentage reduction in greenhouse gas emissions against our 1990 baseline

Network reliability targets

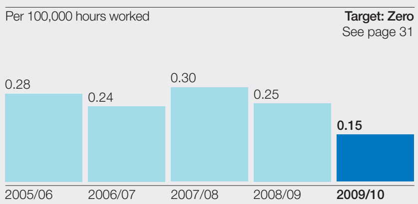
	Performance					Measure	Target
	05/06	06/07	07/08	08/09	**09/10**		09/10
Electricity transmission – UK	99.9999	99.9999	99.9999	99.9999	**99.9999**	%	99.9999
Gas transmission – UK	100	100	100	100	**100**	%	100
Gas distribution – UK	99.999	99.999	99.999	99.9999	**99.999**	%	99.999
Electricity transmission – US	348	259	437	266	**147**	MWh losses	<253
Electricity distribution – US	141	121	110	114	**114**	Mins of outage	<122

See pages 50, 58 and 66 for additional details on network reliability

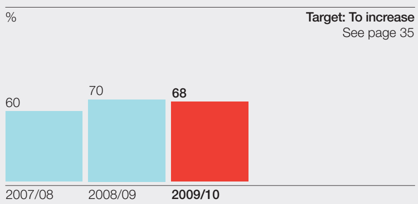
Customer satisfaction

	Performance		Measure	Target
	08/09	**09/10**		
Gas Distribution – UK	4th quartile	**Not yet available**	Quartile ranking	To improve
Gas Distribution – US: Residential	4th quartile	**3rd quartile**	Quartile ranking	To improve
Gas Distribution – US: Commercial	3rd quartile	**2nd quartile**	Quartile ranking	To improve
Electricity Distribution & Generation: Residential	4th quartile	**4th quartile**	Quartile ranking	To improve
Electricity Distribution & Generation: Commercial	4th quartile	**3rd quartile**	Quartile ranking	To improve

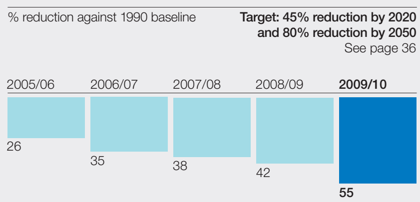
Employee lost time injury frequency rate



Employee engagement index



Greenhouse gas emissions~#



~ 2007/08 restated due to improved baseline data relating to KeySpan. Previously published figure excluding KeySpan was 30%
# Our greenhouse gas emissions for 2009/10 are not fully verified at the date of this Report. Fully verified data will be published on our website in July 2010

Performance against our objectives

We use a number of detailed performance measures in addition to the key performance indicators (KPIs) shown on pages 28 and 29, 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.

Changes to key performance indicators

We reported last year that we were developing a new KPI to monitor our performance on customer service. In order to measure the degree to which customers are satisfied with the service we provide, we have introduced a KPI with five components: Ofgem's UK gas distribution customer satisfaction score and the four J.D. Power and Associates customer satisfaction surveys in the US.

Ofgem requires the 8 gas distribution networks (GDNs) in Great Britain to carry out 3 types of quarterly customer satisfaction survey, covering planned works, unplanned works and connections. Respondents are asked to rate their level of satisfaction with the service provided by the GDN on a 10 point scale, where 1 is very dissatisfied and 10 is very satisfied. We calculate the average overall score for the 4 GDNs we own, compare our scores to those of the other GDNs, and report this as a component of the new KPI.

J.D. Power, an independent marketing information firm, produces a wide range of surveys of customer satisfaction, including four relating to US utilities. We use our positions in these surveys as the other components of the new KPI.

Last year, we included regulated controllable operating costs as a KPI. While this remains an important measure, and we continue to report it (see page 34), in view of our aim of building on our regulated asset base to deliver sustainable growth, we believe it is more informative to compare those costs to our total regulated assets to measure our efficiency as the business grows. We have therefore changed the KPI this year to measure our regulated controllable operating costs as a proportion of our regulated assets (regulated asset value in the UK and rate base in the US).

Performance measures and strategy

Our strategy is stated on page 24. Our performance in implementing the key elements of the strategy is measured in the following ways.

We will build on our core UK and US electricity and gas regulated business base...

We invest in our existing business in order to improve efficiency and reliability and to support our targeted dividend growth. We will also consider acquisitions in these core areas, but only where we believe we can derive added value for our investors.

Our KPIs in this area, as shown on pages 28 and 29, are total shareholder return and network reliability. Other performance measures include capital investment (see page 33), and dividend growth (see page 38).

...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 at the UK operating company level.

Our KPI in this area, as shown on page 28, is regulated controllable operating costs presented as a proportion of regulated assets. Other performance indicators include the vanilla return for UK businesses (see pages 50 and 57), regulatory return on equity for US businesses (see pages 50, 57 and 66), and interest cover (see page 74).

...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 page 29, are customer satisfaction, employee lost time injury frequency rate, employee engagement index and greenhouse gas emissions. Other performance measures include measures of gender and ethnic mix, and a number of qualitative measures, including the number of significant direct environmental incidents and value of environmental fines, together with our participation in bodies such as the RPI-X@20 advisory panel.

...and superior financial performance.

We aim to deliver superior returns to our investors, and to ensure that the value we create is reflected in our share price.

Our KPIs in this area, as shown on page 28, are total shareholder return and adjusted earnings per share. Other performance measures include adjusted operating profit for the year (see pages 38 and 41) and operating cash flows (see pages 44 to 45). A full discussion of our financial performance can be found on pages 38 to 45.

Driving improvements in our safety, customer and operational performance

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

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 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 National Grid, collectively and individually, has a part to play in achieving this.

Employee 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.

2009/10 saw a significant reduction in our lost time injury frequency rate to 0.15 compared with 0.25 in 2008/09 and 0.30 in 2007/08. The number of lost time injuries was 86 in 2009/10 compared with 140 in 2008/09 and 157 in 2007/08. Definitions for lost time injury and lost time injury frequency rate are included in the glossary on page 187.

The principal causes of lost time injuries are road traffic collisions, musculoskeletal injuries and slips, trips and falls. We have implemented targeted programmes during the year to change behaviours in these areas and drive performance improvements. In our 2010 employee survey, 74% (2009: 74%) of respondents felt confident that safety concerns or issues raised would be addressed and 76% (2009: 76%) of respondents considered that National Grid never compromises safety in order to meet other goals.

Contractor safety

We believe everyone who works for us is entitled to high levels of safety, whether they are a direct employee or employed by one of our contract partners. In 2009/10, there were 85 contractor lost time injuries compared with 108 in 2008/09 and 105 in 2007/08 (see figure 1). When developing safety improvement programmes, we ensure our contract partners are actively involved and believe there is a mutual benefit in sharing good practice and learning.

Public safety

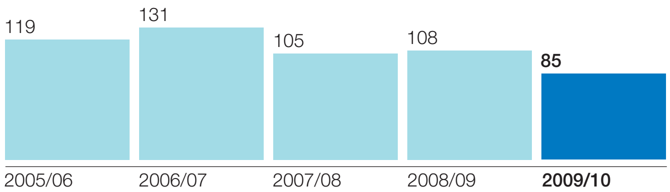
The safety of the public in the communities we serve is of prime importance to us. In 2009/10, 44 members of the public were injured as a result of our activities compared with 52 in 2008/09 and 36 in 2007/08 (see figure 2). A single incident, involving a gas explosion in a property in Shrewsbury, UK, caused 12 of these injuries. Our gas main replacement programme, the purpose of which is to reduce the safety risk relating to older metallic main, is described on page 57.

Process safety

Operating major hazard sites and pipelines means managing process safety risks is always a prime consideration in the way we run our business. We aspire to be an industry leader in this area.

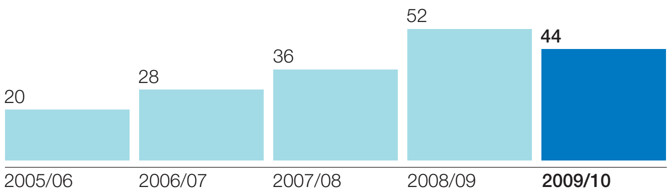
Process safety incidents are relatively rare and often have catastrophic consequences. As such, counting the number of incidents is not a good indicator of performance.

Figure 1 – Contractor lost time injuries **Target: Zero**
Number



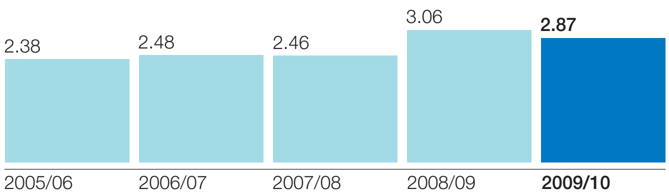
Data prior to 2008/09 excludes KeySpan.

Figure 2 – Injuries to members of the public **Target: Zero**
Number



Data prior to 2008/09 excludes KeySpan.
Includes fatalities, injuries requiring the person to attend hospital and, in the UK, any other injuries reportable under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR).

Figure 3 – Employee sickness absence rate **Target: Zero**
%



Data prior to 2008/09 excludes KeySpan.

Performance against our objectives continued

During 2009/10, we have continued to develop and report comprehensive leading and lagging indicators to measure that we have process safety risks under control. These indicators are regularly reviewed by the Executive Committee to ensure controls are in place and plans developed to close any gaps. The Health and Safety Executive was encouraged by the significant progress made in developing, reporting and embedding KPIs within the business. We have also worked to raise awareness of process safety throughout the Company, with training courses and communications to all employees.

In January 2010, we carried out a process safety culture survey with our employees, repeating a series of questions from a survey in 2008. This showed improvements in most areas over the two years and highlighted areas on which to concentrate for the future.

Employee health

Over the year, our sickness absence rate decreased to 2.87% compared with 3.06% in 2008/09 and 2.46% in 2007/08 (see figure 3 on page 31). The gathering and structuring of absence data has improved to provide more accuracy and detail. This helps to develop our health and wellbeing programmes.

This year, all employees have had an opportunity to engage with our health and wellbeing programmes. These are provided to make sure we create a healthy working environment that supports and encourages good lifestyle choices at work and at home. Through our occupational health programme, we continue to monitor the health of our 11,500 field based engineers ensuring the protection of their health from work activities and their fitness for work.

In the US, to date over 7,500 employees, supervisors and managers have completed a behavioural change programme for soft tissue injury prevention. This programme provides a framework to avoid musculoskeletal injuries and make sure employees understand how to maintain and improve their physical resilience.

In the UK, approximately 1,440 employees, including more than 500 field engineers, have taken up the option to review their lifestyle based on the results of a cardiovascular risk assessment. This has been supported by providing broad access to health kiosks and related workshops on nutrition and diet. The outcome of these reviews is that 300 employees have been referred to their family doctor for further medical investigation and support, while all employees in the programme were advised of their cardiovascular risk score and provided with a report detailing specific lifestyle improvements that would benefit them.

Across the Company, 5,500 employees took part in and completed the summer activity campaign Shape Up National Grid, a 12 week interactive team event that combined a weight management programme with an exercise and pedometer challenge.

The work being undertaken on health was recognised at this year's UK National Business Awards where we reached finalist status in the Health and Wellbeing category.

The business impact of these programmes is difficult to quantify at this stage but is expected to help improve employee performance and productivity, employee engagement levels and attendance.

Reliability

Our principal operations are critical to the functioning of the economies we serve. The reliability of our energy networks is one of our highest priorities after safety.

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

We use business specific reliability performance indicators to measure our reliability performance. More information on the reliability of each of our businesses is included in the business sections on pages 50, 58 and 66.

Customer service

We aim to impress our customers with the quality of the services we provide, with our responsiveness when things go wrong and with our dedication to continued improvement.

As noted on page 22, in the US we have implemented a new customer organisational model. The new structure consists of two groups: customer energy solutions and customer service operations.

Customer energy solutions provides customers across all lines of business with one source for all their energy needs by integrating all products and services we offer to them into one group, including energy efficiency. The Company uses its marketing and energy product expertise to deliver energy solutions that allow customers to manage their energy choices and reduce their impact on the environment. It is divided into three functions: market strategy and implementation, including focused and targeted communications; energy products, providing product expertise and regulatory support to develop new products; and energy solutions delivery, maintaining relationships with larger customers and an important local presence in our communities.

Customer service operations focuses on delivering the highest quality end-to-end experience for our customers at the lowest possible cost. It is divided into four functions: revenue cycle management, responsible for processes from billing to collection and performance metrics; customer care, providing the primary point of contact for customers through call centres and customer offices; business technology, managing short- and long-term technology priorities to ensure quality customer service; and workforce management, planning and analysis.

Improvements made during the year included: the acceptance of credit cards for bill payment; implementation of a web based outage communication tool; innovative energy efficiency campaigns; enhanced communications related to our tree trim customer programme; focus on community presence in all our operating areas; and self service website enhancements.

We are already seeing an improvement in our customer satisfaction in the US. Our rankings in the four J.D. Power and Associates customer satisfaction surveys have improved. We will continue to build upon this improvement while staying focused on the delivery of outstanding customer service.

In our 2010 employee survey, 54% (2009: 57%) of our employees believed National Grid is a good company for customers to do business with.

Further information on our customer service during the year is provided within each of the business sections on pages 50, 57 and 66.

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

We will work with our regulators and governments to develop the changes that are required to address climate change and security of supply in a way that is affordable for consumers and ensures timely delivery while also ensuring adequate returns for our investors.

Our group return on equity KPI allows us to monitor our performance in generating value from the investments we make. Return on equity is calculated by dividing our annual return by our equity base. Our annual return consists of earnings before exceptional items, remeasurements and stranded cost recoveries, adjusted for a number of regulatory based items including regulatory depreciation, retail price index (RPI) inflation on our UK regulatory asset value (RAV), and a pension deficit adjustment. Our equity base consists of invested capital less opening net debt. Invested capital is the opening UK RAV inflated to mid year using RPI linked inflation, plus opening US invested capital excluding stranded cost assets and assets disposed in the year, plus the closing net book value of assets and liabilities of UK based non-regulated businesses, corporate activities and joint ventures. Opening net debt is adjusted for significant individual transactions during the year such as disposal proceeds and share buybacks.

We monitor our performance using a three year average return rather than a return for a specific year. We believe this provides a better measure of our ongoing performance because it helps to reduce short-term fluctuations due to temporary market conditions such as inflation volatility. For 2009/10, our three year average return on equity was 11.3%, compared with 10.8% in 2008/09 and 11.8% in 2007/08. The increase in the year was primarily driven by an increase in UK inflation to 4.4% for the year to 31 March 2010, compared with -0.4% for the previous year.

Significant levels of investment over the next few years mean it is vital we optimise our regulatory returns and ensure we are appropriately compensated for our investments.

In the UK, the overall regulatory framework, and the price controls which form part of this framework, provide the environment that enables us to be confident that where we act efficiently and economically and in the interest of consumers then we will receive appropriate returns.

We are actively participating in Ofgem's review of the current RPI–X based regulatory framework, which is discussed on page 20. In addition to our responses to the various consultation documents, we are also participating in the four industry working groups that Ofgem have established: innovation, investment, financing, and consumers. Ofgem anticipate that the outcome of the project will be published towards the end of 2010. It will not have any impact on the present price control, other than necessitating a one year adapted rollover of the existing price control, but it is expected that its conclusions will feed through into the review for the price control commencing April 2013.

In the US, we continue to make progress in setting new rates and moving the regulatory agenda forward. Over 60% of our asset base has had new rates since 2008. Under these new rate plans we have increased our US revenue by over $190 million per annum. We have an aggressive rate case agenda focused on increasing revenue to ensure we are recovering all costs to operate the utilities in the US and on employing innovative rate making mechanisms to ensure we get timely recovery of costs which enable us to earn fair returns for investors.

On 29 January 2010, we filed a three year rate plan for our upstate New York electricity business requesting an initial revenue increase of $369 million and a return on equity of 11.1%. Additionally, the filing seeks approval of a capital tracker which will provide timely recovery of our investment in the network, revenue decoupling and annual reconciliation mechanisms for certain non-controllable costs. This filing is unique in that it proposes to increase delivery revenue but mitigate the rate impact on retail customers' bills by offsetting the revenue increase with a decline in the stranded cost charges on the bills.

In Massachusetts, we filed a new rate plan for the three gas distribution companies requesting a total revenue increase of $106 million with a return on equity of 11.3%. As in other cases, we are requesting approval of revenue decoupling, an infrastructure investment tracker, annual true-up mechanisms for commodity bad debt and pension costs, and an annual inflation adjustment factor. A decision is expected by 1 November 2010, with rates effective from that date.

In New Hampshire, we filed a new rate case for the gas distribution company on 26 February 2010. We are seeking an overall increase of $11 million and a return on equity of 11.2%, which includes a 0.2% two year stay out premium. We proposed revenue decoupling, an expanded capital tracker, reconciling mechanisms for pensions and other post-employment benefits and for commodity related bad debt, and an inflation tracker on operations and maintenance costs.

Modernising and extending our transmission and distribution networks

We aim to invest the amount required to maintain a safe and reliable system, and to accommodate new patterns of supply and demand. Capital investment is one of the principal drivers to future growth.

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

Our capital investment plans reflect changing energy infrastructure requirements. Our capital investment programme in our regulated businesses usually takes place within defined regulatory frameworks that permit us to earn a return on allowed investments. Capital investment in our non-regulated businesses is based on the financial return we expect to generate.

Our planned total annual investment for 2010/11 is around £3.9 billion, including £0.2 billion in respect of investments in joint ventures.

More detail on capital expenditure is provided in the business sections on pages 51, 58, 67 and 71.

Expanding our capabilities and identifying new financeable opportunities to grow

We are committed to the growth of National Grid through organic capital expenditure and, where suitable opportunities are available, by the acquisition of new businesses.

In addition to the capital expenditure discussed above, we are actively investigating opportunities in relation to offshore

Performance against our objectives continued

transmission, possible electricity interconnectors with Belgium and with Norway, and carbon capture and storage technology.

We will consider acquiring new businesses in our core markets of electricity and gas delivery in the UK and US.

We use the aggregate consideration paid and debt assumed to monitor this investment in new businesses. There is no specific target because each investment is considered on its own merits. We also monitor synergy savings generated following an acquisition.

There have been no acquisitions during the last two years.

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

We aim to work as one company, operating to common core principles, standards and policies to deliver our vision.

As noted on page 30, we have amended our operating efficiency KPI to measure regulated controllable operating costs as a proportion of our total adjusted regulated asset base, reflecting the fact that our business is growing. This proportion has fallen to 7.6% in 2009/10 from 8.0% in 2008/09 and 8.2% in 2007/08.

In addition to the KPI, however, we continue to measure and report regulated controllable operating costs. We exclude the effects of inflation and bad debts, and present the figures on a constant currency basis, in order to be able to compare like-for-like. Regulated controllable operating costs decreased to £2,070 million in 2009/10, compared with £2,109 million in 2008/09 and £2,048 million in 2007/08.

We are organised by line of business and place primary accountability on them to meet our customer needs and regulatory obligations.

In Transmission, our common operating model project is developing a plan to prepare us for the challenges and opportunities between now and 2020. In Gas Distribution, our front office systems project aims to provide the tools to improve our performance, making them simpler to use and apply to improve our service to customers. In Electricity Distribution & Generation, we are implementing organisational design enhancements to improve our operating model and drive customer satisfaction and efficiency benefits.

Company wide functions, such as information systems and procurement, provide common strategy, policy and key processes to benefit from our scale and to drive improved consistency, efficiency and effectiveness.

Procurement

We are in the final stages of a programme to transform our procurement function. The programme has focused on developing our existing capability, and working in a more collaborative way with our business partners. We have successfully embedded a full strategic sourcing process within our global procurement operating model, which has enabled us to approach the market with an aggregated spend, encouraging us and our suppliers to work in a more aligned way.

Process improvement and technology have been at the forefront of the changes we have made. We have adopted an international system that gives us real time data on our procurement activities.

Business process outsourcing

We announced on 8 October 2009 that, following an extensive review, we proposed to outsource some of our UK shared services activities to an external service provider. The outsourcing is expected to deliver significant benefits, process efficiencies and continuous improvement over a five year period. It will result in a reduction of around 300 agency and permanent positions and the closure of our Newcastle site. The phased transfer of activities has begun and is expected to continue throughout 2010.

Information services

We have initiated an information systems (IS) transformation programme to realise a world class global IS capability following a detailed review and benchmarking of current systems, costs and capability. The transformation involves moving from country based IS to operating at a global level with efficient shared service capabilities for solution and service delivery.

Programme objectives include: improved alignment between IS and businesses; a clear rolling strategy and architecture road map closely aligned to the wider business strategy; rationalisation and standardisation of applications; creation of solution centres of excellence; consolidation of data centres and networks and separation of critical national infrastructure systems; and leveraging of standard IS services such as email and intranet.

A new IS leadership team has been appointed and an organisational structure is being put in place. Alternative options for delivering core services are being examined including sourcing of parts of development, maintenance and infrastructure management. Significant investment is being made in building improved capabilities in business relationship management, strategy and architecture, security and risk management.

The next stages involve the completion of the sourcing assessment, and application rationalisation and virtualisation road map. The final decision on sourcing is dependent on the outcome of the assessment, and consultation with regulators, employees and unions will follow as appropriate. The transition to the new operating model will then take place starting with development in autumn 2010 through to service integration and infrastructure services in the first half of 2011.

Transmission and distribution alignment

A newly aligned electricity organisation was implemented in the US during the final quarter of 2009/10, bringing together transmission operations and delivery, electricity distribution operations and generation (transmission asset management, policy and commercial remain separate). US electricity operations are structured to provide improved customer focus and operating efficiencies through shared capabilities, enhanced regulatory relationships, reduced costs, increased productivity and better delivery of capital and maintenance work. In combining, we aim to deliver consistent processes as one single US electricity operations group under the leadership of the chief operating officer.

Building trust, transparency and an inclusive and engaged workforce

To better recruit, retain and develop talented people, we endeavour to engage our employees and to achieve a more inclusive workplace and diverse workforce, reflecting the composition of the communities in which we operate. Our goal is to be seen as an employer of choice across all communities.

Employee engagement

In February 2010, we conducted our third annual employee survey. The response rate was the highest so far, with 97% of our employees taking part. Our employee engagement index, which measures how employees think, act and feel in relation to National Grid, declined slightly in 2010 to 68%, compared with 70% in 2009 and 60% in 2008.

Employees continue to believe National Grid's safety culture and supportive management are significant strengths, and they continue to receive favourable ratings. While we focused on reward for performance, vision and direction, and communication, our results slipped slightly in these categories.

In response to these results, we will continue to use line of sight to ensure greater clarity around vision and direction. We will also continue our focus on improved communication and engagement across all lines of the business.

Action plans are being developed and will form part of the management annual objective process for 2010/11 to ensure we further build upon the very encouraging survey response rate and these survey results.

Inclusion and diversity

We use performance measures including the percentage of female and ethnic minority employees, as well as measuring employee perceptions in our employee survey. Inclusion and diversity measures have been built into the Company's business scorecard.

As at 31 March 2010, 22.7% of our employees were female (see figure 4) and 13.5% were from ethnic minority groups (see figure 5). This compares with respectively 22.6% and 13.2% at 31 March 2009 and 22.5% and 12.3% at 31 March 2008.

To embed an inclusive culture, a number of training programmes were initiated during 2009. The Executive Committee and senior leadership team completed a full day of inclusion training. In December 2009, we launched an inclusive leadership programme for middle managers and, by April 2010, more than 750 managers had completed it. A learning module has also been built into our new employee orientation programme.

Our efforts have been recognised through a number of external awards including, for the second year running, the prestigious Stonewall Top 100 Employers in the UK and, for the third year in a row, the Human Rights Campaign's Equality Index in the US. We were also the recipient of Profiles in Diversity Journal's Innovation Award for its Women Empowered programme and Opportunity Now's Inclusive Culture award, recognising an initiative which is driving change at an organisational level.

In 2010, approximately 66% (2009: 70%) of respondents of the employee survey considered they were treated fairly by National Grid, while 78% (2009: 78%) of respondents considered that their colleagues treated them with respect and dignity.

We are fortunate to have employee resource groups focusing on a number of diversity strands including gender, ethnicity, faith, disability, sexual orientation and new hires. The groups successfully focused on delivering results in three areas: professional development opportunities for their members through workshops and learning sessions; supporting the Company's efforts in branding and community relations activities such as Special Olympics and recruiting events such as the Asian MBAs conference; and increasing overall understanding of inclusion through workshops and presentations.

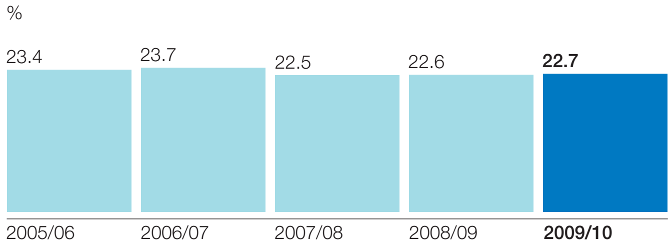
97%
Employee survey response rate

68%
Employee engagement index

22.7%
Proportion of female employees

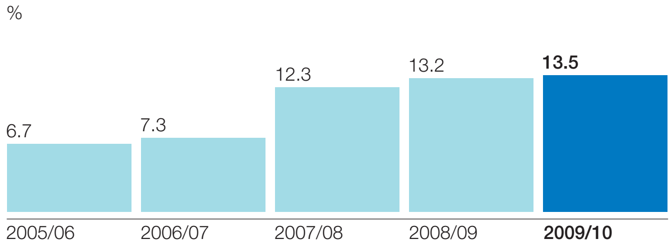
13.5%
Proportion of ethnic minority employees

Figure 4 – Inclusion and diversity – female employees



Data prior to 2007/08 excludes KeySpan.

Figure 5 – Inclusion and diversity – ethnic minority employees



Data prior to 2007/08 excludes KeySpan.

Performance against our objectives continued

One of the challenges we continue to face is the retention of women and ethnic minorities. We are establishing an exit interview process to collect information that can be used to improve our retention efforts.

Developing our talent, leadership skills and capabilities

A key success factor in delivering our business objectives is having highly competent leaders at every level within the organisation driving high performance and engaging employees. This is the foundation of our talent development strategy, which focuses on the key transition points individuals make during their careers.

During the past year, and continuing into 2010/11, we have been creating targeted solutions to help employees at different points in their career maximise their performance. In 2009/10, approximately 740 front line leaders began foundations of leadership, a 15 month curriculum focused on critical foundational leadership skills; approximately 380 managers attended a one day workshop enabling them to better support their front line leaders through their development. Approximately 65 senior managers also attended a one week highly intensive and interactive development programme, expanding their understanding of the role they play in the broader National Grid; business acumen, collaboration and communication were key elements of the programme.

To complete our transitions development strategy, during 2010/11, we will be creating a development curriculum for middle managers. Underpinning this strategy is our personal effectiveness suite of solutions, which will be available to all employees, focused on a broad array of skills required to perform their roles more effectively. These flagship solutions serve as the framework for developing leaders at various levels within the Company.

Ensuring top quality technical skills is essential to our ability to operate, maintain and expand our infrastructure in a safe, reliable and efficient manner. In 2009/10, our workforce participated in over one million hours of training in the UK and US. During 2009/10, over 6,300 of our US workforce participated in annual expert training and received all of their regulatory and performance training and requalifications in a bundled approach. The programme includes all annual safety and regulatory compliance training, technical topic refreshers, and other discretionary training modules.

Our ability to continue to meet the varied learning needs and styles of our expanding and diverse employee population requires us to create quality development experiences and to deliver those experiences in highly effective and efficient ways. To this end, we are continuing to explore various learning technologies to enhance our learners' experience.

Positively shaping the energy and climate change agenda

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 safeguard the environment.

We have continued to work with Ceres in the US and with the Worldwide Fund for Nature (WWF) in the UK to seek their views on our internal and external efforts to reduce our climate change impacts and shape our positive influence on legislators and regulators. We will continue to press for ambitious national and international plans to tackle the causes and consequences of climate change as governments and others take stock of the outcome of the United Nations climate change conference COP15 in Copenhagen and build towards COP16 in Cancun, Mexico.

We have maintained our involvement with such programmes and organisations as the RPI–X@20 group and Aldersgate Group, in the UK and with the shaping of state climate change regulations in the US through our membership of the Clean Energy Group.

Climate change

We have further embedded our climate change initiative and increased our energy efficiency programmes, focusing on initiatives that are cost effective and regulated. We believe our 45% by 2020 and 80% by 2050 greenhouse gas emissions reduction targets to be industry leading within the UK and US.

Our greenhouse gas emissions for 2009/10 are not fully verified at the date of this Report. However, we estimate our Scope 1 and 2 emissions to be 8.8 million tonnes carbon dioxide equivalent, compared with 11.3 million tonnes in 2008/09 and 12.1 million tonnes in 2007/08 (assuming we had owned KeySpan for the entire year). This equates to a 55% reduction against our 1990 baseline, compared with 42% in 2008/09 and 38% in 2007/08. Fully verified data will be published in July 2010 in the responsibility section of our website, including an explanation of the large reduction in emissions compared with 2008/09 and its impact on our 2020 target.

Our 2020 and 2050 targets remain at the centre of our efforts to identify and implement measures to meet our commitment to safeguard our global environment for future generations. During 2009/10, each line of business developed five year plans for greenhouse gas reduction. The plans, adopted in April 2010, establish a trajectory to 2015 as the half way point to our 2020 target. Executive compensation is linked to performance against the plans.

We have developed a deeper understanding of our Scope 3 emissions and this is also reported on our Company website. We are participating in the World Resources Institute/World Business Council for Sustainable Development worldwide pilot study on Scope 3 emissions reporting and are one of the few utilities to do so. We will further evaluate the development of Scope 3 targets once this project is completed later in 2010.

We also recognise that customer energy efficiency is linked to the scale of our Scope 3 emissions. We have launched a campaign in the US, inviting consumers to commit to 3% year-on-year savings in their energy consumption over 10 years.

Our climate change initiative is being embedded in all areas and operations of the Company. For example, in UK construction we have undertaken pilots to develop carbon life cycle analysis tools. Working with our alliance partners, we have been driving innovation, sharing best practices in green build techniques and materials management.

In 2009, the UK government published the UK Low Carbon Transition Plan, which contained a revised assessment of carbon costs and concluded that the value of carbon used to appraise investments should be approximately doubled to £52 per tonne. We believe that a strong carbon price signal in the economy is essential to drive the right behaviours, so are evaluating the adoption of this revised value in our investment decision making processes across our operations.

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 and US infrastructure and future energy demand. Later in 2010, we will be one of the first companies to provide an adaptation report required under the UK Climate Change Act.

Protecting the environment

In April 2009, we published a revised environment policy, reinforcing our commitment to being an innovative leader in energy management and to safeguarding our global environment for future generations.

The number of significant environmental incidents in 2009/10 arising directly from our operations was 10, including zero contractor-related incidents (see figure 6), compared with 12, including 4, in 2008/09 and 34, including 25, in 2007/08.

Incidents outside our control resulting from third party or weather-related damage to our networks (see figure 7) were 2 compared with 1 in 2008/09 and 1 in 2007/08.

In the US, we received 4 environmental citations, compared with 6 in 2008/09 and 6 in 2007/08, but attracted no fines.

In our 2010 employee survey, 59% (2009: 62%) of respondents considered National Grid acts responsibly in all its business dealings, including environmental management.

We manage land contamination issues on an inherited portfolio of historically contaminated land dating back over 100 years. These include former manufactured gas plants, industrial landfills, former/current gas holder sites and older substations on our transmission and distribution networks. Sites can sometimes have a complex mix of contamination. The focus of our remediation programme is on managing the environmental risk by targeting those with the highest environmental risk profile and those with regulatory requirements to remediate, while returning land to productive public or private use where we can, and where it is surplus to operational requirements.

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

On our website (www.nationalgrid.com), we provide further information on the steps we are taking to reduce our impact on the environment, including our use of natural resources and minimising the impact on the environment of our waste.

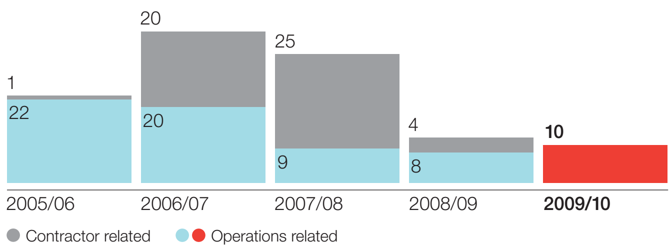
3%
Targeted annual energy reduction by US customers over the next 10 years

8.8m tonnes
Estimated Scope 1 and 2 greenhouse gas emissions

45% by 2020
Greenhouse gas emissions reduction target

80% by 2050
Greenhouse gas emissions reduction target

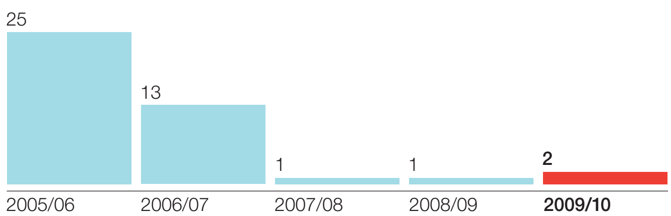
Figure 6 – Significant environmental incidents **Target: Zero**
Direct: Number



Data prior to 2008/09 excludes KeySpan.

There were zero contractor related environmental incidents arising directly from our operations in 2009/10.

Figure 7 – Significant environmental incidents
Third party/weather: Number



Data prior to 2008/09 excludes KeySpan.

Financial performance

Financial results

In the following section we provide a more detailed analysis of our financial results.

Shareholder returns

We aim to increase our dividend each year so that shareholders receive an appropriate level of return on their investment in us. We also try to communicate with investors so that as much as possible of the value we create is reflected in our share price.

We measure total shareholder return as a key performance indicator (KPI) on a cumulative three year basis. The measure reflects changes in our share price and also assumes that dividends paid to shareholders over that period were reinvested in our shares. Cumulative total shareholder return for the period from 1 April 2007 to 31 March 2010 was -7%. This reflects the fact that equity prices generally fell sharply amid the turbulence in the financial markets during 2007/08 and 2008/09, and the recovery during 2009/10 has been insufficient to reverse the effect of those falls.

Dividends in respect of the financial year

The proposed total ordinary dividend for 2009/10 amounts to £951 million or 38.49 pence per ordinary share. This represents an increase of 8% over the previous year's ordinary dividend per share of 35.64 pence.

Dividends	2010 pence	2009 pence	2008 pence	2007 pence	2006 pence
Interim	**13.65**	12.64	11.70	10.90	10.20
Final	**24.84**	23.00	21.30	17.80	15.90
Total	**38.49**	35.64	33.00	28.70	26.10

Dividends per ADS	$	$	$	$	$
Interim	**1.15**	0.95	1.21	1.03	0.88
Final	**1.77**	1.74	2.05	1.76	1.51
Total	**2.92**	2.69	3.26	2.79	2.39

The total ordinary dividend per share was covered 1.5 times by adjusted earnings from continuing operations per ordinary share (2008/09 covered 1.4 times, 2007/08 covered 1.4 times) and covered 1.5 times by earnings per ordinary share from continuing operations (2008/09 covered 1.0 times, 2007/08 covered 1.8 times).

The dividend table shows the ordinary dividends paid or payable by National Grid for the past five financial years. These dividends do not include any associated UK tax credit in respect of such dividends, and represent the gross dividends declared whether settled in cash or by new shares.

For the final dividend of 2008/09, and subsequent dividends, shareholders were offered the option of a scrip dividend, whereby they could elect to receive the dividend in the form of new shares rather than cash. The uptake of the scrip dividend option represented 25% and 20% of the total final 2008/09 and interim 2009/10 dividends respectively. Shareholders are again being offered the option of a scrip dividend this year.

Dividends expressed in dollars per American Depositary Share (ADS) in the table above reflect the amounts paid or payable to ADS holders, rounded to two decimal places.

In accordance with IFRS, the final dividend proposed in respect of each financial year is reported in the financial statements for the subsequent year. As a consequence, the final dividend proposed to shareholders for 2009/10 of 24.84 pence per share, amounting to approximately £615 million (assuming all dividends are settled in cash), will be reported in the financial statements for the year ending 31 March 2011.

Financial discipline

In order to deliver sustainable growth, we must be disciplined in the way we manage our balance sheet. The principal measure we use to monitor financial discipline is interest cover, being a measure of the cash flows we generate compared with the net interest cost of servicing our borrowings.

Our long-term target range for interest cover is between 3.0 and 3.5. Interest cover for the year ended 31 March 2010 was above our target range, increasing to 3.9 from 3.1 for the year ended 31 March 2009 (year ended 31 March 2008: 3.2). The primary reasons for the increase in 2009/10 were decreased interest expense on our index-linked debt, due to lower inflation, combined with higher levels of cash inflows from operations during the year. This was partially offset by a decrease in interest received in 2009/10 compared with prior year.

In 2006, we committed to return approximately $1.9 billion cash between calendar years 2006 and 2011 to shareholders through a share repurchase programme based on the after-tax cash flows generated from the recovery of stranded costs in the US. Following the successful disposal of our UK wireless infrastructure operations for £2.5 billion on 3 April 2007, we announced the return of a further £1.8 billion to shareholders. We repurchased £0.6 billion of our shares in 2008/09 and £1.5 billion in 2007/08, which, together with the £0.2 billion repurchased in 2006/07, totals £2.3 billion of returns to shareholders through share repurchases.

In 2008/09, we took the decision to suspend our share repurchase programme in response to the turbulent financial environment and uncertain conditions in the capital markets.

Profit, cash flow and dividends

If we achieve our objectives we should be able to deliver continued improvements in financial performance, so that we deliver on our commitment to increase our dividend by 8% each year to 2011/12.

The KPI we use to monitor our financial performance is adjusted earnings per share. Adjusted earnings per share is basic earnings per share before exceptional items, remeasurements and stranded cost recoveries.

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

Continuing and discontinued operations

The financial results of our businesses and segments and of our other activities (as described on page 14) are presented within continuing operations. There were no discontinued operations in 2009/10. For details of our discontinued operations in previous years, see page 41.

Measurement of financial performance and use of adjusted profit measures

In considering the financial performance of our businesses and segments, we analyse each of our primary financial measures of operating profit, profit before tax, profit for the year attributable to equity shareholders and earnings per share into two components comprising; firstly, business performance, which excludes exceptional items, remeasurements, stranded cost recoveries, and amortisation of acquisition-related intangibles; and secondly, exceptional items, remeasurements, stranded cost recoveries and amortisation of acquisition-related intangibles. Exceptional items, remeasurements, stranded cost recoveries, and amortisation of acquisition-related intangibles are excluded from the measures of business performance used by management to monitor financial performance as they are considered to distort the comparability of our reported financial performance from year to year.

Measures of business performance are referred to in this Annual Report and Accounts as adjusted profit measures in order to distinguish them clearly from the comparable total profit measures of which they are a component. Adjusted operating profit, adjusted profit before tax, adjusted earnings and adjusted earnings per share differ from total operating profit, profit before tax, profit for the year attributable to equity shareholders, and earnings per share respectively by the exclusion of exceptional items, remeasurements, stranded cost recoveries, and amortisation of acquisition-related intangibles.

Exceptional items are items of income and expense that, in the judgement of management, should be disclosed separately on the basis that they are material, either by virtue of their nature or size, and are relevant to an understanding of our financial performance. Items of income or expense that are considered by management for designation as exceptional items include such items as significant restructurings, write-downs or impairments of non-current assets, significant changes in environmental or decommissioning provisions, the integration of acquired businesses, and gains or losses on disposals of businesses or investments.

Remeasurements comprise gains or losses recorded in the income statement arising from changes in the fair value of commodity contracts and of derivative financial instruments. These fair values increase or decrease as a consequence of changes in commodity and financial indices and prices over which we have no control. Stranded cost recoveries comprise income from additional charges that we are allowed to recover from certain of our US customers arising from the divestiture of generation activities in the late 1990s. Amortisation of acquisition-related intangibles arises from intangible assets, principally customer relationships, that are only recognised as a consequence of the accounting required for a business combination. Such amortisation distorts the comparison of the financial performance of acquired businesses compared with non-acquired businesses.

Adjusted profit measures are limited in their usefulness compared with the comparable total profit measures as they exclude important elements of our financial performance, namely exceptional items, remeasurements, stranded cost recoveries and the amortisation of acquisition-related intangibles. We believe that, in separately presenting our financial performance in two components, it is easier to read and interpret financial performance between periods, as adjusted profit measures are more comparable by excluding the distorting effect of exceptional items, remeasurements, stranded cost recoveries and amortisation of acquisition-related intangibles, and exceptional items, remeasurements, stranded cost recoveries, and amortisation of acquisition-related intangibles 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, amortisation of acquisition-related intangibles 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 exceptional items, remeasurements, stranded cost recoveries and amortisation of acquisition-related intangibles as a component of our overall financial performance.

Exchange rates

Our financial results are reported in sterling. Transactions for our US operations are denominated in dollars and so the related amounts that are reported in sterling depend on the dollar to sterling exchange rate. As the average rate of the dollar at $1.58:£1 in 2009/10 was weaker than the average rate of $1.54:£1 in 2008/09, the same amount of revenue, adjusted operating profit and operating profit in dollars earned in 2008/09 would have been reported as £261 million, £27 million and £23 million lower respectively if earned in 2009/10. In 2007/08 the average rate was $2.01:£1; if the revenue, adjusted operating profit and operating profit in dollars recognised in 2007/08 was earned in 2008/09 it would have been reported as £1,938 million, £260 million and £398 million higher respectively.

However, the effect of movements in the dollar exchange rate on adjusted operating profit and operating profit in 2009/10 was largely offset by the impact of interest and tax charges denominated in dollars, when translated into sterling. This includes the effect of derivative financial instruments that swap debt raised in other currencies into dollars as part of the financing of our US operations. As a result, adjusted profit for the year and profit for the year from continuing operations for 2008/09 would have been £7 million and £5 million lower respectively if translated at the 2009/10 average exchange rate of $1.58:£1 (2007/08: £49 million and £137 million higher respectively if translated at the 2008/09 average exchange rate of $1.54:£1).

The balance sheet at the end of the financial year has been translated at an exchange rate of $1.52:£1 at 31 March 2010 ($1.44:£1 at 31 March 2009).

Profit for the year from continuing operations

Profit for the year from continuing operations increased from £922 million in 2008/09 to £1,389 million in 2009/10 (decreased from £1,575 million in 2007/08 to £922 million in 2008/09) as a consequence of the changes in operating profit, net finance costs, exceptional finance costs and remeasurements, and taxation described in the following sections.

Details of the financial results of business segments and other activities are included in the business sections on pages 46 to 73.

Earnings and earnings per share from continuing operations

In accordance with IAS 33, all earnings per share amounts for comparative periods have been restated as a result of shares issued via scrip dividends.

Financial performance continued

Adjusted earnings

Continuing operations	2010 £m	2009 £m	2008 £m
	Years ended 31 March		
Adjusted operating profit	**3,121**	2,915	2,595
Net finance costs excluding exceptional items and remeasurements	**(1,155)**	(1,150)	(770)
Share of post-tax results of joint ventures	**8**	5	4
Adjusted profit before taxation	**1,974**	1,770	1,829
Taxation excluding tax on exceptional items, remeasurements and stranded cost recoveries	**(553)**	(517)	(579)
Adjusted profit from continuing operations	**1,421**	1,253	1,250
	pence	pence	pence
Adjusted earnings per share from continuing operations	**57.4**	50.2	47.2

Earnings

Continuing operations	2010 £m	2009 £m	2008 £m
	Years ended 31 March		
Total operating profit	**3,293**	2,623	2,964
Net finance costs	**(1,108)**	(1,234)	(786)
Share of post-tax results of joint ventures	**8**	5	4
Profit before taxation	**2,193**	1,394	2,182
Taxation	**(804)**	(472)	(607)
Profit from continuing operations	**1,389**	922	1,575
	pence	pence	pence
Earnings per share from continuing operations	**56.1**	36.9	59.5

Earnings per share from continuing operations

See figures 1 and 2 on page 41. The following table sets out the adjusted earnings per share and earnings per share from continuing operations for 2009/10, 2008/09 and 2007/08 and reconciles the differences between them. Reconciling items are net of tax.

Continuing operations	2010 £m	2009 £m	2008 £m
	Years ended 31 March		
Adjusted earnings per share	**57.4**	50.2	47.2
Exceptional items	**(10.9)**	(9.9)	(0.1)
Commodity contract remeasurements	**1.7**	(10.7)	5.0
Derivative financial instrument remeasurements	**(1.0)**	(3.0)	(1.3)
Stranded cost recoveries	**8.9**	10.3	8.7
Earnings per share – continuing operations	**56.1**	36.9	59.5

Adjusted earnings per share for 2009/10 increased by 7.2 pence, an increase of 14% compared with 2008/09 (2007/08: increased by 3.0 pence, an increase of 6% compared with 2008/09).

Earnings per share from continuing operations increased from 36.9 pence per share in 2008/09 to 56.1 pence per share in 2009/10 reflecting the increase in adjusted earnings per share, combined with the lower net exceptional items, remeasurements and stranded cost recoveries on a per share basis (2008/09: decrease from 59.5 pence per share in 2007/08 to earnings of 36.9 pence per share).

Diluted earnings per share from continuing operations were 55.8 pence per share in 2009/10 (0.3 pence lower than basic earnings per share from continuing operations), compared with 36.6 pence per share in 2008/09 (0.3 pence lower) and 59.1 pence per share in 2007/08 (0.4 pence lower). The principal reason for the dilution in 2009/10, 2008/09 and 2007/08 relates to employee share plans.

Adjusted profit measures

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

a) Reconciliation of adjusted operating profit to total operating profit

Continuing operations	2010 £m	2009 £m	2008 £m
	Years ended 31 March		
Adjusted operating profit	**3,121**	2,915	2,595
Exceptional items	**(268)**	(275)	(242)
Commodity contract remeasurements	**71**	(443)	232
Stranded cost recoveries	**369**	426	379
Total operating profit	**3,293**	2,623	2,964

Adjusted operating profit is presented on the face of the income statement under the heading operating profit before exceptional items, remeasurements and stranded cost recoveries. See figures 3 and 4 on page 41.

b) Reconciliation of adjusted profit before taxation to profit before taxation

Continuing operations	2010 £m	2009 £m	2008 £m
	Years ended 31 March		
Adjusted profit before taxation	**1,974**	1,770	1,829
Exceptional items	**(301)**	(275)	(242)
Commodity contract remeasurements	**70**	(445)	223
Derivative financial instrument remeasurements	**81**	(82)	(7)
Stranded cost recoveries	**369**	426	379
Total profit before taxation	**2,193**	1,394	2,182

Adjusted profit before taxation is presented on the face of the income statement under the heading profit before taxation before exceptional items, remeasurements and stranded cost recoveries.

c) Reconciliation of adjusted earnings to earnings (profit for the year from continuing operations attributable to equity shareholders of the parent company)

Continuing operations	2010 £m	2009 £m	2008 £m
	Years ended 31 March		
Adjusted earnings	**1,418**	1,250	1,247
Exceptional items	**(270)**	(247)	(2)
Commodity contract remeasurements	**42**	(266)	133
Derivative financial instrument remeasurements	**(25)**	(74)	(35)
Stranded cost recoveries	**221**	256	229
Earnings	**1,386**	919	1,572

Adjusted earnings is presented in note 9 to the consolidated financial statements, under the heading adjusted earnings – continuing operations.

Discontinued operations

There were no discontinued operations during 2009/10.

During 2008/09, discontinued operations included the Ravenswood generation station, KeySpan Communications and KeySpan Engineering Associates, which were sold during the year. At 31 March 2008, all of these operations were classified as held for sale on the balance sheet and their results included in discontinued operations from their acquisition under KeySpan on 24 August 2007 to 31 March 2008. In addition during 2007/08, discontinued operations included our wireless infrastructure operations in the UK and the US and the electricity interconnector in Australia that we sold during 2007/08.

We sold the Ravenswood generation station for $2.9 billion (£1.6 billion) on 26 August 2008.

Earnings per share from discontinued operations in 2008/09 was 1.0 pence per share, including 0.6 pence per share relating to gains on the businesses sold during the year, compared with 61.2 pence per share in 2007/08, including 59.8 pence per share relating to gains on the businesses sold during the year.

Profit and total earnings per share for the year

Profit for the year from both continuing and discontinued operations was £1,389 million in 2009/10, compared with £947 million in 2008/09 and £3,193 million in 2007/08.

Total earnings per share from both continuing and discontinued operations were 56.1 pence per share in 2009/10, 37.9 pence per share in 2008/09 and 120.7 pence per share in 2007/08.

Adjusted operating profit and operating profit

During 2009/10 and 2008/09 there were no acquisitions and therefore the results for continuing operations are comparable as both contain a full year of contributions from the former KeySpan operation.

For the year ended 31 March 2008, KeySpan was acquired on 24 August 2007 and consequently only contributed seven months of results for that period. During 2007/08, KeySpan contributed $740 million and $911 million to the adjusted operating profit and operating profit for continuing operations respectively. During 2008/09, a full year of KeySpan operations contributed $855 million and $313 million to the adjusted operating profit and operating profit for continuing operations respectively.

KeySpan's operations are highly seasonal, with higher revenue and operating profit in the second half of the year driven by the winter heating season. Therefore, during 2007/08 the results of KeySpan that were consolidated provide a larger contribution on a time apportioned basis compared with a full year's contribution.

The following tables set out the consolidated revenue, adjusted operating profit and operating profit by operating segment.

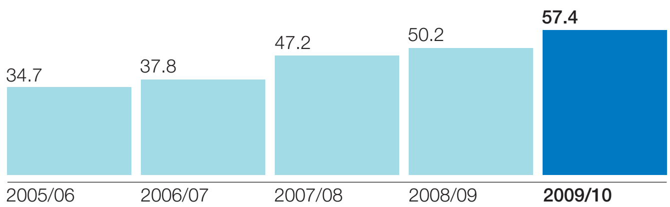
£1,418m
Adjusted earnings

57.4p
Adjusted earnings per share

13%
Increase in adjusted earnings

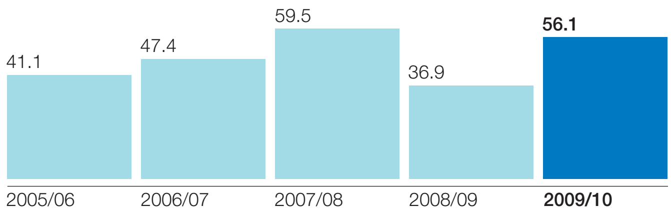
14%
Increase in adjusted earnings per share

Figure 1 – Adjusted earnings per share from continuing operations
pence



Comparative data have been restated for the impact of the scrip dividend.

Figure 2 – Earnings per share for continuing operations
pence



Comparative data have been restated for the impact of the scrip dividend.

Figure 3 – Adjusted operating profit from continuing operations
£m

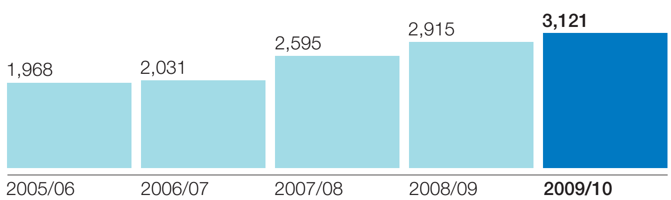
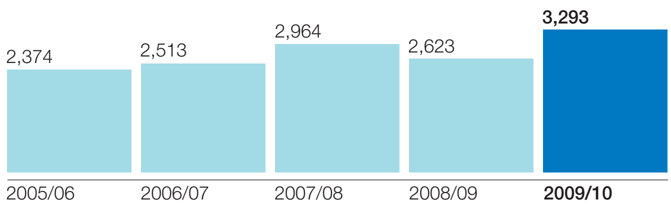


Figure 4 – Operating profit from continuing operations
£m



Financial performance continued

Revenue by operating segment

Continuing operations	Years ended 31 March 2010 £m	2009 £m	2008 £m
Transmission UK	**3,460**	3,487	2,956
Transmission US	**405**	420	299
Gas Distribution UK	**1,517**	1,466	1,383
Gas Distribution US	**3,708**	4,786	2,845
Electricity Distribution & Generation US	**4,339**	4,972	3,508
Other activities	**738**	719	642
Total segmental revenues	**14,167**	15,850	11,633
Less: sales between operating segments	**(179)**	(226)	(210)
Total	**13,988**	15,624	11,423

Segmental operating profit before exceptional items, remeasurements and stranded cost recoveries

Continuing operations	Years ended 31 March 2010 £m	2009 £m	2008 £m
Transmission UK	**1,311**	1,126	1,021
Transmission US	**153**	175	128
Gas Distribution UK	**723**	672	595
Gas Distribution US	**414**	612	392
Electricity Distribution & Generation US	**374**	265	330
Other activities	**146**	65	129
Adjusted operating profit	**3,121**	2,915	2,595

Segmental operating profit

Continuing operations	Years ended 31 March 2010 £m	2009 £m	2008 £m
Transmission UK	**1,252**	1,063	1,013
Transmission US	**151**	173	122
Gas Distribution UK	**682**	629	574
Gas Distribution US	**448**	226	487
Electricity Distribution & Generation US	**701**	531	696
Other activities	**59**	1	72
Operating profit	**3,293**	2,623	2,964

2009/10 compared with 2008/09

Changes in revenue and other operating income, operating costs and operating profit for 2009/10 compared with 2008/09 are summarised in the following table:

Continuing operations	Revenue and other operating income £m	Operating costs £m	Operating profit £m
2008/09 results	15,687	(13,064)	2,623
Add back exceptional items and remeasurements	–	718	718
Deduct stranded cost recoveries	(435)	9	(426)
2008/09 adjusted results	15,252	(12,337)	2,915
Exchange movements	(250)	223	(27)
2008/09 constant currency results	15,002	(12,114)	2,888
Transmission UK	(42)	227	185
Transmission US	(4)	(14)	(18)
Gas Distribution UK	50	1	51
Gas Distribution US	(957)	775	(182)
Electricity Distribution & Generation US	(459)	575	116
Other activities	(6)	87	81
Sales between businesses	47	(47)	–
2009/10 adjusted results	13,631	(10,510)	3,121
Exceptional items and remeasurements	–	(197)	(197)
Stranded cost recoveries	376	(7)	369
2009/10 results	14,007	(10,714)	3,293

Revenue and other operating income excluding stranded cost recoveries was £1,621 million lower than in 2008/09. This primarily reflected lower average commodity costs and delivery volumes in the US during 2009/10 compared with 2008/09 and a £250 million decrease as a result of exchange movements on our US operations. Due to the pass-through nature of our commodity costs in the US, revenues decrease if there is a fall in average commodity costs. This is not a contributing factor to the decrease in our US operating profit. Lower commodity delivery volumes in the US were primarily due to warmer weather.

There was a decrease of £44 million in other operating income, which primarily reflects a £21 million reduction in the sales of property by our property management business in the UK, and a £15 million decrease in our UK Transmission business.

The decrease in operating costs excluding exceptional items, remeasurements and stranded cost recoveries reflects a £224 million decrease as a result of exchange movements. Apart from the impact of exchange movements and lower average commodity costs, the other principal reasons for the decreased revenue and operating costs were: in Gas Distribution, decreased US regulatory income due to timing items driven by lower volumes and a one-off credit in the prior year, partially offset by higher UK regulated income; in Electricity Distribution & Generation, decreased costs reflected lower storm costs; and in Transmission, decreased UK costs reflected lower pass-through costs related to lower energy prices in 2009/10, while a small decrease in revenues primarily reflected lower interconnector capacity revenues.

Adjusted operating profit in 2009/10 was £206 million higher than 2008/09, comprising a £27 million decrease as a result of exchange movements on US operations and a net increase of £233 million from the movements in revenue, other operating income and operating costs on a constant currency basis.

Net operating exceptional charges of £268 million in 2009/10 primarily related to restructuring costs incurred in the UK and US, increases in environmental provisions resulting from changes in UK landfill tax legislation, as well as fines and provisions relating to legal action. The majority of the restructuring costs related to the ongoing KeySpan integration programme, restructuring of our LNG storage facilities, costs associated with initiatives related to the transformation of our operating model, and costs associated with outsourcing parts of our UK shared services organisation.

There were £71 million of operating remeasurement gains in 2009/10, compared with £443 million of losses in 2008/09. The gains relate to changes in the value of commodity contracts in the US carried in the balance sheet at fair value, primarily arising from movements in energy prices.

Stranded cost recoveries relate to the recovery of costs related to historical generation assets in the US that we no longer own. Such costs can be recovered from customers as permitted by regulatory agreements. Revenue and costs associated with stranded cost recoveries were £376 million and £7 million respectively (2008/09: £435 million and £9 million).

As a consequence of the increase in adjusted operating profit of £206 million, the net movement in operating exceptional items and remeasurements of £521 million and decrease in operating profit from stranded cost recoveries of £57 million, total operating profit increased by £670 million in 2009/10 to £3,293 million compared with £2,623 million in 2008/09.

2008/09 compared with 2007/08

Changes in revenue and other operating income, operating costs and operating profit for 2008/09 compared with 2007/08 can be summarised as follows:

Continuing operations	Revenue and other operating income £m	Operating costs £m	Operating profit £m
2007/08 results	11,498	(8,534)	2,964
Add back exceptional items and remeasurements	–	10	10
Deduct stranded cost recoveries	(382)	3	(379)
2007/08 adjusted results	11,116	(8,521)	2,595
Exchange movements	1,938	(1,678)	260
2007/08 constant currency results	13,054	(10,199)	2,855
Transmission UK	561	(456)	105
Transmission US	30	(22)	8
Gas Distribution UK	77	–	77
Gas Distribution US	1,068	(968)	100
Electricity Distribution & Generation US	454	(620)	(166)
Other activities	24	(88)	(64)
Sales between businesses	(16)	16	–
2008/09 adjusted results	15,252	(12,337)	2,915
Exceptional items and remeasurements	–	(718)	(718)
Stranded cost recoveries	435	(9)	426
2008/09 results	15,687	(13,064)	2,623

£3,121m
Adjusted operating profit

£3,293m
Operating profit

7%
Increase in adjusted operating profit

26%
Increase in operating profit

Financial performance continued

Revenue and other operating income excluding stranded cost recoveries was £4,136 million higher than in 2007/08. This primarily reflected a £1,938 million increase as a result of exchange movements on our US operations and the first full-year contribution from KeySpan.

In addition, due to the pass-through nature of our commodity costs in the US, revenues have increased during 2008/09 due to a rise in average commodity costs during 2008/09 compared with 2007/08. This has not resulted in an increase in our operating profit.

There was a decrease of £12 million in other operating income, which primarily reflects a £49 million reduction in the sales of property by our property management business in the UK, partially offset by a £30 million increase in our UK Transmission business and a net £7 million increase from the other regulated and non-regulated businesses.

The increase in operating costs excluding exceptional items, remeasurements and stranded cost recoveries reflects a £1,687 million increase as a result of exchange movements and the first full-year contribution from KeySpan.

KeySpan operations contributed £4,635 million of revenue and £4,084 million of costs excluding exceptional items, remeasurements and stranded cost recoveries in 2008/09, compared with £3,262 million and £2,782 million respectively in 2007/08, on a constant currency basis.

Apart from the impact of a full-year contribution from KeySpan and exchange movements the other principal reasons for the increased revenue and operating costs were: in Transmission, higher UK regulated revenue and interconnector auction income; in Gas Distribution, increased allowed regulatory revenue and increased revenue due to colder weather partially offset by higher bad debt costs; and in Electricity Distribution & Generation, increased revenue, storm costs and depreciation.

Adjusted operating profit in 2008/09 was £320 million higher than 2007/08, comprising a £260 million increase as a result of exchange movements on US operations and a net increase of £60 million from the movements in revenue, other operating income and costs on a constant currency basis.

Net operating exceptional charges of £275 million in 2008/09 primarily related to restructuring costs incurred in the UK and US and increases in environmental provisions resulting from significant movements in discount rates during the year. The majority of the restructuring costs related to the ongoing KeySpan integration programme, restructuring of our LNG storage facilities, and costs associated with initiatives related to the transformation of our operating model.

There were £443 million of operating remeasurement losses in 2008/09, compared with £232 million of gains in 2007/08.

Revenue and costs associated with stranded cost recoveries were £435 million and £9 million respectively (2007/08: £382 million and £3 million).

As a consequence of the increase in adjusted operating profit of £320 million, the net movement in operating exceptional items and remeasurements of £708 million and increase in operating profit from stranded cost recoveries of £47 million, total operating profit decreased by £341 million in 2008/09 to £2,623 million, compared with £2,964 million in 2007/08.

Net finance costs

Net finance costs excluding exceptional items and remeasurements was £1,155 million in 2009/10, compared with £1,150 million in 2008/09. The slight increase primarily reflected an increase in our net pension interest due to a fall in plan assets and lower expected returns on assets, partially offset by a lower effective interest rate due to lower RPI and LIBOR rates.

Net finance costs excluding exceptional items and remeasurements was £380 million higher in 2008/09 compared with £770 million in 2007/08. The increase was a consequence of higher average debt balances following the KeySpan acquisition, exchange movements and increased pension interest, partially offset by a lower effective interest rate reflecting lower floating and RPI linked rates.

Exceptional finance costs and remeasurements

There were £33 million of exceptional finance costs during 2009/10 relating to the early redemption of debt.

There were no exceptional finance costs in 2008/09 or in 2007/08.

Financial remeasurements relate to net gains on derivative financial instruments of £81 million (2008/09: losses £82 million; 2007/08: losses of £7 million) and the financial element of commodity contract revaluations, totalling £1 million (2008/09: £2 million; 2007/08: £9 million).

Taxation

A net charge of £804 million arose in 2009/10 comprising a £553 million charge on profit before tax excluding exceptional items, remeasurements and stranded cost recoveries, and a £251 million charge on exceptional items, remeasurements and stranded cost recoveries, compared with £472 million in 2008/09 (comprising a £517 million charge and a £45 million credit respectively) and £607 million in 2007/08 (comprising £579 million and £28 million charges respectively).

In 2009/10, exceptional items, remeasurements and stranded cost recoveries included a £41 million tax charge due to a change in US tax legislation under the Patient Protection and Affordable Care Act.

In 2008/09, exceptional items, remeasurements and stranded cost recoveries included a £49 million charge for increased deferred tax liabilities due to a change in the UK industrial buildings allowance regime. In 2007/08, it included an exceptional tax credit of £170 million relating to the release of deferred tax provisions arising from the change in the UK corporation tax rate.

The effective tax rates before and after exceptional items, remeasurements and stranded cost recoveries were 28.0% and 36.7% respectively (2008/09: 29.2% and 33.9%; 2007/08: 31.7% and 27.8%).

Cash flows

Cash flows from operating activities

See figure 5 on page 45. Cash generated from continuing operations was £4,372 million in 2009/10, compared with £3,564 million in 2008/09 and £3,265 million in 2007/08. This included cash outflows for continuing operations relating to exceptional items of £135 million, £131 million and £132 million respectively and cash inflows from stranded cost recoveries of £361 million, compared with £359 million and £278 million respectively.

After reflecting cash flows relating to discontinued operations and tax paid, net cash inflow from operating activities was £4,516 million, compared with £3,413 million in 2008/09 and £3,165 million in 2007/08. This included net corporate tax receipts amounting to £144 million in 2009/10 (which includes a £381 million refund resulting from a change in tax treatment on repairs expenditure in the US), £143 million tax payments in 2008/09 and £110 million payments in 2007/08.

Cash flows from investing activities

Cash outflows from investing activities were £2,332 million in 2009/10, compared with an outflow of £1,998 million in 2008/09 and an outflow of £3,023 million in 2007/08. There were no payments in respect of business acquisitions in 2009/10 and 2008/09, compared with £3,502 million spent on acquiring KeySpan in 2007/08.

Net proceeds from sales of financial investments were £805 million (2008/09: £99 million; 2007/08: £45 million). Proceeds from sales of subsidiaries, joint ventures and other investments were £6 million in 2009/10 (2008/09: £nil; 2007/08: £55 million).

Excluding acquisitions and disposals of financial investments, cash outflows for continuing operations decreased in 2009/10 by £9 million compared with 2008/09. Investing activities of discontinued operations were £nil in the period compared with a cash inflow of £1,049 million in 2008/09 (2007/08: £3,050 million inflow).

Cash flows from financing activities

Net cash outflows from financing activities were £2,212 million in 2009/10, compared with £877 million in 2008/09 and £1,592 million in 2007/08. This reflected net outflows from borrowings of £499 million (2008/09: £1,641 million inflow; 2007/08: £1,589 million inflow) and £7 million of share repurchases (2008/09: £627 million; 2007/08: £1,498 million).

Payments to providers of finance, in the form of interest and dividends, totalled £1,691 million in 2009/10 compared with £1,899 million in 2008/09 and £1,680 million in 2007/08.

Net interest cash outflows increased from £976 million in 2008/09 to £982 million in 2009/10 (increased from £694 million in 2007/08 to £976 million in 2008/09).

Dividends paid to shareholders decreased from £838 million in 2008/09 to £688 million in 2009/10 (increased from £780 million in 2007/08 to £838 million in 2008/09) reflecting that 25% and 20% of shareholders elected to take the final 2008/09 dividend and the interim 2009/10 dividend respectively in the form of a scrip dividend rather than cash.

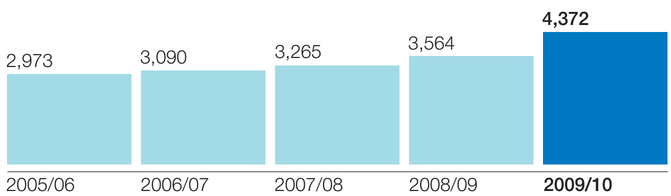
£4,372m
Cash generated from operations

28.0%
Effective tax rate before exceptional items, remeasurements and stranded cost recoveries

23%
Increase in cash flows from operations

£688m
Dividends paid to shareholders in cash

Figure 5 – Operating cash flows
£m



Transmission

Adjusted operating profit

£1,464m
2008/09: £1,301m

Capital investment

£1,494m
2008/09: £1,441m

Employees

3,953
2008/09: 3,874

UK energy transmitted

1,436 TWh
2008/09: 1,454 TWh

This year we have delivered nearly £1.5 billion worth of electricity and gas projects to upgrade and reinforce ageing infrastructure and adapt our networks to cope with changing sources of energy.

Our fundamental priorities remain safety, reliability and efficiency. We have also created an enhanced line of sight from National Grid's objectives to Transmission's objectives and annual priorities.

We are focused on the long-term security of supply and environmental challenges arising from the transition to a low carbon economy.

This section should be read in conjunction with the rest of this Operating and Financial Review

Key Facts

- Circuit length of over 27,800 kilometres of electrical overhead line
- Over 850 kilometres of underground cable
- 286 TWh of electricity transmitted in the UK
- Over 7,600 kilometres of gas pipeline
- 1,150 TWh of gas throughput

About Transmission

Our Transmission business operates in both the UK and the US. As a consequence of the different economic and regulatory environments, we report the results of Transmission as two segments: Transmission UK and Transmission US.

Principal operations

Transmission UK

Electricity transmission owner

We own the electricity transmission system in England and Wales. Our electricity assets comprise a route length of over 7,200 kilometres of overhead line, mainly consisting of double circuits, about 713 kilometres of underground cable and 338 substations at 242 sites.

Electricity system operator

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

Gas transmission owner

We own the gas national transmission system in Great Britain. This comprises approximately 7,600 kilometres of high pressure pipe and 23 compressor stations, connecting to 8 distribution networks and to third party independent systems for onward transportation of gas to end consumers.

Gas system operator

We operate the gas national transmission system. Day-to-day operation includes balancing supply and demand, maintaining satisfactory system pressures and ensuring gas quality standards are met.

French interconnector

We own and operate the UK assets, and a portion of the subsea cables, that comprise the electricity interconnector between England and France as part of a joint arrangement with the French transmission operator.

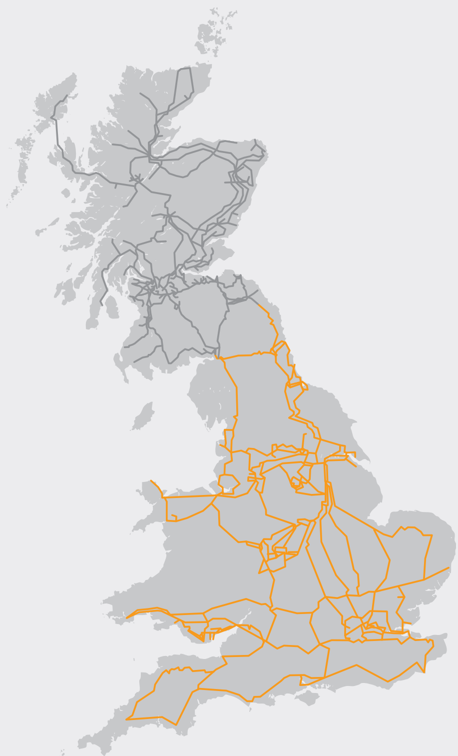
LNG storage

We own and operate three liquefied natural gas (LNG) storage facilities in Great Britain following the closure of Dynevor Arms during 2009.

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

As electricity transmission system operator and gas transmission system operator, we undertake a range of activities necessary for the successful, efficient delivery of secure and reliable energy. In the case of electricity, this involves the continuous real-time balancing of supply and demand, and management of balancing services that include commercial arrangements with market participants that enable electricity demand or generation output to be varied. In the case of gas, we ensure the system supply and demand is balanced at the end of each day. We are also required to maintain levels of short-term gas reserves to ensure domestic and other non-interruptible gas supplies can be maintained during prolonged cold conditions.

Transmission UK – electricity system



Operational highlights 2009/10

- Currently upgrading transmission capacity connecting Scotland and England.
- Identification of substantial programme of further investment which will also help support UK government in meeting its climate change targets.
- Permanent strategies for mobile flood defences developed with deployment planned to start late 2010.
- London cable tunnels reinforcement work ongoing to secure supply.

— Scottish electricity transmission system

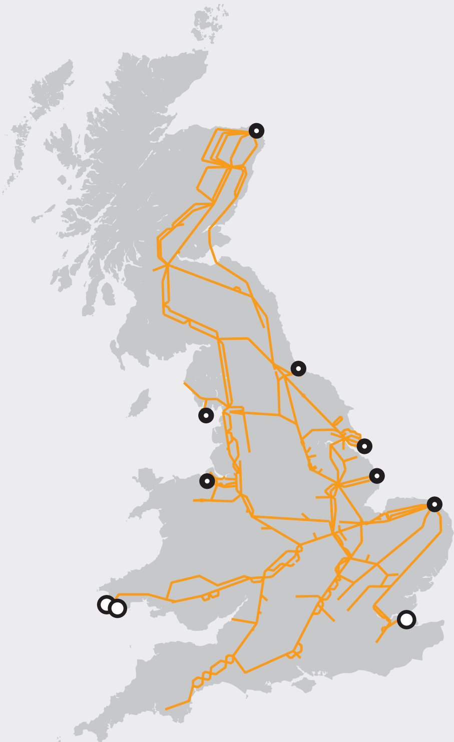
— English and Welsh electricity transmission system

338
UK electricity substations

99.9999%
UK transmission electrical system reliability

£7.5bn
UK electricity transmission regulatory asset value

Transmission UK – gas system



Operational highlights 2009/10

- Started construction of Easington to Paull 26 km pipeline to facilitate gas supplies on the east coast.
- Started construction of Wormington to Sapperton 44 km pipeline to meet gas demand in southwest.
- Decommissioning of Bathgate, Peterstow and Scunthorpe compressor stations underway.
- Working with Scottish Power to develop CO_2 transportation in Scotland and with other parties to develop a carbon capture and storage solution in the Humber area.

— Gas transmission system

● Terminal

○ LNG terminal (on east coast Grain LNG, owned by National Grid, on west coast two terminals at Milford Haven, not owned by National Grid)

23
UK gas compressor stations

100%
UK gas transmission system reliability

£4.5bn
UK gas transmission regulatory asset value

Transmission continued

Transmission US

Electricity transmission owner

We own and operate an electricity transmission network of approximately 13,800 kilometres spanning upstate New York, Massachusetts, Rhode Island, New Hampshire and Vermont. Our US electricity transmission facilities operate at voltages ranging from 69 kV to 345 kV and comprise nearly 13,700 kilometres of overhead line, nearly 140 kilometres of underground cable and 525 substations.

We are the largest electricity transmission service provider in New England and New York by reference to the length of these high voltage transmission lines.

Canadian interconnector

We own and operate a 224 kilometre direct current transmission line rated at 450 kV that is a key section of an interconnector between New England and Canada.

As one of several transmission owners, we work with two distinct independent system operators (ISOs) in New England and New York. These non profit system operator entities for New England and New York are responsible for operating organised wholesale markets for energy, for operating reserves and capacity, for maintaining the operating reliability of the New England and New York networks, for coordinating the activities of the transmission owners, and for managing transparent expansion planning processes for transmission.

Regulation

Transmission UK

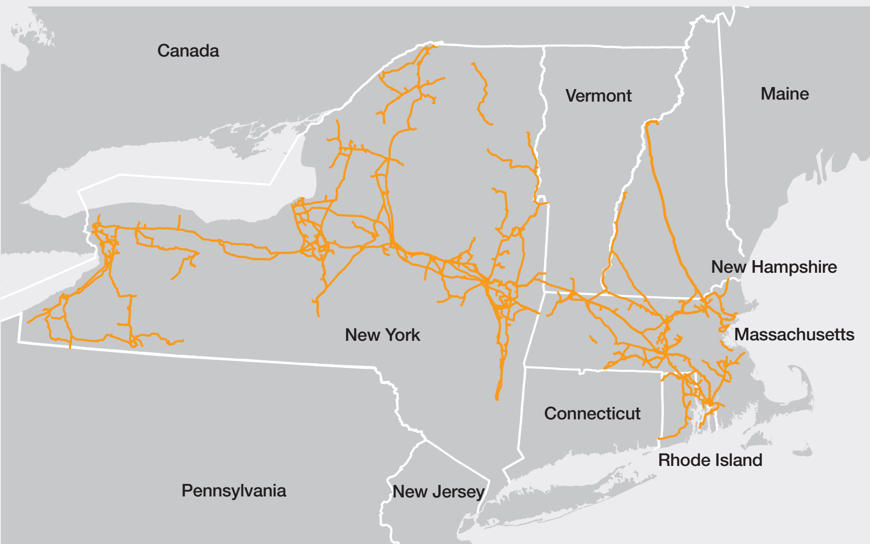
Through our subsidiary, National Grid Electricity Transmission plc, we are the sole holder of an electricity transmission licence for England and Wales. This licence also covers our role as system operator for the transmission networks in Great Britain. Under the Electricity Act 1989, we have a duty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

Through our subsidiary, National Grid Gas plc, we hold a gas transporter licence in respect of the national transmission system in Great Britain. Under the Gas Act 1986, we have a duty to develop and maintain an efficient and economical pipeline system for the conveyance of gas. Our LNG storage business is managed as a separate business from the gas transmission business; however, some elements of its operations are regulated under our gas transporter licence.

Our price controls are typically reviewed every five years and the current price control for both electricity and gas transmission activities as network owners covers the period 1 April 2007 to 31 March 2012. In December 2009, Ofgem announced that they intend to delay the implementation of the next control by one year to 2013; as a result the current control will need to be extended.

We accepted Ofgem's final proposals for the system operator schemes that applied to the year ended 31 March 2010 for both

Transmission US – electricity networks



Operational highlights 2009/10

- Significant expenditure on asset replacement to increase system reliability.
- Capital investment delivered in New York in line with KeySpan merger commitment.
- New England East-West Solution (NEEWS) project is under way to enhance the transmission system in three states.
- Five year contract signed with the Northeast Power Alliance to support investment programme in New York.

525
US electricity substations

98.8%
US electricity system availability

$1.1bn
US transmission rate base

Zero
Lost time injuries

gas transportation and electricity transmission. We also accepted their proposals for the one year schemes from 1 April 2010.

The key elements of the current price controls for both gas and electricity transmission are that we earn a 4.4% post-tax real rate of return on our regulatory asset value (equivalent to a 5.05% vanilla return), with a £4.4 billion baseline five year capital expenditure allowance and a £1.2 billion five year controllable operating expenditure allowance.

In addition, we are subject to a number of incentives that can adjust our transmission network revenue. For electricity transmission these include incentives for transmission network reliability, sulphur hexafluoride (SF_6) losses, efficiency and balancing services. For gas transmission, our incentive schemes cover areas such as the cost of investment for additional capacity to facilitate new connections to the system.

Transmission US

Revenue for our transmission business in New England and New York is collected from transmission customers, including from our Electricity Distribution & Generation business, pursuant to tariffs approved by state utility commissions and by the Federal Energy Regulatory Commission (FERC).

In New York, our current rates allow for capital expenditure on our transmission network based on historic levels, which are significantly lower than required to maintain a safe and reliable network. Over recent years our investment has been three to four times greater than the levels in the rate plan. In January 2010, we filed to establish new rates in line with forecast investment levels. If approved, the new rates would take effect from 1 January 2011. In addition, we have petitioned for additional revenues with respect to incremental capital expenditure for the 2008 calendar year. We anticipate making additional petitions for deferred recovery of qualifying incremental investment for calendar years 2009 and 2010.

In New England, the transmission tariff allows for recovery of, and a return on, capital expenditures as new investment enters service, bringing immediate revenue benefits.

In New York, Massachusetts and Rhode Island, we are subject to penalties if the reliability of our electricity distribution and transmission networks fails to meet specific targets related to customer impacts.

External market, energy policy and regulatory and other developments

In addition to the external market developments described on page 17 and the energy policy and regulatory developments described on pages 20 and 21, the following developments are relevant to the Transmission business.

Security of supply and climate change

We are focused on the long-term security of supply and environmental challenges arising from the transition to a low carbon economy and the decline of the UK's gas production from the North Sea. We are working with the UK electricity generators and Ofgem to ensure that the connection of renewable generation to the transmission network can be facilitated quickly and within our current licensing framework. In the US, we have major projects under way to increase the capacity of the transmission system to meet future demand. We are also working with governmental and regulatory bodies to ensure we help facilitate the implementation of the new climate change initiatives and policy being developed around integrating increasing amounts of renewable energy.

Other UK developments

The price controls contain allowances for transmission reinforcement works to accommodate the growing impact of renewable energy from Scotland.

Network access is being sought by just under 100 renewable generation projects in Scotland totalling approximately 9.5 GW, each with connection agreements with National Grid. The need for anticipatory investment is underpinned by continuing large amounts of activity in the generation market. At our latest connections update, as of 1 April we have signed agreements for the connection of 71.8 GW of generation, connecting across the period 2010 to 2025. This generation is mainly combined cycle gas turbines, offshore wind and nuclear, but also includes onshore wind, clean coal and waste/biomass plant. In addition to demonstrating the requirements for the Electricity Networks Strategy Group reinforcements, these generation connections drive further increases in our load related investment requirements. We have continued to work closely with the Scottish transmission companies to find innovative solutions to advancing new generation projects in Scotland. We have introduced measures to allow generators who are ready and able to connect to do so before wider reinforcement works. Importantly, on 8 May 2009, Ofgem confirmed that they will agree derogations from the GB Security and Quality Standards of Supply to advance the connection of 450 MW of Scottish renewable generation.

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

US regulatory developments

US federal policy is reshaping the discussion on how best to integrate renewable energy and mitigate climate change. Draft legislation is being developed in the US Senate. The legislation, if enacted, would implement a national renewable energy standard and give new authority that would allow FERC to take a larger role in siting and permitting of transmission infrastructure and a greater role in transmission planning to integrate large amounts of renewable energy. In anticipation of new legislation, FERC has begun discussions to assess how best to reform current regional transmission planning processes, including cost allocation and recovery, and how best to leverage the participation of renewable resources in wholesale energy markets. Support has been voiced by 29 state governors for the national renewable energy standard and for transmission investment to support both onshore and offshore wind development to boost wind resources.

The New England governors adopted the New England Governors' Renewable Blueprint, which is based on a study conducted by ISO New England and which identified transmission expansion that would be needed if large scale onshore and offshore wind resources and Canadian hydroelectric imports were available. The study was conducted to strengthen federal support of more local and regional development of renewable resources and has found that significant amounts of transmission investment will be needed within New England to meet the region's renewable targets.

New York has developed a State Energy Plan, which puts in place a goal of increasing investments in in-state energy supplies and

Transmission continued

investment in energy and transportation infrastructure to meet the state's renewable resource requirement of 30% by 2015.

Performance against our objectives

National Grid's progress against the Company objectives is set out on pages 30 to 45. We include below further information specific to Transmission with respect to the objectives that are closely aligned to the lines of business.

Driving improvements in our safety, customer and operational performance

Our objectives are to reduce employee lost time injuries to zero and to support generators and distribution network customers, including our own networks operated by Gas Distribution in the UK and Electricity Distribution & Generation in the US, in delivering energy efficiently and effectively to consumers, in particular in connecting new sources of supply to our transmission networks.

Safety

In the UK, during 2009/10 there were 10 lost time injuries compared with 8 in 2008/09 and 15 in 2007/08. The lost time injury frequency rate was 0.17 in 2009/10 compared with 0.14 in 2008/09 and 0.28 in 2007/08.

Our US electricity transmission lost time injury frequency rate decreased to zero in 2009/10 from 0.20 in 2008/09. There were no lost time injuries in 2009/10 compared with 2 in 2008/09.

Customer service

Our transmission customer service activities principally relate to facilitating new connections and maintaining existing relationships with the customers who are already connected. In the US, much of the interconnection work with our transmission customers is performed in conjunction with the system operators in the areas within which we operate.

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

Our aim is to meet or exceed the base financial returns in our price controls in the UK and our rate plans in the US.

The performance measures we use to monitor our return on investment are the vanilla return in the UK and the return on equity per rate plan in the US.

We measure the financial performance of our UK regulated businesses using an operational return metric comparable to the vanilla return defined in the UK price controls from 1 April 2007. In our electricity transmission operations, we achieved a 6.6% operational return in 2009/10 (2008/09: 4.7%), ahead of regulatory assumptions. In our gas transmission operations, we achieved a 7.6% return in 2009/10 (2008/09: 6.9%), significantly outperforming regulatory assumptions mainly as a result of a strong performance under our incentive schemes.

In the US, we measure our financial performance against the allowed regulatory return on equity under the terms of our rate plans or rate agreements. In New England, we achieved a weighted average 11.8% return on equity, in line with the prior year. In New York, our electricity transmission activities are combined with electricity distribution under a single rate plan and the combined returns for these activities are included within the Electricity Distribution & Generation business commentary on page 66.

Modernising and extending our transmission and distribution networks

We aim to meet or exceed network reliability and availability objectives. We are on track to deliver our planned capital investment programme involving approximately £3.6 billion of capital expenditure between 1 April 2010 and 31 March 2012.

Works to upgrade the two double circuits connecting Scotland and England are under way and due for completion in 2010 at a total cost of around £110 million. Further works are being carried out to increase the capability of the transmission system in the northeast and northwest of England so that increased transfers from Scotland can be transported to demand centres in England and Wales. The further works will be completed in 2011 at a total cost of around £230 million.

In the US, we have worked with other transmission owners and the ISOs in New York and New England and secured Department of Energy funding for transmission smart grid investments. In the UK, we have also agreed with Ofgem to commit significant investment into planning new infrastructure to connect low carbon power generation. In addition, we have committed to developing new processes to enable investment in new physical network capacity, which provides customers with easier access to our network.

Reliability

In the UK, the total amount of electricity transmitted in 2009/10 was 286 TWh compared with 296 TWh for 2008/09 and 303 TWh for 2007/08. Gas transmitted amounted to 1,150 TWh, compared with 1,158 TWh in 2008/09 and 1,134 TWh in 2007/08.

In the UK, the winter of 2009/10 saw demand from the electricity transmission network in England and Wales hit a peak of 52.7 GW. This compares with 52.9 GW in 2008/09 and 54.2 GW in 2007/08.

2009/10 saw a maximum gas demand of 465 million standard cubic metres on 8 January 2010, 5% higher than last year's peak of 443 million standard cubic metres.

Our reliability and availability performance during the year can be summarised as follows:

	Years ended 31 March		
Measure	**2010**	2009	2008
UK electricity transmission network reliability – target 99.9999%	**99.9999%**	99.9999%	99.9999%
UK gas transmission network reliability – target 100%	**100%**	100%	100%
US electricity transmission network reliability – target < 253 MWh	**147 MWh**	266 MWh	437 MWh
UK average annual availability for electricity transmission network	**94.76%**	94.64%	95.09%
UK electricity system availability at winter peak demand	**97.55%**	97.7%	98.0%
UK gas compressor fleet performance – mean time between failures	**698 hrs**	405 hrs	259 hrs
US annual network availability	**98.8%**	98.8%	98.6%

In the US, the summer of 2009 saw demand from the electricity transmission networks in New England and New York hit a combined peak of 12.6 GW. This compares with 13.0 GW in 2008 and 13.2 GW in 2007. Our electricity system reliability performance broadly improved over the previous year as well as the average of the previous five years. However, continued improvement remains an objective for 2010/11.

Capital investment

UK investment

Investment in electricity and gas transmission systems is, by its nature, variable and is largely driven by changing sources of supply and asset replacement requirements. The gas transporter and electricity transmission licences also oblige us to provide connections and capacity upon request.

We have increased our level of investment as we replace parts of our UK electricity network as the assets reach the end of their useful lives. In addition, parts of the gas transmission network are reaching the end of their technical lives. These are mainly compressor stations, control systems and valves. This, together with work required to meet changing supply sources, means that the UK electricity and gas transmission business will continue to see a significant increase in investment and network renewal.

Capital investment in the replacement, reinforcement and extension of the UK electricity and gas transmission systems in 2009/10 was £1,254 million, compared with £1,259 million in 2008/09 and £1,600 million in 2007/08. This mainly related to UK electricity transmission investment including Thames Estuary reinforcement, our London cable tunnels project and transmission investment to facilitate connection of renewable generation. The balance of the UK investment was principally driven by load related infrastructure on our gas transmission system. Capital investment included £21 million with respect to intangible assets, principally software applications (2008/09: £18 million, 2007/08: £22 million).

US investment

Capital investment in the replacement, reinforcement and extension of the US electricity transmission networks in 2009/10 was £240 million, compared with £182 million in 2008/09 and £111 million in 2007/08. After excluding the £5 million effect of exchange movements capital investment increased by £63 million in 2009/10 compared with 2008/09. The change principally reflects an increase in regional reliability projects in New England and additional asset replacement in New York to increase system reliability.

We expect increasing investment in New England to deliver our regional system expansion projects including the New England East-West Solution (NEEWS) project. NEEWS is designed to address reliability problems in the southern New England transmission system and involves improvements to the transmission systems of National Grid and Northeast Utilities. In total it has an estimated cost of approximately $2.1 billion (£1.4 billion), with National Grid's share estimated at approximately $0.6 billion (£0.4 billion). The project represents the most significant addition to the New England 345 kV transmission system since it was first built. Other investment projects in New York will also deliver our asset replacement plans and maintain the reliability of the system.

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

Key areas of focus for our Transmission business in 2009/10 have been safety, securing funds for anticipatory investment in the UK, better operational planning and establishing regional delivery ventures in the US.

Much of the focus for Transmission has been on preparing for the significant increase in capital investment that is expected in future years. In the UK, this has included developing the longer-term investment plan. In the US, we finalised contracts with two regional delivery ventures that are now delivering a substantial portion of our capital investment plan.

In the US, we have also established a combined transmission and distribution electricity operations function, which brings together our transmission and distribution operations departments under one chief operating officer to capture efficiencies.

The new operational planning way of working brings together consistent planning information from all parties across a longer timeframe. This has improved the alignment of workload, resources and system access across multiple years between National Grid and supply chain partners to drive the efficient and timely delivery of work on our assets.

Transmission has continued to focus on incremental efficiencies and is committed to further improving the levels of efficiency in our operations. This is how we will reduce controllable costs on an enduring basis contributing to an improved financial performance.

Expanding our capabilities and identifying new financeable opportunities to grow

In the UK, we have identified significant capital requirements over the medium term. These requirements are primarily driven by the need to replace ageing infrastructure, reinforce the network to accommodate changing sources of supply and connect new generation, including renewables. We have also identified other potential opportunities to invest in related infrastructure such as offshore transmission networks and carbon capture and storage. These investments are discretionary and we are committed to further evaluation, including establishing suitable remuneration regimes, before we allocate funds to invest. In addition, some of these opportunities may go through a competitive process.

US regional delivery ventures

The magnitude of transmission investment required in the US encouraged us to review our approach, aiming to ensure we continue to deliver our investment programme safely and efficiently. In April 2009, we signed a 5 year regional delivery venture contract for projects in New England. This, combined with a separate regional delivery venture in upstate New York, will contribute around $1.7 billion towards National Grid's investment programme over the next 5 years.

Transmission continued

Financial performance

Our combined adjusted operating profit, excluding exceptional items, for Transmission in the UK and the US of £1,464 million was 13% higher than 2008/09, which in turn was 10% higher than in 2007/08, both on a constant currency basis.

Financial results – Transmission UK

The results for the Transmission UK segment for the years ended 31 March 2010, 2009 and 2008 were as follows:

	Years ended 31 March 2010 £m	2009 £m	2008 £m
Revenue and other operating income	**3,475**	3,517	2,956
Operating costs excluding exceptional items and remeasurements	**(2,164)**	(2,391)	(1,935)
Adjusted operating profit	**1,311**	1,126	1,021
Exceptional items	**(59)**	(63)	(8)
Operating profit	**1,252**	1,063	1,013

2009/10 compared with 2008/09

The principal movements between 2008/09 and 2009/10 can be summarised as follows:

	Revenue and other operating income £m	Operating costs £m	Operating profit £m
2008/09 results	3,517	(2,454)	1,063
Add back exceptional items	–	63	63
2008/09 adjusted results	3,517	(2,391)	1,126
Allowed revenues	169	–	169
Timing on recoveries	20	–	20
BSIS	(197)	227	30
French interconnector	(26)	–	(26)
Depreciation	–	(20)	(20)
Other	(8)	20	12
2009/10 adjusted results	3,475	(2,164)	1,311
Exceptional items	–	(59)	(59)
2009/10 results	3,475	(2,223)	1,252

UK adjusted operating profit, excluding exceptional items, increased by £185 million or 16% in 2009/10 compared with 2008/09.

Revenue and other operating income decreased by £42 million in 2009/10 compared with 2008/09. UK regulated revenues increased by £169 million, largely driven by inflation driven revenue increases under the UK price control allowance; however, this was more than offset by a fall in the recovery of incentivised costs associated with balancing the electricity system (Balancing Service Incentive Scheme – BSIS). As expected, revenues from our French interconnector business were lower in 2009/10, down by £26 million on 2008/09, as demand for capacity returned closer to normal levels. Other movements comprise lower LNG auction revenues and lower pass-through costs.

Operating costs, excluding exceptional items, decreased by £227 million in 2009/10 compared with 2008/09 largely reflecting the fall in incentivised BSIS costs. As expected, depreciation and amortisation increased by £20 million as a result of increasing capital investment. Other items decreased costs by £20 million, principally because of lower pass-through costs recovered through revenue.

The £59 million exceptional charge in 2009/10 consists of a £41 million charge for LNG storage and £18 million towards establishing global shared services and IT functions. The £41 million charge relates to the restructuring of our LNG storage facilities.

2008/09 compared with 2007/08

The principal movements between 2007/08 and 2008/09 can be summarised as follows:

	Revenue and other operating income £m	Operating costs £m	Operating profit £m
2007/08 results	2,956	(1,943)	1,013
Add back exceptional items	–	8	8
2007/08 adjusted results	2,956	(1,935)	1,021
Allowed revenues	232	–	232
Timing on recoveries	(20)	–	(20)
BSIS	318	(330)	(12)
French interconnector	43	(4)	39
Depreciation	–	3	3
Other	(12)	(125)	(137)
2008/09 adjusted results	3,517	(2,391)	1,126
Exceptional items	–	(63)	(63)
2008/09 results	3,517	(2,454)	1,063

Revenue and other operating income increased by £561 million in 2008/09 compared with 2007/08, mainly driven by recovery of higher incentivised BSIS costs and an increase in allowed revenues. French interconnector revenue was up £43 million due to higher capacity auction revenues. Other movements mainly comprise lower LNG storage auction income.

Operating costs, excluding exceptional items, increased by £456 million in 2008/09 compared with 2007/08. This was primarily due to higher incentivised BSIS costs relating to higher constraint, margin and energy balancing costs (largely covered by the revenue increase above). Higher other operating costs reflect an increase in gas shrinkage costs, due to higher energy prices, and higher pass-through costs.

The increase in UK adjusted operating profit in 2008/09 reflects the movements in revenue and operating costs, excluding exceptional items, as described above.

The £63 million exceptional charge in 2008/09 primarily consists of a £50 million charge relating to the restructuring of our LNG storage facilities.

Financial results – Transmission US

The average exchange rates used to translate the results of US operations during 2009/10, 2008/09 and 2007/08 were \$1.58:£1, \$1.54:£1 and \$2.01:£1 respectively.

	Years ended 31 March		
	2010 £m	2009 £m	2008 £m
Revenue	**405**	420	299
Operating costs excluding exceptional items	**(252)**	(245)	(171)
Adjusted operating profit	**153**	175	128
Exceptional items	**(2)**	(2)	(6)
Operating profit	**151**	173	122

2009/10 compared with 2008/09

The principal movements between 2008/09 and 2009/10 can be summarised as follows:

	Revenue £m	Operating costs £m	Operating profit £m
2008/09 results	420	(247)	173
Add back exceptional items	–	2	2
2008/09 adjusted results	420	(245)	175
Exchange movements	(11)	7	(4)
2008/09 constant currency results	409	(238)	171
Allowed revenues	4	–	4
Timing on recoveries – revenues	(13)	–	(13)
Timing on recoveries – pass-through costs	5	(7)	(2)
Other	–	(7)	(7)
2009/10 adjusted results	405	(252)	153
Exceptional items	–	(2)	(2)
2009/10 results	405	(254)	151

Adjusted operating profit decreased by £22 million in 2009/10, of which £4 million was caused by the movement in exchange rates when compared with 2008/09. On a constant currency basis, revenue decreased by £4 million and operating costs increased by £14 million, resulting in an £18 million, or 11%, decrease in adjusted operating profit in 2009/10.

A key reason for the 2009/10 profit decrease was the timing of recoveries under our New York rate plan, which resulted in a £15 million reduction. Excluding the timing of recoveries, our allowed revenues increased by £4 million in 2009/10. This growth was mainly in New England, where increased capital investment has delivered rate base growth of approximately 7% on last year.

Operating costs were £14 million higher in 2009/10 on a constant currency basis. This included £7 million for higher regulatory assessment costs in New York, which are fully recoverable as pass-through costs. The remaining cost increase of £7 million resulted from higher depreciation and decommissioning costs, directly related to the growth in our capital programme and investment in system reliability improvements.

The £2 million exceptional charge in 2009/10 related to restructuring costs arising from the integration of the operations acquired with KeySpan, including one time costs associated with pension and retiree welfare plan amendments.

2008/09 compared with 2007/08

The principal movements between 2007/08 and 2008/09 can be summarised as follows:

	Revenue £m	Operating costs £m	Operating profit £m
2007/08 results	299	(177)	122
Add back exceptional items	–	6	6
2007/08 adjusted results	299	(171)	128
Exchange movements	91	(52)	39
2007/08 constant currency results	390	(223)	167
Allowed revenues	25	–	25
Timing on recoveries	4	–	4
Other	1	(22)	(21)
2008/09 adjusted results	420	(245)	175
Exceptional items	–	(2)	(2)
2008/09 results	420	(247)	173

Adjusted operating profit increased by £47 million in 2008/09, of which £39 million was caused by the movement in exchange rates when compared with 2007/08. On a constant currency basis, revenue and operating costs increased by £30 million and £22 million respectively, resulting in an £8 million, or 5%, increase in adjusted operating profit in 2008/09.

Allowed revenues increased by £25 million in 2008/09. This growth was in New England, where we have seen the benefit of our investment in regional reliability projects coming through in higher sustainable revenue streams.

In addition, revenue was £4 million higher in 2008/09 because of the timing of recoveries under our New York rate plan.

Operating costs were £22 million higher, on a constant currency basis, in 2008/09 than in 2007/08 reflecting our commitment to improve the operational performance of the networks in both New England and New York. The majority of the increase was driven by reliability enhancements and maintenance programmes aimed at improving system reliability. In addition, both depreciation and property taxes have increased as a direct consequence of the growth in network capital investment brought into service.

The £2 million exceptional charge in 2008/09 relates to restructuring costs arising from the integration of the operations acquired with KeySpan.

Gas Distribution

Adjusted operating profit

£1,137m
(2008/09: £1,284m)

Capital investment

£1,079m
(2008/09: £1,019m)

Employees

9,828
(2008/09: 9,534)

Gas delivered

500 TWh
(2008/09: 522 TWh)

We continue to share best practice between the UK and US to improve our efficiency and make our operating practices more consistent.

In aggregate across our networks we replaced in excess of 2,000 kilometres of metallic main in the UK and 362 kilometres in the US helping to improve the safety and reliability of our networks.

This section should be read in conjunction with the rest of this Operating and Financial Review

Key Facts

- Around 190,000 kilometres of gas pipeline
- Delivery of 299 TWh of gas in the UK and 201 TWh in the US
- Around 10.8 and 3.5 million consumers in the UK and US respectively

About Gas Distribution

Our Gas Distribution business operates in both the UK and the US. As a consequence of the differences in the respective economic and regulatory environments, we report the results of Gas Distribution as two segments: Gas Distribution UK and Gas Distribution US.

Principal operations

Gas Distribution UK

Our Gas Distribution UK segment comprises four of the eight regional gas distribution networks in Great Britain.

Our networks comprise approximately 132,000 kilometres of gas distribution pipeline and we transport gas on behalf of approximately 26 active gas shippers from the gas national transmission system to around 10.8 million consumers.

We also manage the national gas emergency number (0800 111 999) for all of the gas distribution networks and for other transporters in Great Britain. This service, along with the enquiries line, appliance repair helpline and meter number enquiry service, handled over 3 million calls during 2009/10.

We are required to meet certain standards of service, which are established by Ofgem. These include: answering 90% of all calls to the national gas emergency number, enquiry line and meter number enquiry line within 30 seconds of the call being connected; attending 97% of reports of a gas escape or other gas emergency within the required timescale; and providing guaranteed standards of service for other transportation services, such as restoration of supply after an unplanned interruption and complaint handling. Compensation is payable for any failures to meet guaranteed standards of service.

In our UK networks, actual gas consumption was 299 TWh compared with 317 TWh in 2008/09.

Gas Distribution US

Our Gas Distribution US segment comprises gas distribution networks providing services to around 3.5 million consumers across the northeastern US, located in service territories in upstate New York, New York City, Long Island, Massachusetts, New Hampshire and Rhode Island. We are actively seeking to increase our customer base in these areas and in 2009/10 added more than 44,000 new gas heating customers.

Our network of approximately 58,000 kilometres of gas pipeline serves an area of approximately 26,400 square kilometres.

In the US, in addition to the operation and maintenance of each of our gas distribution networks, we are also responsible for billing, customer service and supply services.

We maintain a diversified and flexible portfolio of gas supply and storage assets, and are able to deliver additional benefits to customers and shareholders by optimising these assets. We are the largest shipper on major inter-state pipelines, including Tennessee, Dominion, Algonquin and Iroquois.

We supplement gas from the inter-state pipeline system with liquefied natural gas (LNG) and propane facilities in 19 locations during peak cold weather conditions. During winter 2009/10, the US gas network supported consumption of more than 201 TWh compared with 205 TWh in 2008/09.

Gas Distribution UK – operating area

Operational highlights 2009/10

- Retained our PAS 55 certification in recognition of optimal management of our UK infrastructure assets.
- Exceeded Health and Safety Executive mains replacement target for the fourth consecutive year.
- Ongoing management of around 15,475 pressure reduction sites, and over 7.9 million standard cubic metres of gas storage capacity.
- Improved customer satisfaction in all measured categories.

● Gas distribution operating area

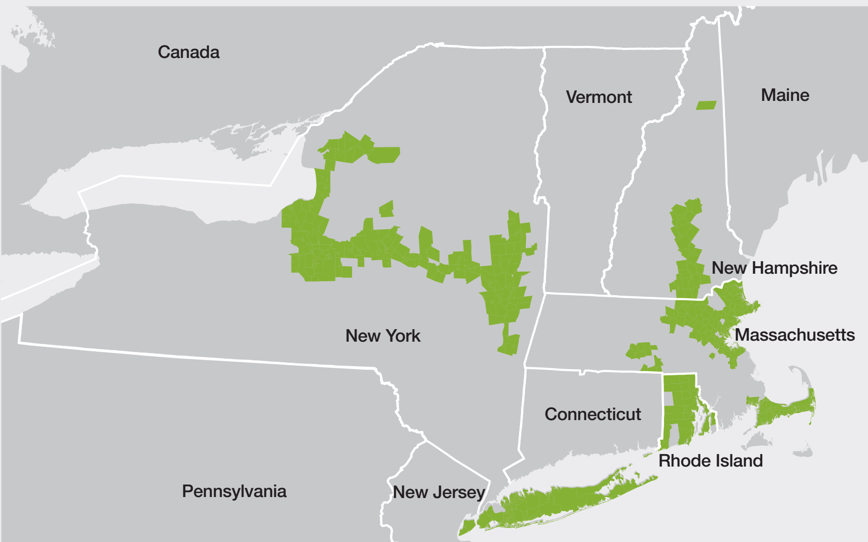
0.09
UK lost time injury frequency rate

£7.0bn
Estimated UK regulatory asset value

10.8m
Gas consumers served in the UK

132,000 km
Gas pipeline in the UK

Gas Distribution US – operating area



● Gas distribution operating area

Operational highlights 2009/10

- More than 44,000 new gas heating customers.
- Reduced lost time injuries by over 36%.
- Met all regulatory standards of service regarding service quality indices and performance measures.
- Retained PAS 55 certification in recognition of optimal management of our US infrastructure assets.

0.29
US lost time injury frequency rate

$7.4bn
Estimated US rate base

3.5m
Gas consumers served in the US

58,000 km
Gas pipeline in the US

Gas Distribution continued

Regulation

Gas Distribution UK

We hold a single gas distribution transporter licence in the UK, which authorises us to operate the four gas distribution networks we own. Detailed arrangements for transporting gas are set out in the Uniform Network Code. This defines the roles and responsibilities of industry participants and is approved by Ofgem. Our four regional gas distribution networks each have a separate price control that determines the prices we can charge to gas shippers for our gas delivery service.

The current price control period came into force on 1 April 2008 and covers the period to 31 March 2013 providing for an allowed average revenue increase of 2% per annum above the retail price index and a 4.3% post-tax real rate of return (equivalent to 4.94% vanilla return) on our regulatory asset value. Ofgem's final proposals, at 2005/06 prices, allow a £1.6 billion five year operating expenditure allowance and a £2.5 billion baseline five year capital expenditure allowance, split £1.8 billion for replacement expenditure and £0.7 billion for capital expenditure. In addition, the allowed formula revenue was decoupled from delivery volumes from 1 April 2007. This eliminated the sensitivity to warm weather and lower underlying volumes. Furthermore, from 1 October 2008 only a very small proportion of our income is recovered through the volume delivery component of our charges.

As at 31 March 2010, our regulatory asset value was estimated at approximately £7.0 billion.

In the UK, the price control formulae specify a maximum allowed revenue for each network. Each formula consists of a fixed core revenue element, cost pass-through items and a range of incentive schemes including: environmental emissions incentives; an exit capacity scheme; and innovation, environmental and community incentives.

The safety and reliability of the network is maintained principally by replacing older metallic gas main with polyethylene equivalents. Ofgem treats 50% of projected replacement expenditure as recoverable during the price control period and 50% as recoverable over future years. Each network is subject to its own main replacement incentive mechanism and retains 36% of any outperformance against Ofgem's annual cost targets as additional return or, alternatively, bears 36% of any overspend if it underperforms.

Transportation charges are set broadly to recover allowed revenue but in any year collected revenue can be more or less than allowed. Any difference is carried forward and our charges are adjusted accordingly in future periods.

Gas Distribution US

Gas Distribution US operates under franchise agreements that provide us with certain rights and obligations regarding gas facilities and the provision of gas service within each state in which we operate. In addition, there are federal and state laws and regulations covering both general business practices and the gas business in particular, especially with respect to safety, energy transactions, customer sales and service, levels of performance, rates, finances and environmental concerns.

Except for residential and small commercial consumers in Rhode Island and residential consumers in New Hampshire, consumers may purchase their supply from independent providers. The majority of gas supplied to consumers in the US is sold by regulated utilities to their customers. Regulated utilities, such as our gas distribution companies, purchase gas from gas producers and gas transporters, and then transport this gas on the independent inter-state pipeline system and into the regulated utilities' gas distribution networks for onward delivery to customers. Our gas distribution companies receive gas from the inter-state pipeline system at 94 gate stations. The inter-state pipeline system and local gas distribution networks are also used to deliver gas on behalf of customers who purchase gas from independent suppliers or direct from gas producers.

Depending on the jurisdiction, delivery prices are set either by actual sales volumes and costs incurred in an historical test year, or by rate plans based on estimates of costs and volumes expected to be delivered, which may differ from actual amounts. A significant proportion of our costs are gas purchases for supply to customers. Our charges to customers are designed to recover these costs with no profit margin. Prices are adjusted from time to time to ensure any over- or under-recovery is returned to or recovered from our customers. There can be timing differences between costs being incurred and prices being adjusted.

Certain of our rate plans include earnings sharing arrangements, which allow us to retain some of the benefit of efficiency improvements in excess of those built into rate plan assumptions. Generally, we retain all the benefits up to a certain level of return on equity, after which the balance is returned to customers. The following is a summary of the key features and allowed returns within our filed and approved rate plans.

Rate plan	Equity return	Equity to debt ratio	Sharing arrangements
New York City and Long Island	9.8%	45/55	100% to 10.5% 50% to 12.5% 35% to 13.5% nil above 13.5%
Upstate New York	10.2%	44/56	100% to 11.35% 50% to 13.6% 25% to 15.6% 10% above 15.6%
Boston, MA	10.2%	50/50	100% to 14.2% 75% above 14.2%
Essex, MA	11.2%	55/45	None
Colonial, MA	11.2%	46/54	None
Rhode Island	10.5%	48/52	50% to 11.5% 25% above 11.5%
New Hampshire	9.54%	50/50	None

We also have a number of service standards for our operations. If certain identified minimum service standards are not achieved, penalties may be imposed.

External market, energy policy and regulatory and other developments

In addition to the external market developments described on page 17 and the energy policy and regulatory developments described on pages 20 and 21, the following developments are relevant to the Gas Distribution business.

New York

The downstate New York rate plans allow us to request recovery or refund of certain costs and forecasted expenses which vary from rate plan allowances. Such costs include: site investigation and environmental remediation; property tax; and pension and other post-employment benefit expenses. On 29 January 2010, the companies made a filing with the New York Public Service Commission (NYPSC) to request up to $65 million in cost recovery per year over five years. A decision is expected by December 2010.

The Niagara Mohawk plan also allows us to adjust rates for certain costs that vary from rate plan allowances.

Massachusetts

On 16 December 2009, we filed a request with the Massachusetts Department of Public Utilities to merge Boston Gas and Essex Gas into a single corporate entity. Our goal is to align the corporate structure with the current operational structure. A decision is expected during the first half of 2010/11.

On 16 April 2010, we filed our Massachusetts gas rate plans. Further details are provided on page 33.

New Hampshire

On 13 November 2009, the New Hampshire Public Utilities Commission denied our Motion for Reconsideration in which we requested an increase in the allowed return on equity. On 26 February 2010, we filed a new proposed rate increase. Further details are provided on page 33.

A decision is expected in early 2011, with temporary rates effective from June 2010. These rates would recover approximately $5.5 million.

We are currently evaluating options to allow us to exit our gas and electricity businesses in New Hampshire.

Performance against our objectives

National Grid's progress against the Company objectives is set out on pages 30 to 37. We include below further information specific to Gas Distribution with respect to the objectives that are closely aligned to the lines of business.

Driving improvements in our safety, customer and operational performance

Our objective is to reduce employee lost time injuries to zero, to meet customer service objectives agreed with our regulator and to be within the first quartile of customer satisfaction in the territories we operate in.

Safety

Lost time injuries totalled 42 in 2009/10, of which 9 were in the UK and 33 in the US. This is equivalent to a lost time injury frequency rate of 0.19. This compares with a total of 76 lost time injuries in 2008/09, 24 in the UK and 52 in the US, equivalent to a lost time injury frequency rate of 0.35.

In the UK, we have a programme to decommission older metallic gas main and replace it with polyethylene. The majority of this programme relates to targets agreed with the Health and Safety Executive (HSE), to replace all iron main within 30 metres of property by 2032. In 2009/10, we decommissioned more than 2,000 kilometres of metallic main, around 1,940 kilometres of which related to the HSE target, exceeding the target for the fourth consecutive year. The target for this year was 1,856 kilometres. We decommissioned over 1,850 kilometres in each of 2008/09 and 2007/08. We have also seen good performance in the US, with the rate of main replacement steadily increasing.

As detailed on page 80, we identified that some of our UK main replacement activity may have been misreported. We have notified both Ofgem and the HSE, and Ofgem's investigation into this matter continues.

Customer service

In the UK, quality of service standards defined by Ofgem apply to three principal areas of activity: new connections; the telephone service; and attendance at gas emergencies. All standards have been met in 2009/10, with the exception of one gas emergency standard in one network affected by the severe winter weather where we achieved 96.98% against a standard of 97%. In individual cases where compensation is due as a consequence of failing to meet certain standards, we have processes to ensure that customers receive the statutory compensation to which they are entitled. Customer satisfaction with the levels of service provided in respect of our main types of work (emergency response and repair, planned work and connections work) is measured and reported on a quarterly basis. Results of these surveys are comparable with the other distribution network operators and can be found at www.nationalgrid.com and www.ofgem.gov.uk.

For gas utility businesses in the US, J.D. Power and Associates formulate an annual survey and customer satisfaction rating. In 2009/10, we improved results for commercial customer satisfaction from third quartile to second quartile and residential customer satisfaction scores also improved from fourth quartile to third quartile.

There is a programme of activities within the UK and US to improve these scores further.

In the US, our Gas Distribution business met all regulatory requirements regarding service quality indices and performance measures. These standards are set by state regulatory agencies and cover operational activities including, but not limited to: damage prevention; leak repair; emergency response; inspections; meter changes; and main and service replacements.

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

Our aim is to meet or exceed the base financial returns in our price controls in the UK and our rate plans in the US.

The performance indicators we use to monitor our return on investment are the vanilla return in the UK and the return on equity per rate plan in the US.

Gas Distribution UK achieved a 6.3% vanilla return in 2009/10, exceeding the regulatory allowance. The following is a summary of returns under our US rate plans:

	Rate base[(i)]		Return on equity[(ii)]		Allowed return
Regulatory entity	**2009**	2008	**2009**	2008	current
KEDNY	**$2,350m**	$2,294m	**11.2%**	11.9%	9.8%
KEDLI	**$1,899m**	$1,795m	**10.5%**	11.1%	9.8%
Mass. Gas	**$1,536m**	$1,488m[(iii)]	**2.9%**	8.3%	10.6%
Energy North	**$193m**	$191m	**3.8%**	4.4%	9.5%
Narragansett	**$337m**	$337m	**6.7%**[(iv)]	7.6%	10.5%
Niagara Mo. Gas	**$1,103m**	$1,067m	**3.8%**	4.8%	10.2%

(i) Estimate of rate base using filed regulatory returns at 31 December or an alternative US GAAP based invested capital measure where recent rate base filings are either not available or where the actual rate base currently excludes certain regulatory asset balances.

(ii) Based on regulatory returns for the 12 months ended 31 December.

(iii) 2008 rate base has been restated to exclude $937 million of goodwill.

(iv) Return is -0.7% before normalising for one time bad debt adjustments.

Gas Distribution continued

Current returns for our downstate New York and Long Island gas businesses are above our allowed returns. We are in the third year of a five year rate plan for each of these businesses. Returns for our gas businesses in Rhode Island, New Hampshire and upstate New York are below our allowed returns. We filed a rate case in New Hampshire on 26 February 2010 and are awaiting approval from the regulators. In upstate New York, a two year rate plan that increased rates by $39.4 million and has a 10.2% return on equity went into effect on 20 May 2009. Rates will be revised on 20 May 2010 and we have filed to increase rates by $14 million as of that date. In our Massachusetts gas businesses, we filed rate plans on 16 April 2010.

Modernising and extending our transmission and distribution networks

Our objectives are to meet regulatory targets and to have zero loss of supply incidents. We are on track to deliver capital investment by 2012 in line with our UK price control allowance and supported by our US rate plans.

Reliability

In the UK, we again achieved a very high network reliability percentage of 99.999%, which reflects a low volume of unplanned customer interruptions during the year.

In both the UK and US, we continue to focus on improving reliability, in particular in the area of gas escapes. In the US, workable gas escape backlog has been reduced by 25% over the previous year. In the UK, we met the regulatory standards of service in the area of gas escapes in three out of our four networks. We missed the target in the fourth network by 0.02%.

Our asset management policies promote continual improvement in how our physical assets (plant, pipes, meters and regulators) are managed throughout their lifecycle from conception through construction, operation, maintenance and decommissioning.

Capital investment

During 2009/10, we successfully delivered £1,079 million of capital investment (2008/09: £1,019 million; 2007/08: £702 million) and plan to invest a further £2 billion by 31 March 2012.

UK capital investment

Gross investment including reinforcement, extension and replacement of the UK gas distribution network was £670 million in 2009/10 compared with £598 million in 2008/09 and £514 million in 2007/08. Of these amounts, £465 million in 2009/10 related to replacement expenditure (2008/09: £425 million; 2007/08: £353 million) and £205 million to other capital investment (2008/09: £173 million; 2007/08: £161 million). Expenditure on software applications included within the above amounts was £54 million (2008/09: £22 million; 2007/08: £18 million). The increase in expenditure is primarily driven by the Gas Distribution front office system (see below).

Replacement expenditure increased by £40 million, or 9%, compared with 2008/09, reflecting an increase in workload in London ahead of the 2012 Olympics and a higher proportion of complex large diameter main. Performance under the gas main replacement incentive scheme is expected to be broadly neutral in 2009/10.

In collaboration with our gas alliance and coalition partners, we have replaced more than 2,000 kilometres of metallic gas main this year and more than 14,000 kilometres since 2002/03. The vast majority of this relates to the long-term gas main replacement programme agreed with the HSE.

The increase in other capital expenditure in 2009/10 compared with 2008/09 is driven by: the spend on the replacement of the Gas Distribution front office system, work that will continue until 2011/12; completion of a major new pipeline in west London; and expenditure primarily to maintain the reliability of our gas networks.

US capital investment

Capital expenditure in the replacement, reinforcement and extension of our US gas distribution networks was £409 million in 2009/10 (2008/09: £421 million; 2007/08: £188 million).

After excluding the effect of exchange movements of £11 million in 2009/10 compared with 2008/09, capital expenditure decreased by £1 million. This reflects lower growth and reliability programmes largely offset by higher main and service replacements.

After excluding the effect of exchange movements of £58 million in 2008/09 compared with 2007/08, capital expenditure increased by £175 million. The primary reason for the increase arose from five months of additional activities from the gas distribution network of KeySpan acquired in August 2007.

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

Our objective is to utilise the benefits of common support services to drive improvements in our operating and financial performance. In particular, we aim to adopt best practices across Gas Distribution.

The key initiatives aimed at reducing our controllable operating costs and improving efficiency are material and process standardisation, process improvements, consolidation of workforce and best practice sharing.

We are making good progress on our implementation of a new front office system for Gas Distribution in the UK. The first release of the new integrated IT solution is on track for implementation in the autumn of this year and will cover maintenance and an early release of the emergency service solution. The full deployment of the emergency service solution will take place in the spring of 2011. We have also started the designs for the customer, repair and construction processes and will deploy these parts of the new solution during the summer and autumn of 2011.

The new enhanced capability will create a much simpler way for our people to do their work, enabling us to streamline our processes and standardise the way common functions like scheduling and dispatch are performed. This will improve productivity, provide greater assurance and controls on our performance and significantly improve our customer service.

The functionality of the new systems, which includes global positioning system (GPS) locations of our field teams and work locations, will drive improvements in efficiency. We will also have much greater visibility of work we undertake for customers and be able to provide improved response to requests to do work and customer enquiries about work in progress.

Our aim is to maintain the proper level of investment in our infrastructure to enable related operating cost reductions.

Financial performance

Adjusted operating profit was £1,137 million in 2009/10 compared with £1,284 million in 2008/09 and £987 million in 2007/08.

Financial results – Gas Distribution UK

The results for our Gas Distribution UK segment for the years ended 31 March 2010, 2009 and 2008 were as follows:

	Years ended 31 March 2010 £m	2009 £m	2008 £m
Revenue	**1,517**	1,466	1,383
Other operating income	**1**	2	8
Operating costs excluding exceptional items	**(795)**	(796)	(796)
Adjusted operating profit	**723**	672	595
Exceptional items	**(41)**	(43)	(21)
Operating profit	**682**	629	574

2009/10 compared with 2008/09

The principal movements between 2008/09 and 2009/10 can be summarised as follows:

	Revenue and other operating income £m	Operating costs £m	Operating profit £m
2008/09 results	1,468	(839)	629
Add back exceptional items	–	43	43
2008/09 adjusted results	1,468	(796)	672
Allowed revenues	85	–	85
Timing on recoveries	(28)	–	(28)
Pass-through costs	–	5	5
Non-formula	(14)	9	(5)
Other revenue and costs	7	(13)	(6)
2009/10 adjusted results	1,518	(795)	723
Exceptional items	–	(41)	(41)
2009/10 results	1,518	(836)	682

Revenue and other operating income in Gas Distribution UK increased by £50 million in 2009/10 compared with 2008/09. Allowed revenues were up £85 million, driven by the five year price control that came into effect on 1 April 2008 and incentive gains through the efficient management of our capacity requirements and improved pressure management. This was partially offset by an estimated £28 million timing impact on recoveries and a decline in non-formula revenue primarily driven by a drop in non-regulated meter work activities.

The net year-on-year timing impact against allowed revenue was a reduction of £28 million as in 2009/10 there was a net deficit of £19 million, comprising the under-recovery of £1 million relating to the previous year and a £20 million under-recovery for 2009/10, compared with a net gain of £9 million in 2008/09, comprising a £1 million under-recovery in 2008/09 offset by £10 million under-recovery from 2007/08.

Operating costs for 2009/10, excluding exceptional items, were largely in line with 2008/09. Efficiency savings through strong operating cost performance, together with other minor items, were largely offset by higher costs associated with severe winter weather conditions and higher depreciation charge. Non-formula costs were £9 million lower reflecting reduced workload.

Improving customer relations by reducing congestion

Traffic congestion is a cost to the economy, with any solution for easing congestion improving the experience of road users and delivering environmental benefits by reducing pollution from slow moving vehicles. Traditional road plates to cover excavations are heavy, difficult to store and require mechanical means to install on site. These difficulties have led to the practice of lane closures and traffic control when working in highways. Following an investigation by Gas Distribution, an alternative solution was identified that introduces a modular trench plating system, providing quick and easy installation over excavations.

Emergency water ingress

During winter 2009/10, over 6,000 properties were affected by a number of separate water ingress incidents resulting in significant loss of supply. In particular, as Christmas 2009 approached, the skills and commitment of our UK gas distribution team were put to the test by 2 major incidents affecting over 4,000 properties in southeast England. In both cases a burst water pipe created a hole in our low pressure main, resulting in water entering our network. Our engineers and support team applied their skills and determination each day up to and during the Christmas period to restore the gas supply.

Gas Distribution continued

Exceptional charges of £41 million in 2009/10 included an increase in the environmental provision of £14 million, reflecting changes in landfill tax legislation, with the remaining £27 million made up of restructuring and transformation costs, which include system related projects costs. This compared with a £43 million charge in 2008/09.

As a consequence of the above, adjusted operating profit excluding exceptional items was £51 million higher in 2009/10 than 2008/09, an increase of 8%. Including exceptional items, operating profit was £53 million higher in 2009/10 than 2008/09, an increase of 8%.

2008/09 compared with 2007/08

The principal movements between 2007/08 and 2008/09 can be summarised as follows:

	Revenue and other operating income £m	Operating costs £m	Operating profit £m
2007/08 results	1,391	(817)	574
Add back exceptional items	–	21	21
2007/08 adjusted results	1,391	(796)	595
Allowed revenues	90	–	90
Timing on recoveries	(15)	–	(15)
Pass-through costs	–	(9)	(9)
Non-formula	9	(12)	(3)
Other revenue and costs	(7)	21	14
2008/09 adjusted results	1,468	(796)	672
Exceptional items	–	(43)	(43)
2008/09 results	1,468	(839)	629

Revenue and other operating income in Gas Distribution UK increased by £77 million in 2008/09 compared with 2007/08. Allowed revenue was up £90 million, driven by the five year price control that came into effect on 1 April 2008 and incentive gains through the efficient management of our capacity requirements and improved pressure management. This was partially offset by a £15 million timing impact on recoveries. In addition, a growth in other revenue was primarily driven by non-regulated meter work activities.

The net year-on-year timing impact against allowed revenues was a reduction of £15 million as in 2008/09 there was a net benefit of £10 million, comprising the under-recovery of £20 million relating to the previous year, partially offset by a £10 million under-recovery for 2008/09, compared with a net benefit of £25 million in 2007/08, comprising a £20 million under-recovery in 2007/08 offset by £45 million under-recovery from 2006/07. Operating costs for 2008/09, excluding exceptional items, were in line with 2007/08. Efficiency savings through strong operating cost performance, together with other minor items, were offset by £9 million higher pass-through costs due to an increase in business rates following the changes in rateable values introduced from 1 April 2005 and shrinkage costs due to higher gas prices. Non-formula costs were £12 million higher because of increased meter work and other non-formula activities.

Exceptional charges of £43 million in 2008/09 include an increase in the environmental provision of £13 million with the remaining £30 million made up of restructuring and transformation costs, which include system related projects costs. This compared with a £21 million charge in 2007/08.

Financial results – Gas Distribution US

The average exchange rates used to translate the results of US operations during 2009/10, 2008/09 and 2007/08 were $1.58:£1, $1.54:£1 and $2.01:£1 respectively.

	Years ended 31 March		
	2010 £m	2009 £m	2008 £m
Revenue	**3,708**	4,786	2,845
Operating costs excluding exceptional items and remeasurements	**(3,294)**	(4,174)	(2,453)
Adjusted operating profit	**414**	612	392
Exceptional items and remeasurements	**34**	(386)	95
Operating profit	**448**	226	487

2009/10 compared with 2008/09

The principal movements between 2008/09 and 2009/10 can be summarised as follows.

	Revenue £m	Operating costs £m	Operating profit £m
2008/09 results	4,786	(4,560)	226
Add back exceptional items	–	52	52
Add back remeasurements	–	334	334
2008/09 adjusted results	4,786	(4,174)	612
Exchange movements	(121)	105	(16)
2008/09 constant currency results	4,665	(4,069)	596
Pass-through costs	(965)	965	–
Rate increases	32	–	32
Economic impact on volumes	(38)	–	(38)
Timing on recoveries	56	(171)	(115)
Merchant function charge	(14)	–	(14)
Long Island property tax recoveries	(39)	–	(39)
Bad debt expense	–	5	5
Other revenues and costs	11	(24)	(13)
2009/10 adjusted results	3,708	(3,294)	414
Exceptional items	–	(18)	(18)
Remeasurements	–	52	52
2009/10 results	3,708	(3,260)	448

Revenue and operating costs excluding exceptional items and remeasurements decreased by £957 million and £775 million respectively in 2009/10 compared with 2008/09 on a constant currency basis, a decrease of 21% and 19% respectively.

Revenue decreased by £957 million in 2009/10 compared with 2008/09. Net of higher pass-through costs of £965 million, revenue increased by £8 million.

Gas Distribution US benefited from approved rate increases/ delivery rate adjustments in our downstate New York, Long Island, upstate New York, Rhode Island and New Hampshire operating areas of £32 million. The economic downturn had an adverse impact of £38 million and timing impacts included recoveries of NYPSC 18-A assessments of £44 million and other of £12 million. Lower recoveries of gas inventory carrying charges of £14 million, and cessation of Long Island property tax collections of £39 million were partially offset by increases in other revenues of £11 million. These increases include load additions of approximately 44,000 customers contributing £29 million, which was partially offset by a decrease in volumes driven by warmer than normal weather and normal conservation/attrition totalling £29 million.

The weather in 2009/10 was significantly warmer than 2008/09. As measured in degree heating days, weather in 2009/10 across our US gas territories was approximately 4% warmer than normal and was approximately 8% warmer than 2008/09.

Operating costs, excluding pass-through costs and exceptional items, were £190 million higher in 2009/10 compared with 2008/09, primarily driven by adverse timing impacts in the recovery of gas cost deferrals of £103 million, higher spending in energy efficiency programmes of £10 million, and NYPSC 18-A assessment expenses of £58 million. Other cost increases of £24 million were partly offset by lower bad debt expenses of £5 million due to lower reserve requirements.

Exceptional charges of £18 million in 2009/10 related to integration and transformation initiatives, including the cost of voluntary early retirements and costs relating to US healthcare reform, while favourable mark-to-market commodity contract remeasurement gains were recorded as a consequence of higher energy prices compared with contracted amounts as at 31 March 2010. The gains from these transactions will be realised in subsequent periods and passed on to consumers.

2008/09 compared with 2007/08

The principal movements between 2007/08 and 2008/09 can be summarised as follows:

	Revenue £m	Operating costs £m	Operating profit £m
2007/08 results	2,845	(2,358)	487
Add back exceptional items	–	(95)	(95)
2007/08 adjusted results	2,845	(2,453)	392
Exchange movements	873	(753)	120
2007/08 constant currency results	3,718	(3,206)	512
KeySpan contribution	902	(896)	6
Pass-through costs	69	(69)	–
Rate increases	32	–	32
Weather and volumes	22	–	22
Timing on recoveries	(6)	52	46
Merchant function charge	38	–	38
Energy efficiency programme	19	(12)	7
Bad debt expense	–	(29)	(29)
Other revenues and costs	(8)	(14)	(22)
2008/09 adjusted results	4,786	(4,174)	612
Exceptional items	–	(52)	(52)
Remeasurements	–	(334)	(334)
2008/09 results	4,786	(4,560)	226

Revenue and operating costs excluding exceptional items and remeasurements increased by £1,068 million and £968 million respectively in 2008/09 compared with 2007/08 on a constant currency basis, an increase of 29% and 30% in each case. The rise in revenue and operating cost primarily arose from an increase in contributions from KeySpan operations in 2008/09 reflecting the first full year of ownership since acquisition in August 2007.

Revenue increased by £1,068 million in 2008/09 compared with 2007/08. Revenue from KeySpan operations increased by £902 million compared with 2007/08. The remaining £166 million was primarily driven by New York, Long Island, Rhode Island, and New Hampshire rate increases of £32 million, colder weather and higher consumption of £22 million, higher recoveries of gas inventory carrying charges of £38 million, higher pass-through costs of £69 million, and other increases of £5 million.

The weather in 2008/09 was significantly colder than 2007/08. As measured in heating degree days, weather in 2008/09 across National Grid's US gas territories was approximately 5% colder than normal and was approximately 8% colder than 2007/08.

Operating costs, excluding exceptional items, were £968 million higher in 2008/09 compared with 2007/08. The increase in costs of KeySpan operations in 2008/09 was £896 million on a constant currency basis. The remaining increase of £72 million was a result of higher commodity pass-through costs, an increase in maintenance costs and higher bad debt expense as a result of the economic downturn partially offset by a favourable overcollection in commodity costs.

Exceptional charges of £52 million in 2008/09 related to integration initiatives, including the cost of voluntary early redundancies, while adverse mark-to-market commodity contract remeasurement losses were recorded as a consequence of lower energy prices compared with contracted amounts as at 31 March 2009. The losses from these transactions will be realised in subsequent periods and recovered from consumers.

Gas main replacement

As part of our ongoing replacement programme, which includes the HSE target of replacing 54,600 km of iron main around the UK we invested £465 million in 2009/10. Contributing to safety, security of supply and meeting regulatory obligations, the programme is seeing metallic main being replaced with yellow polyethylene pipes which are flexible and resistant to corrosion. National Grid continually strives to minimise the disruption and inconvenience associated with the street works required to deliver this replacement programme. Where possible we use no dig techniques, trenchless working and directional drilling to achieve this goal. We also endeavour to coordinate our work with local authorities and the activities of other utilities, such as our collaboration in 2009 with Thames Water, where gas and water mains were simultaneously replaced in Tower Hill.

Electricity Distribution & Generation

Adjusted operating profit

£374m
(2008/09: £265m)

Capital investment

£372m
(2008/09: £355m)

Employees

8,344
(2008/09: 8,251)

Electricity delivered

62 TWh
(2008/09: 65 TWh)

Our customers are at the heart of everything we do. We continue to invest in our distribution and generation systems to create sustained improvements in our system reliability. We believe that increased energy efficiency and the use of smart technologies is the best way to help our customers control their energy costs and address the issue of climate change.

In 2009, we met all our regulatory reliability targets and achieved internal targets moving us towards top quartile reliability performance.

Severe storms affected our service territories during the winter, causing service interruptions for thousands of customers. Our emergency response plans were highly effective in restoring service efficiently and safely.

This section should be read in conjunction with the rest of this Operating and Financial Review

Key Facts

- → Over 116,800 kilometres of circuit
- → Approximately 3.4 million customers
- → 666 substations
- → 57 generation units at 13 locations across Long Island
- → LIPA network serving 1.1 million customers over 24,100 kilometres of circuit and 177 substations, delivering 22 TWh of electricity

About Electricity Distribution & Generation

Our Electricity Distribution & Generation business operates in the northeastern US and is reported as a single segment in our financial statements.

Principal operations

Electricity Distribution

We are responsible for building, operating and maintaining our electricity distribution networks in Massachusetts, Rhode Island, New Hampshire and upstate New York. We also maintain and operate the electricity transmission and distribution system on Long Island owned by the Long Island Power Authority (LIPA), providing energy to homes, small businesses, and large commercial and industrial enterprises.

Through our electricity distribution networks, we serve approximately 3.4 million electricity customers over a network of approximately 116,800 circuit kilometres (72,600 miles) in New England and upstate New York.

The LIPA service territory covers approximately 3,200 square kilometres (1,200 square miles), encompassing nearly 90% of Long Island's total land area. LIPA owns approximately 2,100 kilometres (1,300 miles) of transmission line facilities that deliver power to approximately 177 substations in its electricity system. From these substations, approximately 24,100 circuit kilometres (15,000 miles) of distribution facilities distribute electricity to 1.1 million customers.

Our responsibilities include managing the day-to-day operations and maintenance of LIPA's transmission and distribution system, providing services to LIPA's retail customers and managing the delivery of the energy that we produce under contract to LIPA.

Generation

We own 57 electricity generation units on Long Island that together provide 4.1 GW of power under contract to LIPA.

Our plants consist of oil and gas fired steam turbine, gas turbine and diesel driven generating units ranging from 2 to 375 MW. Any available power not needed to meet LIPA's requirements is made available for sale in the open market.

Energy procurement

Within our US Electricity Distribution & Generation and Gas Distribution businesses, we are responsible for the planning, procurement and administration of gas and electricity commodity supply for our customers. We conduct business with various energy companies in order to supply approximately 14 billion standard cubic metres of natural gas and 35 TWh of electricity annually across 4 states. In addition to providing our customers with stable and low cost electricity supply, we are committed to helping the states in which we operate to achieve their Renewable Portfolio Standards and satisfy recent legislative requirements by working with renewable project developers and other stakeholders to bring new sustainable resources online cost effectively.

Through our fuel management services, we procure gas and fuel oil to supply the 68 power generation units on Long Island under contract by LIPA, of which we own 57. Until 31 December 2009, we also purchased energy, capacity and ancillary services in the open market on LIPA's behalf.

Regulation

Customer bills typically comprise a commodity rate, covering the cost of electricity delivered, and a delivery rate, covering our electricity delivery service.

Depending on the jurisdiction, delivery prices are set either by actual sales volumes and costs incurred in an historical test year, or by rate plans based on estimates of costs and volumes expected to be delivered, which may differ from actual amounts. A substantial proportion of our costs, in particular electricity purchases for supply to customers, are pass-through costs. Our charges to customers are designed to recover these costs with no profit margin. Prices are adjusted from time to time to ensure any over- or under-recovery is returned to or recovered from our customers. There can be timing differences between costs being incurred and prices being adjusted.

Our Long Island generation plants sell capacity to LIPA under a contract, approved by the Federal Energy Regulatory Commission (FERC), which provides a similar economic effect to cost of service rate regulation.

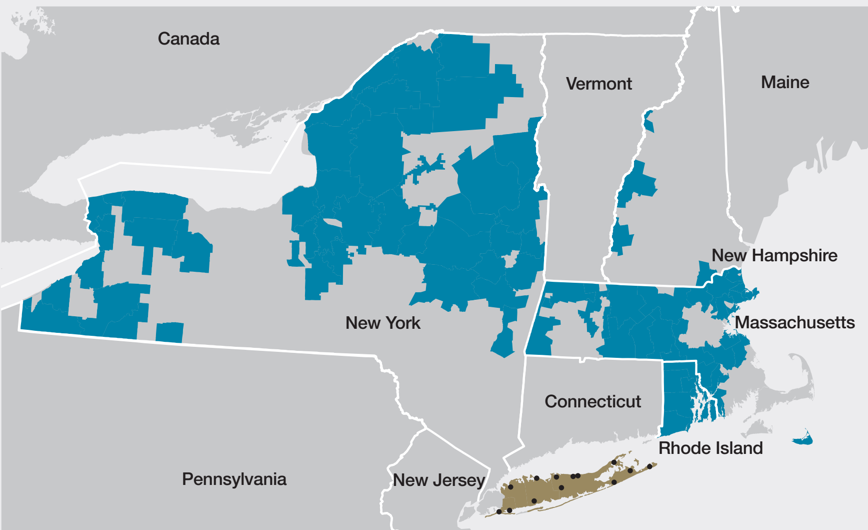
In each state in which we operate, we are allowed to retain some of the benefit of efficiency improvements in excess of those built into rate plan assumptions. Typically we retain all the benefits up to a certain level of return on equity, after which we retain only a proportion of the benefits, with the balance returned to customers. A summary of the key features of our rate plans is provided opposite.

Rate plan	Equity return	Equity to debt ratio	Efficiency gains retained
Upstate New York	10.6%	48.5/51.5	100% to 11.75%
(Niagara Mohawk)			50% to 14%
			25% to 16%
			10% above 16%
Massachusetts	10.35%	49.99/50.01	50% above 10.35%
Rhode Island	9.8%	42.75/57.25	50% from
(Narragansett Electric)			9.8% to 10.8%
			25% above 10.8%
New Hampshire	9.67%	50/50	50% above 11%

The upstate New York rate plan also allows for subsequent recovery of specified electricity related costs and revenue items that have occurred since the rate plan was established, once these amounts exceed individual item thresholds and $100 million (£66 million) in total. These deferral account items include changes from the levels of pension and post-retirement benefit expenses from levels specified in the rate plan, as well as various other items, including storms, environmental remediation costs, and certain rate discounts provided to customers, together with costs and revenues from changes in tax, accounting and regulatory requirements.

We also have a number of service standards for our operations. Many of these service standards have penalties if we do not achieve certain specified minimum standards.

Electricity Distribution & Generation – operating area



- Electricity distribution area
- Long Island Power Authority area
- Generation

Operational highlights 2009/10

- **Achieved PAS 55 certification for Long Island transmission, distribution and generation.**
- **Achieved all regulatory targets.**
- **Filed annual five year investment plan with New York Public Service Commission totalling $2.86 billion.**

41%
Reduction in lost time injury frequency rate

$614m
Planned investment in our networks in 2010/11

Electricity Distribution & Generation continued

External market, energy policy and regulatory and other developments

In addition to the external market developments described on page 17 and the energy policy and regulatory developments described on pages 20 and 21, the following developments are relevant to the Electricity Distribution & Generation business.

Solar filing

Under the Green Communities Act, Massachusetts utilities are permitted to construct, own and operate up to 50 MW of solar generation, subject to approval by the Massachusetts Department of Public Utilities (DPU). On 23 October 2009, the Massachusetts DPU approved our proposal to construct, own and operate approximately 5 MW of solar generation on 5 separate properties that we own. We are permitted to recover the costs of each site and a return on our investment. We are currently in the construction phase of project development and we expect construction of the sites to continue throughout the remainder of the year.

New York smart grid

On 14 January 2010, we filed a petition with the New York Public Services Commission (NYPSC) seeking approval for a modified smart grid programme. The $123 million programme includes the Company's contribution to three sub projects, which are the recipient of Department of Energy (DOE) matching funds and additional investments sought directly from the NYPSC. The proposed smart grid programme includes approximately 40,000 customers in the Syracuse, NY area.

The three smart grid sub projects that are the subject of matching funds from the DOE and in which we are a partner have been approved by the NYPSC. On 1 April 2010, we filed a methodology with the NYPSC by which we would recover our investments in these projects from customers.

Massachusetts wind power

On 7 May 2010, we signed an agreement with Cape Wind to buy clean power from the first large-scale offshore wind farm in the US. The contract has been filed with the Massachusetts DPU for approval. Cape Wind is expected to come online by the end of 2012. Under the contract, National Grid would purchase 50% of the wind farm's output, including renewable energy certificates as well as capacity and energy, beginning in 2013.

Massachusetts smart grid

On 1 April 2009, we filed a petition with the Massachusetts DPU in response to the Massachusetts Green Communities Act seeking approval for an approximately $57 million smart grid programme in the northwest section of Worcester, MA. The pilot programme would reach approximately 15,000 homes and small businesses and features new services to customers delivered through a holistically designed smart grid. The technology proposed includes smart meters, home energy automation and advanced power network management tools. The proposed smart grid pilot has three broad objectives: it will enable customers to actively manage energy use; create the tools for National Grid to optimise the performance of the network; and provide capability to integrate renewable energy generation technologies to the distribution grid. A decision is expected by 1 August 2010.

LIPA power supply agreement (PSA) rate adjustment

On 5 January 2010, the FERC approved a settlement agreement for a rate increase for the power supplied to LIPA. Rates pursuant to the PSA are in effect until May 2013. The settlement agreement set a revenue requirement of $436 million and a rate increase of $66 million, at a return on equity of 10.75%. The PSA also allows for certain annual rate adjustments, such as pension and other post-retirement benefit expenses, property tax increases and certain inflationary increases.

Upstate New York capital expenditure rate filing

In New York, capital expenditure in the rate plan for electricity distribution remains set at historic levels that are significantly lower than those currently required to maintain a safe and reliable network. We filed a supplemental petition in April 2009 for deferred recovery of incremental investments in 2008 totalling $9 million. In 2010, we anticipate petitioning for deferred recovery of qualifying incremental investment for calendar year 2009.

On 29 January 2010, we filed our annual five year capital investment plan with the NYPSC totalling $2.86 billion.

Upstate New York electricity rate plan

On 29 January 2010, we filed a three year rate proposal, which includes a revenue increase of $369 million and a return on equity of 11.1%, effective from 1 January 2011, while allowing us to continue our significant investment in the electricity transmission and distribution system to meet the growing and changing needs of customers. The plan would have little or no impact on typical customer delivery bills. The proposed revenue increase represents recovery of costs we expect to incur in excess of current rate levels. To offset this, we have proposed to defer the full recovery of stranded costs and instead will spread them over an additional three years to the end of 2014. The filing also proposed a revenue decoupling mechanism as required by the NYPSC. We also proposed to enhance our support programmes for qualifying low income customers, increasing programme funding by approximately $9 million and increasing credits to qualifying customers in our low income customer assistance affordability programme and the low income credit programme.

Massachusetts and Rhode Island rate plans

In 2009, we filed in Massachusetts and Rhode Island rate adjustments effective from 1 January 2010 and 1 March 2010 respectively. Each filing included a request for an increase in revenue to fund distribution operations, a revenue decoupling mechanism proposal to further encourage aggressive pursuit of energy efficiency, and the ability to pass through actual pension and other post-retirement benefit costs. On 30 November 2009, the Massachusetts regulators ruled on our request. The allowed increase in revenue of $42 million, reflects an allowed return on equity of 10.35%, approval of a revenue decoupling mechanism that includes recovery of incremental investment pursuant to a maximum allowable threshold of up to $170 million, and approval of the pass through of pension and other post-retirement benefit costs. Rates went into effect on 1 January 2010.

On 9 February 2010, the Rhode Island regulator ruled on our request, allowing an increase in revenue of $23.5 million, reflecting an allowed return on equity of 9.80% and an equity ratio of 42.75%. The regulator denied our revenue decoupling mechanism proposal and our pass through of pension and other post-retirement benefit costs. On 20 April 2010, we filed a petition with the Rhode Island Supreme Court requesting that it review the legality and reasonableness of the regulator's decision. We plan to file a new rate case later this year.

New Hampshire

We are currently evaluating options to allow us to exit our gas and electricity businesses in New Hampshire.

Niagara Mohawk management audit

New York law provides the NYPSC with the authority to conduct a management audit of utilities operating within the state every five years. Consequently, the NYPSC ordered an audit of Niagara Mohawk's electricity business in 2008. The final audit report contained 44 recommendations for improvement. On 16 December 2009, the NYPSC approved the management audit findings. We had already recognised many of the recommendations and actions were under way, particularly the Electricity Distribution & Generation transformation effort. The implementation plan was filed with NYPSC on 29 January 2010. We will file quarterly update reports to the NYPSC staff.

Performance against our objectives

National Grid's progress against the Company objectives is set out on pages 30 to 37. We include below further information specific to Electricity Distribution & Generation with respect to the objectives that are closely aligned to the lines of business.

Driving improvements in our safety, customer and operational performance

Our objectives are to reduce employee lost time injuries to zero, to meet customer service objectives agreed with our regulators and to be within the upper quartile of customer satisfaction in the territories in which we operate.

Safety

The number of employee lost time injuries in Electricity Distribution & Generation decreased to 23 compared with 37 in 2008/09. Our lost time injury frequency rate for 2009/10 was 0.13, representing a 41% decrease over the prior year's rate of 0.22. Improvement programmes implemented in 2009/10 were aimed at aligning our merged operations in key areas of safety and occupational health management and to promote a positive safety culture. The key safety initiatives during 2009/10 were as follows:

- developing and implementing a comprehensive approach to enhancing safety by driving consistent safety improvement initiatives across all areas, through the safety performance committee (SPC) structure;
- building on the safe and unsafe acts (SUSA) programme to eliminate at risk behaviour while reinforcing safe behaviour and identifying and implementing corrective measures identified by the SPC through analysis of trends from SUSA visits;
- improving the quality of the job brief process by redesigning the process to improve risk assessment and hazard identification, and implementing enhancements in the field;
- reducing road traffic accidents by undertaking targeted defensive driving training for high risk employees in accordance with the current guidelines; and
- improving the quality of near miss reports and the process for actions and feedback to employees by implementing a new communication programme to promote quality reporting that may prevent injuries.

In 2010/11, our safety objectives include implementing sustainable programmes focused on embedding process safety with a robust set of KPIs, a further focus on the quality of root cause analysis with a standardisation of analysis tools, and the detailed analysis of high potential incidents.

Electric transportation

National Grid is taking part in a comprehensive research and demonstration collaboration with Ford Motor Company, Electric Power Research Institute and other electricity utilities to advance the development of electric transportation infrastructure. We are using a pre production Ford Escape plug in hybrid electric vehicle as a test bed to demonstrate the integration with smart grid technology.

We invested this year to make our generating stations greener

We have recently completed upgrading the first of four units at our generating station in Northport, Long Island. This involved installing advanced turbine components to improve efficiency and reduce emissions. The efficiency improvements on this first unit will reduce annual fuel consumption and carbon dioxide emissions by over 25,000 tonnes per year – equivalent to removing an estimated 4,780 cars each doing 12,000 miles a year from the road in the US.

Electricity Distribution & Generation continued

Customer service

Reliable and efficient customer services are priorities for National Grid. Improvements in our operations and how customers conduct their business with us have led to improvements in customer satisfaction. A key customer satisfaction metric is the J.D. Power and Associates customer satisfaction study. A global marketing information company, J.D. Power conducts independent and unbiased surveys of customer satisfaction, product quality and buyer behaviour. In the most recent surveys we improved our ranking, moving into the third quartile performance in three of the four surveys.

We continue to enhance the experience customers have with us, giving them the channels and options they want to conduct their business with us. Our contact and support centre successfully completed 2009 with all regulatory service level and customer satisfaction targets having been exceeded.

Customer satisfaction also comes from helping customers manage their energy expenses. With a US customer communications initiative, 3% Less, we urged customers to pledge to use 3% less energy every year for the next 10 years. By reducing energy consumption, customers can better manage their energy costs and reduce carbon emissions, helping not only their own finances, but our planet. Being the energy management partner for our customers helps foster a stronger relationship with them and builds goodwill among other constituents. The initiative was recognised by the Edison Electric Institute, the association of US shareholder owned electricity companies, which awarded us a 2009 Advocacy Excellence Award in January 2010.

We continue to help customers to be more energy efficient through our energy efficiency programmes. For more than 20 years we have offered a comprehensive portfolio of energy efficiency programmes to help customers reduce energy consumption, saving them money while reducing greenhouse gas emissions. The success of these programmes was recognised by the US Environmental Protection Agency which awarded us a 2009 ENERGY STAR Sustained Excellence Award.

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

Our aim is to meet or exceed the base financial returns in our rate plans by delivering on long-term contracts that provide value.

A summary of returns under our rate plans is provided below.

	Rate base(i)		Return on equity(ii)		Allowed return
Regulatory entity	**2009**	2008	**2009**	2008	current
Niagara Mohawk (Electric)	**$4,375m**	$4,609m	**5.1%**	6.7%	10.6%
Massachusetts (Electric)	**$1,494m**	$1,495m	**4.7%**	7.0%	10.35%
Narragansett Electric (Distribution only)	**$548m**	$564m	**(2.9)%**	2.3%	9.8%
Long Island Generation	**$503m**	$574m	**13.5%**	7.1%	10.75%

(i) Estimate of rate base using filed regulatory returns at 31 December or an alternative US GAAP based invested capital measure where recent rate base filings are either not available or where the actual rate base currently excludes certain regulatory asset balances.

(ii) Based on regulatory returns for the 12 months ended 31 December.

Our US electricity businesses are coming out of long-term rate plans and have requested increases in revenue to support their operations. We filed and received approval for increased revenue for our Massachusetts and Rhode Island (Narragansett) electricity operations as the actual returns earned (adjusted for Narragansett's share of merger savings) were below allowed returns, primarily due to higher levels of investment and continued cost pressures, particularly bad debts and storm costs. The revenue increases were effective from 1 January 2010 in both Massachusetts and Rhode Island. As discussed on page 21, our Massachusetts regulator approved full recovery of commodity-related bad debt and working capital costs, a revenue decoupling mechanism, full recovery of pension and other post-retirement costs, and recovery of capital investment up to a maximum of $170 million per annum.

In New York, the regulatory return on equity includes electricity transmission, electricity distribution and stranded cost recoveries. For the year ended 31 December 2009, the return was 5.1%, adjusted for the Company's share of merger savings allocated to electricity and certain one-off costs. Although the long-term electricity rate plan concludes on 31 December 2011, in response to the decreasing returns for our New York electricity operations, we filed a three year rate plan on 29 January 2010, and updated that request on 3 May 2010, to adjust our delivery rates that, if approved, would take effect on 1 January 2011. The request, as discussed on page 33, includes an increase in distribution and transmission revenue of $369 million, a revenue decoupling mechanism and recovery of capital investment we make above the level included in the rate plan. To mitigate the impact to our customers, we have proposed to reshape the recovery of our stranded costs, lengthening the time over which we are recovering these legacy costs. We anticipate a regulatory decision sometime in December 2010.

Our Long Island generation business filed with FERC for a rate increase effective from 1 February 2009, subject to refund. LIPA and National Grid Generation filed a settlement on 23 October 2009 with a FERC administrative law judge that provides for a revenue requirement of $436 million, a rate increase of approximately $66 million, a return on equity of 10.75% and a capital structure of 50% debt and 50% equity. FERC approved the settlement on 5 January 2010. The Order accepting the settlement was subject to rehearing until 4 February 2010. There were no requests for rehearing and, as such, the settlement became effective from 1 March 2010 and refunds retroactive to 1 February 2009, including interest, were issued in March 2010.

Modernising and extending our transmission and distribution networks

In addition to meeting reliability performance targets agreed with our regulators, our objectives are to improve reliability and to deliver our capital investment programme.

Reliability

Our customers depend on a reliable electricity distribution service. Upstate New York met its regulatory targets for the second consecutive year, Massachusetts for the third and Rhode Island for the fourth, while New Hampshire's performance was the best since 2003 and Long Island met all targets with the best reliability performance under the contract with LIPA.

We have realised significant benefits from our multi-year reliability enhancement programme, helping to achieve our regulatory and internal targets. We will continue to replace ageing underground cables, overhead lines, protection/control systems and substation infrastructure as part of our asset replacement programme, and continue our ongoing reliability enhancement programme. This programme also includes feeder hardening and inspection and maintenance. Feeder hardening involves upgrading our overhead electricity circuits by replacing aged and deteriorated components and protecting against lightning strikes and animal contacts. Our inspection and maintenance programme involves increasing our preventative maintenance and repair activities to find potential faults before they occur to improve reliability and public safety.

We will also continue our vegetation management programme across all operating areas, increasing our focus on dealing with hazardous trees.

We plan to invest over $600 million in our networks across New England and New York during 2010/11, delivering on our commitment to invest $1.47 billion in upstate New York over five years. In addition, with the asset replacement programme agreed with LIPA, we will be managing an estimated $250 million investment in distribution and transmission infrastructure on behalf of LIPA.

Capital investment

Capital investment in the replacement, reinforcement and extension of our US electricity distribution networks was £372 million in 2009/10, £355 million in 2008/09 and £257 million in 2007/08. After excluding the effect of exchange movements of £9 million in 2009/10 compared with 2008/09, capital investment increased by £26 million.

This primarily reflected higher distribution line spending associated with our feeder hardening and inspection and maintenance programmes of £12 million, improvement in substation asset condition in the New England region of £15 million, higher renewables spend relating to our investment in 5 MW of solar generation in Massachusetts of £3 million and site renovations at our Northborough and Syracuse facilities of £16 million. This has been partially offset by lower spend on leased fleet vehicles due to the timing of contract negotiations of £5 million, lower capitalisation of pension related costs of £6 million and lower storm related costs of £6 million.

After excluding the effect of exchange movements of £79 million in 2008/09 compared with 2007/08, capital investment increased by £19 million. This primarily reflected a £10 million increase from a full year of generation capital expenditure compared with a partial year in 2007/08 following the KeySpan acquisition, higher investment at the Port Jefferson and Northport generating stations of £7 million, increased capital related storm costs of £6 million and other investment including asset replacement of £23 million. This higher expenditure was partially offset by decreased capital lease additions of £15 million relating to vehicles and a lower need for investment in new business installations of £12 million, as a result of the downturn in the US economy.

We have a global initiative to adopt best in class asset management policies and procedures, with all businesses aiming to become PAS 55 certified. PAS 55 is an industry standard for minimum level of competency and processes to ensure a company's asset management objectives can be fulfilled efficiently and effectively.

We have achieved PAS 55 certification for generation, Long Island transmission and distribution and our distribution assets in upstate New York and New England.

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

Our focus includes completing our remaining transformation initiatives, delivering the benefits of our alignment, and driving continuous improvement and process excellence.

Transforming operations

During the year, we delivered on many initiatives in our transformation programme, including agreement with our upstate New York and New England labour unions on alignment with the operating model, centralised scheduling, asset management and consolidating control centres on Long Island.

The implementation of transformation initiatives will increasingly deliver common processes and cost efficiencies across our business.

Efficiency

By making our processes more efficient, we help to create value for shareholders and provide superior service to our customers.

We will continue to evolve the business and gain alignment in transmission and distribution. In conjunction with the transmission and distribution alignment and delivery of remaining transformation initiatives, we will focus on the following priorities:

- development of a US inventory management model;
- development and implementation of optimal fleet sourcing strategies;
- development and implementation of an operations performance model;
- implementation of the advanced energy consumption initiative; and
- implementation of a cost conscious savings initiative.

Improving efficiency is central to our vision and we remain clear about our responsibility to ensure our operations are as efficient as possible for our customers, communities and regulators.

Customer organisation consolidation

We implemented a new customer organisational model during the final quarter of 2009/10 designed to increase our ability to deliver our customer objectives. The new organisation has been designed to be market driven and focused on delivering integrated energy solutions to our customers including energy efficiency. It will provide customers with a source for their energy needs while striving to continuously improve and benchmark performance.

Electricity Distribution & Generation continued

Financial performance

Adjusted operating profit was £116 million higher in 2009/10 than 2008/09 on a constant currency basis, an increase of 45% largely driven by lower storm costs as a result of the ice storm experienced in December 2008, higher generation profits which reflect the new rate filing and improved LIPA contribution partially offset by higher pass-through costs that primarily relate to the purchase of electricity. Further information is included below.

Financial results

The results of the Electricity Distribution & Generation segment for the years ended 31 March 2010, 2009 and 2008 were as follows:

	Years ended 31 March		
	2010 £m	2009 £m	2008 £m
Revenue excluding stranded cost recoveries	**3,963**	4,537	3,126
Operating costs excluding exceptional items and remeasurements	**(3,589)**	(4,272)	(2,796)
Adjusted operating profit	**374**	265	330
Exceptional items	**(61)**	(51)	(104)
Remeasurements	**19**	(109)	91
Stranded cost recoveries	**369**	426	379
Operating profit	**701**	531	696

2009/10 compared with 2008/09

The principal movements between 2008/09 and 2009/10 can be summarised as follows:

	Revenue and other operating income £m	Operating costs £m	Operating profit £m
2008/09 results	4,972	(4,441)	531
Add back exceptional items	–	51	51
Add back remeasurements	–	109	109
Add back stranded cost recoveries	(435)	9	(426)
2008/09 adjusted results	4,537	(4,272)	265
Exchange movements	(115)	108	(7)
2008/09 adjusted results at constant currency	4,422	(4,164)	258
Pass-through costs	(440)	411	(29)
Volume, price and weather	(9)	–	(9)
LIPA capital recovery	(29)	29	–
Generation	32	8	40
LIPA contribution	(19)	37	18
Storms	–	80	80
Other direct costs	–	(6)	(6)
Other	6	16	22
2009/10 adjusted results	3,963	(3,589)	374
Exceptional items	–	(61)	(61)
Remeasurements	–	19	19
Stranded cost recoveries	376	(7)	369
2009/10 results	4,339	(3,638)	701

Excluding stranded cost recoveries, revenue reduced by £459 million in 2009/10 on a constant currency basis compared with 2008/09. This was primarily due to lower pass-through costs, of which purchased electricity is the main component. These commodity costs are recovered in full from customers although the recovery of costs can occur in more than one financial year, resulting in a year-on-year operating profit impact.

Revenues also decreased compared with 2008/09 reflecting lower LIPA contribution and LIPA capital recovery partly offset by higher generation revenues. LIPA capital recovery relates to assets which are owned by LIPA but are constructed on behalf of LIPA by National Grid. These costs are fully recoverable. LIPA also contributes under management contracts for the ongoing maintenance of these assets. Generation revenues increased following the reset of generation capacity charges as a result of the new FERC rate order filing. These changes were retrospectively applied to 1 February 2009.

Excluding stranded cost recoveries, operating costs decreased by £575 million on a constant currency basis. This was primarily due to lower purchased electricity costs as referred to above, lower storm costs as the levels of storm activity in 2009/10 were considerably lower than 2008/09 reflecting the impact of the December 2008 ice storm, and lower costs associated with LIPA distribution and generation.

Exceptional costs for 2009/10 primarily related to the electricity distribution operations transformation initiatives, environmental costs associated with site remediation in New England and New York, costs associated with US healthcare reform and merger integration costs which primarily relate to pension and retiree welfare plan amendments.

2008/09 compared with 2007/08

The principal movements between 2007/08 and 2008/09 can be summarised as follows:

	Revenue and other operating income £m	Operating costs £m	Operating profit £m
2007/08 results	3,508	(2,812)	696
Add back exceptional items	–	104	104
Add back remeasurements	–	(91)	(91)
Add back stranded cost recoveries	(382)	3	(379)
2007/08 adjusted results	3,126	(2,796)	330
Exchange movements	957	(856)	101
2007/08 adjusted results at constant currency	4,083	(3,652)	431
Purchased electricity	176	(187)	(11)
Volume, price and weather	6	–	6
LIPA capital recovery	74	(74)	–
Generation	124	(114)	10
LIPA contribution	77	(65)	12
Bad debt expense	–	(14)	(14)
Storms	–	(74)	(74)
Other direct costs	–	(53)	(53)
Depreciation and amortisation	–	(10)	(10)
Other	(3)	(29)	(32)
2008/09 adjusted results	4,537	(4,272)	265
Exceptional items	–	(51)	(51)
Remeasurements	–	(109)	(109)
Stranded cost recoveries	435	(9)	426
2008/09 results	4,972	(4,441)	531

Comparability of our financial results between 2008/09 and 2007/08 is affected by having a full year contribution from KeySpan operations in 2008/09 compared with a partial contribution in 2007/08 following the acquisition on 24 August 2007. In 2008/09, KeySpan operations contributed £662 million, £607 million and £55 million to revenue and other operating income (excluding stranded cost recoveries), adjusted operating costs and adjusted operating profit respectively, compared with £383 million, £350 million and £33 million in 2007/08 on a constant currency basis.

Excluding stranded cost recoveries, revenue increased by £454 million in 2008/09 on a constant currency basis as compared with 2007/08. This was primarily due to the recognition of LIPA capital recoveries, LIPA contribution and generation revenues reflecting the full year KeySpan contribution. Revenues from the generation business also increased compared with 2007/08 reflecting a full year KeySpan contribution. Generation revenues also increased following the reset of generation capacity charges which were retrospectively applied to January 2008. There is a corresponding increase in costs partly offsetting some of this benefit.

Revenues also increased compared with 2007/08 reflecting the pass-through of higher purchased electricity costs. The recovery of these costs is described opposite.

Excluding stranded cost recoveries, operating costs increased by £620 million on a constant currency basis. This was primarily due to the higher costs associated with LIPA distribution and generation and purchased electricity as referred to above, in addition to higher storm costs associated mainly with the December 2008 ice storm.

The £166 million decrease on a constant currency basis in adjusted operating profit in 2008/09 compared with 2007/08 was primarily due to higher storm costs, higher capital related costs, which impacted depreciation and other direct costs, and higher purchased electricity, partially offset by the benefits of a full year of KeySpan.

Exceptional costs for 2008/09 primarily related to the electricity distribution operation's transformation initiatives and merger related integration costs.

Artistic rendering of project

Solar developments

In late 2009, the Massachusetts regulator approved National Grid's proposal to install approximately 5 MW of solar electricity generation – the biggest installation in the state. The largest of these projects is being constructed in Greater Boston, next to National Grid's multicoloured LNG tank. This was formerly a manufactured gas plant site and, as a result, the contaminated land has limited uses, making it an ideal site for a solar project. The site will include 6,300 solar panels spread over 6 acres of land, providing up to 1.3 MW of power.

Non-regulated businesses and other

Adjusted operating profit

£146m

(2008/09: £65m)

Capital investment

£307m

(2008/09: £427m)

Employees

3,533*

(2008/09: 3,597*)

* Excluding shared services employees

LNG imported to the UK through Isle of Grain (tonnes)

3.4m

(2008/09: 1.2m)

The majority of our non-regulated businesses and other activities either operate in markets related to those of our principal businesses or provide support to our own businesses.

Construction of phase III at our liquefied natural gas (LNG) importation terminal on the Isle of Grain continues on track for completion in winter 2010/11. The site currently has annual import capacity of 9.8 million tonnes and by winter 2010/11, with the phase III expansion, it will have the capacity to import 14.8 million tonnes per annum, around 20% of the UK's forecast gas demand.

During the year, the OnStream portfolio of meters increased by approximately 627,000 assets, comprising approximately 410,000 gas and 217,000 electricity meters.

This section should be read in conjunction with the rest of this Operating and Financial Review.

About our non-regulated businesses

Our non-regulated businesses and other activities are located principally in the UK. For reporting purposes, they do not constitute a segment, but are instead reported within other activities.

Principal operations

In addition to our principal lines of business, other activities comprise the following other operations and corporate activities.

Metering

National Grid Metering and OnStream provide installation and maintenance services to energy suppliers in the regulated and unregulated markets respectively. OnStream also provides meter reading services. Our metering businesses provide services for an asset base of about 20 million domestic, industrial and commercial meters.

Grain LNG

National Grid Grain LNG was the first new LNG importation terminal constructed in the UK for some 30 years, with construction divided into phases I and II (both fully operational) and III (under construction).

UK Property

National Grid Property is responsible for managing our occupied properties in the UK, and for the management, clean up and disposal of surplus sites, most of which are former gasworks.

BritNed

BritNed is a joint venture between National Grid and TenneT, the Dutch transmission system operator, to build and operate a 1,000 MW, 260 km subsea electricity link between The Netherlands and the UK.

xoserve

xoserve delivers transportation transactional services on behalf of all the major gas network transportation companies in Great Britain, including National Grid. xoserve is jointly owned by the five major gas distribution network companies and our UK Transmission business is the majority shareholder.

US non-regulated businesses

Includes LNG storage, LNG road transportation, unregulated transmission pipelines and West Virginia gas fields.

Fulcrum

Fulcrum operates across the UK mainland and offers multi-utility connections and environmental services for all customer categories. As a gas transporter, Fulcrum designs, constructs, owns and operates distribution systems.

Blue-NG

Blue-NG is a joint venture between National Grid and 2OC Ltd to construct and operate a new type of highly efficient power station that makes use of the requirement to reduce pressure at pressure stations, while generating renewable electricity and heat.

Corporate activities and shared services function

Corporate activities comprise central overheads, insurance and expenditure incurred on business development.

Business drivers

The principal business drivers for our non-regulated businesses and other activities include the following:

Multi-year contractual arrangements

OnStream has a long-term contract with British Gas for the provision of gas and electricity meters (but see Current and future developments below), and a range of contracts with other suppliers.

Phase I of Grain LNG is underpinned by a long-term contract with BP/Sonatrach. Phase II, completed in December 2008, is underpinned by long-term contracts signed with Centrica, Gaz de France Suez and Sonatrach. Phase III, due to be commissioned in winter 2010/11, also has long-term contracts for all the capacity with E.ON, Iberdrola and Centrica.

Competition

OnStream operates in the competitive market for the provision of new meters and its revenues are therefore determined by how successful it is in obtaining business from customers.

Capital investment

OnStream are investing in technology such as smart metering capabilities to grow our metering business. There is also significant investment in infrastructure projects such as Grain LNG and BritNed.

Efficiency

Efficiency in delivering capital programmes and in operating our businesses and corporate activities result in driving improved financial performance.

External market and regulatory environment

With the exception of National Grid Metering and Fulcrum's independent gas transporter (IGT) business, our non-regulated businesses and other activities are only indirectly affected by the relevant regulatory regimes. National Grid Metering, in its capacity as National Grid Gas's service provider, is regulated by Ofgem. It retains a large share of the legacy installed base of gas meters in the UK and is subject to a tariff cap price control. Fulcrum's IGT business is regulated under the terms of its gas transporter licence.

OnStream operates in the competitive market for the provision of new meters to gas and electricity suppliers who wish to install or replace meters as required. Grain LNG has been granted exemptions by Ofgem from the regulated third party access provisions for phases I, II and III of its development. These exemptions introduced certain obligations for effective measures to allow third parties to access unused capacity and are similar in nature to those in place at other new UK gas supply projects.

Current and future developments

To support the government's mandate to install smart meters in every home by 2020, OnStream has developed dual fuel smart capabilities. It has also developed an innovative smart metering solution and has secured its first dual fuel smart metering contract, all of which is designed to enable OnStream to become the smart metering provider of choice in the market.

Metering competition investigation

An update on the ongoing metering competition investigation that was reported in last year's Annual Report and Accounts is provided on page 80.

British Gas metering insourcing programme

British Gas, OnStream's most significant customer, has reviewed its strategy with regard to its metering operations and has decided to take some of these activities in-house. This decision will adversely impact OnStream's future workload. However, meters fitted for British Gas customers continue to earn revenue for the life of the asset.

Performance against our objectives

National Grid's progress against the Company objectives is set out on pages 30 to 37. We include below further specific information with respect to the objectives that are closely aligned to our non-regulated businesses and other activities.

Driving improvements in our safety, customer and operational performance

Our objectives include zero employee lost time injuries and to operate reliably. We also aim to improve the quality of service to our customers.

There was a decrease in the total number of employee lost time injuries in non-regulated businesses and other activities to 11 in 2009/10 compared with 17 in 2008/09.

National Grid Metering has met 17 out of 18 standards of service in 2009/10 and 2008/09.

Expanding our capabilities and identifying new financeable opportunities to grow

We are on track to deliver on our capital investment programme for non-regulated businesses and other activities.

During 2009/10, we invested £307 million in our non-regulated businesses and other activities, £120 million lower than in 2008/09, which had been £44 million higher than in 2007/08.

We invested £121 million (2008/09: £137 million; 2007/08: £126 million) in our metering businesses. OnStream continued to invest in new and replacement meters, and smart metering capabilities. National Grid Metering invested in new and replacement meters.

We continued to invest in our Grain LNG facility, with capital expenditure of £117 million in 2009/10 compared with £213 million in 2008/09. The investment related mainly to the continued construction on phase III. Phase III involves construction of a second unloading jetty, an additional 190,000 cubic metre LNG storage tank and associated processing equipment. Phase III is expected to increase the capacity available at the terminal to 14.8 million tonnes per annum, equivalent to around 20% of anticipated UK gas demand for 2010/11. The total planned investment in phase III is approximately £300 million, excluding capitalised interest and gas blending expenditure.

During 2009/10, we invested £69 million in the remaining non-regulated and other activities compared with £77 million in 2008/09. The 2009/10 investment consists of: £40 million within our US operations, principally hardware and software costs relating to SAP implementation; £15 million on our UK property business; £6 million within our xoserve business; and £4 million on both the US non-regulated and Fulcrum businesses.

In addition to the capital expenditure discussed above, we have invested a further £86 million (2008/09: £73 million; 2007/08: £21 million) in joint venture arrangements. The majority of this expenditure related to BritNed, in which we invested £60 million. During the year, work has progressed well on the construction of the link. The civil construction work at both converter station sites in the UK and The Netherlands is now largely complete and

Non-regulated businesses and other continued

work continues to install the electrical equipment. This work is progressing well and is on course for completion in the second half of 2010. Over 90% of the cable which will join the two converter stations has been manufactured, and activity during 2009 included the shore landing in The Netherlands and a section of cable off the UK coast. The shore landing in the UK and the remaining subsea cable lengths will be laid during 2010 in anticipation of the link being fully operational in the first quarter of 2011.

During 2009/10, £19 million was invested in the Blue-NG joint venture to enable finalisation of the development phase and commence construction (2008/09: £2.5 million). Construction contracts for the first two sites are in place and detailed design work is well under way.

Together with our Belgian counterpart, Elia, we are developing an electricity interconnector which will have a nominal capacity of 1,000 MW and is expected to be operational around 2017. The interconnector will comprise approximately 150 km of subsea cable and a converter station in each country connecting to the high voltage transmission systems.

In conjunction with our Norwegian counterpart, Statnett, we have announced plans to investigate further the feasibility of an electricity interconnector linking the UK and Norway. The link would have a nominal capacity of 1,000-1,500 MW and would be capable of allowing connections from offshore generators.

Financial performance

The results for non-regulated businesses and other activities for the years ended 31 March 2010, 2009 and 2008 were as follows:

	Years ended 31 March		
	2010 £m	2009 £m	2008 £m
Revenue	**738**	719	642
Operating income	**3**	31	67
Operating costs excluding exceptional items	**(595)**	(685)	(580)
Adjusted operating profit	**146**	65	129
Exceptional items	**(87)**	(64)	(57)
Operating profit	**59**	1	72

2009/10 compared with 2008/09

The principal movements between 2009/10 and 2008/09 can be summarised as follows:

	Revenue and other operating income £m	Operating costs £m	Operating profit £m
2008/09 results	750	(749)	1
Add back exceptional items	–	64	64
2008/09 adjusted results	750	(685)	65
Exchange movements	(3)	3	–
2008/09 constant currency results	747	(682)	65
Metering	3	26	29
Property	(31)	36	5
Grain LNG	63	(33)	30
US non-regulated businesses	(20)	27	7
Other activities	(21)	31	10
2009/10 adjusted results	741	(595)	146
Exceptional items	–	(87)	(87)
2009/10 results	741	(682)	59

Revenue and other operating income from non-regulated businesses and other activities decreased by £9 million in 2009/10. The principal reason for this was a decrease in revenue and other operating income in our Property business. Due to the ongoing downturn in the property market, we are not seeking to sell our non operational sites surplus to our requirements, as we believe that we can derive greater shareholder value by their retention. In addition, revenue and other operating income from our US non-regulated businesses was £20 million lower at constant currency, reflecting lower volumes of work together with reductions in gas prices.

Partially offsetting these reductions, revenue at Grain LNG was £63 million higher, reflecting the first full year of operations of phase II.

Operating costs excluding exceptional items decreased by £90 million in 2009/10 compared with 2008/09. Property costs were £36 million lower, reflecting our decision to defer sales of our surplus sites in current market conditions. Metering costs were £26 million lower, as a result of lower depreciation charges on our meters and lower meter workforce costs. In addition, operating costs at our US non-regulated businesses were £27 million lower at constant currency, due to lower volumes and gas prices. Offsetting these decreases, operating costs at Grain LNG were £33 million higher due to a full year of operations of phase II.

Contributions to adjusted operating profit included: £162 million (2008/09: £133 million) from Metering; £6 million (2008/09: £1 million) from Property; £51 million (2008/09: £21 million) from Grain LNG; and £3 million profit (2008/09: £4 million loss) from US non-regulated businesses.

Exceptional items of £87 million in 2009/10 included a £41 million charge in Metering relating to a £15 million fine levied upon us by the Gas and Electricity Markets Authority, and a further £26 million in respect of associated costs and provisions against receivables and other balance sheet items. For further information on this, please refer to note 28(f) on page 152. An environmental charge of £28 million has been recognised in our Property business as a result of changes in landfill tax legislation in the UK. Restructuring costs of £17 million have been incurred in our US non-regulated businesses and corporate activities. In addition, £1 million has also been incurred in our US non-regulated businesses for US healthcare costs arising from recent legislative changes.

2008/09 compared with 2007/08

The principal movements between 2008/09 and 2007/08 can be summarised as follows:

	Revenue and other operating income £m	Operating costs £m	Operating profit £m
2007/08 results	709	(637)	72
Add back exceptional items	–	57	57
2007/08 adjusted results	709	(580)	129
Exchange movements	17	(17)	–
2007/08 constant currency results	726	(597)	129
Metering	7	22	29
Property	(49)	(43)	(92)
Grain LNG	33	(24)	9
US non-regulated businesses	51	(53)	(2)
Other activities	(18)	10	(8)
2008/09 adjusted results	750	(685)	65
Exceptional items	–	(64)	(64)
2008/09 results	750	(749)	1

Revenue primarily increased due to a full year of contribution from the US non-regulated businesses acquired with KeySpan, a £33 million increase in revenue from Grain LNG and a £17 million increase in 2007/08 due to movements in exchange rates. The increased revenue from Grain LNG is due to a full year contribution from phase I of the facility and three months contribution from phase II. These increased revenues were partially offset by a decrease of £49 million in revenue and other operating income in our Property business. This resulted from a decrease in the level of property sales in 2008/09, reflecting the significant decrease in property prices during 2008/09.

Operating costs excluding exceptional items increased by £105 million in 2008/09 compared with 2007/08 primarily reflecting an increase resulting from a full year of contribution from the US non-regulated businesses acquired with KeySpan. In addition, Property and Grain LNG were £43 million and £24 million higher respectively. This was partially offset by a fall in metering costs.

Contributions to adjusted operating profit include: £133 million (2007/08: £104 million) from Metering; £1 million (2007/08: £93 million) from Property; £21 million (2007/08: £12 million) from Grain LNG; and a loss of £4 million (2007/08: loss £2 million) from US non-regulated businesses.

Exceptional items of £64 million in 2008/09 primarily relate to our Property business that recognised a £24 million exceptional charge relating to significant changes to our environmental provision, and £40 million relating to restructuring charges incurred in the US non-regulated businesses and corporate activities. The environmental charge arose as a result of an increase in estimated site remediation costs following changes in landfill tax legislation in the UK and the significant reduction in the discount rate driven by a fall in the risk free rates in light of instability in the financial markets. The real discount rate used in the UK decreased from 2.5% in 2007/08 to 2.0% in 2008/09.

Grain LNG centre of excellence

Following further recent expansion, Grain LNG is one of the world's largest importation facilities making a vital contribution to UK energy supply security. The commercial arrangements in place are underpinned by long-term contracts with our customers, allowing them flexibility over how they use their contracted capacity. This model has enabled the investment needed in the facility, allowing the business to meet market and customer demands.

A further above ground tank and regasification plant as well as a second jetty have been built and will be operational by winter 2010/11. We are continuing to consult with the market to determine the level of interest in further growth.

Through Grain LNG, we have created a centre of excellence within LNG that will provide benefits for National Grid, its customers and shareholders, and the wider UK energy industry.

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 on page 76 and in note 32(d) to the consolidated financial statements.

Financial position

Balance sheet

Our balance sheet at 31 March 2010 can be summarised as follows:

	Assets £m	Liabilities £m	Net assets £m
Property, plant and equipment and non-current intangible assets	31,244	–	31,244
Goodwill and non-current investments	5,588	–	5,588
Current assets and liabilities	2,700	(3,541)	(841)
Other non-current assets and liabilities	162	(3,381)	(3,219)
Post-retirement obligations	–	(3,098)	(3,098)
Deferred tax	–	(3,324)	(3,324)
Total before net debt	39,694	(13,344)	26,350
Net debt	3,859	(25,998)	(22,139)
Total as at 31 March 2010	**43,553**	**(39,342)**	**4,211**
Total as at 31 March 2009	44,467	(40,483)	3,984

The increase in net assets from £3,984 million at 31 March 2009 to £4,211 million at 31 March 2010 resulted from: the profit for the year of £1,389 million; losses recognised directly in equity of £508 million; dividends payable net of scrip issues of £689 million; and other items totalling £35 million.

Net debt

Net debt decreased by £534 million from £22,673 million at 31 March 2009 to £22,139 million at 31 March 2010. Cash flow from operations of £4.5 billion was offset by capital expenditure of £3.2 billion, payment of dividends of £0.7 billion, and net interest paid of £1.0 billion, resulting in a net cash outflow of £0.4 billion. The impact of the movement in the dollar exchange rate on our dollar denominated debt and other fair value movements decreased net debt by £0.9 billion. A five year history of net debt is shown in figure 1.

At 31 March 2010, net debt comprised borrowings of £25,124 million (2009: £26,793 million) including bank overdrafts of £29 million (2009: £17 million), less cash and cash equivalents of £720 million (2009: £737 million), financial investments of £1,397 million (2009: £2,197 million) and derivative financial instruments with a net carrying value of £868 million (2009: £1,186 million).

The maturity of borrowings at 31 March 2010 is provided in note 21 to the consolidated financial statements and illustrated in figure 3. The maturity of net debt, defined as borrowings plus derivative financial liabilities, less cash and cash equivalents, current financial investments and derivative financial assets, is illustrated in figure 2.

Capital structure

The principal measure of our balance sheet efficiency is our interest cover ratio as described under financial discipline on page 38. Our target long-term range for interest cover is between 3.0 and 3.5, which we believe is consistent with single A range long-term senior unsecured debt credit ratings within our main UK operating companies, National Grid Electricity Transmission plc (NGET plc) and National Grid Gas plc (NGG plc).

Interest cover for the year ended 31 March 2010 increased to 3.9 from 3.1 for the year ended 31 March 2009. The increase occurred as a result of higher operating cash flows and lower interest payments.

Gearing at 31 March 2010 and 31 March 2009, calculated as net debt expressed as a percentage of net debt plus net assets shown in the balance sheet, amounted to 84% and 85% respectively. We do not consider that this standard gearing ratio is an appropriate measure of our balance sheet efficiency as it does not reflect the economic value of the assets of our UK and US regulated businesses.

In addition, we monitor the regulatory asset value (RAV) gearing within each of NGET plc and the regulated transmission and distribution businesses within NGG plc. This is calculated as net debt expressed as a percentage of RAV, and indicates the level of debt employed to fund our UK regulated businesses. It is compared with the level of RAV gearing indicated by Ofgem as being appropriate for these businesses, at around 60%. The table below shows the RAV gearing for NGET plc and for the regulated transmission and distribution businesses within NGG plc as at 31 March 2010 and 31 March 2009. To calculate RAV gearing for the regulated transmission and distribution businesses within NGG plc, we exclude an element of debt that is associated with funding the metering business within NGG plc which no longer has a RAV associated with it.

RAV gearing	**2010 %**	2009 %
Regulated transmission and distribution businesses within National Grid Gas plc	**57**	60
National Grid Electricity Transmission plc	**56**	58

Some of our regulatory agreements impose lower limits for the long-term senior unsecured debt credit ratings that certain companies within the group must hold or the amount of equity within their capital structures. These requirements are monitored on a regular basis in order to ensure compliance. One of the key limits requires National Grid plc to hold an investment grade long-term senior unsecured debt credit rating. We believe that our aim of maintaining single A range long-term senior unsecured debt credit ratings within our main UK operating companies is consistent with this.

Rights issue

On 19 May 2010, the Board resolved to offer a fully underwritten rights issue to raise approximately £3.2 billion, net of expenses. The proceeds are expected to be used to fund a portion of our capital investment programme and for general corporate purposes. The capital raised will allow us to increase our capital investment in the UK significantly, and assist in maintaining single A credit ratings for our UK operating companies, thereby improving our long-term competitive position.

Liquidity and treasury management

Treasury policy

Funding and treasury risk management for National Grid is carried out by the treasury function under policies and guidelines approved by the Finance Committee of the Board. The Finance Committee (for further details see page 89) has authority delegated from the Board, and is responsible for the regular review and monitoring of treasury activity and for the approval of specific transactions, the authority for which may be further 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 Finance Committee.

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.

Commodity derivatives entered into in respect of gas and electricity commodities are used in support of the operational requirements of the business and the policy regarding their use is explained on page 78.

Current condition of the financial markets

During 2009/10, there has been a partial recovery in the global economic situation, following the crisis in the banking system, the failure of individual banks and increased restrictions on lending across the capital and money markets in 2008/09. Credit spreads have narrowed significantly. With our low risk business model and cash flows that are largely stable over a period of years, we were able to access the markets during 2008/09 and have continued to do so in 2009/10, having issued £1,993 million of long-term debt into the capital markets. In addition, we have issued £119 million of commercial paper, all of which remained outstanding as at 31 March 2010. At 1 April 2009, we had drawn down £105 million of uncommitted bank lines for short-term liquidity purposes, all of which was repaid by 31 March 2010. We remain confident of our ability to access the public debt markets in the future. The cost of our new long-term debt has fallen over the last few years, decreasing from around 6.7% in 2007/08 to around 4.6% in 2009/10. This reflects the increase in credit spreads demanded by lenders more than offset by the fall in headline interest rates.

Cash flow and cash flow forecasting

Cash flows from our operations are largely stable over a period of years. Our electricity and gas transmission and distribution operations in the UK and US are subject to multi-year rate agreements with regulators. In the UK, we have largely stable annual cash flows. However, in the US our short-term cash flows are dependent on the price of gas and electricity and the timing of customer payments. The regulatory mechanisms for recovering costs from customers can result in very significant cash flow swings from year to year. Significant changes in volumes in the US, for example as a consequence of abnormally mild or extreme weather or economic conditions affecting the level of demand, can affect cash inflows in particular. In addition, our cash flows arising in the US are exposed to movements in the dollar exchange rate, although our foreign exchange risk management policy aims to limit this exposure. Further detail is provided under the foreign exchange risk management section on page 78.

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

£43.6bn
Total assets

£4.2bn
Net assets

£22.1bn
Net debt

3.9x
Interest cover

Figure 1 - Net debt at 31 March
£bn

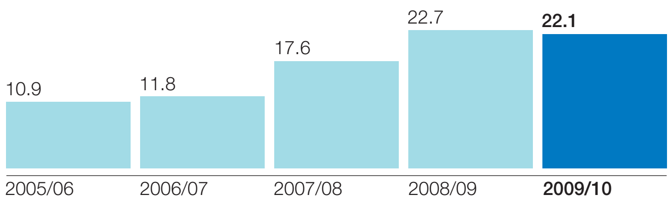


Figure 2 – Maturity of net debt at 31 March 2010
£bn

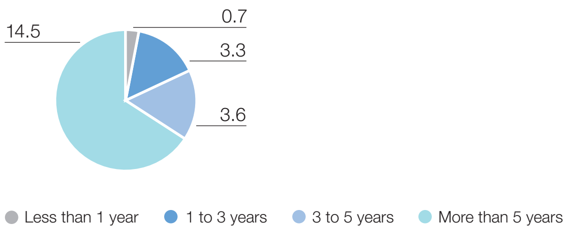
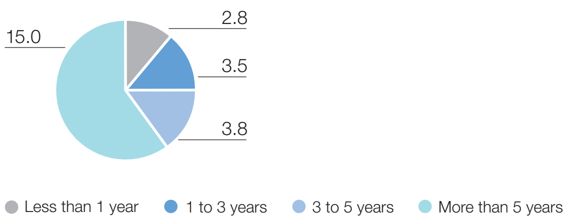


Figure 3 – Maturity of borrowings at 31 March 2010
£bn



Financial position and financial management continued

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 require us to maintain adequate financial resources within certain parts of our operating businesses and restrict our ability to undertake transactions between certain subsidiary companies including paying dividends, lending cash and levying charges. Our assessment of National Grid's liquidity takes into account these restrictions.

Funding and liquidity management

We maintain a number of medium-term note and commercial paper programmes in both the UK and the US to facilitate long- and short-term debt issuance into the capital and money markets. National Grid plc also has a Securities and Exchange Commission registered debt shelf in place to facilitate long-term debt issuance specifically into the US capital markets. The table below shows the programmes we had as at 31 March 2010, together with the level of utilisation of each:

Programme	Amount	Status
National Grid plc		
US commercial paper programme	$3.0 billion	Unutilised
US SEC-registered debt shelf	Unlimited	$1.0 billion issued
Euro commercial paper programme	$1.5 billion	£94 million (equivalent) issued
National Grid Electricity Transmission plc		
US commercial paper programme	$1.0 billion	Unutilised
Euro commercial paper programme	$1.0 billion	€30 million issued
National Grid plc and National Grid Electricity Transmission plc		
Euro medium-term note programme	€15.0 billion	€9.0 billion issued
National Grid Gas plc		
US commercial paper programme	$2.5 billion	Unutilised
Euro commercial paper programme	$1.25 billion	Unutilised
Euro medium-term note programme	€10.0 billion	€5.7 billion issued
National Grid USA		
US commercial paper programme	$2.0 billion	Unutilised
Euro medium-term note programme	€4.0 billion	€0.1 billion issued

At 31 March 2010, we had signed a £360 million index-linked loan agreement with the European Investment Bank, of which £60 million had been drawn. Since that date a further £180 million has been drawn, and the remaining £120 million will be drawn by 30 June 2010.

In addition, we have both committed and uncommitted bank borrowing facilities that are available for general corporate purposes to support our liquidity requirements. The vast majority of our committed borrowing facilities are used to provide back up to our commercial paper programmes or other specific debt issuances. These have never been drawn and there is currently no intention to draw them in the future.

During the year, the $850 million short-term committed facility within National Grid plc expired and was renewed at a slightly reduced level and now stands at $810 million. National Grid USA is also a named borrower under this facility, which includes an option to draw down under the facility for a fixed term of up to 12 months.

The table below shows the bank facilities we had as at 31 March 2010. None of the committed facilities were drawn at any time during the year.

Facility	Amount
National Grid plc and National Grid USA	
Short-term committed facilities	$810 million
National Grid plc	
Long-term committed facilities	£830 million
Long-term committed facilities	$280 million
National Grid Gas plc	
Long-term committed facilities	£700 million
National Grid Electricity Transmission plc	
Long-term committed facilities	£425 million
National Grid's US subsidiaries	
Committed facilities	$530 million
National Grid plc and certain subsidiaries	
Uncommitted borrowing facilities	£528 million

Note 34 to the consolidated financial statements shows the maturity profile of undrawn committed borrowing facilities in sterling at 31 March 2010.

To facilitate debt issuance into the capital and money markets, many of the companies within National Grid maintain credit ratings. At 31 March 2010, the long-term senior unsecured debt and short-term debt credit ratings respectively provided by Moody's Investor Services, Standard & Poor's and Fitch Ratings were as follows (all with outlooks of stable):

Facility	Moody's	S&P	Fitch
National Grid plc	Baa1/P2	BBB+/A2	BBB+/F2
National Grid Holdings One plc	–	BBB+/A2	–
National Grid Electricity Transmission plc	A3/P2	A-/A2	A/F2
National Grid Gas plc	A3/P2	A-/A2	A/F2
National Grid Gas Holdings Ltd	A3	A-*	A
National Grid USA	A3/P2	BBB+/A2	–
Niagara Mohawk Power Corp.	A3	A-/A2	–
Massachusetts Electric Co.	A3/P2	A-/A2	–
New England Power Co.	A3/P2	A-/A2	–
The Narragansett Electric Co.	A3	A-/A2	–
KeySpan Corporation	Baa1/P2	A-/A2	A-
The Brooklyn Union Gas Company	A3	A	A+
KeySpan Gas East Corporation	A3	A	A
Boston Gas Company	Baa1	A-	–
Colonial Gas Company	A3	A-*	–
National Grid Generation LLC	Baa1^	A-*	–

* Corporate credit rating
^ Issuer rating

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 2010 are shown in notes 14 and 20 to the consolidated financial statements.

We believe that maturing amounts in respect of contractual obligations as shown in commitments and contingencies in note 28 to the consolidated financial statements can be met from existing cash and investments, operating cash flows and other financings that we reasonably expect to be able to secure in the future, together with the use of committed facilities if required.

Following the Board resolving to offer a fully underwritten Rights Issue for approximately £3.2 billion, net of expenses, due to be announced on 20 May 2010, and assuming its successful completion, we are of the opinion that it will not be necessary to raise additional funding for working capital purposes in the 12 month period from the date of this Annual Report. However, in line with our normal treasury practice we may continue to access the markets in order to manage actively our debt portfolio, optimise our finance costs and manage our refinancing risk.

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 derivative financial instruments, to manage exposures of this type. Our policy is not to use derivative financial instruments for trading purposes.

More details on derivative financial instruments are provided in note 17 to the consolidated financial statements.

Refinancing risk management

The Board controls refinancing risk mainly by limiting the amount of debt maturities arising on borrowings in any financial year.

Note 21 to the consolidated financial statements sets out the contractual maturities of our borrowings over the next 5 years, with the total contracted borrowings maturing over 49 years. This shows that, at 31 March 2010, we have £2.8 billion of debt maturing in 2010/11, and no more than £2.1 billion of debt maturing in each of the next four financial 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 2010.

Interest rate risk management

Our interest rate exposure arising from borrowings and deposits is managed by the use of fixed-rate and floating-rate debt and derivative financial instruments, including interest rate swaps, swaptions and forward rate agreements. 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) 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 the bonds in issue from NGET plc and NGG plc are inflation-linked, that is their cost is linked to changes in the UK retail price 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 formulae in the UK.

A3/BBB+
Moody's/S&P senior unsecured ratings for National Grid USA

A3/A-/A
Moody's/S&P/Fitch senior unsecured ratings for NGG plc and NGET plc

Baa1
Moody's senior unsecured rating for National Grid plc

BBB+
S&P and Fitch senior unsecured ratings for National Grid plc

Figure 4 – Interest rate profile pre-derivatives at 31 March 2010
%

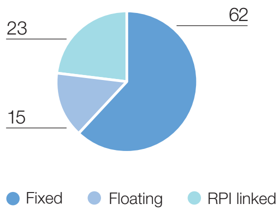


Figure 5 – Interest rate profile post-derivatives at 31 March 2010
%

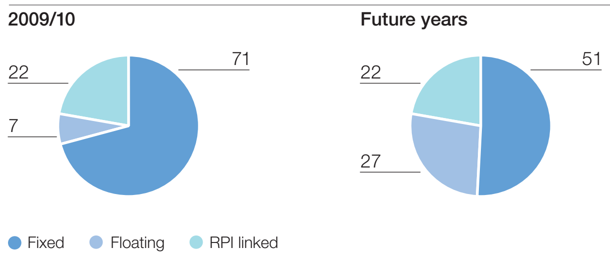
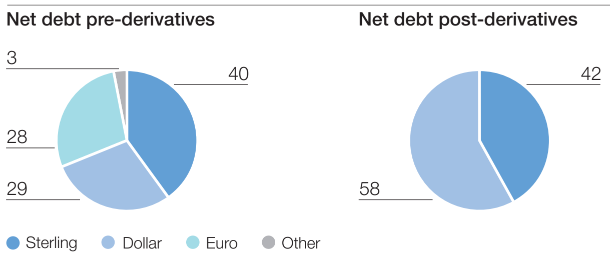


Figure 6 – Currency profile at 31 March 2010
%



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Financial position and financial management continued

The performance of the treasury function in interest rate risk management is measured by comparing the actual total financing costs of its 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.

Figure 4 on page 77 shows the interest rate profile of our net debt before derivatives.

Figure 5 on page 77 shows the impact, as at 31 March 2010, of derivatives on our net debt for 2010/11 and for future years. The 2010/11 position reflects the use of derivatives, including forward rate agreements, to lock in interest rates in the short term. The future years' position excludes derivatives that mature within the next year.

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 shown at 31 March 2010 will change over time.

In 2010/11, 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 although we expect this to be offset by higher UK inflation affecting our index-linked debt.

More information on the interest rate profile of our debt is included in note 32 to the consolidated financial statements.

Foreign exchange risk management

The principal foreign exchange risk to which we are exposed is translation risk arising from assets and liabilities denominated in dollars. In relation to these risks, our objective is to maintain the ratio of dollar denominated financial liabilities to dollar denominated gross assets between 85% and 95%, by using debt and foreign exchange derivatives, so as to provide an economic offset of our cash flows that arise in dollars against the servicing of those liabilities.

We have a policy of managing our foreign exchange transaction risk by hedging contractually committed foreign exchange transactions occurring in currencies other than the dollar over a prescribed minimum size. This covers a minimum of 75% of such transactions occurring in the next 6 months and a minimum of 50% of such transactions occurring between 6 and 12 months in the future. In addition, where foreign currency cash flow forecasts are uncertain and a judgement has to be made, our policy is to hedge a proportion of such cash flows based on the likelihood of them occurring, with the aim of hedging substantially all the cash flows without overhedging. 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 National Grid's cash flow has limited exposure to foreign currencies.

In addition, we are exposed to currency exposures on borrowings in currencies other than sterling and the dollar, principally the euro. This currency exposure is managed through the use of cross-currency swaps, so that post-derivatives the currency profile of our debt is almost entirely sterling/dollar, as shown in figure 6 on page 77.

More details can be found in note 32 to the consolidated financial statements.

Counterparty risk management

Counterparty risk arises from the investment of surplus funds, from the use of derivative instruments including commodity contracts, and from commercial contracts entered into by the businesses. The Finance Committee has agreed a policy for managing such risk. This policy sets limits as to the exposure that National Grid can have with any one counterparty, based on that counterparty's credit rating from independent credit rating agencies. National Grid's exposure to individual counterparties is monitored daily and counterparty limits are regularly updated for changes in credit ratings. We have a central treasury department, which is responsible for managing the policy. Where business areas enter into contracts carrying credit risk, 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 master netting arrangement is usually put in place to reduce our exposure to credit risk in relation to that counterparty. When transacting interest rate and exchange rate derivatives, we use standard International Swap Dealers Association (ISDA) documentation, which provides for netting in respect of all transactions governed by a specific ISDA agreement with a counterparty.

Further information on the management of counterparty risk is provided in note 32 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 derivative 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 32 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. This analysis does not take account of the change in value in our income stream or in the value of our US operations that certain of these financial instruments are being used to hedge.

	2009/10		2008/09	
	Income statement £m	**Other equity reserves £m**	Income statement £m	Other equity reserves £m
UK retail price index ±0.50%	**17**	**–**	17	–
UK interest rates ±0.50%	**51**	**71**	67	77
US interest rates ±0.50%	**52**	**14**	63	13
US dollar exchange rate ±10%	**68**	**623**	55	880

Commodity contracts

We purchase electricity and gas in order to supply our customers in the US and also to meet our own energy requirements, primarily in the UK. We also enter into physical and financial derivative transactions to manage electricity and gas cost volatility on behalf of customers in the US. Substantially all our costs of purchasing electricity and gas for supply to customers are recoverable at an amount equal to cost. The timing of recovery of these costs can vary between financial periods leading to an under- or over-recovery within any particular financial period.

Our US operating companies participate in the physical and financial markets related only to those commodities for which we or our customers have a physical market requirement, and transact only within pre-defined risk parameters. These parameters are approved by the energy procurement risk management committee, which operates in accordance with authority delegated to it by the Finance Committee and Executive Committee of the Board.

The most significant gas purchases for our own use relate to the operation of our gas transmission and gas distribution networks, mainly in the UK. We also purchase fuel for our vehicle fleets in the UK. In the US, we also sell gas produced by our West Virginia gas fields.

In the US, we also have a management contract with ConocoPhillips, under which we and ConocoPhillips share the responsibilities for managing upstream gas distribution assets associated with our Massachusetts gas distribution operations, as well as providing city gate delivered supply. This contract allows for both parties to employ derivative instruments to maximise the profitability of the portfolio of gas distribution assets. Profits associated with these activities are shared between us, ConocoPhillips and our customers in Massachusetts. This contract expires on 31 March 2011.

In our UK gas transmission operations, we are obliged to offer for sale through a series of auctions both short- and long-term, a predetermined quantity of entry capacity for every day in the year at pre-defined locations. Where, on the day, the gas transmission system's capability is constrained, such that gas is prevented from entering the system for which entry capacity rights have been sold, then UK gas transmission is required to buy back those entry capacity rights sold in excess of system capability. Forward and option contracts are used to reduce the risk and exposure to on-the-day entry capacity prices.

Our UK electricity transmission operations have also 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 (BETTA). 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 UK 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.

Energy purchase contracts

The majority of our electricity contracts and certain of our gas contracts are entered into to meet our expected purchase, sale or usage requirements and so are accounted for as ordinary sales or purchase contracts. These include contractual commitments to purchase energy under long-term contracts amounting to £3,535 million as at 31 March 2010 (2009: £3,645 million) of which £1,566 million is due within one year (2009: £990 million). Further information is included in note 28 to the consolidated financial statements.

Commodity purchase contracts accounted for as derivative contracts

Certain of our forward purchases of electricity, gas and electricity capacity do not meet the own use exemption for accounting purposes and hence are accounted for as derivatives. Mark-to-market changes in the value of these contracts are reflected through earnings under the heading of commodity remeasurements. The fair value of these contracts includes contracts with a positive value of £51 million (2009: £35 million), recorded as assets in our balance sheet and contracts with a negative value of £228 million (2009: £155 million) recorded as liabilities.

Commodity purchase contracts accounted for as derivatives include contracts for the forward purchase of electricity that reverted to us as part of the settlement arising from USGen's bankruptcy in 2005, which were originally entered into prior to the restructuring of the electricity industry in New England. The electricity purchased under these contracts is not required for our normal activities and is sold in the energy markets at prices which are currently significantly below the amount we are required to pay. The fair value of these contracts amounted to a £127 million liability at 31 March 2010 (2009: £121 million liability).

Derivative financial instruments linked to commodity prices

We also enter into derivative financial instruments linked to commodity prices, including index-linked swaps and futures contracts. These derivative financial instruments are used to reduce market price volatility and are principally used to manage commodity prices associated with our gas and electricity delivery operations in the US on behalf of our customers.

Derivative financial instruments are carried at fair value in the balance sheet and mark-to-market changes in the value of these contracts are reflected through earnings under commodity remeasurements with the exception of those related to our West Virginia gas fields that are designated as cash flow hedges.

We use NYMEX electricity and natural gas futures to reduce the cash flow variability associated with the purchase price for a portion of future electricity and gas purchases associated with certain of our electricity and gas distribution operations in the US. These had a negative fair value at 31 March 2010 of £41 million (2009: £59 million), but the liability on the balance sheet has been reduced by the amount of collateral paid to counterparties in respect of these contracts due to accounting netting requirements for such instruments.

In addition, we utilise over-the-counter swaps and options to reduce the cash flow variability associated with the purchase price for a portion of future electricity and gas purchases associated with certain of our electricity and gas distribution operations in the US. These had a net negative fair value at 31 March 2010 of £45 million (2009: £190 million).

We also utilise over-the-counter gas swaps in the US to hedge the cash flow variability associated with forecast sales of a portion of gas production from our West Virginia gas fields. At 31 March 2010, we had hedge positions in place for approximately 54% of our estimated 2010 and 2011 gas production (2009: 66% of our estimated 2009 and 2010 gas production), net of gathering costs. We use forward prices from a third party vendor to value these swap positions.

Sensitivity analysis

As described in note 33(d) to the consolidated financial statements, movements in commodity prices would have the following estimated impact on the financial statements in the value

Financial position and financial management continued

of commodities. This analysis does not take account of any change in the composition of our commodity portfolio.

	2009/10 Income statement £m	2009/10 Other equity reserves £m	2008/09* Income statement £m	2008/09* Other equity reserves £m
10% increase in commodity prices	**71**	**(1)**	33	(1)
10% decrease in commodity prices	**(64)**	**1**	(43)	1

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

Commitments and contingencies

Commitments and contingencies outstanding at 31 March 2010 and 2009 are summarised in the table below:

	2010 £m	2009* £m
Future capital expenditure contracted but not provided for	**1,738**	1,626
Total operating lease commitments	**926**	1,085
Power commitments	**3,535**	3,645
Other commitments, contingencies and guarantees	**2,119**	1,846

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

The energy commitments shown in the commitments and contingencies table above reflect obligations to purchase energy under long-term contracts. These contracts are used in respect of our normal sale and purchase requirements and do not include commodity contracts carried at fair value as described above.

We propose to meet all 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.

Contractual obligations at 31 March 2010

The table of contractual obligations shown below analyses our long-term contractual obligations according to payment period.

Purchase obligations reflect commitments under power contracts and future capital expenditure contracted for but not provided. The other long-term liabilities reflected in the balance sheet at 31 March 2010 comprise commodity contracts carried at fair value and other creditors that represent contractual obligations falling due after more than one year.

Interest on borrowings is calculated based on borrowings at 31 March 2010 and does not reflect future debt issues. Floating-rate interest has been estimated using future interest rate curves at 31 March 2010.

	Less than 1 year £m	1-3 years £m	3-5 years £m	More than 5 years £m	Total £m
Financial liabilities					
Borrowings	2,390	3,422	3,707	15,220	**24,739**
Interest payments on borrowings	915	1,719	1,412	8,417	**12,463**
Finance lease liabilities	30	73	34	135	**272**
Other non interest-bearing liabilities	2,287	265	–	–	**2,552**
Derivatives payments	859	1,568	575	1,299	**4,301**
Derivatives receipts	(1,027)	(1,820)	(1,022)	(1,213)	**(5,082)**
Commodity contracts	488	203	64	37	**792**
Other contractual obligations					
Capital commitments	1,376	284	67	11	**1,738**
Operating leases	91	163	172	500	**926**
Energy commitments	1,566	1,064	627	278	**3,535**
Total at 31 March 2010	**8,975**	**6,941**	**5,636**	**24,684**	**46,236**

Off balance sheet arrangements

There were no significant off balance sheet arrangements other than the contractual obligations and commitments and contingencies described above.

Details of material litigation as at 31 March 2010

We were not party to litigation that we considered to be material as at 31 March 2010. Save as set out below, there have been no governmental, legal or arbitration proceedings in the last 12 months which may have or have had significant effects on the Company's financial position or profitability.

Metering competition investigation

On 25 February 2008, the Gas and Electricity Markets Authority (GEMA) announced it had decided we breached Chapter II of the Competition Act 1998 and Article 82 (now Article 102) of the Treaty of the Functioning of the European Union and fined us £41.6 million. We appealed GEMA's decision to the Competition Appeal Tribunal (the Tribunal), which upheld the appeal in part in April 2009 and reduced the fine to £30 million. We appealed further to the Court of Appeal in respect of certain aspects of the Tribunal's judgement. On 23 February 2010, in a reserved judgement, the Court of Appeal decided that it would not interfere with the judgement of the Tribunal save that it further reduced the fine to £15 million. On 22 March 2010, we applied to the Supreme Court for leave to appeal the Court of Appeal's judgement.

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

Gas Distribution mains replacement investigation

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

KeySpan Department of Justice investigation

As previously reported, in May 2007 KeySpan received a civil investigative demand (CID) from the Antitrust Division of the United States Department of Justice (DOJ), requesting the production of documents and information relating to its investigation of competitive issues in the New York City electricity capacity market prior to our acquisition of KeySpan. In April 2008, we received a second CID in connection with this matter.

On 22 February 2010, DOJ filed a proposed final judgement in the US District Court for the Southern District of New York. Under the terms of the proposed settlement, DOJ and KeySpan have agreed that KeySpan will pay $12 million in full and final resolution of DOJ's CIDs. This agreement contains no admissions of wrongdoing by KeySpan and remains subject to court approval, which is currently anticipated later in 2010.

KeySpan class action

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

Related party transactions

We provide services to and receive services from related parties, principally joint ventures. In the year ended 31 March 2010, we charged £5 million and received charges of £74 million from related parties (other than Directors) compared with £4 million and £44 million in 2008/09 and £3 million and £33 million in 2007/08.

Further information relating to related party transactions is contained within note 29 to the consolidated financial statements. Details on amounts paid to Directors are included within the Directors' Remuneration Report on pages 98 to 108.

Retirement arrangements

We operate pension arrangements on behalf of our employees in both the UK and the US and also provide post-retirement healthcare and life insurance benefits to qualifying retirees in the US.

In the UK, the defined benefit section of the National Grid UK Pension Scheme and the National Grid section of the Electricity Supply Pension Scheme (National Grid Electricity Supply Pension Scheme) are closed to new entrants. Membership of the defined contribution section of the National Grid UK Pension Scheme is offered to all new employees in the UK.

In the US, we operate a number of pension plans, which provide both defined benefits and defined contribution benefits.

We also provide post-retirement benefits other than pensions to the majority of employees in the US. Benefits include health care and life insurance coverage to eligible retired employees. Eligibility is based on certain age and length of service requirements and in most cases retirees must contribute to the cost of their coverage.

Net pension and other post-retirement obligations

The following table summarises the pension and other post-retirement obligations recorded in the consolidated financial statements:

Net plan asset/(liability)	UK £m	US £m	Total £m
As at 1 April 2009	(154)	(2,657)	(2,811)
Exchange movements	–	140	140
Current service cost	(50)	(88)	(138)
Expected return less interest	(76)	(136)	(212)
Curtailments, settlements and other	(17)	(38)	(55)
Actuarial gains/(losses)			
– on plan assets	2,420	772	3,192
– on plan liabilities	(3,038)	(885)	(3,923)
Employer contributions	269	440	709
As at 31 March 2010	**(646)**	**(2,452)**	**(3,098)**

Plan assets	14,883	4,253	19,136
Plan liabilities	(15,529)	(6,705)	(22,234)
Net plan liability	(646)	(2,452)	(3,098)

The amounts recorded in the balance sheet are based on accounting standards which require pension obligations to be calculated on a different basis from that used by the actuaries to determine the funding we need to make into each arrangement. The principal movements in net pension obligations during the year arose as a consequence of actuarial losses on plan liabilities principally as a consequence of using lower discount rates to calculate the present value of these obligations, partially offset by actuarial gains on plan assets.

Actuarial position

The last completed full actuarial valuation of the National Grid UK Pension Scheme was as at 31 March 2007. This concluded that the pre-tax funding deficit was £442 million in the defined benefit section on the basis of the funding assumptions. Employer cash contributions for the ongoing cost of this plan are currently being made at a rate of 29.4% of pensionable payroll.

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

Contributions

In addition to ongoing employer contributions, we have agreed to make additional deficit contributions to certain of the above plans as follows:

- National Grid UK Pension Scheme: the Company made deficit contributions of £59 million during 2009/10 which ensured that the deficit reported at the 2007 valuation was paid in full; and
- National Grid Electricity Supply Pension Scheme: the Company made deficit contributions of £90 million during 2009/10 and anticipates no further payments in the year to 31 March 2011, in line with the recovery plan.

The next valuations of these schemes are due as at 31 March 2010.

In accordance with our funding policy for US pension and other post-retirement benefit plans, we expect to contribute approximately £414 million to these plans during 2010/11.

Plan assets

Our plans are trustee administered and the trustees are responsible for setting the investment strategy and monitoring investment performance, consulting with us where appropriate.

Accounting policies

Basis of accounting

The consolidated financial statements present our results for the years ended 31 March 2010, 2009 and 2008 and our financial position as at 31 March 2010 and 2009. 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, remeasurements and stranded cost recoveries. Exceptional items, remeasurements and stranded cost recoveries are presented separately on the face of the income statement.

Customer contributions

Contributions received prior to 1 July 2009 towards capital expenditure are recorded as deferred income and amortised in line with the depreciation on the associated asset.

Financial instruments

We normally opt to apply hedge accounting in most circumstances where this is permitted. For net investment hedges, we have chosen to use the spot rate method, rather than the alternative forward rate method.

Timing of goodwill impairment reviews

Goodwill impairment reviews are carried out annually in the final quarter of the financial year.

Critical accounting policies

The application of accounting principles requires us to make estimates, judgements 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 the consolidated financial statements on pages 112 to 117.

Revenue

Revenue includes an assessment of energy and accruals for transportation services, supplied to customers between the date of the last meter reading and the year end. Changes to the estimate of the energy or transportation services supplied during this period would have an impact on our reported results.

Unbilled revenues at 31 March 2010 are estimated at £415 million in the US and £308 million in the UK compared with £522 million and £315 million respectively at 31 March 2009.

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 judgements exercised in determining their estimated economic lives.

Hedge accounting

We use derivative financial instruments to hedge certain economic exposures arising from movements in exchange and interest rates or other factors that could affect either the value of our assets or liabilities or our future cash flows. Movements in the fair values of derivative financial instruments may be accounted for using hedge accounting where we meet the relevant eligibility, documentation and effectiveness testing requirements. If a hedge does not meet the strict criteria for hedge accounting, or where there is ineffectiveness or partial ineffectiveness, then the movements will be recorded in the income statement immediately instead of being recognised in other comprehensive income or by being offset by adjustments to the carrying value of debt.

Exceptional items, remeasurements and stranded cost recoveries

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

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

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

Stranded cost recoveries relate to the recovery, through charges to electricity customers in upstate New York and in New England, of costs mainly incurred prior to divestiture of generation assets.

Tax estimates

Our 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 either when a change in circumstance is identified that indicates an asset might be impaired or, in the case of goodwill, annually. 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 assets and liabilities, principally financial investments, derivative financial instruments and certain commodity contracts, 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 is that of derivative financial instruments where market prices exist. Other derivative financial instruments and those commodity contracts carried at fair value are valued using financial models, which include judgements on, in particular, future movements in exchange and interest rates as well as equity and commodity prices.

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, decommissioning of nuclear facilities we no longer own but to which we still have a responsibility to contribute, 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 significant. The amounts and timing of cash flows relating to these liabilities are based on management estimates supported by external consultants.

Pensions and other post-retirement obligations

Pensions and other post-retirement benefit 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.

Energy commitments

Our energy commitments relate to contractual commitments to purchase electricity or gas to satisfy physical delivery requirements to our customers or for energy that we use ourselves. In management's judgement these commitments meet the normal purchase, sale or usage exemption in IAS 39 and are not recognised in the financial statements.

If these commitments were judged not to meet the exemption under IAS 39 they would have to be carried in the balance sheet at fair value as derivative instruments, with movements in their fair value shown in the income statement under remeasurements.

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 2010 would result in an increase or decrease in our recorded net assets and profit for the year by approximately £47 million net of tax.

Asset useful lives

An increase in the economic useful lives of assets of one year on average would reduce our annual depreciation charge on property, plant and equipment by £39 million (pre-tax) and our annual amortisation charge on intangible assets by £7 million (pre-tax).

Hedge accounting

If using our derivative financial instruments, hedge accounting had not been achieved during the year ended 31 March 2010 then the profit after tax for the year would have been £341 million higher than that reported net of tax, and net assets would have been £299 million lower.

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 and commodity contract liabilities of £87 million and £22 million respectively.

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 £171 million.

Pensions and other post-retirement obligations

Our 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 £317 million, £166 million and £670 million and a change in the annual pension cost of £4 million, £8 million and £5 million respectively.

Accounting developments

Accounting standards, amendments to standards and interpretations adopted in 2009/10

In preparing our consolidated financial statements we have complied with International Financial Reporting Standards, International Accounting Standards and interpretations applicable for 2009/10. The standards, amendments to standards and interpretations adopted during 2009/10 are discussed in the consolidated financial statements on page 118. None of these resulted in a material change to our consolidated results, assets or liabilities in 2009/10 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 consolidated financial statements on page 119.

Corporate Governance

Chairman's foreword

In 2009, the Financial Reporting Council (FRC) issued a number of consultations looking at areas for improvement to governance practices in the UK's largest companies. National Grid has participated fully in these consultations and used them as an opportunity to consider further the governance and effectiveness of its Board and Committees. Good corporate governance is at the heart of the Company's drive to deliver shareholder value. We aim to be at the forefront of best practice in order to promote the success of the business using the Combined Code on Corporate Governance, soon to be updated and renamed the UK Corporate Governance Code, as a guide to the components of good practice.

As a Board, my fellow Directors and I are committed to the highest standards of corporate governance. As you would expect, we do not always do this as stand-alone items on our agendas, but instead we consider good governance to be part of our ongoing decision-making process. By embedding strong governance into our routine processes, we are doing our utmost to secure the future wellbeing of the Company.

Our review of the December 2009 FRC Consultation on the revised UK Corporate Governance Code, which primarily captures the lessons learned from the governance failures of the UK's banking and financial institutions that can be applied to the benefit of all companies, showed that National Grid is in a strong position to comply with the provisions of that Code. However, as would currently be the case with the Combined Code, if we do not think compliance with a particular provision is in the best interests of the Company or our shareholders we will of course explain our good reasons for this.

For many years now, in recognition of the Company's risk profile we have had, in addition to the required Audit Committee, both a separate Risk & Responsibility and a Finance Committee, see pages 89 and 90. These Committees probe into a considerable range of operational and financing issues that impact safety, health, environment, sustainability, policies and control mechanisms. These debates lead to direct reporting of findings and recommendations to the Board following each meeting.

Again this year we have carried out an in depth review of the Board's effectiveness and have produced, as we have done for several years, an action plan to ensure constant improvement. This year an external specialist in global corporate governance reviewed the process and I am proud to report that he concluded that we are in line with top quartile best practice globally, see page 86.

The Nominations Committee continues to consider if the Board has the right breadth of skills, experience and domain knowledge to secure the necessary level of challenge on key business decisions and risks that confront the Company, together with appropriate insight to enhance executive performance. It also considers Non-executive Director attendance at meetings and time spent on Company business and the influence and ability of each Non-executive Director to challenge the Executive Directors. I believe the Board continues to be focused on sound governance practices and that we have the right composition and skillset in our Directors to ensure the Board performs effectively, to enable us to respond to the challenges we face. To further enhance our processes, we will introduce annual re-election of the Chairman and all Directors from the 2010 Annual General Meeting (AGM) onwards.

Sir John Parker
Chairman

Governance framework

The Company is committed to operating our businesses in a sustainable and responsible manner. Our corporate governance framework forms an integral part of this approach in order to safeguard shareholder value. Our Company wide policies and procedures including risk management, which are referred to later in this report, are considered as part of the overall governance of the business. However, this report focuses on the Company's approach to corporate governance as provided in the Combined Code on Corporate Governance as revised in 2008 (the Code), currently applicable to UK listed companies until the UK Corporate Governance Code becomes effective. The Company also has regard to, and regularly reviews, developing corporate governance best practice including matters contained in various investor guidelines.

The Board considers that it complied in full with the provisions of the Code during the year. While Bob Catell is not considered to have been independent during his period as a Non-executive Director from 1 April to 27 July 2009, throughout the year at least half the Board, excluding the Chairman, comprised Non-executive Directors determined by the Board to be independent.

This report explains key features of the Company's governance structure and how it applies the principles of the Code. Areas required to be covered under the Disclosure and Transparency Rules can be found in this report and in the Directors' Report on pages 96 and 97.

During the year, the Board has reviewed its role and matters reserved for its consideration as part of a review of the Delegations of Authority. As a result of this review, the Delegations of Authority were amended in September 2009 primarily with respect to US rate plans, operating expenditure and one of our operational subsidiaries. The Board's role includes: approval of the overall business strategy for National Grid; approval of the business plan and budget; approval of the financial policy; approval of acquisitions or divestments; approval of shareholder documents and results announcements; consideration of dividend policy and payments; and oversight of governance including Policy and Procedure statements, Codes of Conduct, Delegations of Authority, the Framework for Responsible Business and Standards of Ethical Business Conduct for all employees. The framework and standards described above, together with other documentation relating to the Company's governance, are available on our website at www.nationalgrid.com.

The Board during the year was composed as set out in the following table. The Board currently consists of a Non-executive Chairman, 5 Executive Directors and 7 Non-executive Directors determined by the Board to be independent. Balance is considered a key requirement for the composition of the Board, not only in terms of the Executives and Non-executives but also with regard to the mix of skills, experience and knowledge. Biographical details for all the Directors can be found on pages 12 and 13 together with details of Board Committee memberships. Attendance at Board meetings was as indicated from a total of 10 meetings:

Name	Attendance*
Chairman	
Sir John Parker	10 of 10
Chief Executive	
Steve Holliday	10 of 10
Executive Directors	
Mark Fairbairn	10 of 10
Tom King	10 of 10
Steve Lucas	9 of 10
Nick Winser	10 of 10
Non-executive Directors	
Ken Harvey (Senior Independent Director)	10 of 10
Linda Adamany	10 of 10
Philip Aiken	10 of 10
John Allan	9 of 10
Stephen Pettit	10 of 10
Maria Richter	10 of 10
George Rose	7 of 10
Bob Catell (Deputy Chairman to 27 July 2009)	3 of 3

* Attendance is expressed as number of meetings attended out of number possible or applicable for the individual Director

Board members are required to attend Board and Committee meetings regularly in order to ensure they are kept up to date with the business and accordingly can contribute to meetings. Directors are informed of proposed meeting dates well in advance. Acknowledging that Non-executive Directors in particular will have other commitments, if they are unable to attend meetings, the Chairman is informed and the reasons for their non attendance recorded. Should any Directors be unable to attend a meeting, they are encouraged to communicate their opinions and comments on the matters to be considered via the Chairman of the Board or the relevant Committee chairman. Instances of non attendance during the year were considered and determined as being reasonable in each case due to the individual circumstances. Attendance at meetings is considered as part of the one-to-one Director performance evaluations conducted by the Chairman.

Directors are sent papers for meetings of the Board and those Committees of which they are a member. Guidelines are in place concerning the content, timeliness and preferred presentation of papers to ensure Directors are briefed appropriately.

In addition to the performance evaluation described on page 86, shareholders have the opportunity to consider formally the appointment and performance of each Director by voting in relation to their re-election as a Director at the Annual General Meeting (AGM). In accordance with the Articles of Association, Directors would normally submit themselves for re-election by shareholders at the first AGM following their initial appointment to the Board and then at subsequent AGMs at least once every three years. In accordance with investor guidelines, all Directors will seek re-election in 2010 as set out in the Notice of 2010 AGM. The Board has also decided, consistent with emerging best practice, that all Directors will seek re-election annually thereafter.

As referenced in the Consultation on the revised UK Corporate Governance Code, we welcome and support the view that a perceived lack of independence, in particular due to length of tenure, should not be considered an impediment for re-election where the individual brings clear skills, experience and knowledge to the Board.

In order to ensure transparency regarding the terms of their appointment, the service contracts (Executive Directors) and letters of appointment (Non-executive Directors) of Board members are available to our shareholders and may also be inspected at the AGM prior to the meeting. Further details regarding the Directors' service contracts and letters of appointment can be found in the Directors' Remuneration Report on pages 98 to 108. The Board continues to note and monitor possible conflicts of interest that each Director may have. Potential conflicts are considered and, if appropriate, approved and noted, with the conflicted Director not voting on the matter. Directors are reminded of their continuing obligations in relation to conflicts at each Board meeting. During the year ended 31 March 2010, the Board has authorised a number of situations advised to it by the Directors, most of which are the holding of directorships or similar offices with companies or organisations not competing with the Company. The Board has not, in relation to any of those situations, identified any actual conflict of interest and has authorised such situations in accordance with its powers.

Non-executive Director independence

In order for the Non-executive Directors to contribute fully to the unitary Board, and in particular to challenge the Executive Directors over strategic matters where appropriate, it is important that the Non-executive Directors bring experience, probity and independence to the Board. Accordingly, the independence of the Non-executive Directors is considered at least annually. This assessment also considers the character, judgement and commitment of each Non-executive Director as well as their performance on the Board and relevant Committees. The Non-executive Directors, in their letters of appointment, have each committed individually to allocate sufficient time to Company business to meet the expectations of the role. The agreement of the Chairman should be sought before Non-executive Directors accept additional commitments that might affect the time they are able to devote to the Company. The Board in its deliberations specifically took into consideration the Code and examples of indicators of potential non independence including length of service. Following such evaluation, each of the Non-executive Directors at year end has been determined by the Board to be independent notwithstanding that Ken Harvey and George Rose have served on the Board for more than nine years when including their appointments as directors of Lattice Group plc. The Board believes they have retained independent character and judgement. The Board considers that the varied and relevant experience of all the independent Directors combines to provide an exceptional balance of skills and knowledge which is of great benefit to the Company.

Roles of the Chairman, Chief Executive and Senior Independent Director

In order to avoid the potential for apparent concentration of power in one individual, the Chairman and the Chief Executive have separate roles and responsibilities, which have been approved by the Board. The Chairman's main responsibility is the leadership and management of the Board and its governance. He chairs the Board meetings ensuring, for example, that the forward agendas are appropriate, that relevant business is brought to the Board for consideration in accordance with the schedule of matters reserved to the Board, the Delegations of Authority and the Board's strategic remit, and that each Director has the opportunity to consider the matters brought to the meeting and to contribute accordingly. His contractual commitment to National Grid is two days per week but in practice this is often exceeded. The Board is satisfied that the Chairman and other Non-executive Directors, if required, would be available as needed outside their

Corporate Governance continued

contracted hours. The number and perceived responsibility of other directorships are considered annually to satisfy the Board that Directors do not have excessive commitments that could potentially restrict their commitment as a Director of the Company.

The Chief Executive, as leader of the Company's executive team, retains responsibility for the leadership and day-to-day management of the Company and the execution of its strategy as approved by the Board. In addition to the other Executive Directors, key corporate executives report directly to the Chief Executive.

The Senior Independent Director is Ken Harvey. He was appointed to this role in 2004. His responsibilities include leading the Non-executive Directors' annual consideration of the Chairman's performance and holding discussions with Non-executive Directors without Executive Directors or other members of management present. He is also available to shareholders in the event they feel it inappropriate to communicate via the Chairman, the Chief Executive or the Finance Director. No such requests were received from shareholders during the year.

Director development

The Chairman, with the support of the Company Secretary & General Counsel, is responsible for the induction of new directors and involved with ongoing development of all Directors. This includes a discussion on any personal development needs at the one-to-one meetings held with the Chairman as part of the Board and Board Committee performance evaluation. Upon appointment to the Board, new Non-executive Directors receive a tailored induction programme including the provision of recent Board materials and presentations, visits to the Company's businesses, one-to-one meetings with Executive Directors and other senior management, and a directors' information pack to provide background reference information on the Company's businesses and operations including issues relating to corporate responsibility. Board meetings are regularly held at the Company's sites and additional site visits are organised in order for the Directors to develop their understanding of the business.

Particular ongoing development attention is given to current issues including, for example, the economic and regulatory environment, the Company's businesses and governance best practice, emerging developments and director effectiveness. This includes, for Non-executive Directors:

- informing them at each Board meeting of the latest training courses which may be of interest;
- attendance at key site visits;
- informing them of legal and corporate governance updates and best practice; and
- management presentations.

For Executive Directors, coaching and development programmes include:

- external coaching;
- attendance at external courses and business schools; and
- experience of other boardrooms through non-executive appointments.

Accordingly as part of their development and with the agreement of the Board: Steve Holliday, the Chief Executive, is a non-executive director of Marks and Spencer Group plc; Steve Lucas, Finance Director, is a non-executive director of Compass Group PLC; and Nick Winser, Executive Director, Transmission, is a non-executive director of Kier Group plc. As part of her development, the Company Secretary & General Counsel is a non-executive director of Stagecoach Group plc and, previously in the year but not simultaneously, Aga Rangemaster Group plc. The fees for these positions are retained by the Directors and the Company Secretary & General Counsel respectively and details for Directors are on page 102.

The Company Secretariat is available to provide assistance and information on governance, corporate administration and legal matters to Directors as appropriate. Directors may also seek, at the Company's expense, advice on such matters, or on other business related matters, directly from independent professional advisors should they so wish. This is in addition to the advice provided by independent advisors to the Board Committees. No requests for external professional advice were received during the year.

Performance evaluation

Continuous improvement and development of Board and Board Committee processes and procedures is key to ensuring that National Grid's governance structures remain in line with best practice. Since 2003/04, an internal process has been established for evaluating the performance of the Board, Board Committees and individual Directors. Each year the Nominations Committee reviews the appropriateness of the internal process and considers if an external party should be engaged to facilitate and/or perform the annual evaluation. Although the Committee agreed the internal review remains robust it determined that a review of international best practice may provide assurance that the Company's process remains at the forefront of best practice, and potentially provide insights into how the process could be further improved. Subsequent to this decision, the Consultation on the revised UK Corporate Governance Code proposed the use of an external facilitator to undertake the evaluation of board performance at least every three years.

Professor Andrew Kakabadse, Professor of International Management Development, Cranfield School of Management, presented a paper in January 2010 to the Board. The presentation entitled Chairman and Global Board Best Practice: An International Investigation summarised Professor Kakabadse's research over the past decade through interviews with non-executive directors, CEOs, chairs and executive directors from around the globe, including the UK, US, Australia, Germany, Russia, China and South Africa. The discussion provoked debate and ideas on how the internal process could be updated in future years. Professor Kakabadse also reviewed the Company's current evaluation process and concluded that it was in line with top quartile best practice globally.

The 2009/10 process was led by the Chairman, assisted by the Company Secretary & General Counsel, and consisted of a confidential survey which invited anonymous comments. It was completed by all Directors in relation to the Board and all Committees of which they are a member. The Board survey focused on a number of key areas including Board size, composition, training, governance, performance and operation. One-to-one meetings were then held between the Chairman and each Director (Executive and Non-executive) together with a separate Non-executive Director only informal meeting, this element having been introduced in 2008/09. In addition, regular attendees at Committee meetings were also asked to complete surveys in relation to the relevant Committees.

The Company Secretary & General Counsel collated the survey results, together with any key issues arising out of the one-to-one meetings with the Chairman and the separate Non-executive Directors' meeting, and incorporated these into an action plan for 2010/11. In accordance with established practice the results were considered first by the Nominations Committee and then by the Board and each Committee, which each reviewed the matters highlighted by the evaluation, the formal response and the action plan. During the year, the action plan is monitored actively. Actions arising in last year's survey were implemented throughout 2009/10 and included: greater emphasis on inclusion and diversity and strategic business trends analysis on business agendas; improved use of video conferencing; and earlier issue of Board and Board Committee papers.

The 2009/10 results showed improvement on the previous year's Board and Board Committee performance and no major changes were required to associated processes and procedures.

However, valuable actions to be addressed over the coming year include:

- enhancement of the Non-executive Directors' familiarity and interaction with each line of business;
- development of a more standard presentation format for in depth line of business reviews, in order to promote consistency and ease of comparison; and
- greater transparency of key performance indicator data provided to the Board.

The Chairman's performance was reviewed and his leadership and performance were considered to have been of a high standard.

The Board and its Committees

The Board reserves a number of matters for its sole consideration where these matters impact the strategic direction and effective oversight of the Company and its businesses. Examples include:

- corporate governance;
- strategy, financial policy and approval of the budget and business plan;
- Director/employee issues such as Director succession planning, with input and recommendations from the Nominations Committee; and
- stock exchange and listing requirements such as dividend approval/recommendation and approval of results announcements, interim management statements and the Annual Report and Accounts.

In addition to the matters reserved to the Board, a full description of which are available on our website at www.nationalgrid.com, certain items of strategic, operational or governance importance are considered at every scheduled Board meeting including:

- safety, health and the environment;
- the financial status of the Company;
- operational headlines from the Company's businesses together with a detailed update from one of the lines of business on a rotating basis;
- updates on business development and strategy implementation;
- updates on external matters affecting the Company;
- reports from the Board Committees; and
- updates on the governance of the Company and its businesses and any legal or new risk issues that the Board should be aware of.

In order to have the opportunity to discuss matters, for example relating to governance, independently of management, the Chairman and other Non-executive Directors meet formally at least once a year without Executive Directors or other members of management present. The Chairman and Non-executive Directors also meet formally at least once a year with the Chief Executive. Ad hoc meetings may also be held as required.

In order to operate effectively and to give appropriate attention and consideration to matters, the Board has delegated authority to its Committees to carry out certain tasks as defined in, and regulated by, the Committees' terms of reference, which are available on our website at www.nationalgrid.com. These Committees comprise the Audit, Executive, Finance, Nominations, Remuneration and Risk & Responsibility Committees. The Board is kept apprised by the Committee chairmen through the provision of a summary of the issues discussed and decisions taken by the Committee. Minutes of Committee meetings are circulated to other Directors once available.

The following sections explain the responsibilities of each Board Committee and the areas that they covered during the year.

Audit Committee

Key functions of the Audit Committee include reviewing: the Company's financial reporting and internal controls and their effectiveness; the procedures for the identification, assessment and reporting of risks; the appropriateness of the auditors in carrying out certain non-audit work; and the level of audit and non-audit fees payable to the auditors.

The Committee, whose members are all independent Non-executive Directors, considers that both management and the external auditors should attend meetings where possible in order to provide the members of the Committee with the information that they require and to answer questions. Accordingly, others invited to attend meetings include the Chairman, Chief Executive, Finance Director, director of corporate audit, financial controller, Company Secretary & General Counsel, chief accountant and external auditors. Additionally, the Executive Directors, global director of tax and treasury and global head of risk management are invited to attend Audit Committee meetings, as necessary, to provide updates and background information.

Meetings are held at least four times a year and membership and attendance at meetings was as follows during 2009/10 from a total of six meetings:

Name	Attendance*
George Rose (chairman)	6 of 6
Linda Adamany	6 of 6
Philip Aiken	5 of 6
Maria Richter	5 of 6

* Attendance is expressed as number of meetings attended out of number possible for the individual Director

Due to the technical nature of some of the financial and accounting issues that come before it, all the Committee's

Corporate Governance continued

members are required to have an understanding of financial matters and experience of dealing with such issues at a senior executive level. In addition, the Board has determined that George Rose, finance director of BAE Systems plc, has recent and relevant financial experience in accordance with the Code and deems him to be a suitably qualified financial expert as required by the Audit Committee's terms of reference and US requirements.

In accordance with its terms of reference and business and accounting developments, the principal matters considered by the Committee during the year ended 31 March 2010 included:

- a review of the level and constitution of external audit and non-audit fees and the independence and objectivity of the external auditors, including an evaluation of the external audit process globally, incorporating a review of the expertise of the audit firm;
- monitoring and reviewing the effectiveness of internal (corporate) audit activities, including discussions with the director of corporate audit without management present;
- reviewing the effectiveness of the Company's financial reporting, internal controls and compliance with applicable legal requirements and monitoring risk and compliance management procedures across the Company and reviewing specific risks (details of such risks can be found on pages 93 to 95);
- receiving reports from the business separation compliance officer, as required under National Grid Gas plc's gas transporter licences;
- reviewing the Company's results statements, interim management statements and Annual Report and Accounts before publication and making appropriate recommendations to the Board following review;
- reviewing accounting policies in light of international accounting developments;
- receiving reports where appropriate in accordance with its terms of reference on business conduct issues, including any instances of alleged fraud and actions taken as a result of investigations and a review of the whistleblowing policy; and
- receiving reports from the Company's cross functional steering group that has been established to ensure appropriate awareness of and actions in relation to risks arising from the current economic climate.

The Company has established procedures whereby any employee may, via a confidential helpline, raise concerns relating to personal issues, potential fraud, health and safety, harassment, discrimination, security or any other matter. The Company is confident that these whistleblowing arrangements are satisfactory and will enable a proportionate and independent investigation of such matters and appropriate follow up action to be taken.

The Committee has established procedures to ensure that submissions by Company employees arising from the Company's whistleblowing policy, including those relating to questionable accounting or auditing matters utilised by the Company, are treated confidentially and anonymously and are reported in summary to the Committee. It also ensures that matters relating to business conduct and other subjects within the Risk & Responsibility Committee's terms of reference are reported appropriately.

The Committee works closely with both the corporate and external auditors. In relation to the corporate auditors, it receives, reviews and approves the corporate audit plan and ensures that the corporate audit function has sufficient resources to carry out its work. The appointment and removal of the director of corporate audit is subject to the approval of the Committee.

In relation to the external auditors, the Committee is solely and directly responsible for and approves the appointment, reappointment, fees and oversight of the external auditors, subject to the requirement for shareholder approval each year at the AGM. The Committee receives the external audit plan so that the external auditors have the opportunity to raise any matters in confidence, and meetings are held with the Committee at least annually without management present.

In order to ensure the external auditors remain objective and independent, in accordance with best practice, all non-audit work carried out by the external auditors is subject to Audit Committee preapproval. The engagement of the external auditors for non-audit services is restricted by the Sarbanes-Oxley Act 2002 which prohibits them from providing certain services. Where a service is permissible, the Company's policy is that the external auditors will not be used for non statutory audit work unless it can be demonstrated as part of the approval process that the engagement is a natural extension of their audit work or there are other overriding reasons that make them the most suitably qualified to undertake it. The non-audit services in the year ended 31 March 2010 related primarily to tax and audit related work and work in connection with our rights issue. Details of the fees paid to the external auditors for non-audit work carried out during the year can be found in note 2 to the consolidated financial statements on page 129.

In addition to the annual review of the service provided by the external auditors, the Committee considers at least every three years if the audit might be provided more efficiently or effectively by an alternative audit firm. As a result, the Company may put the audit out to tender. Following the latest annual review, the Committee is satisfied with the effectiveness, objectivity and independence of the external auditors and they will be recommended to shareholders for reappointment at the AGM. There are no contractual obligations restricting the Company's choice of external auditors and no auditor liability agreement has been entered into by the Company. The external auditors are required to rotate the audit partner responsible for the Company every five years and the current lead audit partner is stepping down on this basis, with a new partner assuming his responsibilities with effect from the 2010/11 financial year.

Executive Committee

The Committee oversees the financial, operational and safety performance of the Company, taking whatever management action it considers necessary to safeguard the interests of the Company and to further the strategy, business objectives and targets established by the Board. From 27 July 2009, the Committee's membership was expanded to include function heads who had previously attended the meetings regularly.
The Committee now comprises the Chief Executive, as chairman, the other Executive Directors, the Company Secretary & General Counsel, the global human resources director (Mike Westcott), the global director of strategy and business development (Alison Wood), the corporate affairs director (George Mayhew) and the chief information officer (David Lister). Senior management personnel are invited to attend meetings of the Executive Committee as necessary to keep it fully apprised of the Company's businesses.

Executive Committee membership and attendance at meetings was as follows during 2009/10 from a total of 12 meetings:

Name	Attendance*
Steve Holliday (chairman)	12 of 12
Mark Fairbairn	12 of 12
Tom King	11 of 12
Steve Lucas	12 of 12
Nick Winser	11 of 12
David Lister	8 of 9
Helen Mahy	12 of 12
George Mayhew	9 of 9
Mike Westcott	7 of 9
Alison Wood	8 of 9

* Attendance is expressed as number of meetings attended out of number possible or applicable for the individual

Examples of matters that the Committee considered during the year included:

- the financial, operational, safety and environmental performance of the Company and its businesses;
- strategic business development and implementation;
- approving capital and operational expenditure under the specific authorities delegated to it by the Board;
- global regulatory matters;
- business conduct, risk and compliance reports;
- adequacy and effectiveness of internal control and risk management;
- global inclusion and diversity matters;
- global outsourcing;
- global human resource matters; and
- global information systems strategic issues.

At each meeting there are in depth review sessions on key business areas for the Company.

Finance Committee

The Finance Committee comprises the Chief Executive, the Finance Director and three Non-executive Directors, one of whom is chairman of the Committee. The Committee's responsibilities include setting policy and granting authority for short-, medium- and long-term financing decisions, bank accounts, credit exposure, control mechanisms for hedging and foreign exchange transactions, guarantees and indemnities and approving, or if appropriate recommending for consideration by the Board, other treasury and tax management policies of the Company. It also considers and approves the risk management procedures in relation to trading and hedging activities undertaken. The global director of tax and treasury is invited to attend Committee meetings on a regular basis. External advisors are invited to attend the meetings as and when considered appropriate, together with the global head of retirement plans and other executives from the Company.

Membership and attendance at meetings was as follows during 2009/10 from a total of four meetings:

Name	Attendance*
Maria Richter (chairman)	4 of 4
John Allan	3 of 4
Steve Holliday	3 of 4
Steve Lucas	3 of 4
Stephen Pettit	4 of 4

* Attendance is expressed as number of meetings attended out of number possible for the individual Director

Examples of matters that the Committee considered during the year included:

- long-term funding requirements;
- setting and reviewing treasury management guidelines and policy in light of market conditions;
- taxation issues for the Company;
- treasury performance updates; and
- pensions updates.

"The ability to raise finance is a key factor to the success of the Company, especially with the volume of planned capital investment in both the UK and US and the recent global economic downturn. While market conditions are likely to remain testing for some time, the knowledge and experience of the treasury, taxation and pensions personnel at National Grid, many of whom present to the Committee, provide the members with the confidence that National Grid is well positioned to meet the financial challenges ahead."
Maria Richter, Committee chairman

Nominations Committee

The Nominations Committee, consisting of the Chairman and Non-executive Directors, is responsible for considering the structure, size and composition of the Board and for identifying and proposing individuals to be Directors and senior management. A key consideration is succession planning for the Board and senior management and the Committee considered this in detail during the year. Succession planning ensures the Company is managed by executives with the necessary skills, experience and knowledge and the Board itself has the right balance of individuals to be able to discharge its duties effectively. Generally, external recruitment consultants are used as part of any appointments process. Changes to the Board require Board approval following recommendation from the Committee.

The Nominations Committee membership and attendance at meetings was as follows during 2009/10 from a total of six meetings:

Name	Attendance*
Sir John Parker (chairman)	6 of 6
Ken Harvey	6 of 6
Maria Richter	6 of 6
George Rose	5 of 6

* Attendance is expressed as number of meetings attended out of number possible for the individual Director

Corporate Governance continued

The Chief Executive is invited to attend Nominations Committee meetings on a regular basis. Advice is sought from the global human resources director and external advice is sought as appropriate.

Matters that the Committee considered during the year included:

- the size of the Board, its structure and composition;
- changes to the composition of Board Committees;
- the annual Board and Committee evaluation process;
- succession planning for Board members; and
- development and succession plans for senior management, as developed by the Chief Executive and global human resources director.

Remuneration Committee

The Remuneration Committee, consisting of Non-executive Directors, is responsible for developing policy relating to executive remuneration, and for determining the remuneration of the Executive Directors and executives below Board level who report directly to the Chief Executive. It also has oversight of the remuneration policies for other employees of the Company and provides direction over the Company's employee share plans.

Further details of the policy on remuneration and details of individual remuneration are available in the Directors' Remuneration Report on pages 98 to 108.

The Remuneration Committee membership and attendance at meetings was as follows during 2009/10 from a total of seven meetings:

Name	Attendance*
John Allan (chairman)	7 of 7
Ken Harvey	7 of 7
Stephen Pettit	7 of 7
George Rose	6 of 7

* Attendance is expressed as number of meetings attended out of number possible for the individual Director

The global human resources director and global head of compensation & benefits provide advice on remuneration policies and practices and are usually invited to attend meetings, along with the Chairman and the Chief Executive. Independent external advisors are also utilised by the Committee where appropriate.

Risk & Responsibility Committee

The Risk & Responsibility Committee, consisting of Non-executive Directors, is responsible for reviewing the strategies, policies, targets and performance of the Company within its Framework for Responsible Business, a copy of which is available on our website at www.nationalgrid.com. The Committee reviews the Company's non-financial risks for which it has oversight and in this regard the Committee interfaces with and works closely with the Audit Committee.

Accordingly it reviews matters such as: safety, including public and process safety; the environment and climate change; employee wellbeing and occupational health; inclusion and diversity; security, including that related to information systems; human rights issues; and business ethics and conduct.

The Risk & Responsibility Committee membership and attendance at meetings was as follows during 2009/10 from a total of four meetings:

Name	Attendance*
Stephen Pettit (chairman)	4 of 4
Linda Adamany	4 of 4
Philip Aiken	4 of 4
Ken Harvey	4 of 4
Bob Catell (retired 27 July 2009)	1 of 1

* Attendance is expressed as number of meetings attended out of number possible or applicable for the individual Director

The Chief Executive, Company Secretary & General Counsel, director of UK safety, health and environment, US senior VP safety, health, environmental services and security and director of corporate audit are invited to attend Risk & Responsibility Committee meetings. Executive Directors, the corporate affairs director and others, including business representatives, are invited to attend as necessary.

During the year, the Committee:

- reviewed serious incident and near miss reports;
- considered the current and projected environmental impact of the Company, including climate change;
- reviewed safety, health and environment audit plans and the outcome of such audits;
- reviewed progress in embedding a process safety culture;
- considered specific identified future risks and plans for minimising such risks;
- reviewed reports on business conduct issues; and
- considered reports and updates from external safety, health, environment and security advisors.

The members of the Risk & Responsibility Committee take part in site visits where they benefit from close engagement with employees from different parts of the organisation. During the year ended 31 March 2010, the Committee held 2 employee meetings, 1 in the UK and 1 in the US, at which a total of approximately 65 employees were invited to ask questions directly to the Non-executive Directors on matters relating to the terms of reference of the Committee. In addition, Committee members met various gas distribution repair, replacement and maintenance crews on site in London and the Chairman and some Non-executive Directors had a tour of the new US headquarters in Waltham which was awarded platinum level for Leadership in Energy and Environmental Design for shell and core construction.

"All Committee members enjoy and appreciate the opportunity to meet with employees at all levels of the organisation and to hear their views and opinions on matters such as safety, environment, health and other important risks. This enhances significantly our understanding of the matters when they are brought to our meetings in a more formal way. Most of the Non-executive Directors together with the Chairman of the Board also took part in an inclusion and diversity workshop. We explored what the Company means by inclusion and diversity and why both are so important to the Company's success. We also considered what we as Non-executive Directors can do to support the Company on its inclusion and diversity journey. We continually look to apply the knowledge gained at the workshop in our Company meetings and site visits."

Stephen Pettit, Committee chairman

Disclosure Committee

National Grid has established disclosure committees that are tasked with various duties relating to the material disclosures made to the market by the Company and relevant subsidiaries. The Disclosure Committee of the Company is chaired by the Finance Director and its members are the Company Secretary & General Counsel, global director of tax and treasury, financial controller, director of investor relations, director of corporate audit and corporate counsel and head of company secretariat and such other members and/or attendees as the Committee from time to time considers appropriate.

The Committee's role is to assist the Chief Executive and the Finance Director in fulfilling their responsibility for oversight of the accuracy and timeliness of the disclosures made by the Company whether in connection with its financial reporting obligations or other material stock exchange announcements and presentations to analysts. Accordingly, during the year the Committee reviewed the process and controls over external disclosures and key documents before release including the Annual Report and Accounts, the preliminary and half year results statements and the interim management statements.

Shareholders

In accordance with the schedule of matters reserved to the Board and the Code, the Board has responsibility for ensuring effective communication takes place with all shareholders and it considers carefully all major announcements to the market. Relations with shareholders are managed mainly by the Chief Executive, Finance Director and director of investor relations. Meetings are held regularly throughout the year with institutional investors, fund managers and analysts to discuss the public disclosures and announcements made by the Company.

The Chairman also writes to major shareholders following the announcement of the Company's preliminary and half year results to offer them the opportunity to meet with him, the Senior Independent Director or any of the Non-executive Directors. This enables major shareholders to take up with these individuals any issue they feel unable to raise with the Chief Executive or Finance Director. Major shareholders are also invited to meet newly appointed Directors.

In order that all Board members are aware of and understand the views of shareholders about the Company, the Board receives feedback on shareholders' views from the Company's brokers, supported by the director of investor relations. Analysts' notes on the Company are also circulated regularly to Directors.

The Company considers it has a strong level of engagement with its major shareholders and expects to build on this with the future publication of the Stewardship Code for Institutional Investors.

Issues relevant to our smaller shareholders are also considered by the Board. During the year ended 31 March 2010, the Company offered initiatives such as a dividend reunification programme which traces shareholders who have not cashed dividends, a low cost share dealing service for sales and purchases, and the shareholder networking programme. Twice a year, this programme offers retail shareholders the opportunity to understand further the Company's operations through site visits and meetings with Directors and senior managers. Following shareholder approval at the 2009 AGM, the Company offered a Scrip Dividend Scheme under which shareholders could acquire additional shares in the Company without being subject to dealing costs or stamp duty reserve tax. Further details of these initiatives are available in the Shareholder Information section on page 190.

Corporate governance practices: differences from New York Stock Exchange (NYSE) listing standards

As the Company has a US listing, it is required to disclose differences in corporate governance practices adopted by the Company as a UK listed company, compared with those of a US company. The corporate governance practices of the Company are primarily based on UK requirements but substantially conform to those required of US companies listed on the NYSE. The principal differences between the Company's governance practices pursuant to the Code and UK best practice and the Section 303A Corporate Governance Rules of the NYSE are:

- different tests of independence for Board members are applied under the Code and Section 303A;
- there is no requirement for a separate corporate governance committee in the UK; all Directors on the Board discuss and decide upon governance issues and the Nominations Committee makes recommendations to the Board with regard to certain of the responsibilities of a corporate governance committee;
- while the Company reports compliance with the Code in each Annual Report and Accounts, there is no requirement to adopt and disclose separate corporate governance guidelines; and
- while the Audit Committee, having a membership of four independent Non-executive Directors, exceeds the minimum membership requirements under Section 303A of three independent Non-executive Directors, it should be noted that the quorum for a meeting of the Audit Committee, of two independent Non-executive Directors, is less than the minimum membership requirements under Section 303A.

Risk management and internal control

The Board is committed to the protection of our assets, which include human, property and financial resources, and our reputation, largely through a sound system of internal control, in order to safeguard the interests of our shareholders. Effective operational and financial controls, including the maintenance of qualitative financial records, are an important element of internal control.

In order to understand the risks and potential control issues facing the Company, the following sections as well as pages 26 and 27 in the Operating and Financial Review should be considered. The system of internal control, and in particular our risk management policies, has been designed to manage rather than eliminate material risks to the achievement of our strategic and business objectives while also recognising that any such process can provide only reasonable, and not absolute, assurance against material misstatement or loss. This process complies with the Turnbull working party guidance, revised October 2005, in this matter and, in addition, contributes toward our compliance with our obligations under the Sarbanes-Oxley Act as well as other internal assurance activities.

In accordance with the Code and the schedule of matters reserved to the Board, the Board retains overall responsibility for the Company's system of internal control and monitoring its

Corporate Governance continued

effectiveness. There is an established system of internal control throughout the Company and its businesses. This system depends on thorough and systematic processes for the identification and assessment of business critical risks and their management and monitoring over time. In depth reports are provided from both line managers and certain internal assurance providers such as corporate audit and risk and compliance. These reports are provided to Board Committees in relation to their specific areas of responsibility. The Board's Committee then provides reports to the Board in this regard.

The Board reviews the internal control process and its effectiveness on an annual basis to ensure it remains robust and to identify any control weaknesses. The latest review covered the financial year to 31 March 2010 and included the period to the approval of this Annual Report and Accounts.

This review includes:

- the receipt of a Letter of Assurance from the Chief Executive, which consolidates key matters of interest raised through the year-end assurance process;
- assurance from its Committees as appropriate, with particular reference to the reports received from the Audit Committee and Risk & Responsibility Committee on the reviews undertaken by them at their respective meetings; and
- assurances in relation to the certifications required to be given under the Sarbanes-Oxley Act, required as a result of the Company's NYSE listing.

Internal control – information assurance

The Board considers that it is imperative to have accurate and reliable information within the Company to enable informed decisions to be taken that further the Company's objectives. This is supported by a risk based approach that deals with information assurance as a business critical function. Key elements in managing information assurance risks are education, training and awareness. These initiatives emphasise the importance of information security, the quality of data collection and the affirmation process that supports our business transactions, evidencing our decisions and actions. The Company continues to work collaboratively with a variety of organisations and professional bodies to develop and implement best practice.

Internal control over financial reporting – Sarbanes-Oxley

National Grid has carried out an assessment of its internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act and the Disclosure and Transparency Rules. The management of the Company, which is responsible under the Sarbanes-Oxley Act for establishing and maintaining an adequate system of internal control over financial reporting, evaluated the effectiveness of that system using the Committee of Sponsoring Organizations of the Treadway Commission framework. Based on that evaluation, the management of the Company expects to conclude in its Annual Report on Form 20-F filing with the US Securities and Exchange Commission that the system of internal control over financial reporting was effective as at 31 March 2010.

Risk management

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

The Company has embedded risk management into its business decision-making process. Within the business, the risk management process continues to be based on both bottom-up and top-down assessments of operational, including safety, financial and other business or project risks. From the bottom up, business units and Corporate Centre functions prepare and maintain risk registers that capture their key risks and the actions being taken to manage them. Executive Directors and other senior management are closely involved at critical stages in the review process. Their review, challenge, and debate of the outputs of the bottom-up assessment against their top-down views produce an overall evaluation of the risks that are faced by National Grid. The Executive, Risk & Responsibility and Audit Committees review the risk profile and any changes, and the Audit Committee reviews the overall risk management process.

During the year, an in-house, enterprise-wide risk software system was successfully developed and implemented, thus enabling more consistent recording and reporting, and improved analyses of risk trend information across the Company. In addition, a comprehensive internal review of risk, control and assurance functions was undertaken resulting in the reorganisation of some of these activities, to further improve where possible the integration and efficiency of the Company's risk management framework.

Compliance management

Our enterprise-wide compliance management process is established and continues to raise visibility over key obligations. The process provides assurance to the Directors and senior management on the effectiveness of control frameworks to manage key internal and external obligations, and also highlights instances of significant non compliance with those obligations. External obligations are driven primarily by key legal and regulatory requirements whereas internal obligations focus more on compliance with National Grid's own corporate policies and procedures. A network of compliance coordinators and champions exists within the businesses and Corporate Centre functions to enable the top-down/bottom-up alignment of Executive Directors' obligations to be established and reported.

Furthermore, experts for each key obligation interface with relevant business contacts to ensure the quality of information reported upwards is validated. The compliance management process is consistent with, and complementary to, our risk management process and essentially provides, among other things, a more detailed breakdown of the risk of non compliance with laws, regulations or standards of service as well as corporate policies and procedures.

Twice a year, the Executive, Risk & Responsibility and Audit Committees receive a report setting out the key obligations across National Grid and any significant non compliance with those obligations, together with compliance opinions and action plans to improve controls where necessary. As with the risk management process, the Audit Committee also reviews the compliance management process at least once a year and reports on this to the Board. The compliance management process also contributes toward the entity level testing that is performed under the Sarbanes-Oxley Act, as well as some of our other internal assurance activities.

Risk factors

Our risk management process has identified the following risk factors that could have a material adverse effect on our business, financial condition, results of operations and reputation, as well as the value and liquidity of our securities. Not all of these factors are within our control. In addition, other factors besides those listed below may have an adverse effect on National Grid. Any investment decision regarding our securities and any forward-looking statements made by us should be considered in the light of these risk factors and the cautionary statement set out on the back cover.

Changes in law or regulation and decisions by governmental bodies or regulators could have a material adverse effect on our results of operations.

Many of our businesses are utilities or networks that are subject to regulation by governments and other authorities. Consequently, changes in law or regulation or regulatory policy and precedent in the countries or states in which we operate could materially adversely affect us. Decisions or rulings concerning, for example: (i) whether licences, approvals or agreements to operate or supply are granted or are renewed or whether there has been any breach of the terms of a licence, approval or regulatory requirement; (ii) timely recovery of incurred expenditure or obligations, the ability to pass through commodity costs, a decoupling of energy usage and revenue and other decisions relating to the impact of general economic conditions on us, our markets and customers, implications of climate change, remuneration for stranded assets, the level of permitted revenues and dividend distributions for our businesses and in relation to proposed business development activities; and (iii) structural changes in regulation (including as a result of Ofgem's RPI-X@20 review), could have a material adverse impact on our results of operations, cash flows, the financial condition of our businesses and the ability to develop those businesses in the future. For further information, see the Operating and Financial Review and, in particular, the external market, regulatory environment and energy policy, regulatory and other developments sections and the business description sections for each of our lines of business.

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

Aspects of our activities are potentially dangerous, such as the operation and maintenance of electricity generation facilities and electricity lines and the transmission and distribution of gas. Electricity and gas utilities also typically use and generate in their operations hazardous and potentially hazardous products and by-products. In addition, there may be other aspects of our operations that are not currently regarded or proved to have adverse effects but could become so, such as the effects of electric and magnetic fields. We are subject to laws and regulations relating to pollution, the protection of the environment, and the use and disposal of hazardous substances and waste materials. These expose us to costs and liabilities relating to our operations and our properties whether current, including those inherited from predecessor bodies, or formerly owned by us and sites used for the disposal of our waste. The cost of future environmental remediation obligations is often inherently difficult to estimate and uncertainties can include the extent of contamination, the appropriate corrective actions and our share of the liability. We are also subject to laws and regulations in the UK and the US governing health and safety matters protecting the public and our employees. We are increasingly subject to regulation in relation to climate change. We commit significant expenditure toward complying with these laws and regulations and to meeting our obligations under negotiated settlements. If additional requirements are imposed or our ability to recover these costs under relevant regulatory frameworks changes, this could have a material adverse impact on our businesses and our results of operations and financial position. Furthermore, any breach of our regulatory or contractual obligations, or even incidents that do not amount to a breach, could materially adversely affect our results of operations and our reputation.

For further information about environmental, climate change and health and safety matters relating to our businesses, see the Our Responsibility section of our website at www.nationalgrid.com.

Network failure or interruption, the inability to carry out critical non network operations and damage to infrastructure may have significant material adverse impacts on both our financial position and reputation.

We may suffer a major network failure or interruption or may not be able to carry out critical non network operations. Operational performance could be materially adversely affected by a failure to maintain the health of the system or network, inadequate forecasting of demand or inadequate record keeping or failure of information systems and supporting technology. This could cause us to fail to meet agreed standards of service or incentive and reliability targets or be in breach of a licence, approval, regulatory requirement or contractual obligation, and even incidents that do not amount to a breach could result in adverse regulatory and financial consequences, as well as harming our reputation. In addition to these risks, we may be affected by other potential events that are largely outside our control such as the impact of weather (including as a result of climate change), unlawful or unintentional acts of third parties or force majeure. Weather conditions, including prolonged periods of adverse weather, can affect financial performance and severe weather that causes outages or damages infrastructure will materially adversely affect operational and potentially business performance and our reputation. Terrorist attack, sabotage or other intentional acts may also damage our assets or otherwise significantly affect corporate activities and as a consequence have a material adverse impact on our results of operations and financial condition.

Our results of operations depend on a number of factors relating to business performance including performance against regulatory targets and the delivery of anticipated cost and efficiency savings.

Earnings maintenance and growth from our regulated gas and electricity businesses will be affected by our ability to meet or exceed efficiency and integration targets and service quality standards set by, or agreed with, our regulators. In addition, from time to time, we publish cost and efficiency savings targets for our businesses. To meet these targets and standards, we must continue to improve operational performance, service reliability and customer service and continue to invest in the development of our information technology. If we do not meet these targets and standards, we may not achieve the expected benefits, our business may be materially adversely affected and our performance, results of operations and our reputation may be materially harmed.

Corporate Governance continued

Our reputation may be harmed if consumers of energy suffer a disruption to their supply.

Our energy delivery businesses are responsible for transporting available electricity and gas. We consult with, and provide information to, regulators, governments and industry participants about future demand and the availability of supply. However, where there is insufficient supply, our role is to manage the relevant network safely and reliably which, in extreme circumstances, may require us to disconnect consumers, which may damage our reputation.

Fluctuations in exchange rates (in particular in the dollar to sterling exchange rate), interest rates and commodity price indices and settlement of hedging arrangements could have a significant impact on our results of operations, indebtedness and cash flow.

We have significant operations in the US and we are therefore subject to the exchange rate risks normally associated with non domestic operations, including the need to translate US assets and liabilities, and income and expenses, into sterling, our primary reporting currency. In addition, our results of operations and net debt position may be affected because a significant proportion of our borrowings, derivative financial instruments and commodity contracts are affected by changes in exchange rates, interest rates and commodity price indices, in particular the dollar to sterling exchange rate. Furthermore, our cash flow may be materially affected as a result of settling hedging arrangements entered into to manage our exchange rate, commodity and interest rate exposure, or by cash collateral movements relating to derivative market values, which also depend on euro and other exchange rates.

For further information see the financial performance section of the Operating and Financial Review.

We are subject to restrictions with respect to our borrowing and debt arrangements, and our funding costs and access to financing may be adversely affected by changes to credit ratings and by prolonged periods of market volatility or illiquidity.

We are subject to certain covenants and restrictions in relation to our listed debt securities and our bank lending facilities. In addition, restrictions imposed by regulators may also limit the manner in which we service the financial requirements of our current businesses or the financing of newly acquired or developing businesses.

Our business is financed through cash generated from ongoing operations and the capital markets, particularly the long-term debt capital markets. The maturity and repayment profile of debt we use to finance investments often does not correlate to cash flows from our assets. As a result we access commercial paper and money markets and longer-term bank and capital markets as sources of finance. Some of the debt we issue is rated by credit rating agencies and changes to these ratings may affect both our borrowing capacity and the cost of those borrowings. As evidenced during recent periods, financial markets can be subject to periods of volatility and shortages of liquidity and if we were unable to access the capital markets or other sources of finance at competitive rates for a prolonged period, our cost of financing may increase, the uncommitted and discretionary elements of our proposed capital investment programme may need to be reconsidered and the manner in which we implement our strategy may need to be reassessed. The occurrence of any such events could have a material adverse impact on our business, results of operations and prospects.

Our results of operations could be affected by deflation or inflation.

Our income under our price controls in the UK is linked to the retail price index. Therefore, if the UK economy suffers from a prolonged period of deflation, our revenues may decrease, which may not be offset by reductions in operating costs. Conversely, during a period of inflation our operating costs may increase without a corresponding increase in the retail price index and therefore without a corresponding increase in UK revenues. Our income under the rate plans in the US is not typically linked to inflation. In periods of inflation in the US, our operating costs may increase by more than our revenues. In both the UK and US such increased costs may materially adversely affect our results of operations. In addition, even where increased costs are recoverable under our price controls or rate plans, in both the UK and the US there may be a delay in our ability to recover our increased costs.

Business development activity, including acquisitions and disposals, may be based on incorrect assumptions or conclusions; there may be unforeseen significant liabilities or there may be other unanticipated or unintended effects.

Business development activities, including acquisitions and disposals entail a number of risks, including an inability to identify suitable acquisition opportunities or obtain funding for such acquisitions, that such transactions may be based on incorrect assumptions or conclusions, the inability to integrate acquired businesses effectively with our existing operations, failure to realise planned levels of synergy and efficiency savings from acquisitions, unanticipated operational, financial and tax impacts (including unanticipated costs) and other unanticipated effects. We may also be liable for the past acts, omissions or liabilities of companies or businesses we have acquired, which may be unforeseen or greater than anticipated at the time of the relevant acquisition. The occurrence of any of these events could have a material adverse impact on our results of operations or financial condition, and could also impact our ability to enter into other transactions.

Future funding requirements of our pension schemes and other post-retirement benefits could materially adversely affect our results of operations.

We participate in a number of pension schemes that together cover substantially all our employees. In both the UK and the US, the principal schemes are defined benefit schemes where the scheme assets are held independently of our own financial resources. In the US, we also have other post-retirement benefit schemes. Estimates of the amount and timing of future funding for these schemes are based on various actuarial assumptions and other factors including, among other things, the actual and projected market performance of the scheme assets, future long-term bond yields, average life expectancies and relevant legal requirements. The impact of these assumptions and other factors may require us to make additional contributions to these pension schemes which, to the extent they are not recoverable under our price controls or state rate plans, could materially adversely affect our results of operations and financial condition.

New or revised accounting standards, rules and interpretations could have an adverse effect on our reported financial results. Changes in law and accounting standards could increase our effective rate of tax.

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

Customers and counterparties to our transactions may fail to perform their obligations, which could harm our results of operations.

Our operations are exposed to the risk that customers and counterparties to our transactions that owe us money or commodities will not perform their obligations, which could materially adversely affect our financial position. This risk is most significant where our subsidiaries have concentrations of receivables from gas and electricity utilities and their affiliates, as well as industrial customers and other purchasers and may also arise where customers are unable to pay us as a result of increasing commodity prices or adverse economic conditions.

Our operating results may fluctuate on a seasonal and quarterly basis.

Our electricity and gas businesses are seasonal businesses and are subject to weather conditions. In particular, revenues from our gas distribution networks in the US are weighted towards the end of our financial year, when demand for gas increases due to colder weather conditions. As a result, we are subject to seasonal variations in working capital because we purchase gas supplies for storage in the first and second quarters of our financial year and must finance these purchases. Accordingly, our results of operations for this business fluctuate substantially on a seasonal basis. In addition, portions of our electricity businesses are seasonal and subject to weather and weather-related market conditions. Sales of electricity to customers are influenced by temperature changes. Significant changes in heating or cooling requirements, for example, could have a substantial effect. As a result, fluctuations in weather and competitive supply between years may have a significant effect on our results of operations for both gas and electricity businesses.

The loss of key personnel or the inability to attract, train or retain qualified personnel could affect our ability to implement our strategy and have a material adverse effect on our business, financial condition, results of operations and prospects.

Our ability to implement our long-term business strategy depends on the capabilities and performance of our personnel. Loss of key personnel or an inability to attract, train or retain appropriately qualified personnel (in particular for technical positions where availability of appropriately qualified personnel may be limited) could affect our ability to implement our long-term business strategy and may have a material adverse effect on our business, financial condition, results of operations and prospects.

National Grid plc is a holding company and therefore depends on the operational and financial performance of its subsidiaries.

National Grid plc is a holding company and, as such, has no revenue generating operations of its own. As a result, National Grid plc depends on (i) the earnings and cash flows of its operating subsidiaries, (ii) the ability of its subsidiaries to pay dividends (which may be restricted due to legal or regulatory constraints or otherwise), (iii) subsidiaries repaying funds due to it and (iv) the maintenance by its subsidiaries of certain minimum credit ratings (which also depend on the credit rating of National Grid plc). If National Grid plc's subsidiaries are unable to achieve any of the foregoing, National Grid plc may be unable to pay dividends and there may be a material adverse impact on its operations, costs associated with financing or its ability to access the capital markets or other forms of bank financing at competitive rates.

On behalf of the Board

Helen Mahy
Company Secretary & General Counsel
19 May 2010

National Grid plc, 1-3 Strand, London WC2N 5EH
Registered in England and Wales No. 4031152

Directors' Report

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 that are incorporated by reference into this report are set out below.

Directors

The biographies of the persons serving as Directors as at the date of this report are set out on pages 12 and 13. The names of all persons serving as Directors during the financial year are included on page 85. The Directors' interests in shares and in options to receive shares, and any changes that have occurred since 31 March 2010, are set out in the Directors' Remuneration Report on pages 98 to 108. Directors' and Officers' liability insurance cover is arranged and qualifying third party indemnities are in place for each Director.

Code of Ethics

In accordance with US legal requirements, the Board has adopted a Code of Ethics for senior financial professionals. This code is available on our website at www.nationalgrid.com (where any amendments or waivers will also be posted). There were no amendments to, or waivers of, our Code of Ethics during the year.

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 14 to 83, and the Corporate Governance section, on pages 84 to 95, which are incorporated by reference into this report.

Dividends

The Directors are recommending a final dividend of 24.84 pence per ordinary share ($1.7737 per American Depositary Share) to be paid on 18 August 2010 to shareholders on the Register at 4 June 2010. A scrip dividend will also be offered. Further details in respect of dividend payments can be found on page 38.

Political donations and expenditure

National Grid made no political donations in the UK or European Union during the year (including donations as defined for the purposes of the Political Parties, Elections and Referendums Act 2000). National Grid USA and certain of its subsidiaries made political donations in the US of $177,000 (£112,000) during the year to affiliated New York and New Hampshire state political action committees (PACs). National Grid USA's affiliated New York PACs were funded partly by contributions from National Grid USA and certain of its subsidiaries and partly by employee contributions. National Grid USA's affiliated New Hampshire PAC was funded wholly by contributions from National Grid USA and certain of its subsidiaries. National Grid USA's affiliated federal PACs were funded wholly by voluntary employee contributions.

Charitable donations

During 2009/10 approximately £11 million (2008/09: £10 million) was invested in support of community initiatives and relationships. The London Benchmarking Group model was used to assess this overall community investment. Direct donations to charitable organisations amounted to £1.1 million (2008/09: £1.4 million). In addition to our charitable donations, financial support was provided for our affordable warmth programme, education programme, university research and our Young Offenders Programme.

Financial instruments

Details on the use of financial instruments and financial risk management are included on pages 76 to 80 and on page 82 in the Operating and Financial Review.

Contractual arrangements

Details concerning our rate plans and price controls, which we consider to be our primary contractual arrangements, can be found in the Operating and Financial Review under Regulatory environment and Energy policy, regulatory and other developments on pages 18 to 21.

Post balance sheet events

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

Change of control provisions

No compensation would be paid for loss of office of Directors on a change of control of the Company.

As at 31 March 2010, the Company had undrawn borrowing facilities with a number of its banks of £1.9 billion and a further £1.7 billion of drawn bank loans which, on a change of control of the Company following a takeover bid, may alter or terminate. All of the Company's share plans contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time.

No other agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid are considered to be significant in terms of their potential impact on the business as a whole.

Future developments

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

Research and development

Expenditure on research and development during the year was £19 million (2008/09: £10 million). This included for example, development of new materials for use in the electricity transmission business and research into low carbon energy such as carbon capture and storage.

Share capital

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

Some of the Company's employee share plans, details of which are contained in the Directors' Remuneration Report, include restrictions on transfer of shares while the shares are subject to the plan.

Where, under an employee share plan operated by the Company, participants are the beneficial owners of the shares but not the registered owner, the voting rights may be exercised by the registered owner at the direction of the participant.

At the Company's 2009 Annual General Meeting (AGM) shareholder authority was given to purchase up to 10% of the Company's ordinary shares. The Directors intend to seek shareholder approval to renew this authority at this year's AGM. No shares were repurchased during the year. Of the shares repurchased in prior years and held in treasury, 12,044,072 have been transferred to employees under the employee share plans and as at the date of this report, 141,092,553 were held in treasury.

Following shareholder approval at the 2009 AGM, a Scrip Dividend Scheme was offered to ordinary shareholders enabling new shares to be acquired without dealing costs or stamp duty reserve tax being payable. The scrip dividend is also available to ADS holders.

Shareholders also approved the authority for the Directors to allot relevant securities up to approximately ⅓ of the issued share capital and a further ⅓ in connection with an offer by way of a rights issue. The Directors intend to seek shareholder approval to renew this authority at this year's AGM, details of which are contained in the Notice of AGM.

Employees

The Company employs over 28,000 people. Communication is a key theme both at a corporate and business level. Multiple communication channels are used throughout National Grid, including the use of various business specific intranets, which the Company continues to develop to ensure the timely cascade of information to employees.

Feedback has been provided by employees in confidence via an annual Company wide employee survey. Over 97% of employees took part in the latest survey, an increase from the previous year. Action plans will be developed by each of the businesses to address their key priorities for improvement.

National Grid's inclusion and diversity vision is to develop and operate its business in a way that results in a more inclusive and diverse culture. This supports the attraction and retention of the best people, improves effectiveness, delivers superior performance and enhances the success of the Company. Employees are provided with the opportunity to develop to their full potential regardless of race, gender, nationality, age, disability, sexual orientation, gender identity, religion and background. Further information on employees is available in our Corporate Responsibility Report which is available on our website www.nationalgrid.com. Employee share schemes are available to encourage alignment of employee and shareholder interests.

Policy and practice on payment of creditors

It is National Grid's policy to include in contracts, or other agreements, terms of payment with suppliers. Once agreed, National Grid aims to abide by these payment terms. The average creditor payment period at 31 March 2010 for National Grid's principal operations in the UK was 14 days (13 days at 31 March 2009).

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.

Articles of Association

The Articles of Association set out the internal regulation of the Company and cover such matters as the rights of shareholders, the appointment or removal of Directors and the conduct of the Board and general meetings. Copies are available upon request and are displayed on the National Grid website at www.nationalgrid.com. In accordance with the Articles of Association, Directors can be appointed or removed by the Board or shareholders in general meeting. Amendments to the Articles of Association have to be approved by at least 75% of those voting in person or by proxy at a general meeting of the Company. Subject to company law and the Articles of Association, the Directors may exercise all the powers of the Company, and may delegate authorities to Committees and day-to-day management and decision making to individual Executive Directors. Details of the main Board Committees can be found on pages 87 to 91.

Material interests in shares

As at the date of this report, National Grid had been notified of the following holdings in voting rights of 3% or more in the issued share capital of the Company:

	% of voting rights
Black Rock Inc	4.99
Legal and General Group plc	4.35
Crescent Holding GmbH	4.34
Capital Group Companies, Inc	3.75
FMR Corp	3.06

No further notifications have been received.

Annual General Meeting

National Grid's 2010 AGM will be held on Monday 26 July 2010 at The International Convention Centre in Birmingham. Details are set out in the Notice of AGM.

On behalf of the Board

Helen Mahy
Company Secretary & General Counsel
19 May 2010

National Grid plc, 1-3 Strand, London WC2N 5EH
Registered in England and Wales No. 4031152

Directors' Remuneration Report

I am pleased to present the Directors' Remuneration Report for 2009/10. Our policy of relating pay to the performance of the Company continues to be a strong principle underlying the Remuneration Committee's consideration of executive remuneration. We aim to ensure the Company continues to attract, motivate and retain high calibre individuals to deliver the highest possible performance for our shareholders.

In recognition of the external economic market conditions, the Executive Directors decided voluntarily to forego salary increases in 2009. National Grid's performance has been strong over the last year and therefore Annual Performance Plan awards to the Executive Directors and their teams reflect this strong performance. Half of the award earned by Executive Directors is automatically deferred into National Grid shares for three years. Details of the Annual Performance Plan and Deferred Share Plan can be found in the relevant section of this report.

During the year, the Remuneration Committee has reviewed the performance conditions and the performance required for the Performance Share Plan and believes they remain appropriate and stretching. One important change has been made to our remuneration policy this year, that of increasing our share ownership guidelines, details of which are contained later in this report.

We firmly believe our remuneration package continues to provide an appropriate and balanced opportunity for executives and their senior teams. Our incentive plans remain aligned with the Company's strategic objectives and our shareholders' interests, while continuing to motivate and engage the team leading the Company to achieve stretching targets.

We believe salary levels and the mix between fixed and variable compensation continue to be appropriate. However, we will continue to review the remuneration package on a regular basis to ensure it remains so.

John Allan

Chairman of the Remuneration Committee

Remuneration Committee

The Remuneration Committee members are John Allan, Ken Harvey, Stephen Pettit and George Rose. Each of these Non-executive Directors is regarded by the Board as independent and served throughout the year.

The Global Human Resources Director and Global Head of Compensation & Benefits provide advice on remuneration policies and practices and are usually invited to attend meetings, along with the Chairman and the Chief Executive.

No Director or other attendee is present during any discussion regarding his or her own remuneration.

The Remuneration Committee is responsible for developing Company policy regarding executive remuneration and for determining the remuneration of the Executive Directors and executives below Board level who report directly to the Chief Executive. It also has oversight of the remuneration policies for other employees of the Company and provides direction over the Company's employee share plans.

The Board has accepted all the recommendations made by the Remuneration Committee during the year.

The Remuneration Committee has authority to obtain the advice of external independent remuneration consultants. It is solely responsible for their appointment, retention and termination; and for approval of the basis of their fees and other terms.

In the year to 31 March 2010, the following advisors provided services to the Remuneration Committee:

- Towers Watson (formerly Towers Perrin), independent remuneration advisors (mid-November 2009 onwards). It also provides general remuneration and benefits advice to the Company. Prior to that, Deloitte LLP, independent remuneration advisors (April 2009 until mid-November 2009), who also provide taxation and financial advice to the Company;
- Alithos Limited, provision of Total Shareholder Return calculations for the Performance Share Plan and Executive Share Option Plan;
- Linklaters LLP, advice relating to Directors' service contracts as well as providing other legal advice to the Company; and
- KPMG LLP, advice relating to pension taxation legislation.

Remuneration policy

The Remuneration Committee determines remuneration policy and practices with the aim of attracting, motivating and retaining high calibre Executive Directors and other senior employees to deliver value for shareholders and high levels of customer service, safety and reliability in an efficient and responsible manner. The Remuneration Committee sets remuneration policies and practices in line with best practice in the markets in which the Company operates. Remuneration policies continue to be framed around the following key principles:

- total rewards should be set at levels that are competitive in the relevant market. For UK-based Executive Directors, the primary focus is placed on companies ranked (in terms of market capitalisation) 11-40 in the FTSE 100. This peer group is therefore weighted towards companies smaller than National Grid and positioning the package slightly below median against this group is considered to be appropriate for a large, international but predominately regulated business. For US-based Executive Directors, the primary focus is placed on US utility companies;
- a significant proportion of the Executive Directors' total reward should be performance based. Performance based incentives will be earned through the achievement of demanding targets for short-term business and individual performance as well as long-term shareholder value creation, consistent with our Framework for Responsible Business which can be found at: www.nationalgrid.com/corporate/About+Us/CorporateGovernance/Other;
- for higher levels of performance, rewards should be substantial but not excessive;
- incentive plans, performance measures and targets should be stretching and aligned as closely as possible with shareholders' long-term interests; and
- remuneration structures should motivate employees to enhance the Company's performance without encouraging them to take undue risks, whether financial or operational.

It is currently intended to continue this policy in subsequent years.

To ensure salary and employment benefits across the Company are taken into consideration when decisions regarding Executive Directors' remuneration are made, the Remuneration Committee is briefed on any key changes impacting employees; and depending on the scope of that change its approval is sought.

Executive Directors' remuneration

Remuneration packages for Executive Directors consist of the following elements:

- salary;
- Annual Performance Plan including the Deferred Share Plan;
- long-term incentive, the Performance Share Plan;
- all-employee share plans;
- pension contributions; and
- non-cash benefits.

Salary

Salaries are reviewed annually and targeted broadly at the median position against the relevant market. In determining the relevant market, the Remuneration Committee takes account of the regulated nature of the majority of the Company's operating activities along with the size, complexity and international scope of the business. For UK-based and US-based Executive Directors, UK and US markets are used respectively. In setting individual salary levels, the Remuneration Committee takes into account business performance, the individual's performance and experience in the role together with salary practices prevailing for other employees in the Company to ensure any increases are broadly in line with those for employees generally in the Company. In 2009, the Executive Directors decided voluntarily to forego salary increases.

Annual Performance Plan including the Deferred Share Plan (DSP)

The Annual Performance Plan is based on the achievement of a combination of demanding Company, individual and, where applicable, divisional targets. The plan is cascaded through the management population, which provides a line of sight for employees to connect day to day activities with National Grid's vision, strategy and key financial and service provision metrics. The principal measures of Company performance in 2009/10 were adjusted earnings per share (EPS), see page 40 for further details; consolidated cash flow and return on equity. The main divisional measures were operating profit and line of business returns targets, with some employees having slightly different targets dependent upon their role and area of the business.

Financial targets for Executive Directors represent 70% of the plan. Individual targets, representing 30% of the plan, are set in relation to key operating and strategic objectives. These include, for example, stretch goals in regulatory management, business development activities, customer satisfaction improvement programmes and carbon efficiency targets. The split between financial targets and individual objectives changes at different levels of seniority in the Company to reflect line of sight and the impact of those different levels of seniority on the Company's performance.

The Remuneration Committee sets financial targets at the start of the year, including Executive Directors' individual objectives. It reviews performance against those targets and individual objectives at year end. When setting financial targets and individual objectives; and when reviewing performance against them, the Remuneration Committee takes into account the long-term impact and any risks that could be associated with those targets and objectives. In addition, the chairmen of the Audit and Risk & Responsibility Committees are both members of the Remuneration Committee and therefore are able to provide input from those Committees' reviews of the Company's performance.

The Remuneration Committee may use its discretion to reduce payments to take account of significant safety or service standard incidents; or to increase them in the event of exceptional value creation. The Remuneration Committee also has discretion to consider environmental, social and governance issues when determining payments to Executive Directors. Those principles may then be cascaded down the organisation to appropriate employee groups based on the specific circumstances.

In addition, the Remuneration Committee retains the right, in exceptional circumstances, to reclaim any monies based on financial misstatement and/or the misconduct of an individual through means deemed appropriate to those specific circumstances.

Performance against Company and divisional financial targets for this year is shown in the following table:

Financial measures	Level of performance achieved in 2009/10 as determined by the Remuneration Committee: Company targets	Divisional targets
Adjusted EPS	stretch	
Consolidated cash flow	stretch	
Return on equity	stretch	
Operating profit		varied performance (i), (ii), (iii)
Line of business returns targets		varied performance (iv), (v), (vi)

(i) Transmission at stretch.
(ii) Gas Distribution between target and stretch.
(iii) Electricity Distribution & Generation between target and stretch.
(iv) Transmission at stretch (UK), at target (US).
(v) Gas Distribution between target and stretch (UK), at threshold (US)
(vi) Electricity Distribution & Generation between target and stretch (US only).

In 2009/10, the maximum opportunity under the Annual Performance Plan for Executive Directors was 150% of base salary, with 40% of the plan (60% of salary) being paid for target performance. One half of any award earned is automatically deferred into National Grid shares (ADSs for US-based Executive Directors) through the DSP. The shares are held in trust for three years before release. The Remuneration Committee may, at the time of release of the shares, use its discretion to pay a cash amount equivalent to the value of the dividends that would have accumulated on the deferred shares. The deferred shares may be forfeited if the Executive Director ceases employment during the three year holding period as a 'bad leaver', for example, resignation. We believe the forfeiture provision serves as a strong retention tool.

The Remuneration Committee believes that requiring Executive Directors to invest a substantial amount of their Annual Performance Plan award in National Grid shares increases the proportion of rewards linked to both short-term performance and longer-term Total Shareholder Returns (TSR). This practice also ensures that Executive Directors share a significant level of risk with the Company's shareholders. Awards for UK-based Executive Directors are not pensionable but, in line with current US market practice, US-based Executive Directors' awards are pensionable.

Directors' Remuneration Report continued

Long-term incentive – Performance Share Plan (PSP)

Executive Directors and approximately 400 other senior employees who have significant influence over the Company's ability to meet its strategic objectives, may receive an award which will vest subject to the achievement of performance conditions set by the Remuneration Committee at the date of grant. The value of shares (ADSs for US-based Executive Directors and relevant employees) constituting an award (as a percentage of salary) varies by grade and seniority subject to a maximum, for Executive Directors, of 200% of salary. Typically awards of 200% of salary have been awarded to Executive Directors. The provisions in the PSP rules allow awards up to a maximum value of 250% of salary, in order to provide a degree of flexibility for the future.

Shares vest after three years, conditional upon the satisfaction of the relevant performance criteria. Vested shares must then be held for a further period (the retention period) after which they are released to the participant on the fourth anniversary of the date of grant. During the retention period, the Remuneration Committee has discretion to pay an amount, in cash or shares, equivalent to the dividend which would have been paid on the vested shares.

Under the terms of the PSP, the Remuneration Committee may allow shares to vest early to departing participants, including Executive Directors, to the extent the performance conditions have been met, in which event the number of shares that vest will be pro rated to reflect the proportion of the performance period that has elapsed at the date of departure.

Awards from 2005 onwards vest based on the Company's TSR performance when compared to the FTSE 100 at the date of grant (50% of the award) and the annualised growth of the Company's EPS (50% of the award). The Remuneration Committee continues to believe this approach is appropriate.

These measures are used because the Remuneration Committee continues to believe they offer a balance between meeting the needs of shareholders (by measuring TSR performance against other large UK companies) and providing a measure of performance (EPS growth) over which the Executive Directors have direct influence. The Remuneration Committee considers the PSP performance conditions to be stretching.

In calculating TSR it is assumed that all dividends are reinvested. No shares will be released under the TSR part of the award if the Company's TSR over the three year performance period, when ranked against that of the FTSE 100 comparator group, falls below the median. For TSR at the median, 30% of those shares will be released, 100% will be released where National Grid's TSR performance on an annualised compound basis is 7.5% above that of the median company in the FTSE 100 (upper target).

The EPS measure is calculated by reference to National Grid's real EPS growth, see page 40 for further details. Where annualised growth in adjusted EPS (on a continuing basis and excluding exceptional items, remeasurements and stranded costs) over the three year performance period exceeds the average annual increase in RPI (the general index of retail prices for all items) over the same period by 3% (threshold performance), 30% of the shares under the EPS part of the award will be released. All the shares will be released where EPS growth exceeds RPI growth by 8% (upper target).

For performance, under each measure, between threshold and the upper target, the number of shares released is pro rated on a straight-line basis.

If the Remuneration Committee considers, in its absolute discretion, the underlying financial performance of the Company does not justify the vesting of awards, even if either or both the TSR measure and the EPS measure are satisfied in whole or in part, it can declare that some or all of the award lapses.

No re-testing of performance is permitted for any of the PSP awards that do not vest after the three year performance period and any such awards lapse.

Vested 2006 PSP award

The upper targets for both the EPS and TSR performance criteria were reached for the 2006 award, which has resulted in 100% vesting. The shares then entered the retention period. The Remuneration Committee agreed to pay a cash amount equivalent in value to the net dividends (after taxes, commissions and any other charges) that would be paid during the retention period in respect of the shares comprised in the vested award. These payments were made in August 2009 and February 2010, to align broadly with dividend payments to our shareholders.

Recruitment promise – Special Retention Award (SRA)

As part of a contractual commitment made at the time of Tom King's recruitment, Tom received a Special Retention Award in November 2007. This one-off award of National Grid ADSs vests in equal tranches, over three years, on the anniversary of the award (November 2008 through to November 2010) subject to his continued employment. There are no performance conditions attached to this award. Details of the vested ADSs representing the tranches released of this award can be found on page 107.

Share ownership guidelines

Share ownership guidelines have been increased this year. The Chief Executive is now required to build up and retain a shareholding representing at least 200% of annual salary (previously 100%). For other Executive Directors, the requirement is 125% of salary (previously 100%). This will be achieved by retaining at least 50% of the after-tax gain on any options exercised or shares received through the long-term incentive or all-employee share plans and will include any shares held beneficially.

Share dilution through the operation of share-based incentive plans

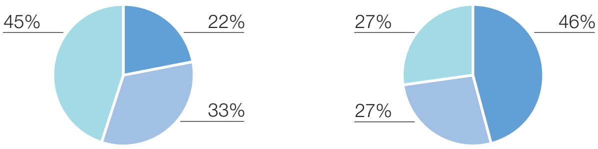
Where shares may be issued or treasury shares reissued to satisfy incentives, the aggregate dilution resulting from executive share-based incentives will not exceed 5% in any ten year period. Dilution resulting from all incentives, including all-employee incentives, will not exceed 10% in any ten year period. The Remuneration Committee reviews dilution against these limits regularly and under these limits, the Company currently has headroom of 3.71% and 5.36% respectively.

Executive Directors' remuneration package

Illustrated below is the current remuneration package for Executive Directors (excluding pensions, all-employee share plans and non-cash benefits) for both 'maximum stretch' performance and assuming 'on target' performance based on 40% (60% of salary) for the Annual Performance Plan; and TSR and EPS performance such that 30% (60% of salary) of PSP awards are released to participants at the end of the performance period and subsequent retention period. All Executive Directors have the same proportion of fixed and variable remuneration in this respect.

Executive Directors' remuneration package
2009/10 UK & US

Maximum stretch performance | **On target performance**



Annual base pay · Annual Performance Plan · PSP award

Note: Excludes Tom King's Special Retention Award

All-employee share plans

- Sharesave: Employees resident in the UK, including UK-based Executive Directors, are eligible to participate in HM Revenue & Customs approved all-employee Sharesave schemes. Under these schemes, participants may contribute between £5 and £250 in total each month, for a fixed period of three years, five years or both. Contributions are taken from net salary. At the end of the savings period, these contributions can be used to purchase ordinary shares in National Grid at a discount capped at 20% of the market price set at the launch of each scheme.
- Share Incentive Plan (SIP): Employees resident in the UK, including UK-based Executive Directors, are eligible to participate in the SIP. Contributions up to £125 are deducted from participants' gross salary and used to purchase ordinary shares in National Grid each month. The shares are placed in trust and if they are left in trust for at least five years, they can be removed free of UK income tax and National Insurance Contributions.
- US Incentive Thrift Plans: Employees of National Grid's US companies (including US-based Executive Directors) are eligible to participate in the Thrift Plans, which are tax-advantaged savings plans (commonly referred to as 401(k) plans). These are defined contribution pension plans that give participants the opportunity to invest up to applicable Federal salary limits ie a maximum of 50% of salary (pre-tax) limited to US$16,500 for those under the age of 50 and US$22,000 for those over 50 for calendar years 2009 and 2010; and/or up to 15% of salary (post-tax) up to applicable limits (US$245,000 for calendar years 2009 and 2010). Generally, the Company matches 100% of the first 2% and 75% of the next 4% of salary contributed, resulting in a maximum matching contribution of 5% of salary up to the Federal salary cap. For employees in legacy KeySpan plans, the Company matches 50% of employees' contributions up to a maximum Company contribution of 3%. Employees may invest their own and Company contributions in National Grid shares or various mutual fund options. Legacy KeySpan employees who invest in National Grid shares do so with a 10% discount.
- Employee Stock Purchase Plan (ESPP): Employees of National Grid's US companies (including US-based Executive Directors) are eligible to participate in the ESPP (commonly referred to as a 423b plan). Eligible employees have the opportunity to purchase ADSs on a monthly basis at a 10% discounted price. Under the plan employees may contribute up to 20% of base pay each year up to a maximum annual contribution of US$20,000 to purchase ADSs in National Grid. Any ADSs purchased through the ESPP may be sold at any time, however, there are tax advantages for ADSs held for at least two years from the offer date.

Pensions

Current UK-based Executive Directors are provided with final salary pension benefits. The pension provisions for the UK-based Executive Directors are designed to provide a pension of one thirtieth of final salary at age 60 for each year of service subject to a maximum of two thirds of final salary, including any pension rights earned in previous employment. Within the pension schemes, the pensionable salary is normally the base salary in the twelve months prior to leaving the Company. From December 2009, Flexible Pension Savings (FPS), a salary sacrifice arrangement was introduced for all members of the defined benefit pension schemes. All UK-based Executive Directors have chosen to participate in FPS. Life assurance provision of four times pensionable salary and a spouse's pension equal to two thirds of the Executive Director's pension are provided on death.

UK-based Executive Directors have elected to participate in the unfunded scheme in respect of any benefits in excess of the Lifetime Allowance or their Personal Lifetime Allowance. An appropriate provision in respect of the unfunded scheme has been made in the Company's balance sheet. Alternatively, these Executive Directors are able to cease accrual in the pension schemes and take a 30% cash allowance in lieu of pension if they so wish. These choices are in line with those offered to current senior employees in the Company, except the cash allowance varies depending upon organisational grade.

US-based Executive Directors participate in a qualified pension plan and an executive supplemental retirement plan provided by National Grid's US companies. These plans are non-contributory defined benefit arrangements. The qualified plan is directly funded, while the executive supplemental retirement plan is indirectly funded through a 'rabbi trust'. Benefits are calculated using a formula based on years of service and highest average compensation over five or three consecutive years. In line with many US plans, the calculation of benefits under the arrangements takes into account salary, Annual Performance Plan awards and incentive share awards (DSP) but not share options or PSP awards. The normal retirement age under the qualified pension plan is 65. The executive supplemental retirement plan provides unreduced pension benefits from age 55. On the death of the Executive Director, the plans also provide for a spouse's pension of at least 50% of that accrued by the Executive Director. Benefits under these arrangements do not increase once in payment.

Non-cash benefits

The Company provides competitive benefits to Executive Directors, such as a fully expensed car or a cash alternative in lieu of car, use of a driver when required, private medical insurance and life assurance. Business expenses incurred are reimbursed in such a way as to give rise to no benefit to the Executive Director.

Flexible benefits plan

Additional benefits may be purchased under the flexible benefits plan (the Plan), in which UK-based Executive Directors, along with most other UK employees, have been given the opportunity to participate. The Plan operates by way of salary sacrifice, that is, the participants' salaries are reduced by the monetary value used to purchase benefits under the Plan. Many of the benefits are linked to purchasing additional healthcare and insurance products for employees and their families. A number of the Executive Directors participate in this Plan and details of the impact on their salaries are shown in Table 1A on page 103.

Directors' Remuneration Report continued

Similar plans are offered to US-based employees. However, they are not salary sacrifice plans and therefore do not affect salary values. Tom King was a participant in such a plan during the year.

Executive Directors' service contracts, termination and mitigation

In its consideration of these matters, the Remuneration Committee takes into account the Companies Act 2006, the UK Listing Authority's Listing Rules, the Combined Code on Corporate Governance, as revised in 2008; and other requirements of legislation, regulation and good governance. Service contracts for all Executive Directors provide for one year's notice by either party.

In the event of early termination by the Company of an Executive Director's employment, contractual base salary reflecting the notice period would normally be payable. The Remuneration Committee operates a policy of mitigation in these circumstances with any payments being made on a monthly basis. The departing Executive Director would generally be expected to mitigate any losses where employment is taken up during the notice period, however, this policy remains subject to the Remuneration Committee's discretion, based on the circumstances of the termination.

	Date of contract	Notice period
Executive Directors		
Steve Holliday	1 April 2006	12 months
Steve Lucas	13 June 2002	12 months
Nick Winser	28 April 2003	12 months
Mark Fairbairn	23 January 2007	12 months
Tom King	11 July 2007	12 months

External appointments and retention of fees

With the approval of the Board in each case, Executive Directors may normally accept an external appointment as a non-executive director of another company and retain any fees received for this appointment. The table below details the Executive Directors who served as non-executive directors in other companies during the year ended 31 March 2010.

	Company	Retained fees (£)
Executive Directors		
Steve Holliday	Marks and Spencer Group plc	79,000
Steve Lucas	Compass Group PLC	90,000
Nick Winser	Kier Group plc	41,000

Non-executive Directors' remuneration

Non-executive Directors' fees are determined by the Executive Directors subject to the limits applied by National Grid's Articles of Association. Non-executive Directors' remuneration comprises an annual fee (£45,000) and a fee for each Board meeting attended (£1,500) with a higher fee for meetings held outside the Non-executive Director's country of residence (£4,000). An additional fee of £12,500 is payable for chairmanship of a board committee and for holding the position of Senior Independent Director. The Audit Committee chairman receives a chairmanship fee of £15,000 to recognise the additional responsibilities commensurate with this role. The Chairman is covered by the Company's personal accident and private medical insurance schemes and the Company provides him with life assurance cover, a car (with driver when appropriate) and fuel expenses.

Non-executive Directors do not participate in the Annual Performance Plan or the long-term incentive plan, nor do they receive any pension benefits from the Company.

Non-executive Directors' letters of appointment

The Chairman's letter of appointment provides for a period of six months' notice by either party to give the Company reasonable security with regard to his service. The terms of engagement of Non-executive Directors other than the Chairman are also set out in letters of appointment. For all Non-executive Directors, their initial appointment and any subsequent reappointment is subject to election by shareholders. The letters of appointment do not contain provision for termination payments.

	Date of appointment	Date of next election (i)
Non-executive Directors		
Sir John Parker	21 October 2002	2010 AGM
Ken Harvey	21 October 2002	2010 AGM
Linda Adamany	1 November 2006	2010 AGM
Philip Aiken	15 May 2008	2010 AGM
John Allan	1 May 2005	2010 AGM
Stephen Pettit	21 October 2002	2010 AGM
Maria Richter	1 October 2003	2010 AGM
George Rose	21 October 2002	2010 AGM
Bob Catell (ii)	1 April 2009	n/a

(i) The Board has decided that all Directors will seek re-election annually.

(ii) Bob Catell retired as a Non-executive Director on 27 July 2009.

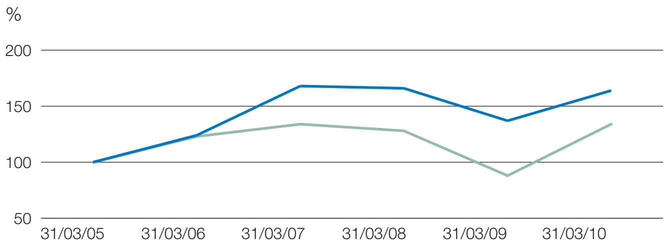
Performance graph

The graph below represents the comparative TSR performance of the Company from 31 March 2005 to 31 March 2010.

This graph represents the Company's performance against the performance of the FTSE 100 index, which is considered suitable for this purpose as it is a broad equity market index of which National Grid is a constituent. This graph has been produced in accordance with the requirements of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

In drawing this graph it has been assumed that all dividends have been reinvested. The TSR level shown at 31 March each year is the average of the closing daily TSR levels for the 30 day period up to and including that date.

National Grid plc
TSR v FTSE 100



● National Grid plc ● FTSE 100 Source: Datastream

Remuneration during the year ended 31 March 2010

Sections 1, 2, 3, 4 and 6 comprise the 'auditable' part of the Directors' Remuneration Report, being the information required by Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

1. Directors' emoluments

The following tables set out the pre-tax emoluments for the years ended 31 March 2010 and 2009, including Annual Performance Plan awards but excluding pensions, for individual Directors who held office in National Grid during the year ended 31 March 2010.

Table 1A	Year ended 31 March 2010						Year ended 31 March 2009
	Salary (i) £000s	Annual Performance Plan £000s	Benefits in kind (ii) (cash) £000s	Benefits in kind (ii) (non-cash) £000s	Other emoluments £000s	Total £000s	Total £000s
Executive Directors							
Steve Holliday	925	1,323	12	13	–	2,273	2,206
Steve Lucas (iii)	521	730	–	19	–	1,270	1,259
Nick Winser	462	652	–	15	–	1,129	1,096
Mark Fairbairn (iii)	461	527	–	14	–	1,002	1,089
Tom King (iv)	665	898	5	14	–	1,582	1,396
Total	**3,034**	**4,130**	**17**	**75**	**–**	**7,256**	**7,046**

(i) The Executive Directors decided voluntarily to forego salary increases in 2009. It is anticipated their salaries will next be reviewed in June 2010.

(ii) Benefits in kind comprise benefits such as private medical insurance, life assurance, either a fully expensed car or cash in lieu of a car and the use of a driver when required.

(iii) These Executive Directors participate in the UK flexible benefits plan which operates by way of salary sacrifice, therefore, their salaries are reduced by the benefits they have purchased. The value of these benefits is included in the Benefits in kind (non-cash) figure. The values are: Steve Lucas £3,688 and Mark Fairbairn £801.

(iv) For US-based Executive Directors, the exchange rate averaged over the year 1 April 2009 to 31 March 2010 to convert US dollars to UK pounds sterling is $1.579:£1.

Table 1B	Year ended 31 March 2010			Year ended 31 March 2009
	Fees £000s	Other emoluments £000s	Total £000s	Total £000s
Non-executive Directors				
Sir John Parker (i)	550	65	615	604
Ken Harvey	80	–	80	83
Linda Adamany	78	–	78	75
Philip Aiken	68	–	68	59
John Allan	82	–	82	76
Stephen Pettit	82	–	82	84
Maria Richter	94	–	94	92
George Rose	81	–	81	84
Bob Catell (ii)	22	–	22	n/a
Total	**1,137**	**65**	**1,202**	**1,157**

(i) Sir John Parker's other emoluments comprise a fully expensed car, private medical insurance and life assurance.

(ii) Bob Catell was a Non-executive Director for the period 1 April 2009 to 27 July 2009, after having retired from the Board as an Executive Director on 31 March 2009.

Directors' Remuneration Report continued

2. Directors' pensions

The table below provides details of the Executive Directors' pension benefits.

Table 2	Personal contributions made to the scheme during the year (i) £000s	Additional benefit earned during year ended 31 March 2010 pension £000s	Accrued entitlement as at 31 March 2010 pension £000s	Transfer value of accrued benefits as at 31 March (ii) 2010 £000s	Transfer value of accrued benefits as at 31 March (ii) 2009 £000s	Increase in transfer value less Director's contributions £000s	Additional benefit earned in the year ended 31 March 2010 (excluding inflation) pension £000s	Transfer value of increase in accrued benefit in the year ended 31 March 2010 (excluding inflation & Director's contributions) £000s
Steve Holliday (iii)	12	33	314	5,995	4,740	1,243	33	610
Steve Lucas	21	19	269	6,006	4,877	1,108	19	408
Nick Winser (iv)	19	11	196	3,379	2,802	559	11	158
Mark Fairbairn (v)	19	13	199	3,714	3,084	612	13	201
Tom King (vi)	–	50	169	832	442	390	50	246

(i) The UK-based Executive Directors participate in FPS, a salary sacrifice arrangement, the effects of which have not been taken into account when reporting their personal contributions above.

(ii) The transfer values shown at 31 March 2009 and 2010 represent the value of each Executive Director's accrued benefits based on total service to the relevant date. Transfer values for the UK-based Executive Directors have been calculated in line with transfer value bases agreed with the UK Pension Scheme Trustees. The transfer values for the US-based Executive Director have been calculated using discount rates based on high quality US corporate bonds and associated yields at the relevant dates.

(iii) In addition to the pension above, there is an accrued lump sum entitlement of £108,000 as at 31 March 2010. The increase to the accumulated lump sum including inflation was £1,000 and excluding inflation was £1,000 in the year to 31 March 2010. The transfer value information above includes the value of the lump sum.

(iv) In addition to the pension above, there is an accrued lump sum entitlement of £260,000 as at 31 March 2010. The increase to the accumulated lump sum including inflation was £2,000 and excluding inflation was £2,000 in the year to 31 March 2010. The transfer value information above includes the value of the lump sum.

(v) In addition to the pension above, there is an accrued lump sum entitlement of £280,000 as at 31 March 2010. The increase to the accumulated lump sum including inflation was £2,000 and excluding inflation was £2,000 in the year to 31 March 2010. The transfer value information above includes the value of the lump sum.

(vi) The exchange rate as at 31 March 2010 was $1.51845:£1 and as at 31 March 2009 was $1.4368:£1. In addition to the pension quoted above, through participation in the 401(k) plan in the US, the Company made contributions worth £4,840 to a defined contribution arrangement.

3. Directors' interests in share options

The table below provides details of the Executive Directors' holdings of share options awarded under the Executive Share Option Plan (ESOP), the Share Matching Plan (Share Match) and Sharesave schemes.

Table 3	Options held at 1 April 2009	Options exercised or lapsed during the year	Market price at exercise (pence)	Options granted during the year	Options held at 31 March 2010	Exercise price per share (pence)	Normal exercise period
Steve Holliday							
ESOP	67,497	–	–	–	67,497	481.5	June 2005 to June 2012
Share Match	10,350	–	–	–	10,350	100 in total	June 2005 to June 2012
	14,083	–	–	–	14,083	100 in total	June 2006 to June 2013
	18,713	–	–	–	18,713	nil	May 2007 to May 2014
Sharesave	3,432	–	–	–	3,432	488	Apr 2014 to Sep 2014
Total	**114,075**	**–**		**–**	**114,075**		
Steve Lucas							
ESOP	54,404	–	–	–	54,404	434.25	Dec 2005 to Dec 2012
Sharesave	1,693(i)	–	–	–	1,693	558	Apr 2010 to Sep 2010
	–	–	–	2,990	2,990	520	Apr 2015 to Sep 2015
Total	**56,097**	**–**		**2,990**	**59,087**		
Nick Winser							
ESOP	19,755	19,755(ii)	–	–	–	531.5	June 2003 to June 2010
Total	**19,755**	**19,755**		**–**	**–**		
Mark Fairbairn							
ESOP	2,180	2,180(iii)	539.5	–	–	435.75	July 2002 to July 2009
	33,489	33,489(ii)	–	–	–	531.5	June 2003 to June 2010
	31,152	31,152(iii)	539.5	–	–	481.5	June 2005 to June 2012
Sharesave	862(i)	–	–	–	862	383	Apr 2010 to Sep 2010
	1,760	–	–	–	1,760	558	Apr 2012 to Sep 2012
	512	–	–	–	512	655	Apr 2013 to Sep 2013
Total	**69,955**	**66,821**		**–**	**3,134**		

(i) On 1 April 2010 Steve Lucas and Mark Fairbairn exercised Sharesave options over 1,693 and 862 shares respectively. The market price at the date of exercise was 647.5p.

(ii) The performance condition was not satisfied for the ESOP award granted in 2000. As a result, the awards have lapsed in full.

(iii) Mark Fairbairn exercised simultaneously two ESOP awards over a total of 33,332 shares. The market price at the date of exercise was 539.5p.

Directors' Remuneration Report continued

3. Directors' interests in share options continued

Executive Share Option Plan (ESOP)

No further awards will be made under this plan but there are outstanding options granted in previous years. Such options will normally be exercisable between the third and tenth anniversary of the date of grant, subject to a performance condition. The performance condition attached to the outstanding ESOP options is set out below. If the performance condition is not satisfied after the first three years, it will be re-tested as indicated.

Options worth up to 100% of an optionholder's base salary will become exercisable in full if TSR, measured over the period of three years beginning with the financial year in which the option is granted, is at least median compared with a comparator group of energy distribution companies; and UK and international utilities.

Grants in excess of 100% of salary vest on a sliding scale, becoming fully exercisable if the Company's TSR is in the top quartile.

Grants made in 2000

The performance condition attached to options granted in June 2000 is tested annually throughout the lifetime of the option. The final re-test was on 31 March 2010 and the performance condition was not met. This award has therefore lapsed.

4. Directors' interests in the PSP, DSP and SRA

The table below provides details of the Executive Directors' holdings of shares awarded under the PSP whereby Executive Directors receive a conditional award of shares, up to a current maximum of 200% of salary, which is subject to performance criteria over a three year performance period. Awards vest based on the Company's TSR performance when compared to the FTSE 100 at the date of grant (50% of the award) and the annualised growth of the Company's EPS (50% of the award), see page 100 for further information. Shares are then released on the fourth anniversary of the date of grant, following a retention period. The table includes share awards under the DSP, where Executive Directors receive an award of shares representing one half of any Annual Performance Plan award earned in the year. The deferred shares are held in trust for three years before release. As part of a contractual commitment made at the time of Tom King's recruitment, he received a SRA. The one-off award of National Grid ADSs vests in equal tranches, over three years, on the anniversary of the award (November 2008 through to November 2010) subject to continued employment. There are no performance conditions attached to the award.

Table 4

	Type of award	PSP, DSP and SRA conditional awards at 1 April 2009	Awards lapsed during year	Awards vested in year	Release of PSP awards in year	Awards granted during year	Market price at award (pence except#)	Date of award	Conditional awards at 31 March 2010	Release date
Steve Holliday										
	PSP	100,801	–	–	100,801(i)	–	527.03	June 2005	–	June 2009
	PSP	126,788	–	126,788	126,788(ii)	–	591.5382	June 2006	–	Mar 2010
	PSP	139,217	–	–	–	–	740.75	June 2007	139,217	June 2011
	PSP	77,247	–	–	–	–	800.9919	Nov 2007	77,247	Nov 2011
	PSP	276,947	–	–	–	–	667.9967	June 2008	276,947	June 2012
	PSP	–	–	–	–	342,353	540.3773	June 2009	342,353	June 2013
	DSP	36,389	–	36,389(iii)	–	–	583.96	June 2006	–	June 2009
	DSP	42,435	–	42,435(iv)	–	–	726.87	June 2007	–	Mar 2010
	DSP	85,307	–	–	–	–	697.48	June 2008	85,307	June 2011
	DSP	–	–	–	–	68,960(v)	541.14	June 2009	68,960	June 2012
Total		**885,131**	**–**	**205,612**	**227,589**	**411,313**			**990,031**	
Steve Lucas										
	PSP	99,615	–	–	99,615(i)	–	527.03	June 2005	–	June 2009
	PSP	101,430	–	101,430	101,430(ii)	–	591.5382	June 2006	–	Mar 2010
	PSP	84,930	–	–	–	–	740.75	June 2007	84,930	June 2011
	PSP	47,125	–	–	–	–	800.9919	Nov 2007	47,125	Nov 2011
	PSP	157,186	–	–	–	–	667.9967	June 2008	157,186	June 2012
	PSP	–	–	–	–	194,308	540.3773	June 2009	194,308	June 2013
	DSP	34,882	–	34,882(iii)	–	–	583.96	June 2006	–	June 2009
	DSP	29,276	–	29,276(iv)	–	–	726.87	June 2007	–	Mar 2010
	DSP	47,263	–	–	–	–	697.48	June 2008	47,263	June 2011
	DSP	–	–	–	–	38,656(v)	541.14	June 2009	38,656	June 2012
Total		**601,707**	**–**	**165,588**	**201,045**	**232,964**			**569,468**	

4. Directors' interests in the PSP, DSP and SRA continued

Table 4

Type of award	PSP, DSP and SRA conditional awards at 1 April 2009	Awards lapsed during year	Awards vested in year	Release of PSP awards in year	Awards granted during year	Market price at award (pence except#)	Date of award	Conditional awards at 31 March 2010	Release date
Nick Winser									
PSP	91,314	–	–	91,314(i)	–	527.03	June 2005	–	June 2009
PSP	88,751	–	88,751	88,751(ii)	–	591.5382	June 2006	–	Mar 2010
PSP	75,008	–	–	–	–	740.75	June 2007	75,008	June 2011
PSP	41,620	–	–	–	–	800.9919	Nov 2007	41,620	Nov 2011
PSP	138,413	–	–	–	–	667.9967	June 2008	138,413	June 2012
PSP	–	–	–	–	171,102	540.3773	June 2009	171,102	June 2013
DSP	31,316	–	31,316(iii)	–	–	583.96	June 2006	–	June 2009
DSP	25,596	–	25,596(iv)	–	–	726.87	June 2007	–	Mar 2010
DSP	36,008	–	–	–	–	697.48	June 2008	36,008	June 2011
DSP	–	–	–	–	33,804(v)	541.14	June 2009	33,804	June 2012
Total	**528,026**	**–**	**145,663**	**180,065**	**204,906**			**495,955**	
Mark Fairbairn									
PSP	40,225	–	–	40,225(i)	–	527.03	June 2005	–	June 2009
PSP	40,572	–	40,572	40,572(ii)	–	591.5382	June 2006	–	Mar 2010
PSP	67,499	–	–	–	–	740.75	June 2007	67,499	June 2011
PSP	37,453	–	–	–	–	800.9919	Nov 2007	37,453	Nov 2011
PSP	138,324	–	–	–	–	667.9967	June 2008	138,324	June 2012
PSP	–	–	–	–	170,991	540.3773	June 2009	170,991	June 2013
DSP	10,800	–	10,800(iii)	–	–	583.96	June 2006	–	June 2009
DSP	13,867	–	13,867(iv)	–	–	726.87	June 2007	–	Mar 2010
DSP	40,646	–	–	–	–	697.48	June 2008	40,646	June 2011
DSP	–	–	–	–	32,605(v)	541.14	June 2009	32,605	June 2012
Total	**389,386**	**–**	**65,239**	**80,797**	**203,596**			**487,518**	
Tom King									
PSP	ADSs 24,006	–	–	–	–	$83.3121#	Nov 2007	ADSs 24,006	Nov 2011
PSP	ADSs 32,099	–	–	–	–	$65.4211#	June 2008	ADSs 32,099	June 2012
PSP	–	–	–	–	ADSs 47,609(vi)	$44.1091#	June 2009	ADSs 47,609	June 2013
SRA	ADSs 23,658	–	ADSs 11,829(vii)	–	–	$84.5360#	Nov 2007	ADSs 11,829	Nov 2008 to Nov 2010
DSP	ADSs 4,843	–	–	–	–	$68.1174#	June 2008	ADSs 4,843	June 2011
DSP	–	–	–	–	ADSs 12,080(vi)	$44.8371#	June 2009	ADSs 12,080	June 2012
Total ADSs	**ADSs 84,606**	**–**	**ADSs 11,829**	**–**	**ADSs 59,689**			**ADSs 132,466**	

(i) The 2005 PSP award vested in full in June 2008 and then entered a retention period. The shares under the award were released on the fourth anniversary of the date of grant (June 2009).

(ii) The 2006 PSP award vested in full in June 2009 and then entered a retention period. The Remuneration Committee approved an early release of the shares on 1 March 2010. Cash payments in lieu of dividends accrued during the retention period were paid as follows: Steve Holliday £32,401 in August 2009 and £19,230 in February 2010; Steve Lucas £25,921 and £15,384; Nick Winser £22,681 and £13,461; and Mark Fairbairn £10,368 and £6,153 respectively.

(iii) Following the three year deferral period, the 2006 DSP award was released in June 2009. Cash payments in lieu of dividends accrued during the deferral period were paid as follows: Steve Holliday £39,357, Steve Lucas £37,727, Nick Winser £33,870 and Mark Fairbairn £11,681.

(iv) Following a near complete deferral period, the Remuneration Committee approved the early release of the 2007 DSP award on 1 March 2010. Cash payments in lieu of dividends accrued during the deferral period were paid as follows: Steve Holliday £38,800, Steve Lucas £26,768, Nick Winser £23,403 and Mark Fairbairn £12,679.

(v) Exceptionally, the 2009 DSP award for UK-based Executive Directors was made over restricted shares. The award was subject to income tax and National Insurance Contributions on grant and therefore shares shown reflect the net number of shares.

(vi) Awards were made over ADSs and each ADS represents five ordinary shares.

(vii) Tom King received a Special Retention Award as part of a contractual commitment made at the time of his recruitment. The award vests in three equal tranches over three years, the second vesting for which was November 2009 for 11,829 ADSs. The ADS price on vesting for the second tranche was $54.62450.

Directors' Remuneration Report continued

5. Directors' beneficial interests

The Directors' beneficial interests (which include those of their families) in National Grid ordinary shares of $11\frac{17}{43}$ pence each are shown below.

Table 5	Ordinary shares at 31 March 2010 or, if earlier, on retirement †(i)	Ordinary shares at 1 April 2009 or, if later, on appointment	Options/awards over ordinary shares at 31 March 2010	Options/awards over ordinary shares at 1 April 2009
Sir John Parker	81,635	81,337	–	–
Steve Holliday (ii) (iii)	221,472	39,285	1,104,106	999,206
Steve Lucas (ii) (iv) (v)	167,503	88,192	628,555	657,804
Nick Winser (ii)	223,138	83,518	495,955	547,781
Mark Fairbairn (ii) (iii) (iv)	143,372	48,305	490,652	459,341
Tom King	97,640	59,145	662,330	423,030
Ken Harvey	3,740	3,740	–	–
Linda Adamany	2,000	2,000	–	–
Philip Aiken	3,500	2,000	–	–
John Allan	7,000	2,000	–	–
Stephen Pettit	2,632	2,632	–	–
Maria Richter	10,255	5,255	–	–
George Rose	4,852	4,852	–	–
Bob Catell (vi)	72,415†	40,000	–	–

(i) There has been no other change in the beneficial interests of the Directors in ordinary shares between 1 April 2010 and 19 May 2010, except in respect of routine monthly purchases under the SIP (see note (iii) below) and with respect to the exercise of Sharesave options (see note (iv) below).

(ii) Each of the Executive Directors, with the exception of Tom King, was for Companies Act purposes deemed to be a potential beneficiary under the National Grid plc 1996 Employee Benefit Trust and the National Grid Employee Share Trust; Steve Holliday, Steve Lucas, Nick Winser and Mark Fairbairn thereby have an interest in 238,740 and 544,944 ordinary shares in the aforementioned trusts respectively, as at 31 March 2010 (with the latter holding 36,283 ADSs in addition).

(iii) Beneficial interest includes shares purchased under the monthly operation of the SIP in the year to 31 March 2010. In April and May 2010 a further 40 shares were purchased on behalf of Steve Holliday and a further 80 shares were purchased on behalf of Mark Fairbairn thereby increasing their beneficial interests.

(iv) The beneficial interests for Steve Lucas and Mark Fairbairn increased on 1 April 2010 to include Sharesave exercises over 1,693 shares and 862 shares respectively.

(v) Steve Lucas was for Companies Act purposes deemed to be a potential beneficiary in 11,361 ordinary shares held by Lattice Group Trustees Limited as trustee of the Lattice Group Employee Share Ownership Trust as at 31 March 2010.

(vi) Bob Catell retired from the Board as a Non-executive Director on 27 July 2009.

6. National Grid share price range

The closing price of a National Grid ordinary share on 31 March 2010 was 641.5p. The range during the year was 682p (high) and 515.5p (low). The Register of Directors' Interests contains full details of shareholdings and options/awards held by Directors as at 31 March 2010.

On behalf of the Board

Helen Mahy

Company Secretary & General Counsel
19 May 2010

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Statement of Directors' responsibilities

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

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

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

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

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

Each of the Directors, whose names and functions are listed in the Business Overview section of the Annual Report and Accounts on pages 12 and 13, confirms that, to the best of their knowledge:

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

By order of the Board

Helen Mahy
Company Secretary & General Counsel
19 May 2010

Independent Auditors' report to the Members of National Grid plc

We have audited the consolidated and Company financial statements (the 'financial statements') of National Grid plc for the year ended 31 March 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 110, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit 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.

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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 74, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Murray Legg (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
19 May 2010

Accounting policies

for the year ended 31 March 2010

A. Basis of preparation of consolidated financial statements under IFRS

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

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

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

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

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

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

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

B. Basis of consolidation

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

A subsidiary is defined as an entity controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. A joint venture is an entity established to engage in economic activity, which the Company jointly controls with its fellow venturers. An associate is an entity which is neither a subsidiary nor a joint venture, but over which the Company has significant influence.

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

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

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

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

C. Foreign currencies

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

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

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

D. Goodwill

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

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

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

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

E. Intangible assets other than goodwill

With the exception of goodwill, as described above, identifiable intangible assets are recorded at cost less accumulated amortisation and any provision for impairment.

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

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

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

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

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

F. Property, plant and equipment

Property, plant and equipment is recorded at cost or deemed cost at the date of transition to IFRS, less accumulated depreciation and any impairment losses.

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

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

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

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

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

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

Other items of property, plant and equipment are depreciated, principally on a straight-line basis, at rates estimated to write off their book values over their estimated economic useful lives. In assessing estimated economic useful lives, which are reviewed on a regular basis, consideration is given to any contractual arrangements and operational requirements relating to particular assets. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of property, plant and equipment are, in general, as shown in the table below:

Depreciation periods	Years
Freehold and leasehold buildings	up to 65
Plant and machinery	
Electricity transmission plant	15 to 60
Electricity distribution plant	15 to 60
Electricity generation plant	20 to 40
Interconnector plant	15 to 60
Gas plant – mains, services and regulating equipment	30 to 100
Gas plant – storage	40
Gas plant – meters	10 to 33
Motor vehicles and office equipment	up to 10

G. Impairment of assets

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

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

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

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

H. Taxation

Current tax

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

Deferred tax and investment tax credits

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

Accounting policies continued

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

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

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

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

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

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

I. Discontinued operations, assets and businesses held for sale

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

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

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

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

J. Inventories

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

K. Decommissioning and environmental costs

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

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

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

L. Revenue

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

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

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

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

M. Segmental information

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

N. Pensions and other post-retirement benefits

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

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

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

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

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

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

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

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

O. Leases

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

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

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

P. Financial instruments

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

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

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

Other financial investments are recognised at fair value plus, in the case of available-for-sale financial investments, directly related incremental transaction costs and are subsequently carried at fair value on the balance sheet. Changes in the fair value of investments classified as fair value through profit and loss are included in the income statement, while changes in the fair value of investments classified as available-for-sale are recognised directly in equity, until the investment is disposed of or is determined to be impaired. At this time the cumulative gain or loss previously recognised in equity is included in the income statement for the period. In the case of securities classified as available-for-sale, a significant or prolonged decline in the fair value of the securities below their cost is considered as an indicator that the securities are impaired. Investment income on investments classified as fair value through profit and loss and on available-for-sale investments is recognised using the effective interest method and taken through interest income in the income statement.

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

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

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

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

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

Accounting policies continued

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

Q. Commodity contracts

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

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

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

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

R. Hedge accounting

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

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

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

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

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

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

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

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

S. Share-based payments

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

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

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

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

Exceptional items, remeasurements, stranded cost recoveries and amortisation of acquisition-related intangibles are items of income and expense that, in the judgement of management, should be disclosed separately on the basis that they are material, either by their nature or their size, to an understanding of our financial performance and significantly distort the comparability of financial performance between periods.

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

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

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

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

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

U. Other operating income

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

V. Emission allowances

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

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

W. Cash and cash equivalents

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

X. Other equity reserves

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

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

Y. Dividends

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

Z. Areas of judgement and key sources of estimation uncertainty

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

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

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

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

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

Adoption of new accounting standards

New IFRS accounting standards and interpretations adopted in 2009/10

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

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

New IFRS accounting standards and interpretations not yet adopted

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

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

Consolidated income statement

for the years ended 31 March

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

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

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

Consolidated statement of comprehensive income

for the years ended 31 March

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

Consolidated balance sheet

as at 31 March

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

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

Sir John Parker Chairman
Steve Lucas Finance Director

Consolidated statement of changes in equity

for the years ended 31 March

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

Consolidated cash flow statement

for the years ended 31 March

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

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

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

1. Segmental analysis

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

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

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

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

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

(a) Revenue

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

The table above represents revenue from continuing operations only.

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

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

Notes to the consolidated financial statements continued

1. Segmental analysis continued

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

(b) Operating profit

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

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

(c) Capital expenditure and depreciation

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

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

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

1. Segmental analysis continued

(d) Total assets

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

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

2. Operating costs

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

Notes to the consolidated financial statements continued

2. Operating costs continued

(a) Payroll costs

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

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

(b) Number of employees

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

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

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

(c) Key management compensation

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

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

(d) Directors' emoluments

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

2. Operating costs continued

(e) Auditors' remuneration

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

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

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

Notes to the consolidated financial statements continued

3. Exceptional items, remeasurements and stranded cost recoveries

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

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

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

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

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

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

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

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

(viii) Remeasurements – net gains/(losses) on derivative financial instruments comprise gains/(losses) arising on derivative financial instruments reported in the income statement. These exclude gains and losses for which hedge accounting has been effective, which have been recognised directly in equity or which are offset by adjustments to the carrying value of debt. The tax charge in the year ended 31 March 2010 includes a £78m (2009: £1m; 2008: £11m) charge in respect of prior years.

(ix) The exceptional tax credit in the year ended 31 March 2008 of £170m arose from a reduction in the UK corporation tax rate from 30% to 28% included in the 2007 Finance Act. This resulted in a reduction in deferred tax liabilities.

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

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

4. Pensions and other post-retirement benefits

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

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

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

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

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

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

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

Notes to the consolidated financial statements continued

4. Pensions and other post-retirement benefits continued

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

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

Changes in the present value of the defined benefit obligations (including unfunded obligations)

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

Changes in the fair value of plan assets

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

5. Finance income and costs

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

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

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

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

Notes to the consolidated financial statements continued

6. Taxation

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

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

Taxation as a percentage of profit before taxation

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

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

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

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

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

Taxation on items (credited)/charged to equity

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

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

6. Taxation continued

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

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

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

Factors that may affect future tax charges

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

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

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

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

Notes to the consolidated financial statements continued

7. Discontinued operations

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

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

Results of discontinued operations

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

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

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

8. Dividends

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

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

9. Earnings per share

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

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

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

(a) Basic earnings per share

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

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

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

(b) Diluted earnings per share

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

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

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

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

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

Notes to the consolidated financial statements continued

10. Goodwill

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

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

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

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

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

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

11. Other intangible assets

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

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

Notes to the consolidated financial statements continued

12. Property, plant and equipment

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

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

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

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

The net book value of land and buildings comprised:

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

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

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

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

13. Other non-current assets

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

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

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

14. Financial and other investments

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

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

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

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

15. Investments in joint ventures and associates

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

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

Notes to the consolidated financial statements continued

16. Deferred tax assets and liabilities

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

Deferred tax (assets)/liabilities

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

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

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

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

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

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

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

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

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

17. Derivative financial instruments

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

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

The maturity of derivative financial instruments is as follows:

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

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

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

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

Notes to the consolidated financial statements continued

18. Inventories and current intangible assets

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

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

19. Trade and other receivables

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

Trade receivables are non interest-bearing and generally have a 30-90 day term. Due to their short maturities, the fair value of trade and other receivables approximates their book value. Commodity contract assets are recorded at fair value. For further details of commodity risk, refer to note 33. All other receivables are recorded at amortised cost.

Provision for impairment of receivables

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

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

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

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

20. Cash and cash equivalents

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

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

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

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

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

21. Borrowings

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

Total borrowings are repayable as follows:

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

The fair value of borrowings at 31 March 2010 was £26,196m (2009: £25,230m). Market values, where available, have been used to determine fair value. Where market values are not available, fair values have been calculated by discounting cash flows at prevailing interest rates. The notional amount outstanding of the debt portfolio at 31 March 2010 was £25,011m (2009: £26,619m).

Notes to the consolidated financial statements continued

21. Borrowings continued

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

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

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

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

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

22. Trade and other payables

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

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

23. Other non-current liabilities

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

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

24. Provisions

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

*Primarily represents reclassifications from other non-current liabilities

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

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

Decommissioning provision

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

Environmental provision

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements continued

24. Provisions continued

Emissions provision

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

Restructuring provision

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

Other provisions

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

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

25. Share capital

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

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

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

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

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

Rights issue

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

B shares

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

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

25. Share capital continued

Treasury shares

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

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

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

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

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

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

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

Additional information in respect of share capital

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

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

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

26. Other equity reserves

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

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

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

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

Notes to the consolidated financial statements continued

27. Consolidated cash flow statement

(a) Cash flow from operating activities – discontinued operations

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

(b) Cash flow from investing activities – discontinued operations

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

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

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

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

(d) Analysis of changes in net debt

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

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

Notes to the consolidated financial statements – supplementary information

28. Commitments and contingencies

(a) Future capital expenditure

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

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

(b) Lease commitments

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

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

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

(c) Energy purchase commitments

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

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

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

Notes to the consolidated financial statements continued

28. Commitments and contingencies continued

(d) Other commitments, contingencies and guarantees

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

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

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

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

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

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

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

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

(viii) guarantees of £14m relating to certain property obligations. The bulk of these expire by December 2025;

(ix) collateral of £15m to secure syndicate insurance obligations which are evergreen;

(x) guarantees in respect of a former associate amounting to £14m, the bulk of which relates to its obligations to supply telecommunications services. These are open-ended;

(xi) guarantees of the liabilities of our subsidiary, National Grid Carbon Limited, under contracts in connection with work on a carbon capture and storage demonstration project amounting to £20m. These expire on completion of the project expected 2011; and

(xii) other guarantees amounting to £92m arising in the normal course of business and entered into on normal commercial terms. These guarantees run for varying lengths of time.

(e) Amounts receivable under sublease arrangements

The total of future minimum sublease payments expected to be received under non-cancellable subleases is £14m (2009: £28m).

(f) Litigation and claims

We reported in previous Annual Reports and Accounts a decision by the Gas and Electricity Markets Authority (GEMA) to fine National Grid £41.6m for a breach of the UK Competition Act 1998 in respect of term contracts with gas suppliers entered into by our UK metering services business in 2004. This decision was overturned in part and the fine reduced to £30m by the Competition Appeal Tribunal in April 2009 and the fine was further reduced to £15m by the Court of Appeal in a reserved judgement (not otherwise affecting the Competition Appeal Tribunal's judgement) issued in February 2010. On 22 March 2010, National Grid applied for leave to appeal the Court of Appeal's judgement to the Supreme Court.

As at 31 March 2010, we have provided for the fine together with associated costs and have provided against certain trade receivables and other balance sheet items. Without prejudice to our position in relation to appealing the Court of Appeal's judgement, the £15m fine was paid to GEMA on 1 April 2010.

In October 2008, we informed Ofgem that mains replacement activity carried out by the UK Gas Distribution business may have been misreported. Ofgem's investigation continues, so that at present it is too early to determine the likely outcome of the investigation and any potential consequences arising from it.

As previously reported, in May 2007, KeySpan received a civil investigative demand from the Antitrust Division of the US Department of Justice (the DOJ) and a further one in April 2008, requesting the production of documents and information relating to its investigation of competitive issues in the New York City electricity capacity market prior to the Company's acquisition of KeySpan. In February 2010, the DOJ filed a proposed final judgement in the US District Court for the Southern District of New York. Under the terms of the proposed settlement, the DOJ and KeySpan agreed that KeySpan will pay $12m in full and final resolution of the DOJ's civil investigative demands. This agreement contains no admissions of liability by KeySpan and remains subject to court approval, which is currently anticipated later in 2010.

On 18 March 2010, a putative class action was commenced against KeySpan and Morgan Stanley in the Supreme Court for the State of New York in Bronx County. The complaint alleges that a financial swap transaction between KeySpan and Morgan Stanley in January 2006 caused customers of Consolidated Edison, Inc. to overpay for electricity between May 2006 and February 2008. The complaint seeks compensatory damages of not less than $160m, as well as punitive damages plus legal costs. National Grid's management believes that the complaint and its allegations are without merit.

29. Related party transactions

The following information is provided in accordance with IAS 24 'Related Party Disclosures', as being material transactions with related parties during the year. These transactions are with joint ventures and a pension plan and were in the normal course of business and are summarised below:

	2010 £m	2009 £m	2008 £m
Sales: Services supplied to a pension plan and joint ventures	5	4	3
Purchases: Services received from joint ventures	73	44	33
Interest income: Interest received on loans with joint ventures	1	–	–
Receivable from a pension plan and joint ventures	1	–	–
Payable to joint ventures	6	6	2
Dividends received from joint ventures	18	–	–

Amounts receivable from and payable to related parties are due on normal commercial terms.

At 31 March 2010, there was a loan receivable from Blue-NG Limited (a joint venture) of £23m (2009: £nil; 2008: £nil) of which £4m is non interest-bearing and the remainder bears interest at 14% per annum.

Details of investments in principal subsidiary undertakings, joint ventures and associates are disclosed in note 36 and information relating to pension fund arrangements is disclosed in notes 4 and 30. For details of Directors' and key management remuneration, refer to note 2(c) and the auditable section of the Directors' Remuneration Report.

30. Actuarial information on pensions and other post-retirement benefits

UK pension schemes

National Grid's defined benefit pension arrangements are funded with assets held in separate trustee administered funds. The arrangements are subject to independent actuarial valuations at least every three years, on the basis of which the qualified actuary certifies the rate of employers' contribution, which, together with the specified contributions payable by the employees and proceeds from the schemes' assets, are expected to be sufficient to fund the benefits payable under the schemes. From April 2009 Flexible Pension Saving (FPS), a salary sacrifice arrangement, was introduced for active defined contribution section members of the National Grid UK Pension Scheme. FPS was introduced in respect of active defined benefit members of both pension schemes in December 2009. Member contributions and National Grid's service charge reflects this new arrangement.

National Grid UK Pension Scheme

The National Grid UK Pension Scheme ceased to offer final salary defined benefits for new hires from 31 March 2002. A defined contribution arrangement was offered for employees joining from 1 April 2002.

The latest full actuarial valuation was carried out by Towers Watson as at 31 March 2007. The market value of the scheme's assets was £12,923m and the value of the assets represented 97% of the actuarial value of benefits due to members, calculated on the basis of pensionable earnings and service at 31 March 2007 on an ongoing basis and allowing for projected increases in pensionable earnings. There was a funding deficit of £442m (£318m net of tax) on the valuation date in light of which the Company agreed a recovery plan with the trustees.

The actuarial valuation showed that, based on long-term financial assumptions, the contribution rate required to meet future benefit accrual was 32.4% of pensionable earnings (29.4% employers and 3% employees). In addition, the employers pay an allowance for administration expenses which was 3.2% of pensionable earnings, giving a total Company rate of 32.6% of pensionable earnings. The employer contribution rate will be reviewed at the next valuation on 31 March 2010, while the administration rate is reviewed annually.

In accordance with the recovery plan agreed with the trustees at the 2007 valuation, the Company paid its final contribution of £59m (£42m net of tax) during the year which ensured that the deficit reported at the 2007 valuation was paid in full. Contributions to the scheme during the year to 31 March 2011 are expected to comprise ongoing normal contributions only.

Electricity Supply Pension Scheme

The Electricity Supply Pension Scheme is a funded scheme which is divided into sections, one of which is National Grid's section. National Grid's section of the scheme ceased to allow new hires to join from 1 April 2006.

The latest full actuarial valuation was carried out by Hewitt Associates as at 31 March 2007. The market value of the scheme's assets was £1,345m and the value of the assets represented 77% of the actuarial value of benefits due to members, calculated on the basis of pensionable earnings and service at 31 March 2007 on an ongoing basis and allowing for projected increases in pensionable earnings. There was a funding deficit of £405m (£292m net of tax) on the valuation date in light of which the Company agreed a recovery plan with the trustees.

Notes to the consolidated financial statements continued

30. Actuarial information on pensions and other post-retirement benefits continued

The actuarial valuation showed that, based on long-term financial assumptions, the contribution rate required to meet future benefit accrual was 26.5% of pensionable earnings (20.5% employers and 6% employees). These contribution rates will be reviewed at the next valuation on 31 March 2010.

Following the 2007 actuarial valuation, the Company and the trustees agreed a recovery plan which will see the remaining deficit paid off by March 2017. The Company paid deficit repair contributions of £90m (£65m net of tax) during the year and anticipates no further deficit payments in the year to 31 March 2011 in line with the recovery plan. Contributions to the scheme in the year to 31 March 2011 are expected to consist of ongoing normal contributions only.

Since 2007, National Grid has also agreed to bring forward payment of the outstanding deficit plus interest in the event that certain triggers are breached. The conditions under which payment of the outstanding deficit would be made are if National Grid Electricity Transmission plc (NGET) ceases to hold the licence granted under the Electricity Act 1989 or NGET's credit rating by two out of three specified agencies falls below certain agreed levels for a period of 40 days.

US pension plans

National Grid's defined benefit pension plans in the US provide annuity or lump sum payments for all vested employees. In addition, employees are provided with matched defined contribution benefits. The assets of the plans are held in separate trustee administered funds.

Employees do not contribute to the defined benefit plans. Employer contributions are made in accordance with the rules set out by the US Internal Revenue Code. These contributions vary according to the funded status of the plans and the amounts that are tax deductible. At present, there is some flexibility in the amount that is contributed on an annual basis. In general, the Company's policy for funding the US pension plans is to contribute amounts collected in rates. These contributions are expected to meet the requirements of the Pension Protection Act of 2006.

US retiree healthcare and life insurance plans

National Grid provides healthcare and life insurance benefits to eligible retired US employees. Eligibility is based on certain age and length of service requirements and in most cases retirees contribute to the cost of their coverage.

In the US, there is no governmental requirement to pre fund post-retirement health and welfare plans. However, there may be requirements under the various state regulatory agreements to contribute to these plans. Depending upon the rate jurisdiction and the plan, the funding level may be: equal to the expense as determined under US GAAP; equal to the amount collected in rates; equal to the maximum tax deductible contribution; or zero. These requirements may change as rate agreements are reset.

National Grid expects to contribute $404m to the US pension plans and $224m to other post-retirement benefit plans in the year to 31 March 2011, although this figure may vary due to changes in market conditions and regulatory recovery.

Asset allocations and actuarial assumptions

The major categories of plan assets as a percentage of total plan assets were as follows:

	UK pensions			US pensions			US other post-retirement benefits		
	2010 %	2009 %	2008 %	**2010 %**	2009 %	2008 %	**2010 %**	2009 %	2008 %
Equities (i)	**36.8**	35.2	35.9	**52.8**	50.4	60.6	**68.6**	63.7	63.1
Corporate bonds (ii)	**32.3**	32.7	25.0	**41.5**	42.3	33.6	**24.8**	34.2	32.3
Gilts	**22.4**	22.2	29.8	**–**	–	–	**–**	–	–
Property	**5.9**	5.4	6.7	**–**	–	–	**–**	–	–
Other	**2.6**	4.5	2.6	**5.7**	7.3	5.8	**6.6**	2.1	4.6
Total	**100.0**	100.0	100.0	**100.0**	100.0	100.0	**100.0**	100.0	100.0

(i) Included within equities at 31 March 2010 were ordinary shares of National Grid plc with a value of £17m (2009: £17m; 2008: £24m).

(ii) Included within corporate bonds at 31 March 2008 was an investment in a bond issued by a subsidiary undertaking with a value of £20m.

In respect of UK schemes, the expected long-term rate of return on assets has been set reflecting the price inflation expectation, the expected real return on each major asset class and the long-term asset allocation strategy adopted for each scheme. The expected real returns on specific asset classes reflect historical returns, investment yields on the measurement date and general future return expectations, and have been set after taking advice from the schemes' actuaries. The current target asset allocation for the National Grid UK Pension Scheme is 33% equities and 67% bond-like (including property). The current target asset allocation for National Grid's section of the Electricity Supply Pension Scheme is 52% equities, 41% bonds, 7% property and other.

In respect of US plans, the estimated rate of return for various passive asset classes is based both on analysis of historical rates of return and forward looking analysis of risk premiums and yields. Current market conditions, such as inflation and interest rates, are evaluated in connection with the setting of our long-term assumptions. A small premium is added for active management of both equity and fixed income. The rates of return for each asset class are then weighted in accordance with the actual asset allocation resulting in a long-term return on asset rate for each plan. The long-term target asset allocation for the National Grid US pension plans is 60% equities, 40% bonds and cash. The long-term target asset allocation for other National Grid US post-retirement benefit plans is 70% equities and 30% bonds.

30. Actuarial information on pensions and other post-retirement benefits continued

The principal actuarial assumptions used were:

	UK pensions			US pensions			US other post-retirement benefits		
	2010 %	2009 %	2008 %	**2010 %**	2009 %	2008 %	**2010 %**	2009 %	2008 %
Discount rate (i)	**5.6**	6.8	6.6	**6.1**	7.3	6.5	**6.1**	7.3	6.5
Expected return on plan assets	**6.4**	6.2	6.4	**7.5**	7.8	7.9	**7.2**	7.4	7.6
Rate of increase in salaries (ii)	**4.7**	3.8	4.6	**3.5**	3.5	4.0	**3.5**	3.5	4.0
Rate of increase in pensions in payment	**3.8**	3.0	3.8	**–**	–	–	**n/a**	n/a	n/a
Rate of increase in pensions in deferment	**3.8**	2.9	3.7	**–**	–	–	**n/a**	n/a	n/a
Rate of increase in retail price index or equivalent	**3.8**	2.9	3.7	**2.4**	2.3	3.0	**n/a**	n/a	n/a
Initial healthcare cost trend rate	**n/a**	n/a	n/a	**n/a**	n/a	n/a	**8.5**	9.0	10.0
Ultimate healthcare cost trend rate	**n/a**	n/a	n/a	**n/a**	n/a	n/a	**5.0**	5.0	5.0

(i) The discount rates for pension liabilities have been determined by reference to appropriate yields on high quality corporate bonds prevailing in the UK and US debt markets at the balance sheet date.

(ii) A promotional scale has also been used where appropriate.

The assumed life expectations for a retiree at age 65 are:

	2010		2009	
	UK years	**US years**	UK years	US years
Today				
Males	**21.0**	**18.8**	21.0	18.2
Females	**23.4**	**20.8**	23.3	20.5
In 20 years				
Males	**23.4**	**18.8**	23.3	18.2
Females	**25.7**	**20.8**	25.6	20.5

Sensitivities – all other assumptions held constant:

	Change in pensions and other post-retirement obligation		Change in annual service cost	
	2010 £m	2009 £m	**2010 £m**	2009 £m
0.1% change in discount rate	**317**	233	**4**	4
0.5% change in long-term rate of increase in salaries	**166**	116	**8**	5
Change of one year to life expectations at age 60	**670**	541	**5**	5

Assumed healthcare cost trend rates have a significant impact on the amounts recognised in the income statement. A one percentage point change in assumed healthcare cost trend rates would have the following effects:

	2010 £m	2009 £m	2008 £m
Increase			
Effect on the aggregate of the service costs and interest costs	**25**	29	16
Effect on defined benefit obligations	**348**	294	251
Decrease			
Effect on the aggregate of the service costs and interest costs	**(21)**	(24)	(13)
Effect on defined benefit obligations	**(298)**	(254)	(214)

The history of experience adjustments is as follows:

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Details of experience gains/(losses) for all plans					
Present value of funded and unfunded obligations	**(22,200)**	(18,299)	(18,175)	(17,253)	(17,839)
Fair value of plan assets	**19,136**	15,519	17,273	15,999	15,909
	(3,064)	(2,780)	(902)	(1,254)	(1,930)
Difference between the expected and actual return on plan assets	**3,192**	(3,952)	(911)	(81)	1,521
Experience gains/(losses) on plan liabilities	**509**	(125)	152	9	192
Actuarial (losses)/gains on plan liabilities	**(3,923)**	1,934	1,343	446	(1,340)

Notes to the consolidated financial statements continued

31. Supplementary information on derivative financial instruments

Derivatives are financial instruments that derive their value from the price of an underlying item such as interest rates, foreign exchange, credit spreads, commodities and equity or other indices. Derivatives enable their users to alter exposure to market or credit risks. We use derivatives to manage both our treasury financing and operational market risks. Operational market risks are managed using commodity contracts which are detailed in note 33.

Treasury financial instruments

Derivatives are used for hedging purposes in the management of exposure to market risks. This enables the optimisation of the overall cost of accessing debt capital markets, and mitigates the market risk which would otherwise arise from the maturity and other profiles of its assets and liabilities.

Hedging policies using derivative financial instruments are further explained in note 32. Derivatives that are held as hedging instruments are formally designated as hedges as defined in IAS 39. Derivatives may qualify as hedges for accounting purposes if they are fair value hedges, cash flow hedges or net investment hedges. These are described as follows:

Fair value hedges

Fair value hedges principally consist of interest rate and cross-currency swaps that are used to protect against changes in the fair value of fixed-rate, long-term financial instruments due to movements in market interest rates. For qualifying fair value hedges, all changes in the fair value of the derivative and changes in the fair value of the item in relation to the risk being hedged are recognised in the income statement. If the hedge relationship is terminated, the fair value adjustment to the hedged item continues to be reported as part of the basis of the item and is amortised to the income statement as a yield adjustment over the remainder of the life of the hedged item.

Cash flow hedges

Exposure arises from the variability in future interest and currency cash flows on assets and liabilities which bear interest at variable rates or are in a foreign currency. Interest rate and cross-currency swaps are maintained, and designated as cash flow hedges, where they qualify, to manage this exposure. Fair value changes on designated cash flow hedges are initially recognised directly in the cash flow hedge reserve, as gains or losses recognised in equity. Amounts are transferred from equity and recognised in the income statement as the income or expense is recognised on the hedged asset or liability.

Forward foreign currency contracts are used to hedge anticipated and committed future currency cash flows. Where these contracts qualify for hedge accounting they are designated as cash flow hedges. On recognition of the underlying transaction in the financial statements, the associated hedge gains and losses, deferred in equity, are transferred and included with the recognition of the underlying transaction.

The gains and losses on ineffective portions of such derivatives are recognised immediately in remeasurements within the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement or on the balance sheet. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to remeasurements within the income statement.

Net investment hedges

Borrowings, cross-currency swaps and forward currency contracts are used in the management of the foreign exchange exposure arising from the investment in non-sterling denominated subsidiaries. Where these contracts qualify for hedge accounting they are designated as net investment hedges.

The cross-currency swaps and forward foreign currency contracts are hedge accounted using the spot to spot method. The foreign exchange gain or loss on retranslation of the borrowings and the spot to spot movements on the cross-currency swaps and forward currency contracts are transferred to equity to offset gains or losses on translation of the net investment in the non-sterling denominated subsidiaries.

Derivatives not in a formal hedge relationship

Our policy is not to use derivatives for trading purposes. However, due to the complex nature of hedge accounting under IAS 39 some derivatives may not qualify for hedge accounting, or are specifically not designated as a hedge where natural offset is more appropriate. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in remeasurements within the income statement.

32. Financial risk

Our activities expose us to a variety of financial risks: market risk (including foreign exchange risk; fair value interest rate risk; cash flow interest rate risk; commodity price risk); credit risk and liquidity risk. The overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance. Derivative financial instruments are used to hedge certain risk exposures.

Risk management related to financing activities is carried out by a central treasury department under policies approved by the Board of Directors. This department identifies, evaluates and hedges financial risks in close cooperation with the operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity as discussed further in our treasury policy, described on pages 74 to 78.

(a) Market risk

(i) Foreign exchange risk

National Grid operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and investments in foreign operations.

With respect to near term foreign exchange risk, we use foreign exchange forwards to manage foreign exchange transaction exposure. Our policy is to hedge a minimum percentage of known contracted foreign currency flows in order to mitigate foreign currency movements in the intervening period. Where cash forecasts are less certain, we generally cover a percentage of the foreign currency flows depending on the level of agreed probability for those future cash flows.

We also manage the foreign exchange exposure to net investments in foreign operations, within a policy range, by maintaining a percentage of net debt and foreign exchange forwards in the relevant currency. The primary managed foreign exchange exposure arises from the US dollar denominated assets and liabilities held by the US operations, with a further small euro exposure in respect of a joint venture investment.

During 2010 and 2009, derivative financial instruments were used to manage foreign currency risk as follows:

	2010					2009				
	Sterling £m	Euro £m	US dollar £m	Other £m	Total £m	Sterling £m	Euro £m	US dollar £m	Other £m	Total £m
Cash and cash equivalents	428	4	288	–	720	632	4	101	–	737
Financial investments	455	127	736	79	1,397	1,377	132	617	71	2,197
Borrowings (i)	(10,651)	(6,361)	(7,394)	(718)	(25,124)	(12,424)	(7,214)	(6,435)	(720)	(26,793)
Pre-derivative position	(9,768)	(6,230)	(6,370)	(639)	(23,007)	(10,415)	(7,078)	(5,717)	(649)	(23,859)
Derivative effect	438	6,172	(6,388)	646	868	2,040	7,116	(8,622)	652	1,186
Net debt position	(9,330)	(58)	(12,758)	7	(22,139)	(8,375)	38	(14,339)	3	(22,673)

(i) Includes bank overdrafts.

The overall exposure to US dollars largely relates to our net investment hedge activities as described in note 31.

The currency exposure on other financial instruments is as follows:

	2010					2009				
	Sterling £m	Euro £m	US dollar £m	Other £m	Total £m	Sterling £m	Euro £m	US dollar £m	Other £m	Total £m
Trade and other receivables	128	–	1,228	–	1,356	138	–	1,519	–	1,657
Trade and other payables	(1,221)	–	(1,382)	–	(2,603)	(1,196)	–	(1,421)	–	(2,617)
Other non-current liabilities	(15)	–	(393)	–	(408)	1	–	(553)	–	(552)

The carrying amounts of other financial instruments are denominated in the above currencies, which in most instances are the functional currency of the respective subsidiaries. Our exposure to US dollars is due to activities in our US subsidiaries. We do not have any other significant exposure to currency risk on these balances.

Notes to the consolidated financial statements continued

32. Financial risk continued

(ii) Cash flow and fair value interest rate risk

Interest rate risk arises from our borrowings. Borrowings issued at variable rates expose National Grid to cash flow interest rate risk. Borrowings issued at fixed rates expose National Grid to fair value interest rate risk. Our interest rate risk management policy as further explained on page 77 is to minimise the finance costs (being interest costs and changes in the market value of debt). Some of our borrowings are inflation linked; that is, their cost is linked to changes in the UK retail price index (RPI). We believe that these borrowings provide a hedge for regulated UK revenues and our UK regulatory asset values that are also RPI linked.

Interest rate risk arising from our financial investments is primarily variable being composed of short-dated money funds.

The following table sets out the carrying amount, by contractual maturity, of borrowings that are exposed to interest rate risk before taking into account interest rate swaps:

	2010 £m	2009 £m
Fixed interest rate borrowings		
In one year or less	**(1,237)**	(2,103)
In more than one year, but not more than two years	**(1,413)**	(809)
In more than two years, but not more than three years	**(956)**	(1,398)
In more than three years, but not more than four years	**(1,762)**	(981)
In more than four years, but not more than five years	**(1,265)**	(1,821)
In more than five years	**(8,791)**	(8,637)
	(15,424)	(15,749)
Floating interest rate borrowings (including inflation linked)	**(9,700)**	(11,044)
Total borrowings	**(25,124)**	(26,793)

During 2010 and 2009, net debt was managed using derivative instruments to hedge interest rate risk as follows:

	2010					2009				
	Fixed rate £m	Floating rate £m	Inflation linked(i) £m	Other(ii) £m	Total £m	Fixed rate £m	Floating rate £m	Inflation linked(i) £m	Other(ii) £m	Total £m
Cash and cash equivalents	**599**	**121**	**–**	**–**	**720**	–	737	–	–	737
Financial investments	**602**	**673**	**–**	**122**	**1,397**	217	1,922	–	58	2,197
Borrowings (iii)	**(15,424)**	**(4,604)**	**(5,096)**	**–**	**(25,124)**	(15,749)	(6,001)	(5,043)	–	(26,793)
Pre-derivative position	**(14,223)**	**(3,810)**	**(5,096)**	**122**	**(23,007)**	(15,532)	(3,342)	(5,043)	58	(23,859)
Derivative effect (iv)	**(1,552)**	**2,292**	**204**	**(76)**	**868**	148	589	345	104	1,186
Net debt position	**(15,775)**	**(1,518)**	**(4,892)**	**46**	**(22,139)**	(15,384)	(2,753)	(4,698)	162	(22,673)

(i) The post-derivative impact represents financial instruments linked to the UK RPI.

(ii) Represents financial instruments which are not directly affected by interest rate risk, such as investments in equity, foreign exchange forward contracts or other similar financial instruments.

(iii) Includes bank overdrafts.

(iv) The impact of 2010/11 (2009: 2009/10) maturing short-dated interest rate derivatives is included.

(b) Fair value analysis

The following is an analysis of our financial instruments that are measured at fair value. They are reported in a tiered hierarchy based on the valuation methodology described on page 78, and reflecting the significance of market observable inputs.

The classification is as follows:

Level 1: Financial instruments with quoted prices for identical instruments in active markets.

Level 2: Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are based directly or indirectly on observable market data.

Level 3: Financial instruments valued using valuation techniques where one or more significant inputs is based on unobservable market data.

The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used.

32. Financial risk continued

The fair value classification of our financial assets and financial liabilities is as follows:

	2010			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Available-for-sale investments	1,346	175	–	1,521
Derivative financial instruments	–	1,706	36	1,742
	1,346	1,881	36	3,263
Liabilities				
Derivative financial instruments	–	(874)	–	(874)
Total	1,346	1,007	36	2,389

The financial instruments classified as level 3 include cross-currency swaps with an embedded call option and currency swaps where the currency forward curve is illiquid. Third party valuations are obtained from more than one source to support the reported fair value.

The changes in the value of our level 3 derivative financial instruments are as follows:

	2010 £m
At 1 April 2009	10
Net gains for the year (i)	29
Settlements	(3)
At 31 March 2010	36

(i) Gains of £29m are attributable to assets or liabilities held at the end of the reporting period and have been recognised in finance costs in the income statement.

(c) Credit risk

Credit risk is the risk of loss resulting from counterparties' default on their commitments including failure to pay or make a delivery on a contract. This risk is inherent in the Company's commercial business activities and is managed on a portfolio basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Treasury related credit risk

Counterparty risk arises from the investment of surplus funds and from the use of derivative instruments. As at 31 March 2010, the following limits were in place for investments held with banks and financial institutions:

	Maximum limit £m	Long-term limit £m
Rating		
AAA rated G8 sovereign entities	Unlimited	Unlimited
Triple 'A' vehicles	265	225
Triple 'A' range institutions (AAA)	905 to 1,365	455 to 715
Double 'A' range institutions (AA)	540 to 680	275 to 340
Single 'A' range institutions (A)	185 to 265	95 to 135

As at 31 March 2010 and 2009, we had a number of exposures to individual counterparties. In accordance with our treasury policies and exposure management practices, counterparty credit exposure limits are continually monitored and no individual exposure is considered significant in the ordinary course of treasury management activity. Management does not expect any significant losses from non performance by these counterparties.

The counterparty exposure under derivative financial contracts as shown in note 17 was £1,742m (2009: £2,126m); after netting agreements it was £1,229m (2009: £1,674m). This exposure is further reduced by collateral received as shown in note 21. Additional information for commodity contract credit risk is in note 33.

Notes to the consolidated financial statements continued

32. Financial risk continued

Wholesale and retail credit risk

Our principal commercial exposure in the UK is governed by the credit rules within the regulated codes Uniform Network Code and Connection and Use of System Code. These lay down the level of credit relative to the regulatory asset value (RAV) for each credit rating. In the US, we are required to supply electricity and gas under state regulations. Our credit policies and practices are designed to limit credit exposure by collecting security deposits prior to providing utility services. Collection activities are managed on a daily basis. Sales to retail customers are usually settled in cash or using major credit cards. We are committed to measuring, monitoring, minimising and recording counterparty credit risk in our wholesale business. The utilisation of credit limits is regularly monitored and collateral is collected against these accounts when necessary. Management does not expect any significant losses of receivables that have not been provided for as shown in note 19.

(d) Liquidity analysis

We determine our liquidity requirements by the use of both short- and long-term cash flow forecasts. These forecasts are supplemented by a financial headroom analysis which is used to assess funding adequacy for at least a 12 month period.

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities and derivative assets and liabilities as at the balance sheet date:

At 31 March 2010	**Due within 1 year £m**	**Due between 1 and 2 years £m**	**Due between 2 and 3 years £m**	**Due 3 years and beyond £m**	**Total £m**
Non-derivative financial liabilities					
Borrowings, excluding finance lease liabilities	**(2,390)**	**(2,100)**	**(1,322)**	**(18,927)**	**(24,739)**
Interest payments on borrowings (i)	**(915)**	**(874)**	**(845)**	**(9,829)**	**(12,463)**
Finance lease liabilities	**(30)**	**(53)**	**(20)**	**(169)**	**(272)**
Other non interest-bearing liabilities	**(2,287)**	**(265)**	**–**	**–**	**(2,552)**
Derivative financial liabilities					
Derivative contracts – receipts	**1,027**	**1,649**	**171**	**2,235**	**5,082**
Derivative contracts – payments	**(859)**	**(1,464)**	**(104)**	**(1,874)**	**(4,301)**
Commodity contracts	**(488)**	**(168)**	**(35)**	**(101)**	**(792)**
Total at 31 March 2010	**(5,942)**	**(3,275)**	**(2,155)**	**(28,665)**	**(40,037)**

At 31 March 2009	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due 3 years and beyond £m	Total £m
Non-derivative financial liabilities					
Borrowings, excluding finance lease liabilities	(2,839)	(1,946)	(2,460)	(19,056)	(26,301)
Interest payments on borrowings (i)	(1,031)	(982)	(903)	(9,456)	(12,372)
Finance lease liabilities	(46)	(60)	(50)	(162)	(318)
Other non interest-bearing liabilities	(2,303)	(396)	–	–	(2,699)
Derivative financial liabilities					
Derivative contracts – receipts	1,057	1,109	1,686	1,674	5,526
Derivative contracts – payments	(598)	(889)	(1,588)	(2,154)	(5,229)
Commodity contracts	(601)	(314)	(172)	(214)	(1,301)
Total at 31 March 2009	(6,361)	(3,478)	(3,487)	(29,368)	(42,694)

(i) The interest on borrowings is calculated based on borrowings held at 31 March without taking account of future issues. Floating rate interest is estimated using a forward interest rate curve as at 31 March. Payments are included on the basis of the earliest date on which the Company can be required to settle.

32. Financial risk continued

(e) Sensitivity analysis

Financial instruments affected by market risk include borrowings, deposits, derivative financial instruments and commodity contracts. The following analysis illustrates the sensitivity to changes in market variables, being UK and US interest rates, the UK retail price index and the dollar to sterling exchange rate, on our financial instruments.

The analysis also excludes the impact of movements in market variables on the carrying value of pension and other post-retirement benefit obligations, provisions and on the non-financial assets and liabilities of overseas subsidiaries.

The sensitivity analysis has been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 March 2010 and 31 March 2009 respectively. As a consequence, this sensitivity analysis relates to the positions at those dates and is not representative of the years then ended, as all of these varied.

The following assumptions were made in calculating the sensitivity analysis:

- the balance sheet sensitivity to interest rates relates only to derivative financial instruments and available-for-sale investments, as debt and other deposits are carried at amortised cost and so their carrying value does not change as interest rates move;
- the sensitivity of accrued interest to movements in interest rates is calculated on net floating rate exposures on debt, deposits and derivative instruments;
- changes in the carrying value of derivatives from movements in interest rates designated as cash flow hedges are assumed to be recorded fully within equity;
- changes in the carrying value of derivative financial instruments designated as net investment hedges from movements in interest rates are recorded in the income statement as they are designated using the spot rather than the forward translation method. The impact of movements in the dollar to sterling exchange rate are recorded directly in equity;
- changes in the carrying value of derivative financial instruments not in hedging relationships only affect the income statement;
- all other changes in the carrying value of derivative financial instruments designated as hedges are fully effective with no impact on the income statement;
- debt with a maturity below one year is floating rate for the accrued interest part of the calculation;
- the floating leg of any swap or any floating rate debt is treated as not having any interest rate already set, therefore a change in interest rates affects a full 12 month period for the accrued interest portion of the sensitivity calculations; and
- sensitivity to the retail price index does not take into account any changes to revenue or operating costs that are affected by the retail price index or inflation generally.

Using the above assumptions, the following table shows the illustrative impact on the income statement and items that are recognised directly in equity that would result from reasonably possible movements in the UK retail price index, UK and US interest rates and in the dollar to sterling exchange rate, after the effects of tax.

	2010		2009	
	Income statement +/- £m	**Other equity reserves +/- £m**	Income statement +/- £m	Other equity reserves +/- £m
UK retail price index +/- 0.50%	**17**	**–**	17	–
UK interest rates +/- 0.50%	**51**	**71**	67	77
US interest rates +/- 0.50%	**52**	**14**	63	13
US dollar exchange rate +/- 10%	**68**	**623**	55	880

The income statement sensitivities impact interest expense and financial instrument remeasurements.

The other equity reserves impact does not reflect the exchange translation in our US subsidiary net assets, which it is estimated would change by £796m (2009: £964m) in the opposite direction if the dollar exchange rate changed by 10%.

Notes to the consolidated financial statements continued

32. Financial risk continued

(f) Capital and risk management

National Grid's objectives when managing capital are to safeguard our ability to continue as a going concern, to remain within regulatory constraints and to maintain an efficient mix of debt and equity funding thus achieving an optimal capital structure and cost of capital. We regularly review and maintain or adjust the capital structure as appropriate in order to achieve these objectives.

The principal measure of our balance sheet efficiency is our interest cover ratio. Interest cover for the year ended 31 March 2010 increased to 3.9 from 3.1 for the year ended 31 March 2009. Our long-term target range for interest cover is between 3.0 and 3.5, which we believe is consistent with single A range long-term senior unsecured debt credit ratings within our main UK operating companies, National Grid Electricity Transmission plc and National Grid Gas plc, based on guidance from the rating agencies. This year's interest cover was above the long-term target range, reflecting the low average retail price index (RPI) during the year, which reduced the interest expense on the accretion of our RPI linked debt. Additional information is provided on page 38.

In addition, we monitor the regulatory asset value (RAV) gearing within each of National Grid Electricity Transmission plc and the regulated transmission and distribution businesses within National Grid Gas plc. This is calculated as net debt expressed as a percentage of RAV, and indicates the level of debt employed to fund our UK regulated businesses. It is compared with the level of RAV gearing indicated by Ofgem as being appropriate for these businesses, at around 60%.

National Grid USA and its public utility subsidiaries, all consolidated subsidiaries of National Grid, are subject to restrictions on the payment of dividends by administrative order and contract. Orders by the Federal Energy Regulatory Commission and applicable state regulatory commissions limit the payment of dividends to cumulative retained earnings, including pre-acquisition retained earnings. Other orders by federal and state commissions require National Grid USA and its public utility subsidiaries to maintain a ratio of at least 30% equity to capital, and debt covenants in effect require that this ratio be maintained at a level of at least 35%.

Some of our regulatory and bank loan agreements additionally impose lower limits for the long-term credit ratings that certain companies within the group must hold. All of the aforementioned requirements are monitored on a regular basis in order to ensure compliance. Additional information is provided on page 74. The Company has complied with all externally imposed capital requirements to which it is subject.

33. Commodity risk

We purchase electricity and gas in order to supply our customers in the US and also to meet our own energy requirements. We also engage in the sale of gas that is produced primarily by our West Virginia gas fields.

Substantially all of our costs of purchasing electricity and gas for supply to customers are recoverable at an amount equal to cost. The timing of recovery of these costs can vary between financial periods leading to an under- or over-recovery within any particular financial period.

We enter into forward contracts for the purchase of commodities, some of which do not meet the own use exemption for accounting purposes and hence are accounted for as derivatives. We also enter into derivative financial instruments linked to commodity prices, including index-linked swaps and futures contracts. These derivative financial instruments are used to manage market price volatility and are carried at fair value on the balance sheet. The mark-to-market changes in these contracts are reflected through earnings with the exception of those related to our West Virginia gas fields that are designated as cash flow hedges.

Our energy procurement risk management policy and Delegations of Authority govern our US commodity trading activities for energy transactions. The purpose of this policy is to ensure we transact within pre-defined risk parameters and only in the physical and financial markets where we or our customers have a physical market requirement.

The credit policy for commodity transactions is owned and monitored by the energy procurement risk management committee and establishes controls and procedures to determine, monitor and minimise the credit risk of counterparties. The valuation of our commodity contracts considers the risk of credit by utilising the most current default probabilities and the most current published credit ratings. We also use internal analysis to guide us in setting credit and risk levels and use contractual arrangements including netting agreements as applicable.

The counterparty exposure for our commodity derivatives is £105m (2009: £49m), and after netting agreements it was £91m (2009: £43m).

33. Commodity risk continued

(a) Fair value analysis

The fair value of our commodity contracts by type can be analysed as follows:

	2010			2009		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Commodity purchase contracts accounted for as derivative contracts						
Forward purchases of electricity	**–**	**(127)**	**(127)**	–	(121)	(121)
Forward purchases/sales of gas	**51**	**(101)**	**(50)**	35	(34)	1
Derivative financial instruments linked to commodity prices						
Electricity swaps	**–**	**(47)**	**(47)**	–	(30)	(30)
Electricity options	**51**	**–**	**51**	–	–	–
Gas swaps	**3**	**(52)**	**(49)**	14	(173)	(159)
Gas options	**–**	**–**	**–**	–	(1)	(1)
	105	**(327)**	**(222)**	49	(359)	(310)

The fair value classification of our commodity contracts is as follows; a definition of each level can be found on page 158:

	2010			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Commodity contracts	**–**	**2**	**103**	**105**
Liabilities				
Commodity contracts	**–**	**(100)**	**(227)**	**(327)**
Total	**–**	**(98)**	**(124)**	**(222)**

Our level 3 commodity contracts primarily consist of our forward purchases of electricity and gas where pricing inputs are unobservable, as well as other complex transactions. Complex transactions can introduce the need for internally developed models based on reasonable assumptions. Industry standard valuation techniques such as the Black-Scholes pricing model and Monte Carlo simulation are used for valuing such instruments. Level 3 is also applied in cases when optionality is present or where an extrapolated forward curve is considered unobservable. All published forward curves are verified to market data; if forward curves differ from market data by 5% or more they are considered unobservable.

The changes in the value of our level 3 commodity contracts are as follows:

	2010 £m
At 1 April 2009	**(115)**
Net gains for the year (i)	**8**
Purchases	**(12)**
Sales	**(1)**
Reclassification into level 3	**(3)**
Reclassification out of level 3	**(1)**
At 31 March 2010	**(124)**

(i) Losses of £67m are attributable to assets or liabilities held at the end of the reporting period.

During the year £3m was transferred out of level 2 and into level 3. These transfers were driven by extrapolated forward curves moving from observable to unobservable.

Notes to the consolidated financial statements continued

33. Commodity risk continued

The impacts on a post-tax basis of reasonably possible changes in significant level 3 assumptions are as follows:

	2010 Income statement £m
10% increase in commodity prices (i)	46
10% decrease in commodity prices (i)	(39)
10% increase in commodity volumes	(9)
10% decrease in commodity volumes	9
Forward curve extrapolation (ii)	(12)

(i) Level 3 commodity price sensitivity is included within the sensitivity analysis disclosed in (d) below.
(ii) Alternative regression assumption applied to the forward curve extrapolation.

The impacts disclosed above were considered on a contract by contract basis with the most significant unobservable inputs identified. The sensitivity is hypothetical only and should be used with caution as the relationship between complex valuation inputs varies over time.

(b) Maturity analysis

The maturity of commodity contracts measured at fair value can be analysed as follows:

	2010			2009		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
In one year or less	21	(184)	(163)	41	(203)	(162)
Current	21	(184)	(163)	41	(203)	(162)
In more than one year, but not more than two years	8	(49)	(41)	6	(41)	(35)
In more than two years, but not more than three years	11	(21)	(10)	2	(27)	(25)
In more than three years, but not more than four years	13	(19)	(6)	–	(17)	(17)
In more than four years, but not more than five years	11	(19)	(8)	–	(16)	(16)
In more than five years	41	(35)	6	–	(55)	(55)
Non-current	84	(143)	(59)	8	(156)	(148)
Total	105	(327)	(222)	49	(359)	(310)

(c) Notional quantities

For each class of commodity contract, our exposure based on the notional quantities is as follows:

	2010	2009*
Forward purchases of electricity (i)	3,883 GWh	4,524 GWh
Forward purchases/sales of gas (ii)	171m Dth	298m Dth
Electricity swaps	3,141 GWh	4,090 GWh
Electricity options	30,294 GWh	30,294 GWh
Gas swaps	59m Dth	88m Dth
Gas options	–	1m Dth
NYMEX electricity futures (iii)	–	18 GWh
NYMEX gas futures (iii)	48m Dth	30m Dth

*Prior year comparatives have been restated on a basis consistent with current year
(i) Forward electricity purchases have terms up to 12 years. The contractual obligations under these contracts are £269m (2009: £348m).
(ii) Forward gas purchases have terms up to 7 years. The contractual obligations under these contracts are £434m (2009: £700m).
(iii) NYMEX futures have been offset with related margin accounts.

(d) Sensitivity analysis

A sensitivity analysis has been prepared on the basis that all commodity contracts are constant from the balance sheet date. Based on this, an illustrative 10% movement in commodity prices would have the following impacts after the effects of tax:

	2010		2009*	
	Income statement £m	Other equity reserves £m	Income statement £m	Other equity reserves £m
10% increase in commodity prices	71	(1)	33	(1)
10% reduction in commodity prices	(64)	1	(43)	1

*Prior year comparatives have been restated to be consistent on a post-tax basis

The income statement sensitivities would affect commodity remeasurements.

34. Bonds and facilities

The table below shows our significant bonds in issue, being those with £100m equivalent notional value or greater. Unless otherwise indicated, these instruments were outstanding at both 31 March 2010 and 31 March 2009.

Issuer	Original Notional Value	Description of instrument	Due
Bonds			
British Transco Finance Inc.	USD 300m	6.625% Fixed Rate	2018
British Transco International Finance BV	FRF 2,000m	5.125% Fixed Rate (i)	2009
	USD 1,500m	Zero Coupon Bond	2021
Brooklyn Union Gas Company	USD 153m	NYSERDA 4.7% GFRB's Series 1996	2021
	USD 400m	KEDNY 5.6% Senior Unsecured Note	2016
KeySpan Corporation	USD 700m	KeySpan MTN 7.625%	2010
	USD 250m	KeySpan MTN 8.00%	2030
	USD 307m	KeySpan 5.803% Notes	2035
	USD 150m	KeySpan 4.65% Notes	2013
	USD 150m	KeySpan 5.875% Notes	2033
KeySpan Gas East Corporation (National Grid Energy Delivery Long Island)	USD 400m	KeySpan 7.875% Gas East MTN Program (i)	2010
Massachusetts Electric Company	USD 800m	5.90% Fixed Rate (ii)	2039
National Grid Electricity Transmission plc	EUR 600m	6.625% Fixed Rate	2014
	GBP 250m	4.75% Fixed Rate	2010
	GBP 300m	2.983% Guaranteed Retail Price Index Linked	2018
	GBP 220m	3.806% Retail Price Index Linked	2020
	GBP 450m	5.875% Fixed Rate	2024
	GBP 360m	6.5% Fixed Rate	2028
	GBP 200m	1.6449% Retail Price Index Linked	2036
	GBP 150m	1.823% Retail Price Index Linked	2056
	GBP 150m	1.8575% Index Linked	2039
	GBP 379m	7.375% Fixed Rate	2031
National Grid Gas plc	GBP 300m	5.375% Fixed Rate (i)	2009
	GBP 300m	6.0% Fixed Rate	2017
	GBP 275m	8.75% Fixed Rate	2025
	GBP 100m	1.6747% Retail Price Index Linked	2036
	GBP 115m	1.7298% Retail Price Index Linked	2046
	GBP 100m	1.6298% Retail Price Index Linked	2048
	GBP 100m	1.5522% Retail Price Index Linked	2048
	GBP 300m	1.754% Retail Price Index Linked	2036
	GBP 140m	1.7864% Index Linked	2037
	GBP 100m	1.9158% Index Linked	2037
	GBP 100m	1.7762% Index Linked	2037
	GBP 100m	1.7744% Index Linked	2039
	GBP 100m	1.8625% Index Linked	2039
	GBP 484m	6.375% Fixed Rate	2020
	GBP 503m	Floating Rate (i)	2009
	GBP 503m	4.1875% Index Linked	2022
	GBP 503m	7.0% Fixed Rate	2024
	EUR 800m	5.125% Fixed Rate	2013
	EUR 163m	4.36% EUR-HICP Linked	2018
	GBP 457m	6.0% Fixed Rate	2038

Notes to the consolidated financial statements continued

34. Bonds and facilities continued

Issuer	Original Notional Value	Description of instrument	Due
Bonds continued			
National Grid plc	CAD 200m	4.98% Fixed Rate	2011
	EUR 1,000m	4.125% Fixed Rate	2013
	EUR 600m	5.0% Fixed Rate	2018
	EUR 500m	4.375% Fixed Rate	2020
	EUR 600m	Floating Rate	2010
	EUR 750m	Floating Rate	2012
	EUR 300m	Floating Rate (i)	2009
	GBP 300m	5.25% Fixed Rate	2011
	GBP 310m	5.5% Fixed Rate	2013
	USD 1,000m	6.3% Fixed Rate	2016
	EUR 578m	6.5% Fixed Rate	2014
	GBP 414m	6.125% Fixed Rate	2014
NGG Finance plc	EUR 750m	6.125% Fixed Rate	2011
Niagara Mohawk Power Corporation	USD 750m	4.881% Fixed Rate (ii)	2019
	USD 500m	3.553% Fixed Rate (ii)	2014
The Narragansett Electric Company	USD 250m	4.534% Fixed Rate (ii)	2020
	USD 300m	5.638% Fixed Rate (ii)	2040
Bank loans and other loans			
National Grid plc	USD 250m	Floating Rate	2014
	USD 150m	Floating Rate	2014
	USD 150m	Floating Rate (i)	2011
	USD 200m	Floating Rate	2010
National Grid Grain LNG Limited	GBP 120m	Floating Rate	2014
	GBP 140m	Floating Rate	2023
National Grid Electricity Transmission plc	GBP 200m	Floating Rate	2012
	GBP 200m	Floating Rate	2017
National Grid Gas plc	GBP 200m	Floating Rate	2012
	GBP 180m	1.88% Retail Price Index Linked	2022
	GBP 190m	2.14% Retail Price Index Linked	2022
National Grid USA	USD 150m	Floating Rate	2011
National Grid Holdings Limited	GBP 250m	4.13794% Fixed Rate	2011
NGT Five Limited	GBP 500m	5.917% Index Linked (i)	2013

(i) Matured or repurchased during the year ended 31 March 2010.
(ii) Issued during the year ended 31 March 2010.

The following bonds and loans have been issued since 31 March 2010:

Issuer	Original Notional Value	Description of instrument	Due
Bonds and loans issued after 31 March 2010			
National Grid Gas plc	GBP 180m	Index Linked (i)	2024

(i) Of this loan agreement a further £120m is expected to be drawn by 30 June 2010.

Borrowing facilities

At 31 March 2010, there were bilateral committed credit facilities of £2,279m (2009: £1,273m), of which £2,189m (2009: £1,180m) were undrawn. In addition, there were committed credit facilities from syndicates of banks of £833m at 31 March 2010 (2009: £1,796m), of which £833m (2009: £1,796m) were undrawn. An analysis of the maturity of these undrawn committed facilities is shown below:

	2010 £m	2009 £m
Undrawn committed borrowing facilities expiring:		
In one year or less	**1,708**	1,155
In more than one year, but not more than two years	**1,314**	1,820
	3,022	2,975

At 31 March 2010, of the unused facilities £2,673m (2009: £2,816m) was held as back up to commercial paper and similar borrowings, while £349m is available as back up to specific US borrowings.

35. Share options and reward plans

We operate four principal forms of share option and share reward plans. These plans include an employee Sharesave scheme, a Performance Share Plan (PSP), the Deferred Share Plan and the Retention Award Plans. In any ten year period, the maximum number of shares that may be issued or issuable pursuant to these share plans may not exceed 10% of the issued ordinary share capital.

Active share plans

The Sharesave scheme is savings related where, under normal circumstances, share options are exercisable on completion of a three and/or five year Save As You Earn contract. The exercise price of options granted represents 80% of the market price at the time of the invitation.

Under the PSP, awards have been made to Executive Directors and approximately 400 senior employees. Awards made from 2005 have criteria of 50% based on the Company's total shareholder return (TSR) performance when compared to the FTSE 100 and 50% based on the annualised growth of the Company's EPS compared to the growth in RPI (the general index of retail prices for all items). Awards are delivered in National Grid plc shares (ADSs for US participants).

Under the Deferred Share Plan, one half of any Annual Performance Plan awarded to the Executive Directors and a predetermined part of any Annual Performance award earned by senior employees is automatically deferred into National Grid shares (ADSs for US participants). The shares/ADSs are held in trust for three years before release.

Retention Awards have been made to a small number of senior employees across the Company. Awards were made predominately to senior US employees following the acquisition of KeySpan. Awards vest in equal tranches over two and four years, provided the employee remains employed by the Company. The Retention Awards are conditional awards with no performance conditions attached.

Additional information in respect of active share plans

	2010 millions	2009 millions	2008 millions
Performance Share Plan			
Awards of ordinary share equivalents at 1 April	**9.5**	7.5	8.0
Awards made	**4.1**	3.5	3.1
Lapses/forfeits	**(0.8)**	(0.7)	(3.4)
Awards vested	**(3.8)**	(0.8)	(0.2)
Awards of ordinary share equivalents at 31 March	**9.0**	9.5	7.5
Conditional awards available for release at 31 March	**0.1**	1.8	–
Deferred Share Plan			
Awards of ordinary share equivalents at 1 April	**1.0**	0.5	0.4
Awards made	**0.5**	0.6	0.2
Awards vested	**(0.6)**	(0.1)	(0.1)
Awards of ordinary share equivalents at 31 March	**0.9**	1.0	0.5
Conditional awards available for release at 31 March	**–**	–	–
Retention Award Plans			
Awards of ordinary share equivalents at 1 April	**0.5**	0.8	–
Awards made	**0.1**	–	0.8
Lapses/forfeits	**(0.1)**	–	–
Awards vested	**(0.2)**	(0.3)	–
Awards of ordinary share equivalents at 31 March	**0.3**	0.5	0.8
Conditional awards available for release at 31 March	**–**	–	–

Notes to the consolidated financial statements continued

35. Share options and reward plans continued

Non-active share plans

We also have a number of historical plans where awards are still outstanding but no further awards will be granted. These include the Executive Share Option Plan and the Share Matching Plan.

The Executive Share Option Plan applied to senior executives, including Executive Directors. Options granted were subject to the achievement of performance targets related to TSR over a three year period and those for 2000 were subject to a final retest on 31 March 2010 and the performance condition was not met. This award has therefore lapsed. The share options are generally exercisable between the third and tenth anniversaries of the date of grant if the relevant performance target is achieved.

The Share Matching Plan applied to Executive Directors and other senior employees whereby a predetermined part of each participant's bonus entitlement was automatically deferred into National Grid plc shares (known as qualifying shares) and a matching award may be exercised under the Plan after a three year period provided the Director or senior employee remains employed by the Company or its subsidiary undertakings.

Additional information in respect of non-active share plans

	2010 000s	2009 000s	2008 000s
Share Matching Plan			
Awards at 1 April	**89**	201	384
Awards exercised	**(18)**	(112)	(183)
Awards at 31 March	**71**	89	201
Options exercisable at 31 March	**71**	89	109
Transitional Share Awards/Special Share Awards			
Awards of ordinary share equivalents at 1 April	**–**	3	77
Lapses/forfeits	**–**	–	(1)
Awards vested	**–**	(3)	(73)
Awards of ordinary share equivalents at 31 March	**–**	–	3
Conditional awards available for release at 31 March	**–**	–	3

Share options

Movement in options to subscribe for ordinary shares under the Company's various options schemes for the three years ended 31 March 2010 is shown below and includes those options related to shares issued by employee benefit trusts:

	Sharesave scheme options		Executive Plan options		
	Weighted average price £	millions	Weighted average price £	millions	Total options millions
At 31 March 2007	4.07	21.3	4.74	3.2	24.5
Granted	6.55	2.9	–	–	2.9
Lapsed – expired	4.43	(1.0)	5.31	(0.1)	(1.1)
Exercised	3.37	(6.3)	4.45	(1.1)	(7.4)
At 31 March 2008	4.74	16.9	4.87	2.0	18.9
Granted	4.88	7.4	–	–	7.4
Lapsed – expired	6.07	(2.2)	4.16	(0.1)	(2.3)
Exercised	3.81	(2.0)	4.81	(0.4)	(2.4)
At 31 March 2009	4.74	20.1	4.95	1.5	21.6
Granted	5.20	3.7	–	–	3.7
Lapsed – expired	5.38	(0.9)	5.24	(0.1)	(1.0)
Exercised	3.77	(4.5)	4.93	(0.5)	(5.0)
At 31 March 2010	**5.05**	**18.4**	**4.92**	**0.9**	**19.3**

Included within options outstanding were the following options that were exercisable:

At 31 March 2010	**4.98**	**0.8**	**4.71**	**0.5**	**1.3**
At 31 March 2009	4.57	0.1	4.81	1.0	1.1
At 31 March 2008	3.74	0.5	4.78	1.3	1.8

35. Share options and reward plans continued

The weighted average remaining contractual life of options in the employee Sharesave scheme at 31 March 2010 was 2 years and 6 months. These options have exercise prices between £3.17 and £6.55 per ordinary share.

The weighted average share price at the exercise dates was as follows:

	2010 £	2009 £	2008 £
Sharesave scheme options	5.74	6.99	7.79
Executive Plan options	6.03	6.81	7.68

Additional information in respect of share options

	2010 £m	2009 £m	2008 £m
Share options exercised			
Cash received on exercise of all share options during the year	18	8	23
Tax benefits realised from share options exercised during the year	8	4	10

Options outstanding and exercisable and their weighted average exercise prices for the respective ranges of exercise prices and years at 31 March 2010 are as follows:

	Weighted average exercise price of exercisable options £	Number exercisable millions	Weighted average exercise price of outstanding options £	Number outstanding millions	Exercise price per share pence	Normal dates of exercise years
Executive Plan options	5.27	0.1	5.28	0.4	526.0-531.5	2004-2011
	4.62	0.4	4.62	0.5	434.5-481.5	2006-2013
	4.71	0.5	4.92	0.9		

The aggregate intrinsic value of all options outstanding and exercisable at 31 March 2010 amounted to £30m and £2m respectively.

Share-based payment charges

The charge to the income statement for the year ended 31 March 2010 was £25m (2009: £22m; 2008: £18m). The related tax charge recognised in the income statement was £1m (2009: £1m credit; 2008: £1m charge).

Awards under share option plans

The average share prices at the date of options being granted, the average exercise prices of the options granted and the estimated average fair values of the options granted during each of the three financial years ended 31 March were as follows:

	2010	2009	2008
Average share price	676.0p	684.0p	846.0p
Average exercise price	520.0p	488.0p	655.0p
Average fair value	161.1p	153.7p	190.0p

These amounts have been calculated in respect of options where the exercise price is less than the market price at the date of grant.

The fair values of the options granted were estimated using the following principal assumptions:

	2010	2009	2008
Dividend yield (%)	5.0	5.0	4.5
Volatility (%)	22.4-26.1	22.4-26.1	15.6-18.9
Risk-free investment rate (%)	2.5	2.5	4.2
Average life (years)	4.0	4.2	4.1

Notes to the consolidated financial statements continued

35. Share options and reward plans continued

The fair values of awards under the Sharesave scheme have been calculated using the Black-Scholes European model. This is considered appropriate given the short exercise window of Sharesave options. A Black-Scholes European model calculation is carried out every three years. In the intervening years fair values are calculated by reference to the previous full calculation. Consequently, the fair value of awards made in 2010 have been calculated by reference to the 2009 Black-Scholes European model calculation and the fair values of awards made in 2008 have been calculated by reference to the 2006 Black-Scholes European model calculation.

Volatility was derived based on the following, and is assumed to revert from its current implied level to its long-run mean based on historical volatility under (ii) below:

(i) implied volatility in traded options over the Company's shares;

(ii) historical volatility of the Company's shares over a term commensurate with the expected life of each option; and

(iii) implied volatility of comparator companies where options in their shares are traded.

Awards under other share plans

The average share prices and fair values at the date share awards were granted during each of the three financial years ended 31 March were as follows:

	2010	2009	2008
Average share price	**598.2p**	670.1p	766.9p
Average fair value	**355.6p**	458.1p	522.8p

The fair values of the awards granted were estimated using the following principal assumptions:

	2010	2009	2008
Dividend yield (%)	**4.4**	4.4	4.4
Risk-free investment rate (%)	**2.5**	2.5	4.1

Fair values have been calculated using a Monte Carlo simulation model for awards with total shareholder return performance conditions. A Monte Carlo simulation model calculation is carried out every three years. In the intervening years fair values are calculated by reference to the previous full Monte Carlo simulation model calculation. Consequently, the fair value of awards made in 2010 have been calculated by reference to the 2009 Monte Carlo simulation model calculation and the fair value of awards made in 2008 have been calculated by reference to the 2006 Monte Carlo simulation model calculation. Fair values of awards with performance conditions based on earnings per share have been calculated using the share price at date of grant less the present value of dividends foregone during the performance period.

For other share scheme awards, where the primary vesting condition is that employees complete a specified number of years' service, the fair value has been calculated as the share price at date of grant, adjusted to recognise the extent to which participants do not receive dividends over the vesting period. Volatility for share awards has been calculated on the same basis as used for share options, as described above.

36. Subsidiary undertakings, joint ventures and associates

Principal subsidiary undertakings

The principal subsidiary undertakings included in the consolidated financial statements at 31 March 2010 are listed below. These undertakings are wholly-owned and, unless otherwise indicated, are incorporated in England and Wales.

The issued share capital is held by subsidiary undertakings in each case, except for NGG Finance plc, National Grid Holdings One plc and National Grid (US) Holdings Limited where the issued share capital is held directly by National Grid plc.

	Principal activity
National Grid Gas plc	Transmission and distribution of gas
National Grid Electricity Transmission plc	Transmission of electricity
New England Power Company (incorporated in the US)	Transmission of electricity
Massachusetts Electric Company (incorporated in the US)	Distribution of electricity
The Narragansett Electric Company (incorporated in the US)	Transmission and distribution of electricity
Niagara Mohawk Power Corporation (incorporated in the US)	Transmission of electricity and distribution of electricity and gas
National Grid Metering Limited	Metering services
Utility Metering Services Limited	Metering services
National Grid Grain LNG Limited	LNG importation terminal
Boston Gas Company (incorporated in the US)	Distribution of gas
National Grid Electric Services LLC (incorporated in the US)	Transmission and distribution of electricity
National Grid Generation LLC (incorporated in the US)	Generation of electricity
New England Electric Transmission Corporation (incorporated in the US)	Transmission of electricity
Nantucket Electric Company (incorporated in the US)	Distribution of electricity
KeySpan Gas East Corporation (incorporated in the US)	Distribution of gas
The Brooklyn Union Gas Company (incorporated in the US)	Distribution of gas
NGG Finance plc	Financing
British Transco Finance Inc. (incorporated in the US)	Financing
British Transco International Finance BV (incorporated in The Netherlands)	Financing
National Grid Property Limited	Property services
National Grid Holdings One plc	Holding company
Lattice Group plc	Holding company
National Grid USA (incorporated in the US)	Holding company
Niagara Mohawk Holdings, Inc. (incorporated in the US)	Holding company
National Grid Commercial Holdings Limited	Holding company
National Grid Gas Holdings Limited	Holding company
National Grid (US) Holdings Limited	Holding company
National Grid Holdings Limited	Holding company
KeySpan Corporation (incorporated in the US)	Holding company

Principal joint ventures and associates

The principal joint ventures and associated undertakings included in the financial statements at 31 March 2010 are listed below. These undertakings are incorporated in England and Wales (unless otherwise indicated).

	% of ordinary shares held	Principal activity
Blue-NG (Holdings) Limited	50	Holding company
BritNed Development Limited	50	Interconnector between the UK and The Netherlands
Millennium Pipeline Company, LLC (incorporated in the US)	26.25	Transmission of gas
Iroquois Gas Transmission System, L.P. (incorporated in the US)	20.4	Transmission of gas

A full list of all subsidiary and associated undertakings is available from the Company Secretary & General Counsel of the Company.

Notes to the consolidated financial statements continued

37. National Grid Gas plc and Niagara Mohawk Power Corporation additional disclosures

The following condensed consolidating financial information, comprising income statements, balance sheets and cash flow statements, is given in respect of National Grid Gas plc (Subsidiary guarantor), which became joint full and unconditional guarantor on 11 May 2004 with National Grid plc (Parent guarantor) of the 6.625% Guaranteed Notes due 2018 issued in June 1998 by British Transco Finance Inc., then known as British Gas Finance Inc. (issuer of notes). Condensed consolidating financial information is also provided in respect of Niagara Mohawk Power Corporation as a result of National Grid plc's guarantee, dated 29 October 2007, of Niagara Mohawk's 3.6% and 3.9% issued preferred shares. National Grid Gas plc, British Transco Finance Inc., and Niagara Mohawk Power Corporation are wholly-owned subsidiaries of National Grid plc.

The following financial information for National Grid plc, National Grid Gas plc, British Transco Finance Inc., and Niagara Mohawk Power Corporation on a condensed consolidating basis is intended to provide investors with meaningful and comparable financial information and is provided pursuant to Rule 3-10 of Regulation S-X in lieu of the separate financial statements of each subsidiary issuer of public debt securities.

This financial information should be read in conjunction with the Company's financial statements and footnotes presented in our 2009/10 Annual Report and Accounts.

Summary income statements are presented, on a consolidating basis, for the three years ended 31 March 2010. Summary income statements of National Grid plc and National Grid Gas plc are presented under IFRS measurement principles, as modified by the inclusion of the results of subsidiary undertakings on the basis of equity accounting principles.

The summary balance sheets of National Grid plc and National Grid Gas plc include the investments in subsidiaries recorded under the equity method for the purposes of presenting condensed consolidating financial information under IFRS. The summary balance sheets present these investments within non-current financial and other investments.

The consolidation adjustments column includes the necessary amounts to eliminate the intercompany balances and transactions between National Grid plc, National Grid Gas plc, British Transco Finance Inc., Niagara Mohawk Power Corporation and other subsidiaries.

37. National Grid Gas plc and Niagara Mohawk Power Corporation additional disclosures continued

Summary income statements for the year ended 31 March 2010 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Revenue	–	2,409	–	2,773	9,003	(197)	13,988
Other operating income	–	–	–	14	5	–	19
Operating costs							
Depreciation and amortisation	–	(131)	–	(430)	(633)	–	(1,194)
Payroll costs	–	(274)	–	(224)	(904)	–	(1,402)
Purchases of electricity	–	(575)	–	–	(998)	–	(1,573)
Purchases of gas	–	(253)	–	(155)	(1,834)	–	(2,242)
Rates and property taxes	–	(126)	–	(248)	(533)	–	(907)
Electricity transmission services scheme direct costs	–	–	–	–	(691)	–	(691)
Payments to Scottish electricity transmission network owners	–	–	–	–	(260)	–	(260)
Other operating charges	4	(435)	–	(633)	(1,578)	197	(2,445)
	4	(1,794)	–	(1,690)	(7,431)	197	(10,714)
Operating profit	4	615	–	1,097	1,577	–	3,293
Net finance costs	(227)	(96)	–	(224)	(561)	–	(1,108)
Dividends receivable	–	–	–	–	300	(300)	–
Interest in equity accounted affiliates	1,558	–	–	12	8	(1,570)	8
Profit before taxation	1,335	519	–	885	1,324	(1,870)	2,193
Taxation	54	(225)	–	(285)	(348)	–	(804)
Profit for the year from continuing operations	1,389	294	–	600	976	(1,870)	1,389
Profit for the year from discontinued operations	–	–	–	–	–	–	–
Profit for the year	**1,389**	**294**	**–(i)**	**600**	**976**	**(1,870)**	**1,389**
Attributable to:							
Equity shareholders	1,386	294	–	600	973	(1,867)	1,386
Minority interests	3	–	–	–	3	(3)	3
	1,389	**294**	**–(i)**	**600**	**976**	**(1,870)**	**1,389**

(i) Profit for the year for British Transco Finance Inc. is £nil as interest payable to external bond holders is offset by interest receivable on loans to National Grid Gas plc.

Notes to the consolidated financial statements continued

37. National Grid Gas plc and Niagara Mohawk Power Corporation additional disclosures continued

Summary income statements for the year ended 31 March 2009 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Revenue	–	2,708	–	2,605	10,549	(238)	15,624
Other operating income	–	–	–	27	36	–	63
Operating costs							
Depreciation and amortisation	–	(135)	–	(413)	(579)	–	(1,127)
Payroll costs	–	(269)	–	(239)	(941)	–	(1,449)
Purchases of electricity	–	(735)	–	–	(1,492)	–	(2,227)
Purchases of gas	–	(374)	–	(168)	(3,020)	–	(3,562)
Rates and property taxes	–	(132)	–	(236)	(513)	–	(881)
Electricity transmission services scheme direct costs	–	–	–	–	(904)	–	(904)
Payments to Scottish electricity transmission network owners	–	–	–	–	(243)	–	(243)
Other operating charges	–	(438)	–	(818)	(1,653)	238	(2,671)
	–	(2,083)	–	(1,874)	(9,345)	238	(13,064)
Operating profit	–	625	–	758	1,240	–	2,623
Net finance costs	(213)	(115)	–	(400)	(506)	–	(1,234)
Dividends receivable	592	–	–	–	300	(892)	–
Interest in equity accounted affiliates	551	–	–	(3)	5	(548)	5
Profit before taxation	930	510	–	355	1,039	(1,440)	1,394
Taxation	(8)	(185)	–	(307)	28	–	(472)
Profit for the year from continuing operations	922	325	–	48	1,067	(1,440)	922
Profit for the year from discontinued operations	25	–	–	–	25	(25)	25
Profit for the year	**947**	**325**	**–**(i)	**48**	**1,092**	**(1,465)**	**947**
Attributable to:							
Equity shareholders	944	325	–	48	1,092	(1,465)	944
Minority interests	3	–	–	–	–	–	3
	947	**325**	**–**(i)	**48**	**1,092**	**(1,465)**	**947**

(i) Profit for the year for British Transco Finance Inc. is £nil as interest payable to external bond holders is offset by interest receivable on loans to National Grid Gas plc.

37. National Grid Gas plc and Niagara Mohawk Power Corporation additional disclosures continued

Summary income statements for the year ended 31 March 2008 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Revenue	–	2,108	–	2,459	7,104	(248)	11,423
Other operating income	–	–	–	8	67	–	75
Operating costs							
Depreciation and amortisation	–	(101)	–	(432)	(461)	–	(994)
Payroll costs	–	(201)	–	(226)	(752)	–	(1,179)
Purchases of electricity	–	(609)	–	–	(885)	–	(1,494)
Purchases of gas	–	(297)	–	(110)	(1,463)	–	(1,870)
Rates and property taxes	–	(93)	–	(227)	(288)	–	(608)
Electricity transmission services scheme direct costs	–	–	–	–	(574)	–	(574)
Payments to Scottish electricity transmission network owners	–	–	–	–	(226)	–	(226)
Other operating charges	–	(248)	–	(514)	(1,075)	248	(1,589)
	–	(1,549)	–	(1,509)	(5,724)	248	(8,534)
Operating profit	–	559	–	958	1,447	–	2,964
Net finance costs	(116)	(116)	–	(298)	(256)	–	(786)
Dividends receivable	–	–	–	–	500	(500)	–
Interest in equity accounted affiliates	1,705	–	–	(27)	(7)	(1,667)	4
Profit before taxation	1,589	443	–	633	1,684	(2,167)	2,182
Taxation	(14)	(194)	–	(141)	(258)	–	(607)
Profit for the year from continuing operations	1,575	249	–	492	1,426	(2,167)	1,575
Profit for the year from discontinued operations	1,618	–	–	3	1,615	(1,618)	1,618
Profit for the year	**3,193**	**249**	**–**(i)	**495**	**3,041**	**(3,785)**	**3,193**
Attributable to:							
Equity shareholders	3,190	249	–	495	3,038	(3,782)	3,190
Minority interests	3	–	–	–	3	(3)	3
	3,193	**249**	**–**(i)	**495**	**3,041**	**(3,785)**	**3,193**

(i) Profit for the year for British Transco Finance Inc. is £nil as interest payable to external bond holders is offset by interest receivable on loans to National Grid Gas plc.

Notes to the consolidated financial statements continued

37. National Grid Gas plc and Niagara Mohawk Power Corporation additional disclosures continued

Balance sheets as at 31 March 2010 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Non-current assets							
Goodwill	–	738	–	–	4,364	–	5,102
Other intangible assets	–	3	–	126	260	–	389
Property, plant and equipment	–	3,920	–	10,817	16,118	–	30,855
Deferred tax assets	2	–	–	–	–	(2)	–
Other non-current assets	–	–	–	7	155	–	162
Amounts owed by subsidiary undertakings	1,700	–	–	5,611	1,127	(8,438)	–
Financial and other investments	6,954	23	–	25	9,731	(16,247)	486
Derivative financial assets	655	51	–	564	224	–	1,494
Total non-current assets	9,311	4,735	–	17,150	31,979	(24,687)	38,488
Current assets							
Inventories and current intangible assets	–	30	–	44	333	–	407
Trade and other receivables	6	503	–	270	1,524	(10)	2,293
Amounts owed by subsidiary undertakings	8,649	–	202	114	7,862	(16,827)	–
Financial and other investments	180	17	–	307	893	–	1,397
Derivative financial assets	218	1	–	72	43	(86)	248
Cash and cash equivalents	198	2	–	–	520	–	720
Total current assets	9,251	553	202	807	11,175	(16,923)	5,065
Total assets	**18,562**	**5,288**	**202**	**17,957**	**43,154**	**(41,610)**	**43,553**
Current liabilities							
Borrowings	(1,183)	(27)	(5)	(371)	(1,220)	–	(2,806)
Derivative financial liabilities	(174)	–	–	(30)	(94)	86	(212)
Trade and other payables	(30)	(310)	–	(665)	(1,842)	–	(2,847)
Amounts owed to subsidiary undertakings	(6,701)	(220)	–	(942)	(8,964)	16,827	–
Current tax liabilities	–	(32)	–	–	(369)	10	(391)
Provisions	–	(36)	–	(62)	(205)	–	(303)
Total current liabilities	(8,088)	(625)	(5)	(2,070)	(12,694)	16,923	(6,559)
Non-current liabilities							
Borrowings	(5,307)	(1,358)	(197)	(6,387)	(9,069)	–	(22,318)
Derivative financial liabilities	(431)	–	–	(121)	(110)	–	(662)
Other non-current liabilities	–	(256)	–	(1,100)	(618)	–	(1,974)
Amounts owed to subsidiary undertakings	(537)	(341)	–	(250)	(7,310)	8,438	–
Deferred tax liabilities	–	(131)	–	(1,890)	(1,305)	2	(3,324)
Pensions and other post-retirement benefit obligations	–	(1,102)	–	–	(1,996)	–	(3,098)
Provisions	–	(215)	–	(108)	(1,084)	–	(1,407)
Total non-current liabilities	(6,275)	(3,403)	(197)	(9,856)	(21,492)	8,440	(32,783)
Total liabilities	**(14,363)**	**(4,028)**	**(202)**	**(11,926)**	**(34,186)**	**25,363**	**(39,342)**
Net assets	**4,199**	**1,260**	**–**	**6,031**	**8,968**	**(16,247)**	**4,211**
Equity							
Called up share capital	298	123	–	45	183	(351)	298
Share premium account	1,366	1,942	–	204	7,183	(9,329)	1,366
Retained earnings	7,316	(808)	–	4,493	1,821	(5,506)	7,316
Other equity reserves	(4,781)	3	–	1,289	(231)	(1,061)	(4,781)
Total shareholders' equity	**4,199**	**1,260**	**–**	**6,031**	**8,956**	**(16,247)**	**4,199**
Minority interests	–	–	–	–	12	–	12
Total equity	**4,199**	**1,260**	**–**	**6,031**	**8,968**	**(16,247)**	**4,211**

37. National Grid Gas plc and Niagara Mohawk Power Corporation additional disclosures continued

Balance sheets as at 31 March 2009 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Non-current assets							
Goodwill	–	779	–	–	4,612	–	5,391
Other intangible assets	–	12	–	73	285	–	370
Property, plant and equipment	–	3,941	–	10,370	15,234	–	29,545
Deferred tax assets	3	145	–	–	–	(11)	137
Other non-current assets	–	4	–	6	365	–	375
Amounts owed by subsidiary undertakings	1,796	–	–	5,611	1,911	(9,318)	–
Financial and other investments	6,384	23	–	14	9,621	(15,681)	361
Derivative financial assets	558	–	–	688	287	–	1,533
Total non-current assets	8,741	4,904	–	16,762	32,315	(25,010)	37,712
Current assets							
Inventories and current intangible assets	–	52	–	34	470	–	556
Trade and other receivables	4	511	–	264	1,893	–	2,672
Amounts owed by subsidiary undertakings	11,153	–	213	225	9,099	(20,690)	–
Financial and other investments	275	17	–	989	916	–	2,197
Derivative financial assets	329	–	–	122	142	–	593
Cash and cash equivalents	235	4	–	–	498	–	737
Total current assets	11,996	584	213	1,634	13,018	(20,690)	6,755
Total assets	**20,737**	**5,488**	**213**	**18,396**	**45,333**	**(45,700)**	**44,467**
Current liabilities							
Borrowings	(1,422)	(64)	(5)	(913)	(849)	–	(3,253)
Derivative financial liabilities	(209)	–	–	(67)	(31)	–	(307)
Trade and other payables	(28)	(263)	–	(580)	(1,964)	–	(2,835)
Amounts owed to subsidiary undertakings	(7,064)	(491)	–	(1,551)	(11,584)	20,690	–
Current tax liabilities	–	(122)	–	(31)	(230)	–	(383)
Provisions	–	(21)	–	(52)	(175)	–	(248)
Total current liabilities	(8,723)	(961)	(5)	(3,194)	(14,833)	20,690	(7,026)
Non-current liabilities							
Borrowings	(6,471)	(573)	(208)	(6,413)	(9,875)	–	(23,540)
Derivative financial liabilities	(511)	–	–	(41)	(81)	–	(633)
Other non-current liabilities	–	(273)	–	(1,103)	(716)	–	(2,092)
Amounts owed to subsidiary undertakings	(1,062)	(849)	–	–	(7,407)	9,318	–
Deferred tax liabilities	–	–	–	(1,778)	(894)	11	(2,661)
Pensions and other post-retirement benefit obligations	–	(1,217)	–	–	(1,863)	–	(3,080)
Provisions	–	(238)	–	(98)	(1,115)	–	(1,451)
Total non-current liabilities	(8,044)	(3,150)	(208)	(9,433)	(21,951)	9,329	(33,457)
Total liabilities	**(16,767)**	**(4,111)**	**(213)**	**(12,627)**	**(36,784)**	**30,019**	**(40,483)**
Net assets	**3,970**	**1,377**	**–**	**5,769**	**8,549**	**(15,681)**	**3,984**
Equity							
Called up share capital	294	130	–	45	182	(357)	294
Share premium account	1,371	2,053	–	204	7,183	(9,440)	1,371
Retained earnings	7,135	(805)	–	4,184	7,471	(10,850)	7,135
Other equity reserves	(4,830)	(1)	–	1,336	(6,301)	4,966	(4,830)
Total shareholders' equity	**3,970**	**1,377**	**–**	**5,769**	**8,535**	**(15,681)**	**3,970**
Minority interests	–	–	–	–	14	–	14
Total equity	**3,970**	**1,377**	**–**	**5,769**	**8,549**	**(15,681)**	**3,984**

Notes to the consolidated financial statements continued

37. National Grid Gas plc and Niagara Mohawk Power Corporation additional disclosures continued

Cash flow statements

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Year ended 31 March 2010 (i)							
Net cash provided by operating activities	–	527	–	1,449	2,540	–	4,516
Net cash provided by/(used in) investing activities	600	(307)	–	(367)	(1,451)	(807)	(2,332)
Net cash (used in)/provided by financing activities	(637)	(222)	–	(1,088)	(1,072)	807	(2,212)
(Decrease)/increase in cash and cash equivalents in the year	**(37)**	**(2)**	**–**	**(6)**	**17**	**–**	**(28)**
Year ended 31 March 2009							
Net cash provided by operating activities – continuing operations	–	419	–	1,277	1,725	–	3,421
Net cash used in operating activities – discontinued operations	–	–	–	–	(8)	–	(8)
Net cash provided by operating activities	–	419	–	1,277	1,717	–	3,413
Net cash (used in)/provided by investing activities – continuing operations	(2,426)	(265)	–	(1,569)	(4,974)	6,187	(3,047)
Net cash (used in)/provided by investing activities – discontinued operations	–	–	–	(6)	1,055	–	1,049
Net cash (used in)/provided by investing activities	(2,426)	(265)	–	(1,575)	(3,919)	6,187	(1,998)
Net cash provided by/(used in) financing activities	2,663	(157)	–	291	2,513	(6,187)	(877)
Increase/(decrease) in cash and cash equivalents in the year	237	(3)	–	(7)	311	–	538
Year ended 31 March 2008							
Net cash provided by operating activities – continuing operations	4	316	–	1,552	1,283	–	3,155
Net cash provided by operating activities – discontinued operations	–	–	–	–	10	–	10
Net cash provided by operating activities	4	316	–	1,552	1,293	–	3,165
Net cash provided by/(used in) investing activities – continuing operations	1,547	(209)	–	(1,630)	(3,658)	(2,123)	(6,073)
Net cash (used in)/provided by investing activities – discontinued operations	–	–	–	(4)	3,054	–	3,050
Net cash provided by/(used in) investing activities	1,547	(209)	–	(1,634)	(604)	(2,123)	(3,023)
Net cash (used in)/provided by financing activities	(2,302)	(105)	–	(87)	(1,221)	2,123	(1,592)
(Decrease)/increase in cash and cash equivalents in the year	(751)	2	–	(169)	(532)	–	(1,450)

(i) For the year ended 31 March 2010 all cash flows relate to continuing operations.

Cash dividends were received by National Grid plc from subsidiary undertakings amounting to £504m during the year ended 31 March 2010 (2009: £592m; 2008: £2,500m).

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 an historical cost basis, except for the revaluation of financial instruments.

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 financial statements 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 investments

Investments held as fixed assets are stated at cost less any provisions for impairment. Investments are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairments are calculated such that the carrying value of the fixed asset investment is the lower of its cost or recoverable amount. Recoverable amount is the higher of its net realisable value and its value-in-use.

C. Taxation

Current tax for the current and prior periods is provided at the amount expected to be paid (or recovered) using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or the right to pay less tax, at a future date, at tax rates expected to apply when the timing differences reverse based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

D. Foreign currencies

Transactions in currencies other than the functional currency of the Company are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at closing exchange rates.

Gains and losses arising on retranslation of monetary assets and liabilities are included in the profit and loss account.

E. Financial instruments

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities and is recorded at the proceeds received, net of direct issue costs, with an amount equal to the nominal amount of the shares issued included in the share capital account and the balance recorded in the share premium account.

Loans receivable are carried at amortised cost using the effective interest rate method less any allowance for estimated impairments. A provision is established for impairments when there is objective evidence that the Company will not be able to collect all amounts due under the original terms of the loan. Interest income, together with losses when the loans are impaired are recognised using the effective interest rate method in the profit and loss account.

Current asset financial investments are recognised at fair value plus directly related incremental transaction costs and are subsequently carried at fair value on the balance sheet. Changes in the fair value of investments classified as available-for-sale are recognised directly in equity, until the investment is disposed of or is determined to be impaired. At this time, the cumulative gain or loss previously recognised in equity is included in net profit or loss for the period. Investment income on investments classified as available-for-sale is recognised in the profit and loss account as it accrues.

Borrowings, which include interest-bearing loans and overdrafts are recorded at their initial fair value which normally reflects the proceeds received, net of direct issue costs less any repayments. Subsequently, these are stated at amortised cost, using the effective interest rate method.

Any difference between proceeds and the redemption value is recognised over the term of the borrowing in the profit and loss account using the effective interest rate method.

Derivative financial instruments ('derivatives') are recorded at fair value, 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 of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets held and offer prices for issued liabilities. When independent prices are not available, fair values are determined by using valuation techniques which are consistent with techniques commonly used by the relevant market. The techniques use observable market data.

Company accounting policies continued

F. Hedge accounting

The Company enters into derivatives and non-derivative financial instruments in order to manage its interest rate and foreign currency exposures, with a view to managing these risks associated with the Company's underlying business activities and the financing of those activities. The principal derivatives used include interest rate swaps, forward rate agreements, currency swaps, forward foreign currency contracts and interest rate swaptions.

Hedge accounting allows derivatives to be designated as a hedge of another (non-derivative) financial instrument, to mitigate the impact of potential volatility in the profit and loss account. The Company uses two hedge accounting methods.

Firstly, changes in the carrying value of financial instruments that are designated and effective as hedges of future cash flows ('cash flow hedges') are recognised directly in equity and any ineffective portion is recognised immediately in the profit and loss account. Amounts deferred in equity in respect of cash flow hedges are subsequently recognised in the profit and loss account in the same period in which the hedged item affects net profit or loss.

Secondly, changes in the carrying value of financial instruments that are designated as hedges of the changes in the fair value of assets or liabilities ('fair value hedges') are recognised in the profit and loss account. An offsetting amount is recorded as an adjustment to the carrying value of hedged items, with a corresponding entry in the profit and loss account, to the extent that the change is attributable to the risk being hedged and that the fair value hedge is effective.

Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised in the profit and loss account as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gains or losses relating to cash flow hedges recognised in equity are initially retained in equity and subsequently recognised in the profit and loss account in the same periods in which the previously hedged item affects net profit or loss. For fair value hedges the cumulative adjustment recorded to its carrying value at the date hedge accounting is discontinued is amortised to the profit and loss account using the effective interest rate method.

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the profit and loss account immediately.

G. Parent Company guarantees

The Company has guaranteed the repayment of the principal and any associated premium and interest on specific loans due from certain subsidiary undertakings to third parties. In the event of default or non performance by the subsidiary, the Company recognises such guarantees as insurance contracts, at fair value with a corresponding increase in the carrying value of the investment.

H. Share-based payments

The Company issues equity-settled, share-based payments to certain employees of subsidiary undertakings, detailed in the Directors' Report, the Directors' Remuneration Report and in note 35 to the consolidated financial statements.

Equity-settled, share-based payments are measured at fair value at the date of grant. The Company has no employees. Equity-settled, share-based payments that are made available to employees of the Company's subsidiaries are treated as increases in equity over the vesting period of the award, with a corresponding increase in the Company's investments in subsidiaries, based on an estimate of the number of shares that will eventually vest. Where payments are subsequently received from subsidiaries, these are accounted for as a return of a capital contribution and credited against the Company's investments in subsidiaries.

I. Dividends

Interim dividends are recognised when they are paid to the Company's shareholders. Final dividends are recognised when they are approved by shareholders.

Company balance sheet

at 31 March

	Notes	2010 £m	2009 £m
Fixed assets			
Investments	2	**7,865**	7,840
Current assets			
Debtors (amounts falling due within one year)	3	**8,655**	11,157
Debtors (amounts falling due after more than one year)	3	**1,702**	1,799
Derivative financial instruments (amounts falling due within one year)	5	**218**	329
Derivative financial instruments (amounts falling due after more than one year)	5	**655**	558
Current asset investments	6	**377**	509
Cash at bank		**1**	1
		11,608	14,353
Creditors (amounts falling due within one year)			
Borrowings	7	**(1,183)**	(1,422)
Derivative financial instruments	5	**(174)**	(375)
Other creditors		**(6,731)**	(6,926)
	4	**(8,088)**	(8,723)
Net current assets		**3,520**	5,630
Total assets less current liabilities		**11,385**	13,470
Creditors (amounts falling due after more than one year)			
Borrowings	7	**(5,307)**	(6,471)
Derivative financial instruments	5	**(431)**	(511)
Amounts owed to subsidiary undertakings		**(537)**	(1,062)
		(6,275)	(8,044)
Net assets employed		**5,110**	5,426
Capital and reserves			
Called up share capital	8	**298**	294
Share premium account	9	**1,366**	1,371
Cash flow hedge reserve	9	**14**	12
Other equity reserves	9	**171**	146
Profit and loss account	9	**3,261**	3,603
Total shareholders' funds	10	**5,110**	5,426

Commitments and contingencies are shown in note 11 to the Company financial statements on page 185.

The notes on pages 182 to 185 form part of the individual financial statements of the Company, which were approved by the Board of Directors on 19 May 2010 and were signed on its behalf by:

Sir John Parker Chairman
Steve Lucas Finance Director

Notes to the Company financial statements

1. Adoption of new accounting standards

New financial reporting standards (FRS) and abstracts adopted in 2009/10

During the year the Company has adopted the following amendments to FRS. None of these had a material impact on the Company's results or assets and liabilities.

Amendment to FRS 20 on share-based payments	Clarifies the definition of vesting conditions and the accounting treatment of cancellations. Vesting conditions are defined as either service conditions or performance conditions. Cancellations by employees are accounted for in the same way as cancellations by the Company.
Improvements to FRS 2008	Contains amendments to various existing standards.
UITF 46 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 that on disposal the amounts to be reclassified from equity to profit or loss are any cumulative gain or loss on the hedging instrument and the cumulative translation difference on the foreign operation disposed of.
Amendment to FRS 29 on improving financial instrument disclosures	Enhances disclosures about fair value and liquidity risk.
Amendment to FRS for Companies Act changes	Makes consequential amendments to FRS to reflect provisions of the Companies Act 2006.
Amendments to FRS 26 and UITF 42 on embedded derivatives	Requires reassessment of whether an embedded derivative should be separated out if a financial asset is reclassified out of the fair value through profit or loss category.

New FRS not yet adopted

The Company has yet to adopt the following FRS, however, they are not expected to have a material impact on the Company's results or assets and liabilities.

Amendments to FRS 25 on puttable financial instruments and obligations arising on liquidation	Addresses the classification as a liability or as equity of certain puttable financial instruments, and instruments or components thereof, which impose upon an entity an obligation to deliver a pro rata share of net assets on liquidation. The amendments to FRS 25 have been adopted by the Company with effect from 1 April 2010.
Amendment to FRS 26 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 FRS 26 has been adopted by the Company with effect from 1 April 2010.
Amendment to FRS 8 on related party disclosures	Changes the definition of related party to be the same as that in law and provides an exemption only in respect of wholly-owned subsidiaries, rather than 90% subsidiaries as previously permitted. The amendment to FRS 8 has been adopted by the Company with effect from 1 April 2010.
FRS 30 on heritage assets	Sets out disclosure requirements in respect of assets that are held and maintained principally for their contribution to knowledge and culture. FRS 30 has been adopted by the Company with effect from 1 April 2010.
Amendment to FRS 20 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 FRS 20 has been adopted by the Company with effect from 1 April 2010.
Improvements to FRS 2009	Contains amendments to various existing standards. The amendments have been adopted by the Company with effect from 1 April 2010.
Amendment to FRS 25 on classification of rights issues	Defines as an equity instrument a financial instrument that gives the holder the right to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency, if the financial instrument is offered pro rata to all existing owners of the same class of non-derivative equity instruments. The amendment to FRS 25 has been adopted by the Company with effect from 1 April 2010.

2. Fixed asset investments

	Shares in subsidiary undertakings £m
At 1 April 2008	4,276
Additions	7,103
Disposals	(3,539)
At 31 March 2009	7,840
Additions	25
At 31 March 2010	**7,865**

During the year there was a capital contribution which represents the fair value of equity instruments granted to subsidiaries' employees arising from equity-settled employee share schemes.

The names of the principal subsidiary undertakings, joint ventures and associates are included in note 36 in the consolidated financial statements.

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

3. Debtors

	2010 £m	2009 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	**8,649**	11,153
Prepayments and accrued income	**6**	4
	8,655	11,157
Amounts falling due after more than one year:		
Amounts owed by subsidiary undertakings	**1,700**	1,796
Deferred taxation	**2**	3
	1,702	1,799

	Deferred taxation £m
At 1 April 2008	3
Credited to equity	1
Charged to the profit and loss account	(1)
At 31 March 2009	3
Charged to the profit and loss account	(1)
At 31 March 2010	**2**

4. Creditors (amounts falling due within one year)

	2010 £m	2009 £m
Borrowings (note 7)	**1,183**	1,422
Derivative financial instruments	**174**	375
Amounts owed to subsidiary undertakings	**6,701**	6,898
Other creditors	**30**	28
	8,088	8,723

Notes to the Company financial statements continued

5. Derivative financial instruments

The fair values of derivative financial instruments are:

	2010			2009		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Amounts falling due within one year	218	(174)	44	329	(375)	(46)
Amounts falling due after more than one year	655	(431)	224	558	(511)	47
	873	(605)	268	887	(886)	1

For each class of derivative the notional contract* amounts are as follows:

	2010 £m	2009 £m
Interest rate swaps	(7,337)	(6,343)
Cross-currency interest rate swaps	(6,463)	(7,612)
Foreign exchange forward contracts	(7,234)	(9,013)
Forward rate agreements	(7,784)	(5,063)
Total	(28,818)	(28,031)

*The notional contract amounts of derivatives indicate the gross nominal value of transactions outstanding at the balance sheet date

6. Current asset investments

	2010 £m	2009 £m
Investments in short-term money funds	162	166
Short-term deposits	197	234
Restricted cash balances – collateral	18	109
	377	509

7. Borrowings

	2010 £m	2009 £m
Amounts falling due within one year:		
Bank loans	299	205
Commercial paper	121	737
Bonds	763	480
	1,183	1,422
Amounts falling due after more than one year:		
Bank loans	398	720
Bonds	4,909	5,751
	5,307	6,471
Total borrowings	6,490	7,893

	2010 £m	2009 £m
Total borrowings are repayable as follows:		
In one year or less	1,183	1,422
In more than one year, but not more than two years	1,081	976
In more than two years, but not more than three years	900	1,360
In more than three years, but not more than four years	435	933
In more than four years, but not more than five years	1,180	450
In more than five years, other than by instalments	1,711	2,752
	6,490	7,893

The notional amount of borrowings outstanding as at 31 March 2010 was £6,338m (2009: £7,776m). For further information on significant borrowings, refer to note 34 in the consolidated financial statements.

8. Called up share capital

	Called up and fully paid millions	£m
At 31 March 2008 and 31 March 2009	2,582	294
Issued during the year in lieu of dividends (i)	35	4
At 31 March 2010	**2,617**	**298**

(i) The issue of shares in lieu of cash dividends is considered to be a bonus issue under the terms of the Companies Act 2006 and the nominal value of the shares is charged to the share premium account.

9. Reserves

	Share premium account £m	Cash flow hedge reserve £m	Other equity reserves £m	Profit and loss account £m
At 1 April 2008	1,371	14	124	4,664
Transferred from equity in respect of cash flow hedges (net of tax)	–	(2)	–	–
Repurchase of share capital and purchase of treasury shares (i)	–	–	–	(602)
Issue of treasury shares	–	–	–	8
Share-based payment	–	–	22	–
Loss for the year	–	–	–	(467)
At 31 March 2009	1,371	12	146	3,603
Transferred from equity in respect of cash flow hedges (net of tax)	–	2	–	–
Shares issued in lieu of dividends (ii)	(5)	–	–	–
Purchase of treasury shares	–	–	–	(7)
Issue of treasury shares	–	–	–	18
Share-based payment	–	–	25	–
Loss for the year	–	–	–	(353)
At 31 March 2010	**1,366**	**14**	**171**	**3,261**

(i) From 1 April 2008 to 24 September 2008, the Company repurchased under its share repurchase programme 85 million ordinary shares for aggregate consideration of £597m including transaction costs. Further purchases of shares outside the official share repurchase programme were for an aggregate consideration of £5m.

(ii) In addition to the nominal value of shares issued in lieu of dividends of £4m there have also been various associated administrative costs of £1m charged to the share premium account.

There were no gains and losses, other than losses for the years stated above, therefore no separate statement of total recognised gains and losses has been presented. The Company's profit after taxation was £335m (2009: £371m). At 31 March 2010, £1,023m (2009: £1,323m) of the profit and loss account reserve relating to gains on intra-group transactions was not distributable to shareholders.

10. Reconciliation of movements in shareholders' funds

	2010 £m	2009 £m
Profit for the year after taxation	**335**	371
Dividends (i)	**(688)**	(838)
Loss for the financial year	**(353)**	(467)
Expenses charged to share premium account	**(1)**	–
Proceeds of issue of treasury shares	**18**	8
Movement on cash flow hedge reserve (net of tax)	**2**	(2)
Share-based payment	**25**	22
Repurchase of share capital and purchase of treasury shares	**(7)**	(602)
Net decrease in shareholders' funds	**(316)**	(1,041)
Opening shareholders' funds	**5,426**	6,467
Closing shareholders' funds	**5,110**	5,426

(i) For further details of dividends paid and payable to shareholders, refer to note 8 in the consolidated financial statements.

11. Commitments and contingencies

The Company has guaranteed the repayment of the principal sum, any associated premium and interest on specific loans due from certain subsidiary undertakings primarily to third parties. At 31 March 2010, the sterling equivalent amounted to £2,141m (2009: £2,302m). The guarantees are for varying terms from 2 years to open-ended. The Company had also guaranteed the lease obligations of a former associate to a subsidiary undertaking, which expired during the year. The balance at 31 March 2009 was £4m.

12. Directors and employees

There are no employees of the Company (2009: nil). The Directors of the Company were paid by subsidiary undertakings in 2010 and 2009. Details of Directors' emoluments are contained in the Directors' Remuneration Report.

Definitions and glossary of terms

Our aim is to use plain English in this Annual Report and Accounts. However, where necessary, we do use a number of technical terms and/or abbreviations and we summarise the principal ones below, together with an explanation of their meanings. The descriptions below are not formal legal definitions.

A

American Depositary Shares (ADSs)
Securities of National Grid listed on the New York Stock Exchange, each of which represents five ordinary shares.

Annual General Meeting (AGM)
Meeting of shareholders of the Company held each year to consider ordinary and special business as provided in the Notice of AGM.

B

Board
The Board of Directors of the Company (for more information see pages 12 and 13).

BritNed
BritNed Development Limited.

brownfield
The term generally used to describe previously developed land, which may or may not be contaminated.

C

consolidated financial statements
Financial statements that include the results and financial position of the Company and its subsidiaries together as if they were a single entity.

called up share capital
Shares (common stock) that have been issued and have been fully paid for.

carrying value
The amount at which an asset or a liability is recorded in the balance sheet.

circuit length
See route length.

Combined Code
The Combined Code on Corporate Governance, soon to be replaced by the UK Corporate Governance Code, being guidance on how companies should be governed applicable to UK listed companies, including National Grid.

the Company, National Grid, we, our or us
We use terms 'the Company', 'National Grid', 'we', 'our' or 'us' to refer to either National Grid plc itself or to National Grid plc and its subsidiaries collectively, depending on context.

contingent liabilities
Possible obligations or potential liabilities arising from past events for which no provision has been recorded, but for which disclosure in the financial statements is made.

D

decoupling
See revenue decoupling.

deferred tax
For most assets and liabilities, deferred tax is the amount of tax that will be payable or receivable in respect of that asset or liability in future tax returns as a result of a difference between the carrying value for accounting purposes in the balance sheet and the value for tax purposes of the same asset or liability.

derivative
A financial instrument or other contract where the value is linked to an underlying index, such as exchange rates, interest rates or commodity prices. In most cases, contracts for the sale or purchase of commodities that are used to supply customers or for our own needs are excluded from this definition.

dollars or $
Except as otherwise noted all references to dollars or $ in this Report are to the US currency.

E

employee engagement index
A key performance indicator, based on the percentage of favourable responses to certain indicator questions repeated in each employee survey, which provides a measure of how employees think, feel and act in relation to National Grid. Research shows that a highly engaged workforce leads to increased productivity and staff retention, therefore we use employee engagement as a measure of organisational health in relation to business performance.

equity
In financial statements, the amount of net assets attributable to shareholders.

F

FERC
The US Federal Energy Regulatory Commission.

finance lease
A lease where the asset is treated as if it was owned for the period of the lease and the obligation to pay future rentals is treated as if they were borrowings. Also known as a capital lease.

financial year
For National Grid this is an accounting year ending on 31 March. Also known as a fiscal year.

FRS
A UK Financial Reporting Standard as issued by the UK Accounting Standards Board. These apply to the Company's individual financial statements on pages 179 to 185, which are prepared in accordance with UK GAAP.

G

Grain LNG
National Grid Grain LNG Limited.

Great Britain
England, Wales and Scotland.

GW
Gigawatt, being an amount of power equal to 1 billion watts (10^9 watts).

GWh
Gigawatt hours, being an amount of energy equal to delivering 1 billion watts of power for a period of one hour.

H

HSE
Health and Safety Executive, the main safety regulator in the UK.

I

IAS or IFRS
An International Accounting Standard or International Financial Reporting Standard, as issued by the International Accounting Standards Board. IFRS is also used as the term to describe international generally accepted accounting principles as a whole.

individual financial statements
Financial statements of a company on its own, not including its subsidiaries or joint ventures.

IFRIC
The International Financial Reporting Interpretations Committee, which provides guidance on how to apply accounting standards.

J

joint venture
A company or other entity which is controlled jointly with other parties.

K

KeySpan
KeySpan Corporation and its subsidiaries, acquired by National Grid on 24 August 2007.

kV
Kilovolt, being an amount of electric force equal to 1,000 volts.

L

Lifetime Allowance
The lifetime allowance is an overall ceiling on the amount of UK tax privileged pension savings that any one individual can draw.

LNG
Liquefied natural gas, being natural gas that has been condensed into a liquid form, typically at temperatures at or below -163°C (-260°F).

lost time injury
An incident arising out of National Grid's operations which leads to an injury where the employee or contractor normally has time off the following day or shift following the incident. It relates to one specific (acute) identifiable incident which arises as a result of National Grid's premises, plant or activities, which was reported to the supervisor at the time and was subject to appropriate investigation.

lost time injury frequency rate
The number of lost time injuries per 100,000 hours worked in a 12 month period.

M

MW
Megawatts, being an amount of power equal to 1 million watts.

MWh
Megawatt hours, being an amount of energy equal to delivering 1 million watts of power for a period of one hour.

N

National Grid Metering
National Grid Metering Limited, National Grid's UK regulated metering business.

New England
The term refers to a region within the northeastern US that includes the states of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont. National Grid's New England operations are primarily in the states of Massachusetts, New Hampshire and Rhode Island.

northeastern US
The northeastern region of the US, comprising the states of Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Vermont.

O

Ofgem

The UK Office of Gas and Electricity Markets, part of the UK Gas and Electricity Markets Authority (GEMA), which regulates the energy markets in the UK.

OnStream
Utility Metering Services Limited, National Grid's UK unregulated metering business.

ordinary shares
Voting shares entitling the holder to part ownership of a company. Also known as common stock. National Grid's ordinary shares have a nominal value of $11\frac{17}{43}$ pence.

P

PAS 55
PAS (Publicly Available Specification) 55 is a universal benchmark published by the British Standards Institution (BSI) for the optimal management of physical assets.

Personal Lifetime Allowance
The lifetime allowance applicable to individuals who registered their pre 6 April 2006 UK pension benefits for protection.

price control
The mechanism by which Ofgem sets restrictions on the amounts of revenue we are allowed to collect from customers in our UK businesses. The allowed revenues are intended to cover efficiently incurred operational expenditure, capital expenditure and financing costs, including a return on equity invested.

Definitions and glossary of terms continued

R

rate base
The base investment on which the utility is authorised to earn a cash return. It includes the original cost of facilities, minus depreciation, an allowance for working capital and other accounts.

rate plan
The term given to the mechanism by which a US utility regulator sets terms and conditions for utility service, including in particular tariffs and rate schedules. The term can mean a multi-year plan that is approved for a specified period, or an order approving tariffs and rate schedules that remain in effect until changed as a result of a future regulatory proceeding. Such proceedings can be commenced through a filing by the utility or on the regulator's own initiative.

regulated controllable operating costs
Total operating costs under IFRS less depreciation and certain regulatory costs where, under our regulatory agreements, mechanisms are in place to recover such costs in current or future periods.

regulatory asset value (RAV)
The value ascribed by Ofgem to the capital employed in the relevant licensed business. It is an estimate of the initial market value of the regulated asset base at privatisation, plus subsequent allowed additions at historical cost, less the deduction of annual regulatory depreciation. Deductions are also made to reflect the value realised from the disposal of certain assets that formed part of the regulatory asset base. It is also indexed to the retail price index to allow for the effects of inflation.

revenue decoupling
Revenue decoupling is the term given to the elimination of the dependency of a utility's revenue on the volume of gas or electricity transported. The purpose of decoupling is to eliminate the disincentive a utility otherwise has to encourage energy efficiency programmes.

route length
The route length of an electricity transmission line is the geographical distance from the start tower to the end tower. In most cases in the UK, and in many cases in the US, the transmission line consists of a double circuit for additional reliability. In such cases, the circuit length is twice the route length.

RPI–X@20
A project conducted by Ofgem to review the workings of the current approach to regulating Great Britain's energy networks and develop future policy recommendations, which is expected to have an impact on future price controls.

S

SEC
The US Securities and Exchange Commission, the financial regulator for companies with registered securities in the US, including National Grid and certain of its subsidiaries.

share premium
The difference between the amounts shares are issued for and the nominal value of those shares.

shrinkage
Shrinkage is the difference between the amount of gas entering the system and that which is billed to consumers, due to either transportation consumption or loss. This difference is mainly made up of gas leakage from distribution mains and certain activities and equipment which vent gas. Shrinkage also occurs when gas is stolen or not charged for in error.

standard cubic metre
A quantity of gas which at 15°C and atmospheric pressure (1.013 bar) occupies the volume of $1m^3$.

stranded cost recoveries
The recovery of historical generation-related costs in the US, related to generation assets that are no longer owned by us.

subsidiary
A company or other entity that is controlled by National Grid.

T

treasury shares
Shares that have been repurchased but not cancelled.

tonne
A unit of mass equal to 1,000 kilograms, equivalent to approximately 2,205 pounds.

tonnes carbon dioxide equivalent
A measure of greenhouse gas emissions in terms of the equivalent amount of carbon dioxide.

TWh
Terawatt hours, being an amount of energy equal to delivering 1 billion watts of power for a period of 1,000 hours.

U

UK
The United Kingdom, comprising England, Wales, Scotland and Northern Ireland.

UK GAAP
Generally accepted accounting principles in the UK. These differ from IFRS and from US GAAP.

Uniform Network Code
The legal and contractual framework for the supply and transport of gas in the UK, comprising a common set of rules for all industry participants which ensure competition can be facilitated on level terms.

US
The United States of America.

US GAAP
Generally accepted accounting principles in the US. These differ from IFRS and from UK GAAP.

V

vanilla return
Metric used by Ofgem to define the allowed rate of return within the price control reviews for our UK regulated businesses. Our calculation uses IFRS business performance operating profit adjusted for various items to reflect the replacement of certain IFRS based accounting treatments with a regulatory based treatment. Primarily these items are depreciation, capital costs, pensions and taxation. The adjusted IFRS operating profit is divided by the regulatory asset value inflated to mid year to generate a percentage rate of return.

Summary consolidated financial information

Financial summary (unaudited)

The financial summary set out below has been derived from the audited consolidated financial statements of National Grid for the five financial years ended 31 March 2010. It should be read in conjunction with the consolidated financial statements and related notes, together with the Operating and Financial Review. The information presented below for the years ended 31 March 2006, 2007, 2008, 2009 and 2010 has been prepared under IFRS issued by the IASB and as adopted by the European Union.

	31 March 2010 £m	31 March 2009 £m	31 March 2008 £m	31 March 2007 £m	31 March 2006 £m
Summary income statement					
Revenue	**13,988**	15,624	11,423	8,695	8,868
Operating profit					
Before exceptional items, remeasurements and stranded cost recoveries	**3,121**	2,915	2,595	2,031	1,968
Exceptional items, remeasurements and stranded cost recoveries	**172**	(292)	369	482	406
	3,293	2,623	2,964	2,513	2,374
Profit before taxation					
Before exceptional items, remeasurements and stranded cost recoveries	**1,974**	1,770	1,829	1,486	1,369
Exceptional items, remeasurements and stranded cost recoveries	**219**	(376)	353	265	349
	2,193	1,394	2,182	1,751	1,718
Profit for the year attributable to equity shareholders					
Before exceptional items, remeasurements and stranded cost recoveries	**1,418**	1,259	1,275	1,146	1,075
Exceptional items, remeasurements and stranded cost recoveries	**(32)**	(315)	1,915	248	2,773
	1,386	944	3,190	1,394	3,848
Summary statement of net assets					
Non-current assets	**38,488**	37,712	30,830	21,109	22,106
Current assets	**5,065**	6,755	5,435	5,312	3,818
Assets of businesses held for sale	**–**	–	1,506	1,968	–
Total assets	**43,553**	44,467	37,771	28,389	25,924
Current liabilities	**(6,559)**	(7,026)	(7,146)	(3,360)	(5,683)
Non-current liabilities	**(32,783)**	(33,457)	(25,188)	(20,443)	(16,748)
Liabilities of businesses held for sale	**–**	–	(63)	(450)	–
Total liabilities	**(39,342)**	(40,483)	(32,397)	(24,253)	(22,431)
Net assets	**4,211**	3,984	5,374	4,136	3,493
Summary cash flow statement					
Cash generated from operations					
Continuing operations	**4,372**	3,564	3,265	3,090	2,973
Discontinued operations	**–**	(8)	10	181	138
	4,372	3,556	3,275	3,271	3,111
Tax received/(paid)	**144**	(143)	(110)	(313)	(140)
Net cash inflow from operating activities	**4,516**	3,413	3,165	2,958	2,971
Net cash flows (used in)/from investing activities	**(2,332)**	(1,998)	(3,023)	(4,061)	4,052
Net cash flows (used in)/from financing activities	**(2,212)**	(877)	(1,592)	1,278	(5,842)
Net (decrease)/increase in cash and cash equivalents	**(28)**	538	(1,450)	175	1,181

Shareholder Information

Financial calendar

The following dates have been announced or are indicative of future dates:

2 June 2010	Ordinary shares go ex-dividend for 2009/10
4 June 2010	Record date for 2009/10 final dividend
9 June 2010	Scrip reference price announced
21 July 2010	Scrip election date
26 July 2010	2010 Annual General Meeting and interim management statement
18 August 2010	2009/10 final dividend paid to qualifying ordinary shareholders
18 November 2010	2010/11 half year results
1 December 2010	Ordinary shares go ex-dividend
3 December 2010	Record date for 2010/11 interim dividend
19 January 2011	2010/11 interim dividend paid to qualifying ordinary shareholders
January/February 2011	Interim management statement
May 2011	2010/11 preliminary results

Dividends

National Grid normally pays dividends twice each year, in accordance with the timetable above. We encourage shareholders to elect to have their dividends paid to them direct to their bank or building society account. As well as being convenient for the shareholder, as the dividend will normally reach their account on the day of payment, there will be no delays from paying in or losing cheques. Alternatively, shareholders can elect to acquire further National Grid ordinary shares without payment of dealing or stamp duty reserve tax through the Scrip Dividend Scheme, details and an application form are available from our Registrar, Capita, or, for the scrip for American Depositary Receipt holders, Bank of New York Mellon, whose contact information are on the back cover. Ordinary shareholders can also elect via the website www.nationalgridshareholders.com.

Website and electronic communication

More information about National Grid, and specifically for shareholders, is available on the National Grid website at www.nationalgrid.com. We encourage shareholders to receive documents electronically via the website and suggest registering an email address via www.nationalgridshareholders.com. Shareholders then receive an email alert when shareholder documents become available on the website and a link directly to them.

Shareholder Networking

The Shareholder Networking programme aims to provide UK resident shareholders with a better understanding of the Company. The programme, which is normally run twice a year over two days, includes visits to UK operational sites and presentations by senior managers and employees. The costs of the programme (including shareholder travel to and from the event) are paid for by National Grid. Participation is by application and selection by ballot from those applying, with priority given to those who have not recently attended.

If you would like to take part, please write to:

Shareholder Networking Organiser
National Grid House
Warwick Technology Park
Gallows Hill
Warwick CV34 6DA

Share dealing, individual savings accounts (ISAs) and ShareGift

A share dealing service is available from Capita Registrars. For more information please call 0871 664 0445 (8am – 4.30pm) or visit www.capitadeal.com. Calls are charged at 10p per minute plus network extras. High street banks may also offer share dealing services. Corporate ISAs for National Grid shares are available from Stocktrade. For more information, call Stocktrade on 0131 240 0443 or write to Stocktrade, 81 George Street, Edinburgh EH2 3ES.

If you hold only a few shares and feel that it is uneconomical or otherwise not worthwhile to sell them, you could consider donating your shares to charity. ShareGift is an independent registered charity (no. 1052686) that provides a free service for shareholders wishing to give holdings of shares to benefit charitable causes. For more information please visit www.sharegift.org or call Capita Registrars.

These details are provided for information only and any action you take is at your own risk. National Grid cannot advise you on what action, if any, you should take in respect of your shares. If you have any doubt as to the action you should take, you are recommended to seek your own financial advice from your stockbroker, bank manager, accountant or other independent financial advisor authorised pursuant to the Financial Services and Markets Act 2000.

Rights issue

The securities offered pursuant to the rights issue have not been and will not be registered under the US Securities Act of 1933 and may not be offered or sold in the United States unless in a transaction that is registered thereunder or exempt from the registration requirements thereof. No public offer has been or will be made in or into the United States.

Key milestones

Some of the key dates and actions in the history of National Grid are listed below. The full history of the Company goes back much further. For example, the first national gas company in the UK commenced operations in 1812.

1986	British Gas incorporated as a public limited company
1990	Electricity transmission network in England and Wales transferred to National Grid on electricity privatisation
1995	National Grid listed on the London Stock Exchange
1997	British Gas (BG) demerged Centrica
1997	National Grid demerged Energis
2000	Lattice Group demerged from BG and listed separately
2000	New England Electric System and Eastern Utilities Associates acquired
2002	Niagara Mohawk Power Corporation merged with National Grid in US
2002	Merger of National Grid and Lattice Group to form National Grid Transco
2004	Acquisition of UK wireless infrastructure network from Crown Castle International Corp
2005	Sales of four UK regional gas distribution networks and adopted National Grid as our name
2006	Acquisition of Rhode Island gas distribution network
2007	Sales of UK and US wireless infrastructure operations and of the Basslink electricity interconnector in Australia
2007	Acquisition of KeySpan Corporation
2008	Sale of the Ravenswood generation station

Capital Gains Tax (CGT)

CGT information relating to National Grid shares can be found on our website under investors or obtained from Capita Registrars. Share prices on specific dates can also be found on our website at www.nationalgrid.com/shareholders.

Shareholdings

The following table includes a brief analysis of shareholder numbers and shareholdings as at 31 March 2010:

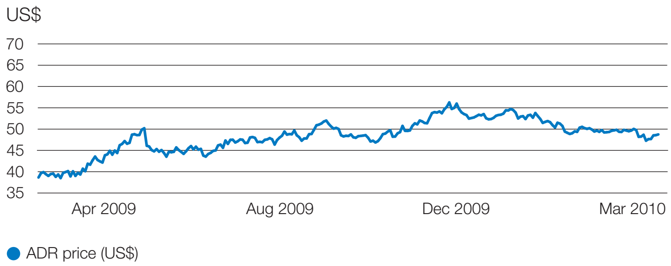
Size of shareholding	Number of shareholders	% of shareholders	Number of shares	% of shares
1-50	212,223	18.8526	6,452,377	0.2465
51-100	335,851	29.8349	22,870,494	0.8739
101-500	475,689	42.2573	95,426,258	3.6461
501-1,000	53,699	4.7703	38,093,786	1.4555
1,001-10,000	45,912	4.0785	107,389,598	4.1032
10,001-50,000	1,265	0.1124	24,633,895	0.9412
50,001-100,000	210	0.0187	15,633,167	0.5973
100,001-500,000	427	0.0379	101,651,819	3.8840
500,001-1,000,000	145	0.0129	103,105,452	3.9395
1,000,001+	276	0.0254	2,101,933,249	80.3126
Total	**1,125,697**	**100**	**2,617,190,095**	**100**

Share price

The following graphs represent the movement of National Grid's share price during 2009/10 and total shareholder return (TSR) over the last five years assuming dividends have been reinvested. The TSR level shown at 31 March each year is the average of the closing daily TSR levels for the 30 day period up to and including that date.

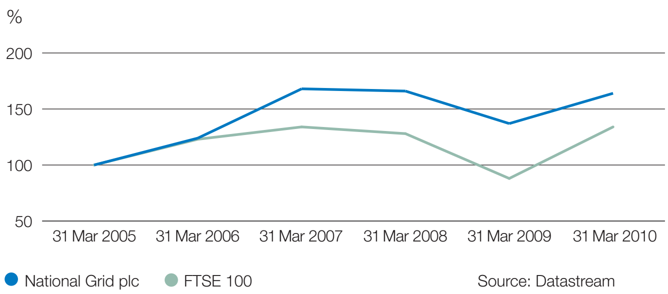
Share price

ADR price



National Grid plc

TSR v FTSE 100



Source: Datastream

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For queries about ORDINARY SHARES contact:
Capita Registrars

0871 664 0500*
(from outside UK: +44 20 7098 1198)
(textphone: 18001 0870 242 2379)

*Calls are charged at 10p per minute plus network extras

nationalgrid@capitaregistrars.com
www.nationalgrid.com/shareholders

National Grid Share Register
Capita Registrars, Northern House
Woodsome Park, Fenay Bridge
Huddersfield HD8 0GA

For queries about AMERICAN DEPOSITARY SHARES (ADS or ADR) contact:
The Bank of New York Mellon

1-800-466-7215
(from outside the US: +1-212-815-3700)

shrrelations@mellon.com
www.bnymellon.com/shareowner

The Bank of New York Mellon
Shareholders Correspondence
PO Box 358516, Pittsburgh, PA
15252-8516

Cautionary Statements

This document comprises the Annual Report and Accounts for the year ending 31 March 2010 for National Grid and its subsidiaries. It contains the Directors' Report and Financial Statements, together with the Independent Auditor's Report thereon, as required by the Companies Act 2006. The Directors' Report on pages 96 and 97 and the Directors' Remuneration Report on pages 98 to 108 have each been drawn up in accordance with the requirements of English law, and liability in respect thereof is also governed by English law. In particular, the liability of the Directors for these reports is solely to National Grid.

This document also contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements include information with respect to our financial condition, our results of operations and businesses, strategy, plans and objectives. Words such as 'anticipates', 'expects', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'targets', 'may', 'will', 'continue', 'project' and similar expressions, as well as statements in the future tense, identify forward-looking statements. These forward-looking statements are not guarantees of our future performance and are subject to assumptions, risks and uncertainties that could cause actual future results to differ materially from those expressed in or implied by such forward-looking statements. Many of these assumptions, risks and uncertainties relate to factors that are beyond our ability to control or estimate precisely, such as changes in laws or regulations and decisions by governmental bodies or regulators; breaches of, or changes in, environmental, climate change and health and safety laws or regulations; network failure or interruption, the inability to carry out critical non-network operations and damage to infrastructure; performance against regulatory targets and standards, including delivery of costs and efficiency savings; customers and counterparties failing to perform their obligations to us; and unseasonable weather affecting energy demands. Other factors that could cause actual results to differ materially from those described in this document include fluctuations in exchange rates, interest rates, commodity price indices and settlement of hedging arrangements; restrictions in our borrowing and debt arrangements; changes to credit ratings of the Company and its subsidiaries; adverse changes and volatility in the global credit markets; our ability to access capital markets and other sources of credit in a timely manner and other sources of credit on acceptable terms; deflation or inflation; the seasonality of our businesses; the future funding requirements of our pension schemes and other post-retirement benefit schemes, and the regulatory treatment of pension costs; the loss of key personnel or the inability to attract, train or retain qualified personnel; new or revised accounting standards, rules and interpretations, including changes of law and accounting standards that may affect our effective rate of tax; incorrect assumptions or conclusions underpinning business development activity, and any unforeseen significant liabilities or other unanticipated or unintended effects of such activities and the performance of the Company's subsidiaries. In addition the Company's reputation may be harmed if consumers of energy suffer a disruption to their supply.

For a more detailed description of some of these assumptions, risks and uncertainties, together with any other risk factors, please see our filings with and submissions to the US Securities and Exchange Commission (the SEC) (and in particular the Risk Factors and Operating and Financial Review sections in our most recent Annual Report on Form 20-F). The effects of these factors are difficult to predict. New factors emerge from time to time and we cannot assess the potential impact of any such factor on our activities or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. Except as may be required by law or regulation, the Company undertakes no obligation to update any of its forward-looking statements, which speak only as of the date of this document. The contents of any website references herein do not form part of this document.

Please see page 190 for important information regarding the rights issue.

National Grid plc
1-3 Strand, London WC2N 5EH, United Kingdom
Registered in England and Wales No. 4031152

www.nationalgrid.com

nationalgrid

2010/11

Annual Report and Accounts

National Grid plc

Company highlights

We have delivered another year of solid financial performance across all our businesses. Cash generated from operations was more than £4.8 billion, while adjusted operating profit and adjusted earnings per share increased by 15% and 4% respectively.

For more information visit:
www.nationalgrid.com

Revenue *

£14,343m

2009/10: £14,007m (↑2%)

Cash generated from operations *

£4,854m

2009/10: £4,372m (↑11%)

Adjusted operating profit *†

£3,600m

2009/10: £3,121m (↑15%)

Operating profit *

£3,745m

2009/10: £3,293m (↑14%)

Adjusted earnings per share *†

51.7p

2009/10: 49.5p (↑4%) (i)

Earnings per share *

63.9p

2009/10: 48.4p (↑32%) (i)

Capital expenditure

£3,603m

2009/10: £3,338m (↑8%)

Ordinary dividends

36.37p

2009/10: 33.68p (↑8%) (ii)

Return on equity (3 year average)

11.9%

2009/10: 11.3%

Interest cover

3.8x

2009/10: 3.9x

Rights issue

£3.2bn

after costs

* for continuing operations

† excludes the impact of exceptional items, remeasurements and stranded cost recoveries. See page 54 for more information about these adjusted profit measures

(i) Comparative earnings per share data has been restated for the impact of the scrip dividend issues and the bonus element of the rights issue

(ii) The 2009/10 dividend has been rebased for the effect of the rights issue

Our financial results are reported in sterling. The average exchange rate, as detailed on page 54, was $1.57 to £1 in 2010/11 compared with the average rate of $1.58 to £1 in 2009/10. Except as otherwise noted, the figures in this Report are stated in sterling or US dollars. All references to dollars or $ are to the US currency.

- We have continued to increase our capital investment, having delivered £3.6 billion this year, including joint ventures.
- In the US, we have been through a period of intense regulatory activity as we have come to the end of several long-term fixed rate plans. Two major filing outcomes this year were for our Massachusetts gas companies and the Niagara Mohawk electricity business.
- In the UK, we remain positive about the proposed new system of regulation, RIIO (revenue = incentives + innovation + outputs), which will be used in price controls for UK Transmission and UK Gas Distribution starting in April 2013.
- Our rights issue was completed successfully last year, receiving approximately 94.2% subscription from qualifying shareholders.
- Recognising that our customers and regulators are looking for something more closely tuned to their local needs, and to help drive business performance, on 4 April 2011 we reshaped our organisational structure and moved from a global line of business model to a regional model.

Segmental reporting

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 was as described on page 23. Throughout this report, the following colours are used to indicate references to a particular segment:

- Transmission
- Gas Distribution
- Electricity Distribution & Generation

Activities which do not fall within these segments are reported separately and are identified thus:

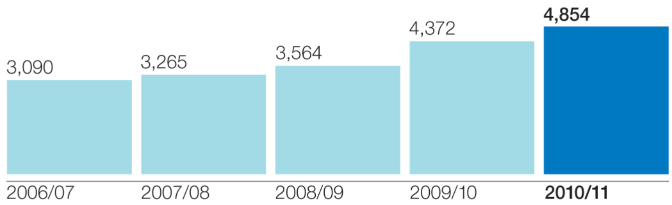
- Non-regulated businesses and other activities

Discussion relating to the Company as a whole is identified thus:

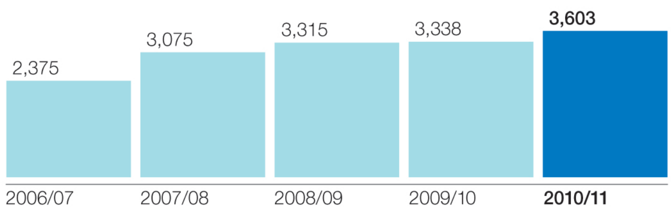
- Company activities

In next year's Annual Report and Accounts, and in subsequent years, we will report by new segments, as described on page 22, reflecting the revised management structure.

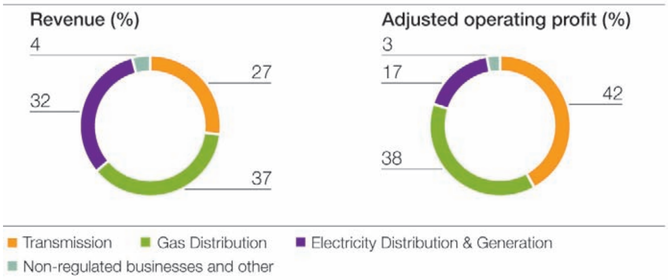
Cash generated from continuing operations
£m



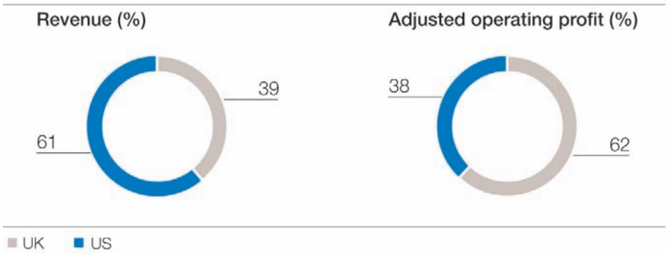
Capital expenditure including joint ventures
£m



Business analysis 2010/11
Continuing operations

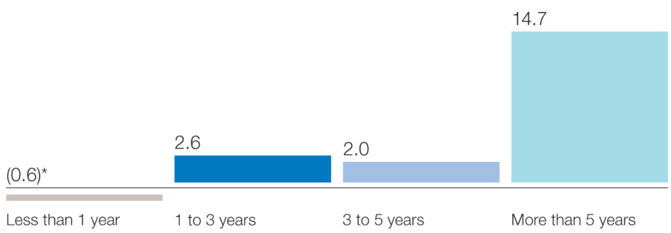


Geographical analysis 2010/11
Continuing operations



Note: US revenue includes commodity price element which does not contribute to profit

Maturity of net debt at 31 March 2011
£bn



* Negative figure indicates that cash and short-term financial investments exceed debt maturities

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Directors' Report

In accordance with the requirements of the Companies Act 2006 and the UK Listing Authority's Listing, and Disclosure and Transparency rules, pages 10 to 108 comprise the Directors' Report and were approved by the Board. The location within the main body of the Annual Report of the specific requirements of the Directors' Report can be found in the checklist on page 81.

If you require a full search facility, please go to the pdf of the Annual Report and Accounts 2010/11 at www.nationalgrid.com and use a word search.

Important notice
This document contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. For a description of factors that could affect future results, reference should be made to the full Cautionary Statement on the back cover of this document and the Risk factors section on pages 91 to 93.

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Chairman's statement

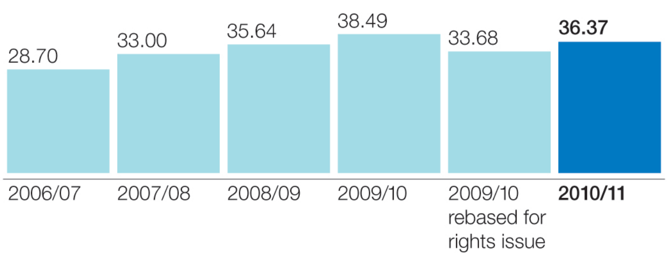
We remain confident that our strategy and new structure will allow National Grid to grow and deliver our commitment to create value for our shareholders.

The Board is proposing a recommended final dividend of

23.47p

2009/10: 21.74p (rebased for the effect of the rights issue)

Dividends per share
pence



I am delighted to report a solid set of results for 2010/11 for the Company on both sides of the Atlantic. Group adjusted operating profit has increased by 15% from £3,121 million in 2009/10 to £3,600 million in 2010/11. Adjusted earnings per share (EPS) increased 4% from last year's restated 49.5 pence per share to 51.7 pence per share, despite the dilutive effect of the rights issue.

Dividend policy

The Board is proposing a final dividend of 23.47 pence per share making a total for the 2010/11 financial year of 36.37 pence per share. This represents an increase of 8% – a growth rate which we are continuing to target for 2011/12.

Over the past nine years, since the merger with Lattice Group plc, National Grid's total dividend for the year has increased from £265 million for 2001/02 to £1,275 million for 2010/11, an increase of 381%.

Safety

Safety is at the core of our business and remains a top priority for the Board. We understand that our operations potentially give rise to risk and that, if our assets are not properly controlled, they could have severe consequences for our employees, customers and surrounding communities. We believe that through our safety management processes and the professionalism of our trained people, we can mitigate risks and eradicate injuries. Everyone at National Grid has a part to play in this.

Weather challenges

Both the UK and US encountered difficult weather conditions this year, resulting in high demand for both gas and electricity. In December 2010, we had the coldest UK weather conditions for 100 years and in the US, our territories suffered huge snow blizzards. During this period, we experienced a significant increase in emergency calls. In 2010, heavy rain caused severe flooding in Rhode Island leaving over 5,000 customers without power.

Our people worked tirelessly to restore gas and electricity connections. In such conditions, I am constantly impressed by the hard work and dedication of all our employees on both sides of the Atlantic.

Reorganisation and investment

We have listened to what our customers and regulators want from us. With effect from 4 April 2011, we reshaped our organisation in the UK and, in particular, the US to help us become more responsive and effective. Importantly, we are engaged in further cost reductions in our US operations and these, together with current and future regulatory submissions, should enable us to generate an overall return in the 9–10% range on our US investments. The Chief Executive's review on page 6 provides important detail on these strategic moves.

During 2010/11 we had, as planned, a further uplift in our capital investment to £3.6 billion, including joint ventures. This will help us deliver the infrastructure that the future energy industry requires.

Reorganisation and investment on this scale makes for operational challenges. The Board has confidence in the management team to deliver these value creation opportunities for all our stakeholders.

Operating responsibly

Operating our businesses in a socially and environmentally responsible way is fundamental to the way we operate and to delivering sustainable profits and long-term value to our investors.

I am delighted that we have extended our Special Olympics Great Britain (SOGB) charity partnership, as Premier Partner, for a further three years through to 2013. In 2011, we are launching the SOGB Sports Development Fund to enable grassroots sports clubs to gain funding to build capacity in the disability sports sector.

The Young Offenders Programme, in association with the companies now involved, continues to be successful. The programme provides skills, training and employment for offenders nearing the end of their sentence and I am encouraged by the career progression of the young people who have completed it.

In the US, our partnership with United Way continues to thrive. Throughout the year, our employees give up their time and money for the United Way campaign to help improve and provide assistance to communities throughout our service area. In 2010, we donated more than $3 million (£1.9 million) to the United Way campaign. I feel proud of our employees who continue to recognise the importance of giving, especially during these financially trying times.

Governance

Our Board continues to be committed to leading practice in corporate governance and in setting the right tone at the top. Our Directors have a broad and diverse range of complementary skills and specialised knowledge. I am satisfied, as confirmed again by this year's Board performance review, that our Board operates effectively, is properly engaged on critical matters and all Directors set aside the time required to fulfil their duties. We continue to put significant effort into succession planning for Executives, Non-executive Directors and all senior management.

Our people

Steve Lucas retired from the Board as Finance Director at the end of December 2010. The Board and I valued Steve's contribution during his 10 years' service with National Grid and with Lattice Group plc.

In November 2010, Andrew Bonfield joined the Board as our new Finance Director. Andrew's significant financial experience will play a pivotal role in assisting us to meet the challenges and opportunities that lie ahead.

Following the reorganisation, Mark Fairbairn stepped down from the Board and left the Company at the end of March 2011. Mark made a significant contribution during his 21 years. He was a valued colleague during a period of considerable change for National Grid.

I regret to announce that John Allan will step down from the Board at this year's AGM. This is due to his increasing commitments externally, especially since he became Chairman of WorldPay in April. The Board and I are sorry to see John leave and we wish him every success for the future.

I would like to take this opportunity to thank Steve, Mark and John for their valuable input towards the success of National Grid and to welcome Andrew to the Board.

The Board continues to place increasing emphasis on the development of our people and is pleased by the ongoing talent management and development work. We are also ensuring the recruitment and development programmes for our young recruits and graduates are among the leading programmes in the industry.

The Chairman's Awards have again recognised the outstanding achievements of many of our employees who aim above and beyond their normal day-to-day job requirements. This year, over 120 submissions were received in areas such as safety, health, environment, community contribution, customer delivery and inclusion and diversity.

The Board and I welcome the findings and recommendations of the Davies Review 'Women on boards', of which I was a member. The review has set targets for the appointment of women to Boards and Executive Committees. We are already in a stronger position than many companies on gender diversity with two female Non-executive Director members of the Board. We also have two female members of the Executive Committee. We intend to take steps to improve this position further and be well positioned to meet the 2015 target of 25%.

Outlook

As a Board, we remain confident that our strategy and new structure will allow National Grid to grow and deliver our commitment to create value for our shareholders. Our relentless focus on safety will continue and our passion around reliability remains alongside our contribution to a low carbon economy. We will maintain our drive on efficiency and progress the important work we are doing to develop our people to their highest potential.

I would like to thank all our employees and pay tribute to their dedication, professionalism and their loyalty to National Grid. Collectively, they make the difference.

Sir John Parker
Chairman

SEPTEMBER 2010

Investing in the communities we serve remains a high priority for us. In September 2010, we joined City Year London. City Year is a project that has a proven track record of improving young lives and 2010/11 is City Year London's first programme. It follows in the footsteps of our longer standing successful partnership with City Year US. Aged between 18 and 25, City Year London's Corps members are mentors, tutors and role models in local schools and communities. It offers National Grid the opportunity to be part of something that not only has huge potential to make a difference to the lives of children and young people, but also enhances our schools and community engagement programme especially around our major infrastructure projects in London.

Chief Executive's review

National Grid is at the heart of one of the greatest challenges in society today: the creation of new sustainable energy solutions for the future as well as the development of an energy system that can underpin our economic prosperity in the 21st century.

2010/11 has been a challenging year as National Grid continues to drive investment, ensuring our new and existing customers are connected to the energy they need and that we provide them with an excellent service. This investment also delivers growth and value for our shareholders. National Grid remains central to developing the energy policy and regulatory agenda in the UK and in the northeastern US, ensuring we are investing for the future.

Financials

During 2010/11, we delivered solid financial performance across all our businesses, although this performance was flattered by significant timing benefits not expected to recur. Our US businesses performed particularly well this year, with customer growth and income from new rate plans contributing significantly. We achieved an important milestone with phase III of our Grain LNG terminal beginning commercial operations in December 2010, providing extra security in time for winter. Overall, we delivered another year of significant investment in assets and growth in operating profit.

Safety

Following a large reduction in lost time injury frequency rate from 0.25 in 2008/09 to 0.15 in 2009/10, most of these gains have been maintained this year. At the end of 2010/11, our lost time injury frequency rate was at 0.18 and the number of lost time injuries was 96 compared with 86 in 2009/10. The principal causes were road traffic collisions, musculoskeletal injuries and slips, trips and falls.

We challenge ourselves hard to improve our safety performance, and we remain extremely focused on this, having reduced our lost time injury frequency rate by 36% over the last five years. We continue to push improvements in process safety, reporting key performance indicators up to Executive level.

In 2010/11, we continued to align our approach to process safety management across the Company, with the development of a major accident hazard framework.

Strategy

Our priorities for 2010/11 have been focused on our increased investment, US regulatory progress and changes in UK regulation.

We continue to invest in a controlled and disciplined manner and remain on track to deliver a significant increase in capital investment, having delivered £3.6 billion (including joint ventures) this year. This is largely driven by increases in the UK Transmission business, building and installing a grid that will be fit for the future. We expect another year of significant investment and, looking ahead, are on target to invest a total of £19 billion in the four years to the end of March 2015.

In the US, we have been through a period of intense regulatory activity as we have come to the end of several long-term fixed rate plans. Through all our rate filings, we are trying to ensure we have the right cost of service allowances to meet our customers' needs and the ability to earn an appropriate return for investors. Two major filing outcomes this year were for our Massachusetts gas companies and the Niagara Mohawk electricity business. New rates were effective from 1 November 2010 and 1 January 2011 respectively. Overall, the decision on the Massachusetts gas companies' rate case was satisfactory. However, we were disappointed with the outcome for Niagara Mohawk and we continue to review the impact of these rate case outcomes and reset our regulatory filing plans for 2011/12 accordingly.

In the UK, we remain positive about the proposed new system of regulation, RIIO (revenue = incentives + innovation + outputs), which will be used in price controls for UK Transmission and UK Gas Distribution starting April 2013. Our networks will need to change substantially in the next 20 years, both in terms of their configuration and in the way that they operate in real time. We are in the early stages of the process, but we are pleased to see that Ofgem has rightly focused on innovation and incentives and is aware of the need to provide adequate returns and cash flow.

In January 2011, we announced substantial changes to the way in which we will organise National Grid and the way in which we will deliver services to our customers. Recognising that our customers and regulators are looking for something more closely tuned to their local needs, from 4 April 2011 we evolved from a global line of business model to a regional model with Tom King, Executive Director US, and Nick Winser, Executive Director UK, supported by Company wide and regional functions. While we retain our global perspective when setting strategic direction and policy for National Grid, the new structure will support a tighter focus on local issues in the US to help improve our performance and focus on customers.

Investing for the future

The energy industry between now and 2050 is set to change dramatically. The Climate Change Act in the UK requires an 80% cut in greenhouse gas emissions, compared with 1990 levels, by 2050. Meeting these targets will require us within the UK to reduce the average emissions associated with the electricity produced from current levels of around 500g CO_2 per kWh to around 50g by 2030.

This transition to a low carbon economy is set against a background of increasing population, challenging economic times and ageing power plant. Events through the year in North Africa and the Middle East have emphasised concerns around rising energy prices and the volatility of the potential future generation mix.

Approximately a quarter of the UK's existing power plants will close by 2023. Many of these old coal and nuclear stations will be replaced with renewable generation, new gas and nuclear stations. National Grid will play a vital role in connecting this new generation to the grid. We currently have a total of 64.1 GW of generation with signed connection agreements to connect to the transmission network by the end of 2020, including 35.8 GW of renewable generation.

In addition, an increasing number of our assets are reaching the end of their lives and we are already in the midst of a significant programme of replacement and renewal. This presents us with a tremendous opportunity to invest in the latest technology and ensure we have a network that will meet the future challenges as part of our investment programme.

People and talent

My own focus on our people continues as does our commitment to developing them to the best of their abilities. During 2010/11, over 1,000 first line leaders in both the UK and US enrolled on the Foundations of Leadership programme. Across the UK and US, we are actively working with organisations such as the National Technician Council, Business in the Community and the US Chamber of Commerce's Business LEADs Institute on encouraging science, technology, engineering and maths (STEM) studies. We are working closely with schools and colleges to enthuse and inspire young students about science and engineering.

Following feedback from the business, we postponed the 2011 employee survey. The 97% response rate from the 2010 survey gave us a huge amount of data to work with and our teams are now working more deeply on their action plans. We have also seen lots of change across the business this year and felt it was important to allow us to focus on executing these changes effectively. The next Company wide survey will take place in 2012.

As part of our increased investment in the UK and supporting delivery of a low carbon economy, we will need to invest in our people and increase our resources.

By 2020, National Grid will need to recruit around 2,500 engineers across the UK – a mixture of experienced engineers, apprentices, foundation engineers and graduates.

Efficiency

We have reduced even further our controllable operating costs. Compared to the same period last year, they are down 2% to £2,216 million. In the US, we successfully delivered the $200 million KeySpan synergy savings by 31 March 2011. In the UK Gas Distribution business, we began to implement our new asset and work system. This investment, of over £200 million, includes a new integrated work scheduling and dispatch system and will drive efficiencies and improve the service we can provide to customers. The recent reorganisation of our business will enable us to move to a more focused and efficient organisation, reducing our costs in the US by a further $200 million.

Looking forward

Our job at National Grid is to connect people to the energy they use. We hold a privileged position – we sit at the centre of the energy system. That puts us right at the heart of one of the greatest challenges in society today: the creation of new sustainable energy solutions for the future as well as the development of an energy system that can underpin our economic prosperity in the 21st century.

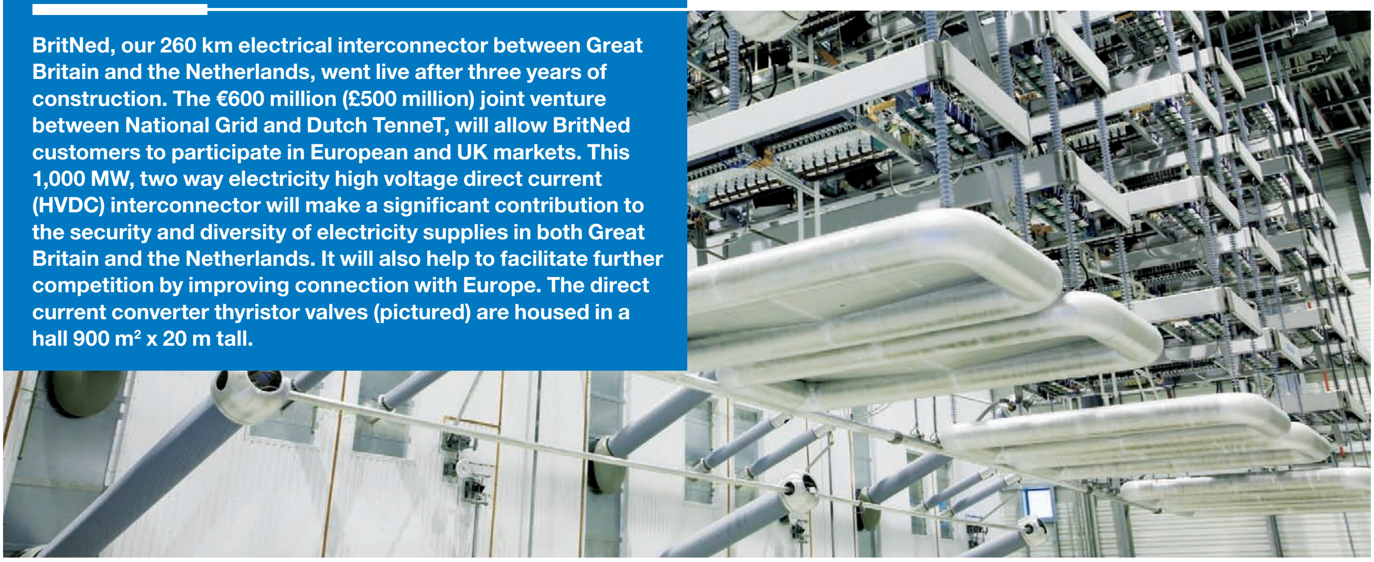
Our priorities for 2011/12 will be:

- delivery of our ongoing capital investment programme;
- working with Ofgem on shaping the future UK regulatory framework; and
- embedding the new organisational structure and improving regulated returns across the US business.

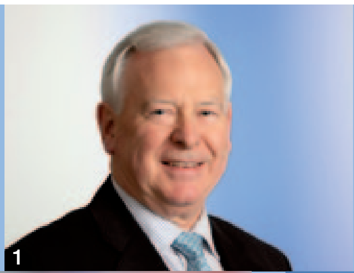
Steve Holliday
Chief Executive

APRIL 2011

BritNed, our 260 km electrical interconnector between Great Britain and the Netherlands, went live after three years of construction. The €600 million (£500 million) joint venture between National Grid and Dutch TenneT, will allow BritNed customers to participate in European and UK markets. This 1,000 MW, two way electricity high voltage direct current (HVDC) interconnector will make a significant contribution to the security and diversity of electricity supplies in both Great Britain and the Netherlands. It will also help to facilitate further competition by improving connection with Europe. The direct current converter thyristor valves (pictured) are housed in a hall 900 m² x 20 m tall.



Board of Directors



1. Sir John Parker, Chairman

Committee membership: Nominations Committee (chairman)

Skills and experience: Sir John Parker became Chairman in October 2002 following the merger of National Grid Group plc and Lattice Group plc having been Chairman of Lattice Group plc since its demerger from BG Group plc in 2000. Sir John's career has encompassed the engineering, shipbuilding and defence industries. Sir John was previously Senior Non-executive Director (Chair) of the Court of the Bank of England, a former joint Chairman of Mondi plc, a former Chairman of P&O Group and of RMC Group plc, and a former Chairman and Chief Executive of Harland & Wolff plc and Babcock International Group PLC.

External appointments: Chairman of Anglo American plc and Vice Chairman of DP World Limited, Non-executive Director of Carnival plc, Carnival Corporation, Inc., and the European Aeronautic Defence and Space Company and Chancellor of the University of Southampton.

2. Steve Holliday, Chief Executive

Committee membership: Executive Committee (chairman), Finance Committee

Skills and experience: Steve Holliday became Chief Executive of National Grid in January 2007 having joined National Grid Group plc as Group Director, UK and Europe in March 2001, becoming responsible for the electricity and gas transmission businesses in 2002. He was appointed as Group Director responsible for UK Gas Distribution and Business Services in 2003. He was formerly an Executive Director of British Borneo Oil and Gas. Previously, Steve spent 19 years within the Exxon Group, where he held senior positions in the international gas business and managed major operational areas such as refining and shipping.

External appointments: Non-executive Director of Marks and Spencer Group plc and Chairman of the UK Business Council for Sustainable Energy, Chair of the Technician Council and a member of the Board of Trustee Directors for Business in the Community and Infrastructure UK.

3. Andrew Bonfield, Finance Director

Committee membership: Executive Committee, Finance Committee

Skills and experience: Andrew Bonfield joined National Grid on 1 November 2010 as Executive Director Finance, with responsibility for Shared Services. Andrew was Chief Financial Officer at Cadbury plc until March 2010 when Cadbury was acquired by Kraft Foods Inc. He spent five years as Executive Vice President & Chief Financial Officer of Bristol-Myers Squibb Company and has previous experience in the energy sector as Finance Director of BG Group plc. Prior to this, Andrew's early career was spent with SmithKline Beecham plc, where he was promoted to Chief Financial Officer.

External appointments: Non-executive Director of Kingfisher plc.

4. Tom King, Executive Director

Committee membership: Executive Committee

Skills and experience: Tom King was appointed to the Board as Executive Director in August 2007 with responsibility for Electricity Distribution & Generation operations. Following the recent reorganisation, Tom is responsible for all US businesses in the new position of Executive Director and President, US. He was President of PG&E Corporation and Chairman and CEO of Pacific Gas and Electric Company from 2003 to 2007. Before that, he held a number of senior positions within the PG&E group having joined in 1998. Previously, Tom served as President and Chief Operating Officer of Kinder Morgan Energy Partners and served for nine years in officer positions in Enron's interstate pipeline businesses.

5. Nick Winser, Executive Director

Committee membership: Executive Committee

Skills and experience: Nick Winser joined the Board in April 2003 as Executive Director responsible for Transmission. Following the recent reorganisation, Nick has assumed the new position of Executive Director, UK, responsible for all UK businesses. He was previously Chief Operating Officer of the US transmission business for National Grid Transco plc. He joined National Grid Company plc in 1993, becoming Director of Engineering in 2001. Prior to this, Nick had been with Powergen since 1991 as principal negotiator on commercial matters, having joined the Central Electricity Generating Board in 1983 where he served in a variety of technical engineering roles.

External appointments: Non-executive Director of Kier Group plc and co-Chair of the Energy Research Partnership.

6. Ken Harvey CBE, Non-executive Director and Senior Independent Director

Committee membership: Nominations Committee, Remuneration Committee, Risk & Responsibility Committee

Skills and experience: Ken Harvey, a chartered engineer, joined the Board in October 2002 following the merger of National Grid Group plc and Lattice Group plc, having been appointed to the Lattice Group plc board in 2000. He was appointed Senior Independent Director in October 2004. Ken is a former Chairman of Comax Holdings Ltd, The Intercare Group plc and Beaufort International Group plc and a former Chairman and Chief Executive of Norweb plc.

External appointments: Chairman of Pennon Group Plc.

7. Linda Adamany, Non-executive Director

Committee membership: Audit Committee, Risk & Responsibility Committee

Skills and experience: Linda Adamany joined the Board in November 2006. Until April 2008, she was Group Vice President, BP plc. Linda has over 35 years' business experience, with 28 years in the international energy sector, having held various executive roles for BP in both the UK and US, including Chief Executive of BP Shipping and Group Vice President and Commercial Director, BP Refining & Marketing. She has also held board level positions in international bodies and is a certified public accountant.

External appointments: Member of a not for profit board.

8. Philip Aiken, Non-executive Director

Committee membership: Audit Committee, Risk & Responsibility Committee

Skills and experience: Philip Aiken joined the Board in May 2008. He was formerly Group President of BHP Billiton's Energy business, Executive Director of BTR plc, held senior positions in BOC Group plc and was senior advisor to Macquarie Capital (Europe) Limited.

External appointments: Chairman of Robert Walters plc, a Non-executive and Senior Independent Director of Kazakhmys PLC and a Non-executive Director of Miclyn Express Offshore Limited and Essar Energy plc.

9. John Allan CBE, Non-executive Director

Committee membership: Finance Committee, Remuneration Committee (chairman)

Skills and experience: John Allan joined the Board in May 2005. John was previously Chairman of Samsonite Corporation, a Non-executive Director of PHS Group plc, Wolseley plc, Hamleys plc and Connell plc. He retired as CFO of Deutsche Post in 2009, having been appointed to the Management Board following its acquisition of Exel plc in 2005 where he was Chief Executive. John is a former member of the Supervisory Boards of both Lufthansa AG and Deutsche Postbank. Until 30 April 2011, John was a Non-executive Director of 3i Group plc. Following the conclusion of the 2011 Annual General Meeting, John will be stepping down from the Board.

External appointments: Chairman of Dixons Retail plc, WorldPay (UK) Limited and Care UK Health & Social Care Holdings Limited and a Non-executive Director of ISS A/S. He is also a senior advisor to Deutsche Bank and Alix Partners, and a member of the University of Edinburgh Campaign Board and of the Supervisory Board of the Home Office.

10. Stephen Pettit, Non-executive Director

Committee membership: Finance Committee, Remuneration Committee, Risk & Responsibility Committee (chairman)

Skills and experience: Stephen Pettit was appointed to the Board in October 2002 following the merger of National Grid Group plc and Lattice Group plc, having been appointed to the Lattice Group plc board in 2001. He is a former Chairman of ROK plc and Executive Director of Cable & Wireless plc. Before joining Cable & Wireless, Stephen was Chief Executive, Petrochemicals at British Petroleum.

External appointments: Non-executive Director of Halma p.l.c and a member of BT Group plc's Equality of Access Board.

11. Maria Richter, Non-executive Director

Committee membership: Audit Committee, Finance Committee (chairman), Nominations Committee

Skills and experience: Maria Richter was appointed to the Board in October 2003. Maria worked for Morgan Stanley between 1993 and 2002, latterly as Managing Director of its Corporate Finance Retail Group. Previous appointments include Vice President of Independent Power Group for Salomon Brothers and Vice President of Prudential Capital Corporation and Power Funding Associates.

External appointments: Non-executive Director and Chairman of Pro Mujer UK, Non-executive Director of Pro Mujer International, The Pantry, Inc., The Vitec Group plc and The Bessemer Group Inc.

12. George Rose, Non-executive Director

Committee membership: Audit Committee (chairman), Nominations Committee, Remuneration Committee

Skills and experience: George Rose was appointed to the Board in October 2002 following the merger of National Grid Group plc and Lattice Group plc, having been appointed to the Lattice Group plc board in 2000. George was formerly a member of the Financial Reporting Review Panel and a Non-executive Director of Orange plc and most recently, a Non-executive Director of Saab AB and until 31 March 2011 Finance Director of BAE Systems plc.

External appointments: Member of the UK Industrial Development Advisory Board.

13. Helen Mahy, Company Secretary & General Counsel

Committee membership: Executive Committee

Skills and experience: Helen Mahy was appointed Company Secretary in October 2002 following the merger of National Grid Group plc and Lattice Group plc, having been Company Secretary at Lattice Group plc since 2002. She was additionally appointed General Counsel from October 2003. She is a barrister and an Associate of the Chartered Insurance Institute. Helen was formerly a Non-executive Director of Aga Rangemaster Group plc and Chair of the GC100 Group.

External appointments: Non-executive Director of Stagecoach Group plc and an advisory board member of Opportunity Now.

Connecting our energy future

We are facing a number of challenging opportunities for the future of the energy industry in the UK and US. National Grid is at the heart of securing energy supplies for future generations.

2010 ONGOING

Our huge investment programme will help our network meet future energy challenges.

2012

We will continue to work closely with schools and colleges to enthuse and inspire young students about the world of science and engineering.

2050

The Climate Change Act requires the UK to cut greenhouse gases by 2050. Meeting these targets requires us to dramatically change the way we produce gas and electricity.

2020

We will play a key role in connecting new generation to the grid.

Operating and Financial Review

National Grid is an international electricity and gas company cross listed on the London and New York stock exchanges and is one of the largest investor owned energy companies in the world. We play a vital role in delivering gas and electricity to many millions of people across Great Britain and northeastern US.

Overview	12 How the UK electricity industry works 14 How the US electricity industry works 16 How the UK gas industry works 18 How the US gas industry works 20 Where we operate 22 Management structure from 4 April 2011 23 Management structure until 3 April 2011 24 Principal operations 26 Review of the year	This overview section provides an accessible introduction to what we do and the environment in which we operate. We show in pictographic form the electricity and gas industries in the UK and US, and show how the various market participants interact. We discuss how we organise ourselves into lines of business, describe the principal activities of each line of business and highlight some significant developments during 2010/11.
Operating environment	28 Operating environment 30 Regulatory environment – UK regulation 32 Regulatory environment – US regulation 35 Summary of US price controls and rate plans	This section provides an overview of the external factors affecting our operations. Since 97% of National Grid's operating profit arises from regulated activities, an understanding of the work of our economic regulators is key to understanding our business, so we provide a detailed explanation of the regulatory processes in the UK and US.
Delivering operational performance	36 Business drivers, principal risks and opportunities 38 Vision, strategy and objectives 40 Key performance indicators 42 Performance against objectives	This section sets out the key factors that drive our business, and how our strategy and the Company objectives are designed to address those factors. The objectives form the basis for the execution of our strategy and our performance is measured against those objectives. Our key performance indicators are shown on pages 40 and 41 and the discussion which follows includes a number of further quantitative and qualitative measures.
Financial information	54 Financial performance 70 Financial position and financial management 78 Accounting policies	This section discusses our financial performance. It also describes our approaches to capital management and risk management, including the policies and strategies which govern our use of financial and commodity derivatives.

This Operating and Financial Review describes the main trends and factors underlying our development, performance and position during the year ended 31 March 2011 as well as those likely to affect us 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.

How the UK electricity industry works

Physical

Generation – Other companies

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 in the UK.

Transmission – National Grid

National Grid transmits 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.

Distribution – Other companies

Electricity is carried at 132 kV and lower voltages in 14 electricity distribution networks, owned and operated by seven distribution network operators.

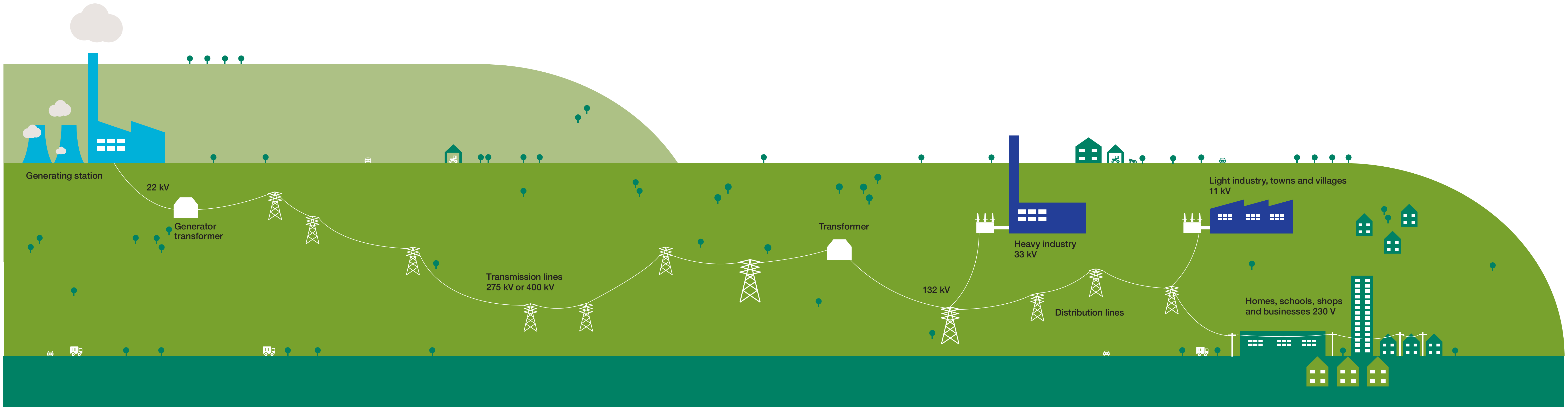
The distribution systems typically comprise the assets from the connection to the step down transformer on the NETS either to the meter in a consumer's premises or, for larger users, to their own step down transformer.

We do not own or operate electricity distribution networks in the UK.

Supply – Other companies

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 in the UK.



Commercial

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 is not an electricity supply company in the UK; we do not buy or sell the electricity we transport there.

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.

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.

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, including National Grid Metering and OnStream, which we own, 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.

How the US electricity industry works

Physical

Generation – National Grid and others

Electricity generating stations produce electricity from another form of energy such as fossil fuel (coal, oil or natural gas), nuclear, hydroelectric, geothermal, solar or wind.

We own 57 generation units on Long Island that together provide 4.1 GW of power under contract to the Long Island Power Authority (LIPA). We also own 3.4 MW of solar generation in Massachusetts, making us the largest owner of solar generation in the state.

Transmission – National Grid and others

The transmission system supplies electricity to substations in individual service areas. Transmission lines transmit electricity from the generation source or substation to distribution substations. Transmission voltages at National Grid vary from 69 kV to 345 kV. Transmission voltages can also be converted to lower subtransmission voltages, typically 15 kV to 69 kV, to supply distribution substations and/or provide electricity to large industrial customers.

We own and operate transmission facilities in upstate New York, Massachusetts, Rhode Island, New Hampshire and Vermont. We also own and operate a 224 km transmission interconnector between New England and Canada. We operate and maintain the transmission system on Long Island, owned by LIPA.

Distribution – National Grid and others

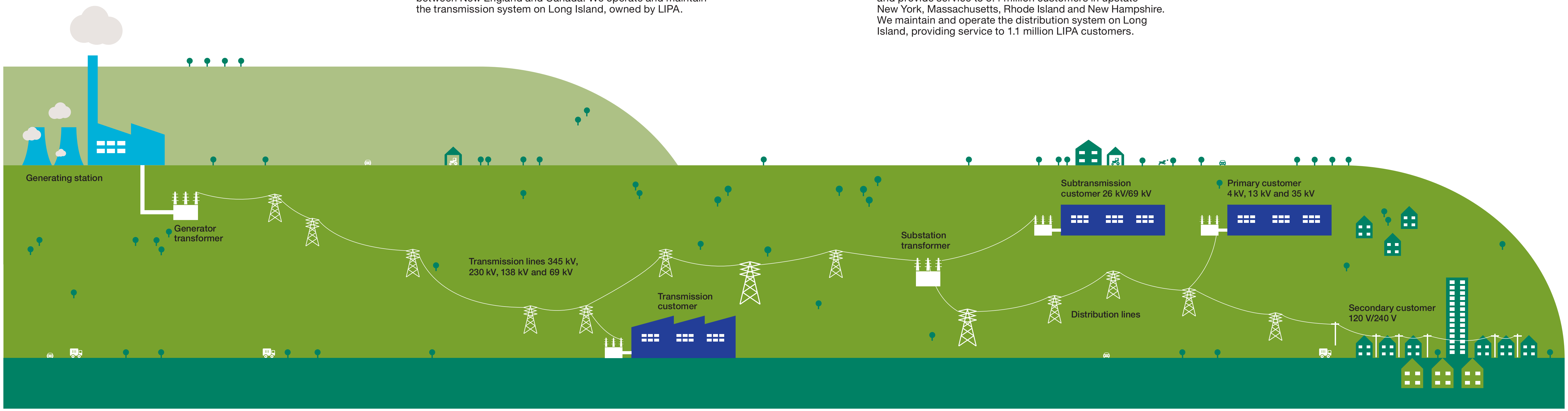
The distribution system receives electricity from the substation and supplies it to customers at a voltage that they can use. The distribution system can be considered to begin at a substation. The substation transformer converts the transmission voltage to a distribution voltage. Electricity at the distribution voltage, also called primary voltage, is typically 4 kV to 35 kV and is supplied to the service area by distribution lines.

Distribution lines may be located overhead on utility poles or buried underground. Distribution transformers convert distribution voltage to a secondary voltage, which is the voltage used by customers. We own distribution facilities and provide service to 3.4 million customers in upstate New York, Massachusetts, Rhode Island and New Hampshire. We maintain and operate the distribution system on Long Island, providing service to 1.1 million LIPA customers.

Supply – National Grid and others

Utilities such as National Grid and qualified retail marketers purchase electricity for customers connected to the distribution system. Qualified retail marketers buy and sell electricity only in deregulated states, but usually do not own or operate generation, transmission or distribution facilities.

Unlike in the UK, supply and distribution are not necessarily separate in the US; electricity distribution companies often sell electricity to their own customers connected to their distribution system.



Commercial

Utilities may generate all the electricity they sell or may purchase electricity on the wholesale market from other utilities, independent power producers, power marketers or from a market based on membership in a regional transmission reliability organisation such as an independent system operator (ISO).

We purchase electricity through the New York ISO and ISO New England for transmission and distribution to our customers. We also contract directly with generators to purchase electricity.

All available power from our Long Island generation facilities is made available to the New York ISO market to meet the Long Island Power Authority's requirements and for sale to others.

The independent system operators operate as independent administrators for the oversight of electricity transmission while providing fair and open access to the electricity grid. Each independent system operator is the clearing house for load serving entities' bids to purchase electricity and generating stations' offers to sell electricity. New York ISO and ISO New England markets determine the wholesale energy price for New York and New England respectively.

We are permitted to recover the cost of electricity transmission across the regional grid from our customers as a transmission service charge.

Distribution rates are regulated by the state public utility commissions. Utility distribution facilities provide electricity services to end users. This contrasts with the UK, where distribution companies do not sell electricity to end users.

Customer bills typically comprise a commodity rate, covering the cost of electricity delivered, without a profit margin, and a delivery rate, covering our delivery service.

In deregulated states, which includes all the states in which we operate, consumers have the option to select their energy supply from the incumbent utility or retail marketers/energy supply companies.

Where customers choose National Grid, those customers pay us for distribution and commodity cost. Where they choose to purchase from third parties, they pay us for distribution only and pay the third party supplier for the commodity.

How the UK gas industry works

Physical

Production and importation – Other companies

Gas producers, liquefied natural gas (LNG) importers and interconnector operators bring gas onshore. In the UK, there are seven gas reception terminals, three LNG importation terminals and three interconnectors, connecting Great Britain with Ireland, Belgium and the Netherlands.

National Grid gas does not participate in either the production of gas for the UK market, or the transportation of LNG by sea. However, we own and operate an LNG importation terminal at the Isle of Grain in Kent.

Transmission – National Grid only

Gas from importation terminals is injected into the national transmission system (NTS) after the gas has been checked for quality. Gas previously extracted from the NTS and held in storage may be reintroduced into the system.

The NTS operates at pressures of up to 91 bar, transporting gas in high grade welded steel pipes of up to 1.2m diameter.

National Grid is the sole owner and operator of gas transmission infrastructure in Great Britain.

Distribution – National Grid and others

Gas exits the NTS at 53 offtake points where it is odourised. Gas is transported in the distribution networks at various pressures ranging from 75 bar down to 21 mbar for final delivery to end users.

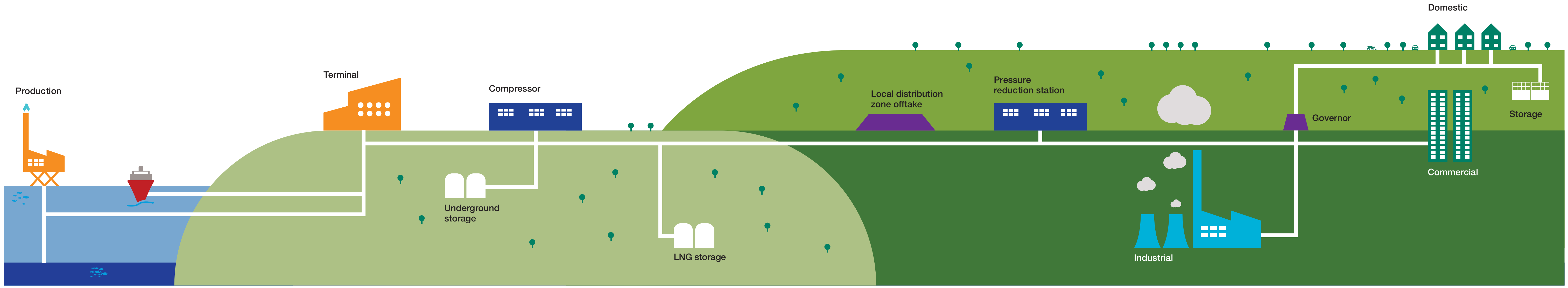
Within the distribution networks, gas storage assets such as gas holders are used to help manage daily variation in demand.

In the UK, there are 13 local distribution zones grouped into eight regional distribution networks. We own four of the eight distribution networks and three other companies own the other four. As with the transmission system, the owners of the distribution networks do not buy or sell gas; the commodity is transported on behalf of shippers.

Supply – Other companies

Although consumers in the UK have a choice of gas supply company, the gas is physically delivered to most consumers' premises through a pipe belonging to the local distribution network. National Grid's distribution networks deliver gas to approximately 10.8 million consumers.

Although we do not sell gas, and are not involved in billing consumers, we consider the consumers connected to our distribution network to be our customers because our activities directly affect them.



Commercial

Gas producers and importers sell the gas to licensed shippers, who then own the gas as it travels through the transmission and distribution networks. National Grid is not a gas shipper; we do not buy or sell the gas we transport.

LNG importers pay us for the right to land LNG at our terminal.

Shippers pay us for the use of the NTS via entry and exit capacity charges.

Entry capacity allows shippers to put gas into the NTS at system entry points. Entry capacity is sold in a variety of auctions, ranging from daily to quarterly.

Exit capacity allows shippers to take gas off the NTS at NTS exit points into distribution networks and to other users who are supplied directly from the NTS.

For shippers who use the system, there is also a commodity charge based on the actual flows of gas into the NTS.

Shippers pay us transportation charges for the use of our gas distribution networks. These charges are ultimately passed on to consumers.

The transportation charges reflect the costs of building and operating the networks, and also the costs of operating a 24 hour emergency telephone helpline.

Consumers contract with gas supply companies for the supply of gas. The supply companies in turn contract with gas shippers who purchase the gas and arrange for it to be transported.

Suppliers also contract with metering companies, including National Grid Metering and OnStream, which we own, for the provision of meters and metering services.

Of the average residential gas bill, transmission charges represent approximately 3% and distribution charges approximately 21%. The majority of the bill is the cost of the gas itself.

How the US gas industry works

Physical

Production and importation – Mainly other companies

Gas is produced in the gulf coast, mid-continent, Rockies, western Canada, shale formations and other unconventional sources in North America. Liquefied natural gas (LNG) importers bring LNG from the mideast, South America and other places.

Transmission – Canadian and US interstate pipeline companies

Gas is delivered into the US interstate and Canadian pipeline network by producers and LNG importers. National Grid holds only a minority interest in two interstate pipelines: Millennium Pipeline Company and Iroquois Gas Transmission System. Interstate pipelines are regulated by the Federal Energy Regulatory Commission (FERC).

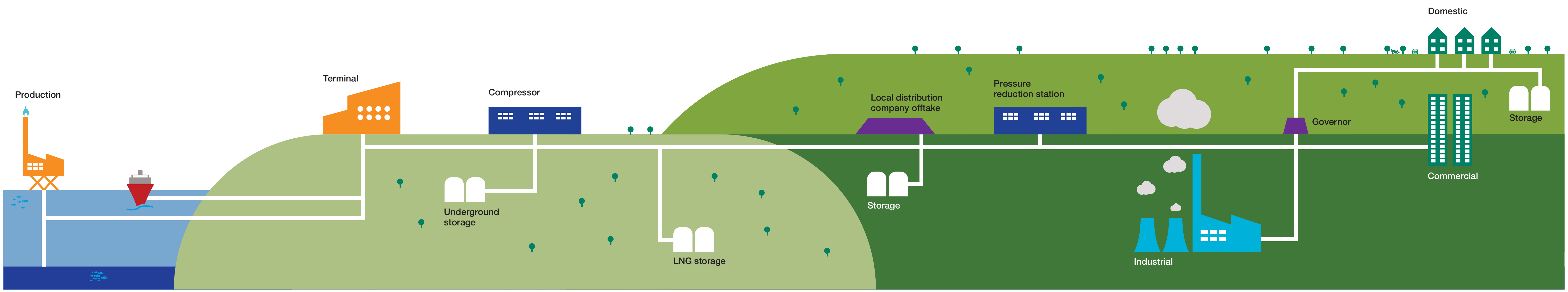
Distribution – National Grid and others

Gas is delivered by the interstate pipeline companies to National Grid's and other companies' local distribution companies for distribution to their customers. As is the case with the distribution networks in the UK, each local distribution company has a geographically defined service territory and is the only local distribution company within that territory. Local distribution companies are regulated by the state utility commission of the state in which their service territory is located.

Supply – National Grid and others

National Grid and other qualified gas marketers purchase gas for customers connected to our distribution systems.

Unlike the situation in the UK, supply and distribution are not necessarily separate: gas distribution companies often sell gas to consumers connected to their distribution systems.



Commercial

We own and operate LNG storage and vaporisation facilities to support our gas distribution businesses as well as an LNG storage facility in Providence, Rhode Island, where we store gas for third parties for a fee. We also own a small gas production company, Seneca Upshur Petroleum, which operates in the Appalachian Basin in West Virginia. National Grid purchases gas supply directly from producers and LNG importers for resale to our customers.

We pay to reserve firm transportation and storage capacity on the US interstate and Canadian pipeline network to transport natural gas from the various supply sources to its distribution facilities. The initial term under these agreements is typically from 10 to 20 years.

We are permitted to recover the cost of transportation and storage capacity as well as the gas commodity cost from our customers.

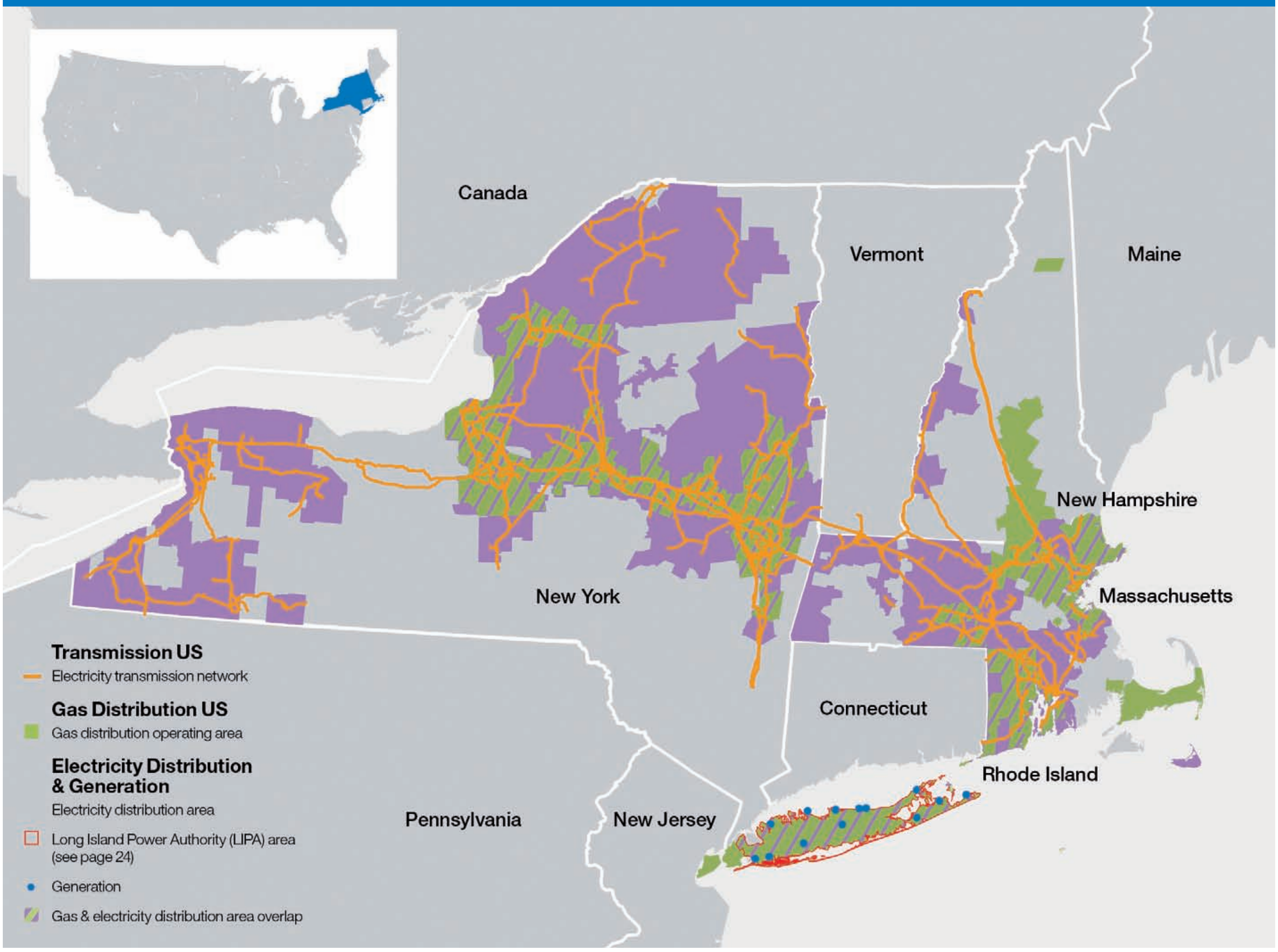
The gas transported by our local distribution companies includes gas purchased by National Grid for our own end user customers as well as third party gas that we deliver to our transportation customers. This contrasts with the UK, where we do not purchase or sell the gas we transport.

In most cases, customers can choose whether to purchase gas from National Grid or other companies. Where they choose National Grid, those customers pay us for distribution and they reimburse us for the cost of the gas and upstream transportation capacity. When customers choose to purchase gas from third parties, they pay us for distribution only and pay the third party supplier for the cost of gas and upstream transportation capacity.

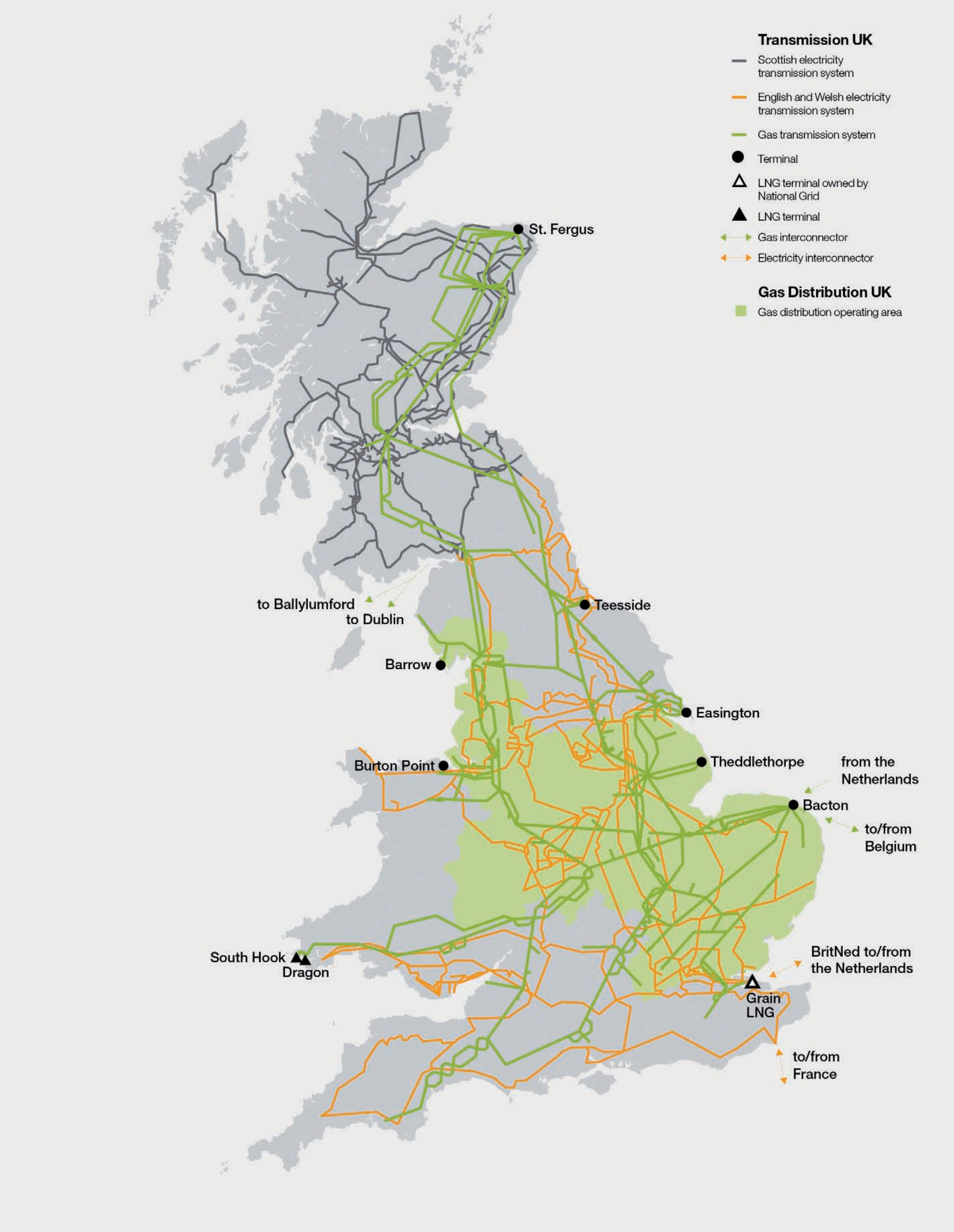
Where we operate

National Grid owns and operates regulated electricity and gas infrastructure networks in the UK and northeastern US, serving around 19 million customers directly and many more indirectly.

Our US network



Our UK network



Management structure – from 4 April 2011

Management structure

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 was as described on the following page. Throughout this report, the following colours are used to indicate references to a particular segment:

- Transmission
- Gas Distribution
- Electricity Distribution & Generation

Activities which do not fall within these segments are reported separately and are identified thus:

- Non-regulated businesses and other activities

Discussion relating to the Company as a whole is identified thus:

- Company activities

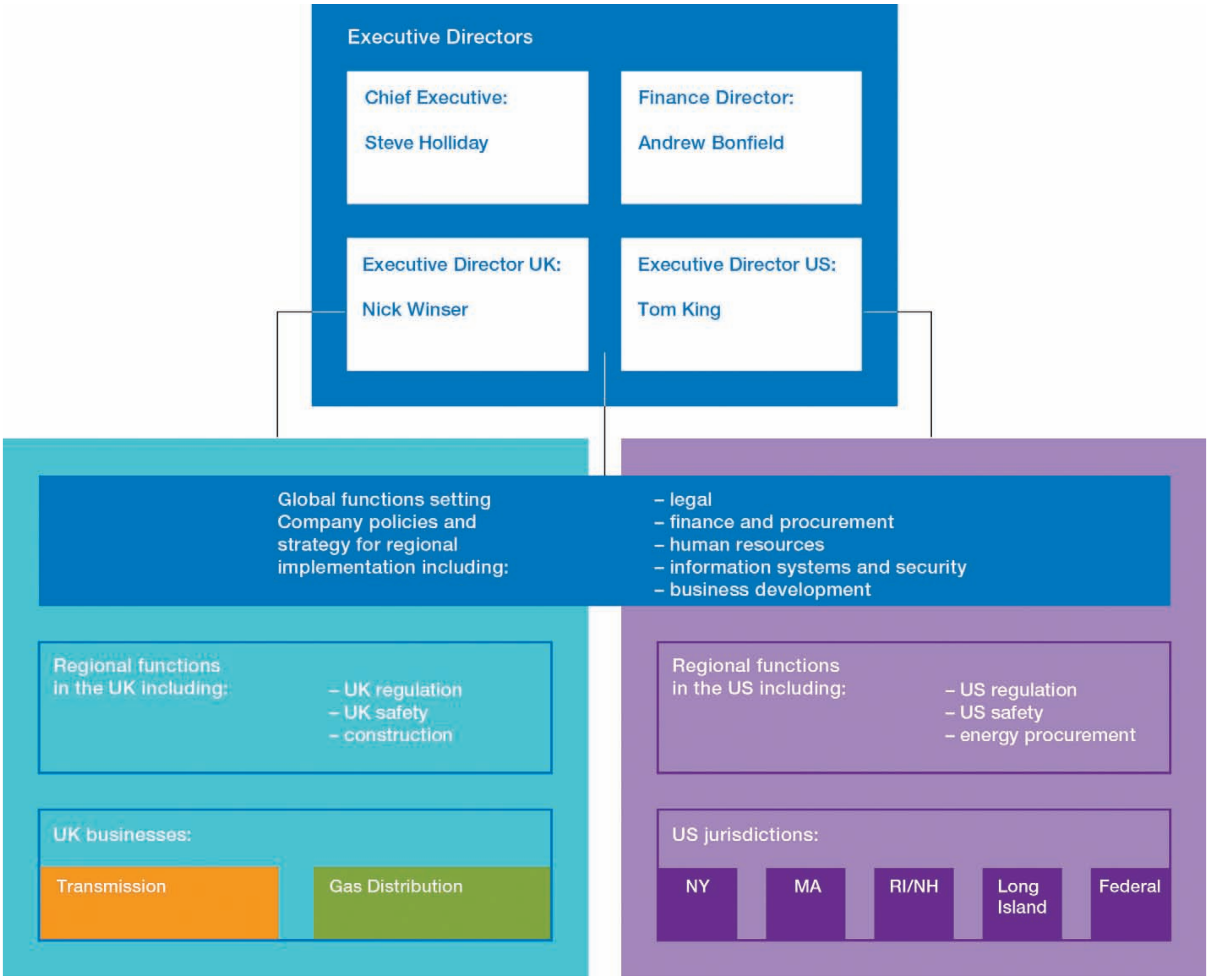
In next year's Annual Report and Accounts, and in subsequent years, we will report by new segments reflecting the revised management structure.

New management structure

Four years ago we 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, we announced on 31 January 2011 substantial changes to the way in which we organise National Grid. With effect from 4 April 2011, we have 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, with responsibility for our operations in each country. In the US, there will be five local teams, each headed by a jurisdictional president: one each for New York and Massachusetts; one for Rhode Island and New Hampshire; one for Long Island where we work with the Long Island Power Authority and one with responsibility for federal regulatory affairs dealing with the Federal Energy Regulatory Commission.

The diagram below represents the new management structure.



Management structure – until 3 April 2011

As noted opposite, this page and those following represent the management structure and lines of business as they were throughout 2010/11.

Our principal businesses and segments, together with other activities, are described on pages 24 and 25. Significant developments during the year for each business can be found on pages 26 and 27.

Each line of business was headed by an Executive Director who had primary responsibility for that line of business. Responsibility for our non-regulated businesses was allocated to Executive Directors according to the nature of each business.

Management structure

Board of Directors:

The Board provides effective oversight of the Company and its business and determines the governance structure and strategic direction of the Company

- Audit Committee
- Finance Committee
- Nominations Committee
- Remuneration Committee
- Risk & Responsibility Committee

Executive Committee:

The Executive Committee has responsibility for day-to-day management of National Grid and the execution of our strategy

Chief Executive:

Steve Holliday

Finance and shared services:

Andrew Bonfield

(Steve Lucas retired 31 December 2010)

Transmission:

Nick Winser

Gas Distribution:

Mark Fairbairn (stepped down 31 March 2011)

Electricity Distribution & Generation:

Tom King

Non-regulated businesses and other

Principal operations

Transmission

Transmission UK

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 operation of both the England and Wales transmission system, which we own, and the two high voltage 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.

Gas transmission owner
We own the gas national transmission system (NTS) in Great Britain, connecting to eight distribution networks and to third party independent systems for onward transportation of gas to end consumers.

Gas system operator
We operate the NTS. Day-to-day operation involves balancing supply and demand.

French interconnector
We own and operate the UK assets, and a portion of the subsea cables, that comprise the electricity interconnector between England and France as part of a joint arrangement with the French transmission operator.

LNG storage
We own and operate three liquefied natural gas (LNG) storage facilities in Great Britain.

Transmission US

Electricity transmission owner
We own and operate an electricity transmission network spanning upstate New York, Massachusetts, Rhode Island, New Hampshire and Vermont. Our US electricity transmission facilities operate at voltages ranging from 69 kV to 345 kV. We are the largest electricity transmission service provider in New England and New York by reference to the length of these high voltage transmission lines.

Canadian interconnector
We own and operate a 224 km (139 mile) direct current transmission line rated at 450 kV that is a key section of an interconnector between New England and Canada.

Gas Distribution

Gas Distribution UK

Gas distribution operator
We own and operate four of the eight regional gas distribution networks in Great Britain. Our networks comprise approximately 132,000 km (82,000 miles) of gas distribution pipeline and we transport gas from the gas NTS to around 10.8 million consumers on behalf of 26 active gas shippers. Gas consumption in our UK networks was 304 TWh in 2010/11 compared with 299 TWh in 2009/10.

National gas emergency number operator
We manage the national gas emergency number (0800 111 999) for all the gas distribution networks and for other gas transporters in Great Britain. This service, along with the enquiries line, appliance repair helpline and meter number enquiry service, handled 2,816,403 calls during 2010/11.

Gas Distribution US

Gas distribution owner
Our US gas distribution networks provide services to around 3.5 million consumers across the northeastern US, located in service territories in upstate New York, New York City, Long Island, Massachusetts, New Hampshire and Rhode Island. Our network of approximately 58,000 km (36,000 miles) of gas pipeline serves an area of approximately 26,400 square km (10,200 square miles). We are actively seeking to increase our customer base in these areas and in 2010/11 added more than 42,000 new gas heating customers.

Gas storage
We maintain a diversified and flexible portfolio of gas supply and storage assets, and are able to deliver additional benefits to customers and shareholders by optimising the use of these assets. During cold weather, we supplement gas from the interstate pipeline system with LNG and propane facilities in 19 locations.

Electricity Distribution & Generation

Electricity distribution
We own and operate electricity distribution networks in upstate New York, Massachusetts, Rhode Island and New Hampshire.

Through our electricity distribution networks, we serve approximately 3.4 million electricity consumers in New England and upstate New York.

We also maintain and operate the electricity transmission and distribution system on Long Island owned by the Long Island Power Authority (LIPA), providing energy to homes, small businesses, and large commercial and industrial enterprises.

The LIPA service territory covers approximately 3,185 square km (1,230 square miles), encompassing nearly 90% of Long Island's total land area. LIPA owns approximately 2,170 km (1,350 miles) of transmission line facilities that deliver power to approximately 177 substations. From these substations, approximately 24,300 circuit km (15,100 miles) of transmission and distribution facilities distribute electricity to 1.1 million consumers.

Electricity generation
We own 57 electricity generation units on Long Island that together provide 4.1 GW of power under contract to LIPA. Our plants consist of oil and gas fired steam turbine, gas turbine and diesel driven generating units ranging from 2 MW to 385 MW. Any available power not needed to meet LIPA's requirements is made available for sale on the open market.

Shared activities

Customer operations
In addition to the operation of our gas and electricity distribution networks, we are also responsible for billing, customer service and supply services.

Energy procurement
We are responsible for the planning, procurement and administration of gas and electricity commodity supply for our customers. We forecast, plan for and procure approximately 15 billion standard cubic metres of gas and 34 TWh of electricity annually across four states. We also manage gas assets such as transportation and storage capacity to ensure supply adequacy for delivery to customers. Through our fuel management services, we procure gas and fuel oil to supply the power generation units on Long Island, most of which we own.

Non-regulated businesses and other

Grain LNG
Grain LNG is one of three LNG importation facilities in the UK. It was constructed in three phases, phases I and II becoming operational in 2005 and 2008 respectively and phase III being commissioned in December 2010.

BritNed
BritNed is a joint venture between National Grid and TenneT, the Dutch transmission system operator, to build and operate a 1,000 MW, 260 km (162 mile) subsea electricity link between the UK and the Netherlands. BritNed was fully commissioned and went live on 1 April 2011.

Metering
National Grid Metering and OnStream provide installation and maintenance services to energy suppliers in the regulated and unregulated markets respectively in Great Britain. OnStream also provides meter reading services. Our metering businesses provide services for an asset base of about 20 million domestic, industrial and commercial meters.

UK Property
National Grid Property is responsible for managing our occupied properties in the UK and for the management, clean up and disposal of surplus sites, most of which are former gasworks.

Xoserve
Xoserve delivers transactional services on behalf of all the major gas network transportation companies in Great Britain, including National Grid. Xoserve is jointly owned by National Grid, as majority shareholder, and the other gas distribution network companies.

US non-regulated businesses
Includes LNG storage, LNG road transportation, transmission pipelines and West Virginia gas fields.

Corporate activities and shared services function
Corporate activities comprise central overheads, insurance and expenditure incurred on business development.

Review of the year

Transmission

- In October 2010, we finished commissioning the Wormington to Sapperton gas pipeline. This pipeline, of approximately 44 km (27 miles), is required to provide additional exit capacity in the southwest of England to meet increases in distribution network and forecast power station demand
- 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)
- On 13 December 2010, the Secretary of State gave consent for a pressure reduction installation at Tirley in Gloucestershire. Construction started on this installation in March 2011. Accordingly, we envisage that the full contracted capacity of 950 GWh in the Milford Haven gas pipeline will be available for winter 2012/13
- 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

Gas Distribution

- In the UK, the first release of the new Gas Distribution front office system, a significant investment in the replacement of legacy IT applications, went live in October 2010 to over 1,000 employees. The full rollout of the programme is due to be completed by spring 2012
- Gas Distribution contractor safety in the UK and US improved substantially with the lost time injury frequency rate reducing to 0.08
- A new campaign to reduce the number of electric cable strikes was introduced in the UK and has contributed to a 10% reduction during 2010/11
- Severe winter weather in the UK led to us failing several of our emergency standards of service. We met all but one of our other regulatory standards
- In the US, we connected 42,416 new gas heating customers
- In the UK, Ofgem imposed a fine of £8 million for inaccurate reporting of gas mains replacement data during 2005/06 to 2007/08
- Our first biomethane injection plant has been constructed to connect Adnams Bio Energy Ltd, the first production facility built for injecting biomethane into the UK gas network
- In our UK networks, actual gas consumption was 304 TWh in 2010/11 compared with 299 TWh in 2009/10
- During the winter of 2010/11, the US gas network supported consumption of more than 218 TWh compared with 201 TWh in 2009/10

Electricity Distribution & Generation

- We met all New York regulatory reliability targets for the third year in a row
- By March 2011, we had delivered \$1.41 billion of the \$1.47 billion investment in New York in line with the KeySpan merger agreement and ahead of schedule
- The outcome of our Niagara Mohawk rate case in upstate New York was disappointing
- Capital recovery mechanisms were agreed in Massachusetts, Rhode Island and New York
- The central and eastern regional control centres both achieved the significant milestone of one year without a switching error
- We reduced lost time injuries by 7%
- The Edison Electric Institute (EEI) recognises companies that make an outstanding effort to restore service to their customers through the EEI Emergency Response Awards. In March 2011 EEI presented an award to National Grid for our response to a storm on 13 and 14 March 2010, which affected nearly 270,000 LIPA customers
- The Port Jefferson power station and the generation materials management division both recently passed the threshold of 1,000 days without a lost time incident. The Northport, E. F. Barrett, Glenwood, and Far Rockaway power stations have all gone more than a year without a lost time incident

Non-regulated businesses and other

- On 1 December 2010, Grain LNG phase III started full commercial operation, the first operating day for all three phases at Grain. The terminal now has 1 million cubic metres of storage capacity and has a capacity of approximately 650 GWh per day
- On 1 April 2011, BritNed successfully achieved 'go live', with a capacity of 1,000 MW along the 260 km (162 mile) high voltage direct current interconnector between Maasvlakte in the Netherlands and the Isle of Grain in the UK
- Our competitive metering business, OnStream, won Innovation of the Year and Meter Manufacturer and Technology of the Year at the European Smart Metering Awards 2011
- Our application to appeal against the £15 million fine imposed last year on our metering business for a breach of the Competition Act was unsuccessful

Operating environment

National Grid, in common with all international 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. Our forecasts for gas supply continue to be built on UK continental shelf decline and higher levels of importation. The changing sources of supply necessitate greater gas transmission network flexibility.

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. At National Grid, 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.

US energy policy

US energy policy continues to be shaped by the economy, budget deficits and growing political unrest in the Middle East and North Africa. The low probability, high impact oil spill in the Gulf of Mexico, the nuclear crisis in Japan caused by the earthquake and tsunami, and the steep rise in oil prices have added significant volatility to the nation's energy debate. The President and Congressional leaders have called for strong energy legislation this year that might include a clean, renewable energy standard, energy efficiency incentives for electric and natural gas vehicles, infrastructure development and domestic energy supplies. With the partisan divide in Washington, the outlook for successful energy legislation remains unclear.

Even so, the Federal Energy Regulatory Commission continues to work on electricity transmission policy, the Department of Energy on appliance and energy efficiency standards and the Department of Homeland Security on cyber security issues. The largest energy agenda rests with the Environmental Protection Agency (EPA), which is working on power plant regulations, addressing mercury and hazardous air pollutant emissions and interregional transport and water discharge impacts on bays, rivers and estuaries, while also addressing the environmental impact of coal ash waste. In addition, while climate change is currently off the legislative calendar, EPA is expected to promulgate regulations on greenhouse gas emissions, although there is considerable pressure from some members of Congress to either delay action or strip EPA of its authority altogether.

At the state level, an overarching concern continues to be the cost of energy and its impact on citizens, business and industry. Anticipating action on climate change is another focus. New York and Massachusetts have published formal climate action plans with carbon reduction goals and recommended steps to achieve them. In this context, they have adopted goals and policies to promote aggressive utility pursuit of cost effective energy efficiency, revenue decoupling to encourage focus on energy efficiency and consideration of the best business models for delivering expanded efficiency programmes.

The states in which we operate have set renewable portfolio standards to achieve ambitious targets for renewable energy's contribution to the resource mix, addressing climate and security concerns. Massachusetts and Rhode Island have gone further, requiring utilities to enter into long-term contracts to support renewable energy development. Transmission investment continues to receive attention at the state level, largely in the context of renewable energy policy.

State policy with respect to smart technology varies, with legislation in Massachusetts requiring utilities to file smart grid pilot programmes and a generic proceeding in New York to define the appropriate role and benefits for customers of smart technology investment. Smart technology and innovation can support energy efficiency, demand response, and renewable and clean distributed generation.

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 page 30 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.

In the US, although GDP grew by 2.3% in 2010/11, unemployment remains high and in March 2011 still stood at 8.8%. Unlike the position in the UK, we sell gas and electricity directly to consumers in the US and so we are exposed to bad debt risk, which is affected by unemployment rates. Some of our rate plans include protection against such risk (see page 35 for an explanation), but in most cases these do not cover the full cost.

In March 2011, global oil prices reached their highest level since 2008. Our direct exposure to oil prices is very limited. However, the price of oil affects the willingness of consumers to switch from oil to gas for domestic heating purposes, which is a significant driver of the increase in our Gas Distribution customer numbers in the US.

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.

Our 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. Our Company wide policies and position statements, available on our website, underpin the Framework.

This Operating and Financial Review includes summary information and performance metrics for our key non-financial impacts, including process and employee safety (page 43), customer service (page 44), an inclusive, diverse and talented workforce (page 52) and climate change (page 53). Further information on these, together with other non-financial impacts, such as employee wellbeing, electric and magnetic fields and contaminated land, can be found in the responsibility section of our website www.nationalgrid.com. This also includes an overview of our approach to assuring the corporate responsibility information and data in this report and in our other public corporate responsibility reporting.

Business conduct

This year, we 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 our 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.

In 2010/11, there were 13.9 substantiated breaches of the Standards per 1,000 employees compared with 13.6 in 2009/10. Offences include such things as fraud, internet and email abuse, drugs and alcohol abuse, and misuse of Company vehicles and other assets. We take all breaches very seriously and disciplinary action can range from a verbal warning to dismissal.

More information on our approach to business ethics is included in the Corporate Governance section starting on page 80.

DECEMBER 2010

Essential work planned for spring 2011 to replace the existing Victorian metallic gas mains at Westminster Abbey was brought forward to December 2010 to avoid any disruption to the royal wedding. National Grid liaises closely with local stakeholders before starting any projects and this process includes taking into account major events. The City of Westminster is the site of the world's first gas supply and the newly fitted hard wearing plastic pipe will ensure people in the area continue to enjoy a safe, secure and reliable gas supply in future years.

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Useful Information

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 and 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 gas and electricity networks and by promoting competitive gas and electricity markets.

The Gas Act 1986 and Electricity Act 1989, as amended (the Acts), provide the fundamental legal framework for gas and electricity companies. The Acts establish the licences for electricity generation, transmission, distribution and supply, and for gas transmission, distribution, shipping and supply.

Regulatory licences

Our main licensed businesses in the UK are:

- the gas transportation businesses of National Grid Gas plc, consisting of the national transmission system and the retained distribution network businesses. There are also four independent distribution networks, which we previously owned and which we sold in 2005;
- National Grid Metering, which is a subsidiary of National Grid Gas and manages the latter's domestic and non domestic metering assets;
- the electricity transmission business of National Grid Electricity Transmission plc; and
- the interconnector business of National Grid Interconnectors Ltd.

The licences established under the Acts require each of these business activities to develop, maintain and operate an economic and efficient network and to facilitate competition in the supply of gas and electricity in Great Britain. The Acts also provide the licensed businesses 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 businesses.

To ensure that our licensed businesses are operating efficiently, and that consumers are protected, we operate under eight price controls in the UK, comprising: two for our UK electricity transmission operations, one covering our role as transmission owner (TO) and the other for our role as system operator (SO); two for our gas transmission operations, again one as TO and one as SO; and one for each of our four regional gas distribution networks. In addition to the eight price controls, our LNG storage business has a price control covering some aspects of its operations. There is also a tariff cap price control applied to certain elements of domestic metering and daily meter reading activities undertaken by National Grid Metering.

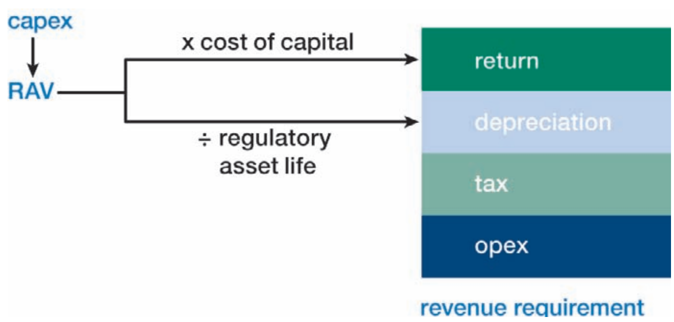
Price control mechanism

Because price control mechanisms restrict revenues, not profits, they encourage efficiencies within our regulated businesses. 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 businesses 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), capital expenditure (capex) and asset replacement, together with an allowance for depreciation and an allowed rate of return on capital invested in our businesses. This is summarised in the diagram below, representing a building block model of the price control.

Building blocks



The inputs of the building block model 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 businesses with a level of revenue that is sufficient to finance the businesses 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 both gas and 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 £4.4 billion baseline five year capex allowance and a £1.2 billion five year controllable opex allowance.

In addition, we are subject to a number of incentives that can adjust our transmission network revenue. For electricity transmission, these include incentives for network reliability, sulphur hexafluoride losses, efficiency and balancing services. For gas transmission, our incentive schemes cover areas such as the cost of investment for additional capacity to facilitate new connections to the system.

The key elements of the current price controls for gas distribution are that we are allowed to earn a 4.3% post-tax real rate of return on our RAV, equivalent to a 4.94% vanilla return, with a £2.5 billion baseline five year capex allowance and a £1.6 billion five year controllable opex allowance.

	RAV	Allowed vanilla return	Actual vanilla return	Return on equity
Electricity transmission	£8,388m	5.05%	6.40%	13.6%
Gas transmission	£4,889m	5.05%	7.20%	15.8%
Gas distribution	£7,520m	4.94%	5.54%	12.1%
Total	£20,797m			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 fundamental building block approach shown in the diagram opposite will still be at the heart of the model.

The RIIO model

Ofgem's revised RIIO regulatory framework will be implemented in the next round of gas distribution and gas and 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

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 in our gas distribution and electricity and gas transmission roles 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.

Regulatory environment – US regulation

Regulators

In the US, public utilities' retail transactions are regulated by state utility commissions, including the New York Public Service Commission, the Massachusetts Department of Public Utilities, the Rhode Island Public Utilities Commission and the New Hampshire Public Utilities Commission. Utility commissions serve as economic regulators in approving cost recovery and authorised rates of return. The state commissions establish the retail rates to recover the cost of transmission and distribution services, and focus on services and costs within their jurisdictions. The Federal Energy Regulatory Commission (FERC) regulates the wholesale transactions of public utilities, such as interstate transmission and electricity generation, and provides for the cost recovery of these services.

Utility commissions are also charged with serving the public interest by ensuring utilities provide safe and reliable service at just and reasonable prices. They establish service standards and approve mergers and acquisitions of public utilities. FERC also regulates public utility holding companies and centralised service companies, including those of the US businesses of National Grid.

In the US, many states have deregulated the commodity or supply component of electricity and gas utility service. Customers in deregulated states have been given the opportunity to purchase electricity or gas service from competitive suppliers. All the states in which we operate have deregulated electricity and gas supply.

Regulatory process

Utilities in the US submit a formal rate filing requesting a revenue adjustment in a proceeding known as a rate case. The rate case process is conducted in a litigated setting and, in the states in which we operate, it can take six to 13 months for the commission to render a final decision. In all states, the utility is required to prove that its requested rate change is prudent and reasonable. The utility may request a rate plan that can span multiple years.

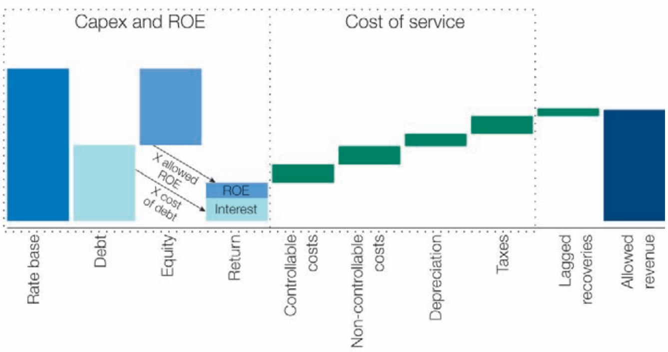
During the rate case process, consumer advocates and other intervening parties scrutinise and often file opposing positions to the utility's rate request. The rate case decision reflects a weighing of the facts in light of the regulator's policy objectives. During a rate case, the utility, consumer advocates and intervening parties may agree on the resolution of aspects of a case and file a negotiated settlement with a commission for approval.

Gas and electricity rates are established from a revenue requirement, or cost of service, representing the utility's total cost of providing distribution or delivery service to its customers. It includes operating expenses, depreciation, taxes and a fair and reasonable return on the utility's regulated asset base, typically referred to as its rate base. The rate of return applied to the rate base is the utility's weighted average cost of capital, representing its cost of debt and an adjudicated return on equity (ROE) intended to provide the utility with an opportunity to attract capital from investors and maintain its financial integrity. The total cost of service is apportioned among different customer classes and categories of service to establish the rates, through a process called rate design, for these classes of customers. The final cost of service and rate design are ultimately approved in the rate case decision.

The revenue requirement is derived from a comprehensive study of the utility's total costs during a recent 12 month period of operations, referred to as a test year. Each commission has its own rules and standards for adjustments to the test year which are intended to arrive at the total costs expected in the first year new rates will be in effect, or the rate year, and may include forecasted capital investments in determining rate year rate base. Often, known and measurable adjustments are made to test year data to reflect normal operating conditions. In Massachusetts and New Hampshire, only limited adjustments to this test year are allowed, which are required to be both known and measurable. New York and Rhode Island allow more comprehensive adjustments to the test year.

In summary, the US regulatory regime is based on a building block approach intended to allow the utility to recover its cost of service and earn a return on past investments.

US regulation building blocks



Regulatory lag

Once approved, base rates are typically either fixed until the next request is filed and litigated, or may be adjusted pursuant to a multi-year rate plan. Consequently, if costs change substantially between rate cases and base rates remain unchanged during the same period, the result can be large discrepancies between revenue generated from rates and actual costs incurred, commonly referred to as regulatory lag.

One of the ways to reduce the effects of regulatory lag has been to propose and gain approval for rate adjustment mechanisms in respect of certain costs which are generally outside the control of the utility management, such as pension and other post-employment benefit (OPEB) costs. Such mechanisms may be known as true ups or reconciling mechanisms. Base rates generally provide an allowance for such costs, but the actual costs incurred by the utility may turn out to be higher or lower than the allowance. A reconciling mechanism allows the utility to charge or refund to customers an amount in addition to or in place of base rates, so that the overall revenue providing for the recovery of the specified costs matches the actual costs incurred. A summary of these arrangements can be found on page 35.

Another way to reduce regulatory lag is by gaining approval of a formula rate from the regulator. FERC allows transmission cost recovery from wholesale transmission customers based upon a formula. The charges to wholesale customers are updated at least annually, based upon actual costs incurred and investments made. A calculation is performed each year to compare the actual with the projected revenue requirement. Any refund or surcharge in rates is an adjustment to the revenue requirement for the subsequent period. For our New England wholesale transmission business, the formula operates on a monthly basis, which virtually eliminates regulatory lag.

Our rate plans

We have five sets of electricity rates and seven sets of gas rates, covering our electricity distribution operations in upstate New York, Massachusetts, Rhode Island and New Hampshire, and our gas distribution networks in upstate New York, New York City, Long Island, Massachusetts, Rhode Island and New Hampshire. Distribution and transmission electricity services in upstate

New York continue to be subject to a combined rate that is billed to end use customers. In New England, retail transmission rates reflect the recovery from our end use customers of wholesale transmission charges assessed to our electricity distribution companies. Wholesale rates for our electricity transmission network in New England and New York are subject to FERC approval.

We have regulatory arrangements that provide for the recovery of our historical investments and commitments related to our former electricity generation business that were stranded when some of our US subsidiaries divested their generation assets as part of industry restructuring and wholesale power deregulation in New England and New York. These arrangements include the recovery of certain above market costs of electricity power purchase contracts that were in place at that time. We recover most of these costs through the rates charged to our electricity customers. We will have fully recovered our sunk investments in generation assets by the end of 2011 at which time revenue associated with stranded cost recovery will decline significantly.

Our rate plans are designed to produce a specific allowed ROE, by reference to an allowed operating expense level and rate base. Some rate plans include earned savings mechanisms that allow us to retain a proportion of the savings we achieve through improving efficiency, with the balance benefiting customers.

In addition, our performance under certain rate plans is subject to service performance targets. We may be subject to monetary penalties in cases where we do not meet those targets.

Features of our rate plans

Unlike the position in the UK, we are responsible for billing our customers for their use of electricity and gas services. Customer bills typically comprise a commodity charge, covering the cost of the electricity or gas delivered, and delivery charges, covering our delivery service. Depending on the state, delivery rates are either based upon actual sales volumes and costs incurred in an historical test year, or on estimates of sales volumes and costs, and in both cases may differ from actual amounts. A substantial proportion of our costs, in particular electricity and gas purchases for supply to customers, are pass-through costs, meaning they are fully recoverable from our customers. Our charges to customers are designed to recover these costs with no profit. Rates are adjusted from time to time to ensure any over- or under-recovery of these costs is returned to, or recovered from, our customers. There can be timing differences between costs being incurred and rates being adjusted.

Our electricity and gas distribution businesses operate under franchise agreements that provide us with certain rights and obligations regarding facilities and the provision of service within each state in which we operate. In addition, there are federal and state laws and regulations covering both general business practices and electricity and gas operations in particular, especially with respect to safety, energy transactions, customer sales and service, levels of performance, rates, finances and environmental concerns.

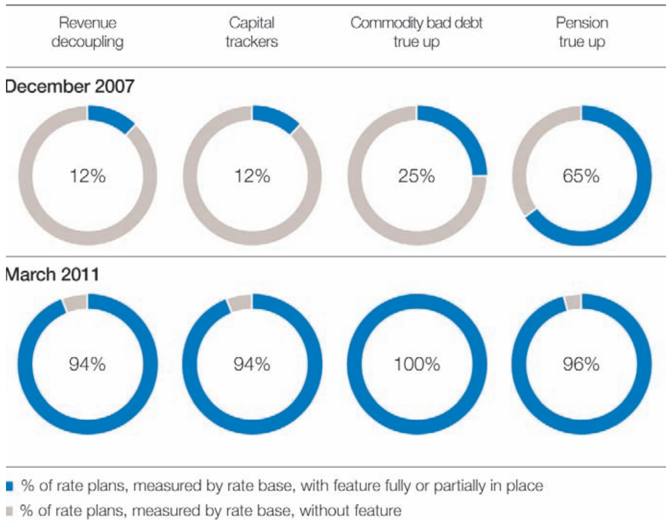
Our Long Island generation plants sell capacity to the Long Island Power Authority under a contract, approved by FERC, which provides a similar economic effect to cost of service rate regulation.

Revenue for our wholesale transmission business in New England and New York is collected from wholesale transmission customers, who are typically other utilities and include our own New England electricity distribution businesses. With the exception of upstate New York, which continues to combine retail transmission and distribution rates to end use customers, these wholesale transmission costs are incurred by distribution utilities on behalf of their customers and are fully recovered as a pass-through from end use customers as approved by each state commission.

Regulatory filings

The objectives of our rate case filings are to ensure that we have the right cost of service with the ability to earn a fair and reasonable rate of return, while providing safe and reliable service to our customers. In order to achieve these objectives and to reduce regulatory lag, we have been requesting structural changes, such as revenue decoupling mechanisms, capital trackers, commodity related bad debt true ups, and pension and OPEB true ups, separately from base rates. These terms are explained below the table on page 35.

The chart below shows the progress we have made on these regulatory principles (excluding New Hampshire). We continue to work towards implementing these regulatory principles across our US business.



Although many of our rate plans feature revenue decoupling, in some cases decoupling applies only to some classes of customer. As a result, the proportion of revenues which is decoupled is 81% for our electricity businesses and 57% for our gas businesses for 2010/11. Transmission revenue is effectively decoupled.

Massachusetts gas rate case

On 16 April 2010, we filed a rate case for the Boston, Essex and Colonial Gas companies. The filing included requests for approval of: an increase in revenue to fund distribution operations and prior capital additions; a revenue decoupling mechanism; an infrastructure investment tracker; true up mechanisms for commodity bad debt and pension costs; and an annual inflation adjustment tracker.

On 2 November 2010, the Massachusetts regulator ruled on our request. We were granted an increase in revenue of $58 million, based upon an allowed return on equity of 9.75% and a 50% equity ratio. We also received approval for the implementation of a revenue decoupling mechanism, true up mechanisms for commodity bad debt and pension costs, and an infrastructure investment tracker with a cap on annual base rate increases of 1% of revenues for the prior calendar year. The regulator denied our proposed inflation adjustment tracking mechanism. Rates went into effect on 2 November 2010. The regulator also approved consolidated base rates for the merged Boston Gas and Essex Gas operations, as well as for the two operating divisions of Colonial Gas, so that we have two sets of base rates instead

Regulatory environment – US regulation continued

of four. On 22 November 2010, we filed a motion for recalculation on certain rate case items, worth approximately $10 million in additional annual revenue. We expect a regulatory decision during the first half of 2011/12.

Massachusetts electricity revenue decoupling and pension expense filing

On 25 February 2011, the Massachusetts regulator approved, subject to further review, rate adjustments resulting from our revenue decoupling mechanism and pension and OPEB expenses. The revenue decoupling mechanism allows for annual adjustments to our distribution rates to support incremental capital investment of up to $170 million, less the annual base rate allowance for depreciation expense of $96 million, and the reconciliation between allowed annual revenue targets and billed revenue. The approved revenue decoupling mechanism rate adjustments provide for the recovery of $2.6 million in revenue beginning on 1 March 2011. The regulator also approved recovery of forecast pension and OPEB expenses for calendar year 2011, one third of the balance of the expenses in excess of revenue for calendar year 2010 and carrying charges associated with pension and OPEB assets and liabilities. The approval permits the recovery of $50.3 million in costs beginning on 1 March 2011, representing an annual increase of $17.4 million.

Upstate New York electricity rate case

In January 2010, we filed a three year rate proposal for our upstate New York electricity business, to take effect from 1 January 2011. The filing included a request for an increase in revenue to fund electricity operations, a revenue decoupling mechanism proposal as requested by the regulator and annual reconciliation mechanisms for certain non controllable costs. During the proceeding, the rate case proposal was limited to one year.

In January 2011, the regulator ruled on our request, increasing base delivery rates by $119.3 million with effect from 1 February 2011, and allowing for a full calendar year of cost recovery as if new rates had come into effect on 1 January 2011. We were granted a 9.3% ROE with a capital structure of 48% common equity. An amount equivalent to 0.2% ROE, approximately $7 million, is refundable to customers if we file for new rates before 1 January 2012. Of the $119.3 million increase, approximately $40 million represents a one-off recovery of stranded costs. The increase in 2011 is entirely offset by extending the recovery period of certain deferred costs to prevent an increase in customer bills for 2011. The increase in delivery rates is therefore to be deferred until 2012 and will be subject to a filing by July 2011 for the recovery of deferral balances. In addition, $50 million of the annual revenue increase was approved on a temporary basis pending the outcome of a review of affiliate service company costs. The regulator approved the decoupling of revenues from energy delivered for all customer classes eligible for energy efficiency programmes and continues to allow for the full recovery of pension, OPEB and energy supply costs.

Downstate New York deferrals filing

The downstate New York rate plans allow us to request recovery or refund of certain costs and forecast expenses which vary from rate plan allowances. Such costs include: site investigation and environmental remediation; property tax; and pension and OPEB expenses. On 29 January 2010, our downstate New York companies made a filing with the New York regulator to request up to $65 million in cost recovery per year over five years. The proceeding is ongoing.

Rhode Island filings

In May 2010, Rhode Island enacted legislation requiring us to decouple revenue from energy delivered and providing revenue support for prospective infrastructure investment and certain electricity operation and maintenance expenses. In October 2010, we submitted our electricity and gas revenue decoupling mechanism petitions, and expect a regulatory decision in June 2011 that will include an effective start date of 1 April 2011. Incremental funding of our expanded electricity energy efficiency programmes was approved, beginning in January 2011. Due to conflicting statutes, the expanded gas efficiency programmes were not approved, but we anticipate that this will be resolved in 2011/12.

In December 2010, we filed petitions seeking approval of our 2011/12 infrastructure, safety and reliability plans for the electricity and gas businesses. In the filings, we requested revenue for the costs of capital investment programmes, along with vegetation management and inspection and maintenance expenses for the electricity distribution business. Both petitions were approved in March 2011, providing additional annual electricity and gas distribution revenues of approximately $3.3 million and $1.8 million, respectively.

New Hampshire gas rate case

On 26 February 2010, we filed a rate case for the EnergyNorth gas distribution business. The filing included a request for an overall increase in revenue of $11.4 million and a return on equity of 11.2%. We also proposed a revenue decoupling mechanism, an expanded capital tracker, reconciling mechanisms for pension and OPEB and for commodity related bad debt and an inflation tracker on operations and maintenance costs. On 14 May 2010, the regulator approved $5 million in temporary rates which will become effective on 1 June 2010, reconcilable to the final decision with new rates effective from 1 April 2011.

We entered into a settlement agreement for permanent rates in January 2011. The final decision, approving the settlement of the case, was issued on 10 March 2011. We received a revenue increase of $6.8 million, based upon an imputed return on equity of 9.67% and a capital structure of 50% equity. In addition, we received approval for a reconciling mechanism for commodity related bad debt, once certain thresholds are achieved, as well as updated pension and property tax expense for current year data. The final decision did not include approval of a revenue decoupling mechanism, pension and OPEB tracker or inflation tracker.

Disposal of New Hampshire businesses

On 8 December 2010, National Grid signed an agreement with a subsidiary of Algonquin Power & Utilities Corp. for the sale of the EnergyNorth gas and Granite State electricity companies. The transaction is expected to close in the second half of 2011/12.

Liberty Consulting Group audit

In September 2010, we commissioned Liberty Consulting Group (Liberty), a nationally recognised leader in providing independent audits of regulated businesses, to conduct a comprehensive review of our cost allocation process. Liberty was hired following questions about our cost allocation processes which surfaced during the upstate New York electricity and Massachusetts gas rate cases in August 2010. After a five month review, Liberty issued its final report including recommendations on our US accounting systems and practices. The review found no evidence of deliberate misallocation of expenses. Liberty's recommendations, including a focus on financial reporting by jurisdiction rather than by line of business, improving controls and training related to cost allocation, and moving toward a single, consolidated financial platform and cost allocation methodology, are generally in line with actions we are already taking to implement improvements.

Summary of US price controls and rate plans

Regulator	Rate plan	Rate base	Equity to debt ratio	Allowed return on equity	Actual return on equity	Revenue decoupling†	Capital tracker‡	Commodity bad debt true up§	Pension/OPEB true up◊
New York Public Service Commission	Niagara Mohawk* (upstate, electricity)	$3,674m*	48 : 52	9.3%	6.8%	✓	P	P	✓
	Niagara Mohawk (upstate, gas)	$890m	44 : 56	10.2%	6.2%	✓	✗	P	✓
	KEDNY (downstate)	$2,297m	45 : 55	9.8%	11.9%	P	P	P	✓
	KEDLI (downstate)	$1,943m	45 : 55	9.8%	10.2%	P	P	P	✓
Massachusetts Department of Public Utilities	Massachusetts Electric/ Nantucket Electric	$1,635m	50 : 50	10.35%	9.3%	✓	P	✓	✓
	Boston Gas / Essex Gas	$1,334m	50 : 50	9.8%	0.7%	✓	P	✓	✓
	Colonial Gas	$257m	50 : 50	9.75%	5.9%	✓	P	✓	✓
Rhode Island Public Utilities Commission	Narragansett Electric	$574m	43 : 57	9.75%	8.3%	F	P	P	✗
	Narragansett Gas	$337m	48 : 52	10.5%	0.3%	F	P	P	✓
New Hampshire Public Utilities Commission	Granite State Electric	$62m	50 : 50	9.67%	3.6%	✗	P	✓	✗
	EnergyNorth	$207m	50 : 50	9.67%	1.1%	✗	P	✓	✗
Federal Energy Regulatory Commission	Narragansett	$238m	50 : 50	11.14%	11.8%	N/A	✓	N/A	✓
	Canadian Interconnector	$61m	40 : 60	13.0%	13.0%	N/A	✓	N/A	✓
	New England Power	$902m	65 : 35	11.14%	11.6%	N/A	✓	N/A	✓
	Long Island Generation	$529m	45 : 55	10.75%	11.2%	N/A	✓	N/A	✓

2010 2011 2012 2013

Transmission
Gas Distribution
Electricity Distribution & Generation

Rate plan ends
Rates continue indefinitely
Rate filing made
New rates become effective

✓ Feature in place
✗ Feature not in current rate plan
P Feature partially in place
F Feature requested in pending filing per legislation

* Both transmission and distribution, excluding stranded costs

†Revenue decoupling
A mechanism that removes the link between a utility's revenue and sales volume so that the utility is indifferent to changes in usage. Revenues are reconciled to a revenue target, with differences billed or credited to customers. Allows the utility to support energy efficiency.

‡Capital tracker
A mechanism that allows for the recovery of the revenue requirement of incremental capital investment above that embedded in base rates, including depreciation, property taxes and a return on the incremental investment.

§Commodity related bad debt true up
A mechanism that allows the Company to reconcile commodity related bad debt to either actual commodity related bad debt or to a specified commodity related bad debt write-off percentage. For electricity utilities, this mechanism also includes working capital.

◊Pension/OPEB true up
A mechanism that reconciles the actual non capitalised costs of pension and other post-employment benefits and the actual amount recovered in base rates. The difference may be amortised and recovered over a period or deferred for a future rate case.

Attachment 2.5 (c)(6)
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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 and rate plans

The prices we charge for use of our electricity and gas transmission and distribution networks are determined in accordance with regulatory approved price controls in the UK and rate plans in the US. These arrangements include incentive and/or penalty arrangements. The terms of these arrangements have a significant impact on our revenues.

Multi-year contracts

Revenues in our Long Island electricity distribution and generation operations are subject to long-term contracts with the Long Island Power Authority. In addition, revenues in our Grain LNG importation terminal are determined by long-term contractual arrangements with blue chip customers.

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 of organic growth. In our regulated energy networks, the prices we charge include an allowed return for capital investment determined in accordance with our price controls and rate plans. Capital investment in non-regulated assets allows us to develop new revenue streams or to increase revenues from existing assets.

Safety, reliability and efficiency

Our ability to operate safely and reliably is of paramount importance to us, our employees, our contractors, our customers, our regulators and the communities we serve. Operating efficiently allows us to minimise prices to our customers and improve our own financial performance to benefit our shareholders.

Relationships and responsibility

Our reputation is vitally important to us. We only earn the trust and confidence of our stakeholders by conducting our 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.

Other investment

Investment in new businesses is also a significant driver of growth, provided we can create value through operational improvements, synergies and financial benefits. Disposals can crystallise value for shareholders, where the price on offer is better than the long-term return we can obtain ourselves or where a business does not fit with our principal operations.

Principal risks and opportunities

There are a number of risks that might cause us to fail to achieve our vision or to deliver growth in shareholder value. We can mitigate many of these risks by acting appropriately in response to the factors driving our business. The principal risks are described here. For more detail on risks, see pages 91 to 93.

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, for example in our rate filings in the US. 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, and for increasing shareholder value. 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 our 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 and influencing legislators, regulators, employees, customers and suppliers to address climate issues and become more environmentally responsible.

Expanding our capabilities and identifying growth opportunities

We seek to identify, evaluate and acquire new businesses that build on our core regulated operations. If we are unable to acquire businesses with the correct strategic fit it may restrict our future growth and our ability to increase shareholder value. The acquisition of new businesses is dependent on our ability to fund transactions through internal cash flows or the issuance of new debt or new shares.

Objectives

We have developed the Company strategy and objectives to address the key business drivers and risks, ensuring we manage the business appropriately so as to mitigate risks and optimise opportunities. For more detail on objectives, see pages 38 and 39.

- Delivering strong, sustainable regulatory and long-term contracts with good returns
- Building trust, transparency, and an inclusive and engaged workforce
- Developing our talent, leadership skills and capabilities
- Modernising and extending our transmission and distribution networks
- Driving improvements in our safety, customer and operational performance
- Becoming more efficient through transforming our operating model and increasingly aligning our processes
- Positively shaping the energy and climate change agenda with our external stakeholders in both regions
- Expanding our capabilities and identifying new financeable opportunities to grow

Key performance indicators (KPIs)

We use a variety of performance measures to monitor progress against our objectives. Some of these are considered to be key performance indicators and are set out here. For more detail on performance, see pages 40 to 69.

- Adjusted earnings per share
- Group return on equity
- Total shareholder return
- Employee engagement index
- Network reliability targets
- Employee lost time injury frequency rate
- Customer satisfaction
- Regulated controllable operating costs
- Greenhouse gas emissions

Vision, strategy and objectives

Vision

Our vision is the long-term aspiration for National Grid: what we want to be in the future. Our vision statement has remained unchanged since we first published it in 2007:

We, at National Grid, will be the foremost international electricity and gas company, delivering unparalleled safety, reliability and efficiency, vital to the wellbeing 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 our journey to achieve the vision: what we will be doing over the next few years. It is also the overarching principle which 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. To see how those factors are aligned, see pages 36 and 37. For the last three years, our strategy has been expressed in these terms:

We will build on our core UK and US, electricity and gas, regulated business base and financial discipline to deliver sustainable growth and superior financial performance.

Objectives

To guide leaders, managers and individuals in our businesses and help deliver the strategy, we set out eight 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 and distribution networks
- Expanding our capabilities and identifying new financeable opportunities to grow
- 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 in both regions

These are the objectives against which our performance has been measured this year. A summary of our progress is set out below, and a detailed discussion of our performance against each of the objectives can be found on pages 42 to 53.

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

We have updated our 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 set out on page 22. 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.

The refreshed framework is shown opposite. This reflects our modified operating model in explicitly organising our business on a regional basis: UK and US. Our strategy is evolving to reflect the different challenges and operating environments we face (eg the regulatory frameworks differ significantly between the UK and US, as well as differences in energy policy direction). We will continue to exploit the scale benefits of having a global business, as set out in the shared strategic actions, but our new regional organisation will also help us to overcome the different challenges that our businesses face while ensuring a clear link with all our stakeholders.

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.

In the US, our focus remains on filing rate plans and achieving appropriate rate outcomes, while also addressing our cost base. 2010/11 has seen some progress but there is more to do.

2011/12 line of sight framework

Vision

We, at National Grid, will be the foremost international electricity and gas company, delivering unparalleled safety, reliability and efficiency, vital to the wellbeing 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

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 and US energy policies through working with our external stakeholders and customers

Actions

Shared 2011/12 strategic actions

- Improve our customer experience and advance performance by at least 1 quartile in all areas
- 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 eg asset management
- Develop a longer-term financing strategy to support our plans for growth

UK 2011/12 strategic actions

- Work with Ofgem and other stakeholders to implement a successful rollover for TPCR4 and submit final proposals for RIIO-T1 and RIIO-GD1 plans*
- Ensure successful delivery of the core investment programme
- Deliver the Gas Distribution transformation programme
- Deliver on new growth areas eg carbon capture and storage, interconnectors and offshore networks

US 2011/12 strategic actions

- Implement the new US organisational model and deliver cost reductions
- Implement common systems platform to enable an integrated process led US business
- Establish rate case filings that deliver the expectations of our customers and shareholders
- Develop options to ensure contribution to the continued growth of the Company

Annual team priorities

Annual individual objectives

*These are the forthcoming price controls for our UK regulated businesses. Transmission price control 4 (TPCR4) is the one year extension of the current price control for transmission to March 2013. The first RIIO price controls (RIIO-T1 for transmission, RIIO-GD1 for gas distribution) will start in April 2013

Key performance indicators (KPIs)

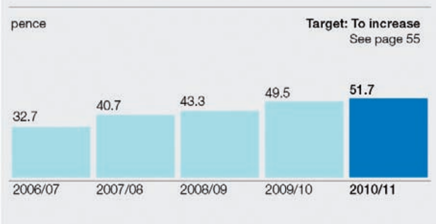
Financial KPIs

Company strategy and objectives	Financial KPIs	Definitions
Sustainable growth and superior financial performance	Adjusted earnings per share	Adjusted earnings* divided by the weighted average number of shares
	Total shareholder return	Average of the closing daily TSR levels for the 30 day period up to and including that date, assuming dividends have been reinvested
Delivering strong, sustainable regulatory and long-term contracts with good returns	Group return on equity	Adjusted earnings* with certain regulatory based adjustments divided by equity
Becoming more efficient through transforming our operating model and increasingly aligning our processes	Regulated controllable operating costs	Regulated controllable operating costs, excluding bad debts, as a proportion of regulated assets

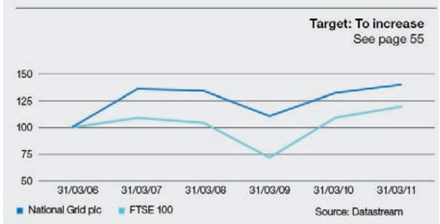
Our performance and the progress we have made against our strategic aims and against the objectives we have set ourselves are described below and on the following pages. Commentary on our overall financial results can be found on pages 54 to 59, and information on the performance and financial results of each line of business is set out on pages 60 to 68.

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 is explained above.

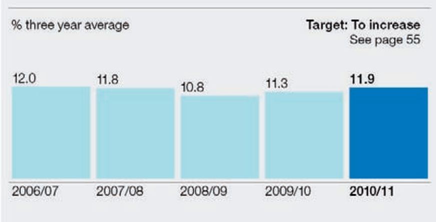
Adjusted earnings per share*+†



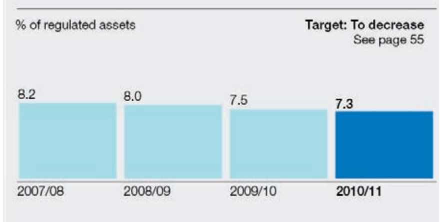
Total shareholder return



Group return on equity^



Regulated controllable operating costs◊



* Adjusted earnings exclude exceptional items, remeasurements and stranded cost recoveries
\+ 2007/08 data include continuing operations acquired with KeySpan for the period from 24 August 2007 to 31 March 2008 or as at 31 March 2008
† Comparative data have been restated for the impact of the bonus element of the rights issue and the scrip dividend issues
^ 2007/08 results include KeySpan operations on a pro forma financial performance basis assuming the acquisition occurred on 1 April 2007
◊ Prior years have been restated on a constant currency basis

Non-financial KPIs

Company objectives	Non-financial KPIs	Definitions
Modernising and extending our transmission and distribution networks	Network reliability targets	Various definitions appropriate to the relevant line of business
Driving improvements in our safety, customer and operational performance	Customer satisfaction	Our position in customer satisfaction surveys
	Employee lost time injury frequency rate	Number of employee lost time injuries per 100,000 hours worked on a 12 month basis
Building trust, transparency and an inclusive and engaged workforce	Employee engagement index	Employee engagement index calculated using responses to our employee survey
Positively shaping the energy and climate change agenda with our stakeholders in both regions	Greenhouse gas emissions	Percentage reduction in greenhouse gas emissions against our 1990 baseline

Network reliability targets

	Performance					Measure	Target
	06/07	07/08	08/09	09/10	**10/11**		10/11
Electricity transmission – UK	99.9999	99.9999	99.9999	99.9999	**99.9999**	%	99.9999
Gas transmission – UK	100	100	100	100	**100**	%	100
Gas distribution – UK	99.999	99.999	99.9999	99.999	**99.999**	%	99.999
Electricity transmission – US	259	437	266	147	**414**	MWh losses	<204
Electricity distribution – US	121	110	114	114	**123**	Mins of outage	<122

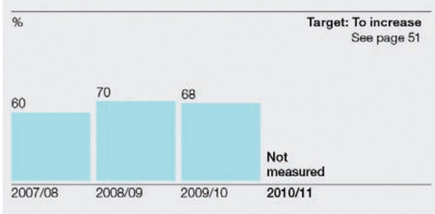
See page 45 for additional details on network reliability

Customer satisfaction

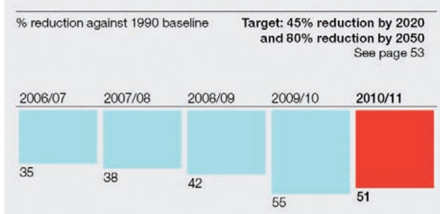
	Performance (quartile)			Measure	Target
	08/09	09/10	**10/11**		
Gas Distribution – UK	4th	4th	**4th**	Quartile ranking	To improve
Gas Distribution – US: Residential	4th	3rd	**2nd**	Quartile ranking	To improve
Gas Distribution – US: Commercial	3rd	2nd	**4th**	Quartile ranking	To improve
Electricity Distribution & Generation: Residential	4th	4th	**3rd**	Quartile ranking	To improve
Electricity Distribution & Generation: Commercial	4th	3rd	**2nd**	Quartile ranking	To improve

Employee lost time injury frequency rate

Employee engagement index



Greenhouse gas emissions~



~ 2007/08 restated due to improved baseline data relating to KeySpan. Previously published figure excluding KeySpan was 30%

Performance against objectives

We use a number of detailed performance measures in addition to the key performance indicators (KPIs) shown on pages 40 and 41, 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 and the Company objectives for 2010/11 are set out on page 38. Our performance in implementing the key elements of our strategy is measured in the following ways.

We will build on our core UK and US electricity and gas regulated business base...

We invest in our existing business in order to improve efficiency and reliability and to support our targeted dividend growth. We will also consider acquisitions in these core areas, but only where we believe we can derive added value for our investors.

Our KPIs in this area, as shown on pages 40 and 41, are total shareholder return and network reliability. Other performance measures include capital investment (see pages 47 to 49), and dividend growth (see page 55).

...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 at the UK operating company level.

Our KPI in this area, as shown on page 40, is regulated controllable operating costs presented as a proportion of regulated assets. Other performance indicators include regulatory returns (see page 31 for UK returns and page 35 for returns for US businesses) and interest cover (see page 56).

...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 page 41, are customer satisfaction, employee lost time injury frequency rate, employee engagement index and greenhouse gas emissions. Other performance measures include measures of gender and ethnic mix.

...and superior financial performance.

We aim to deliver superior returns to our investors, and to ensure that the value we create is reflected in our share price.

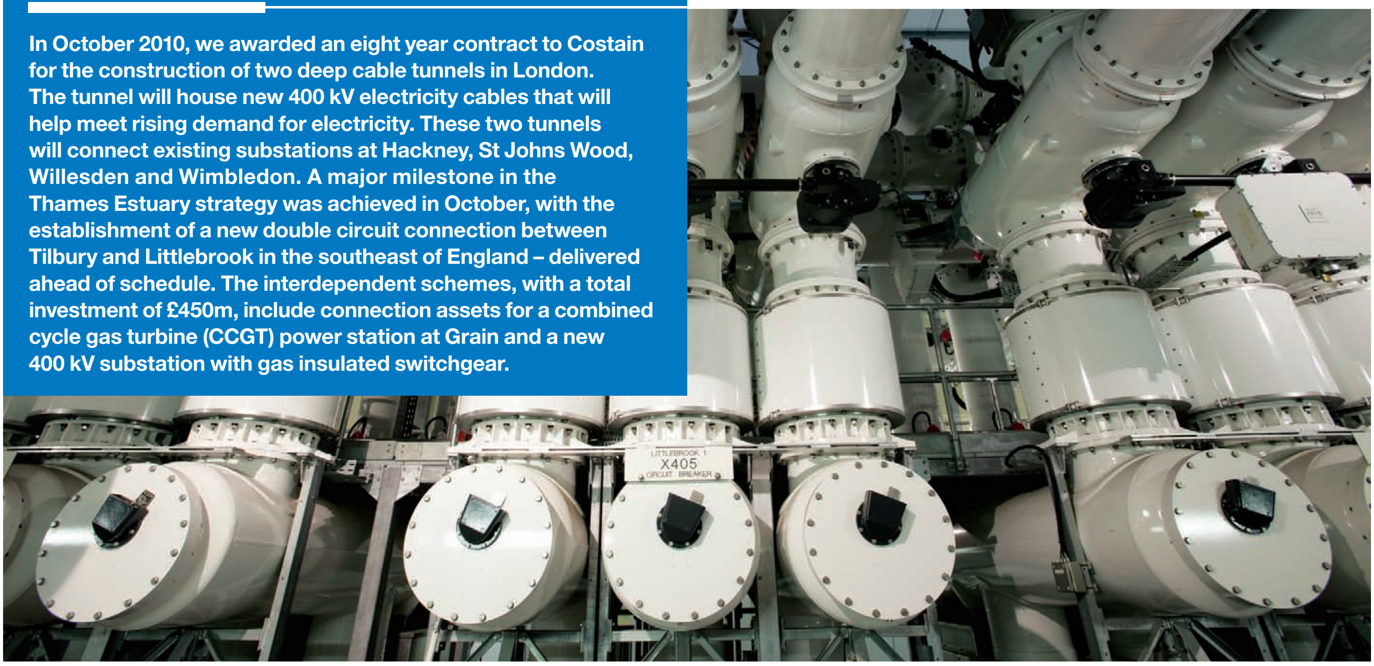
Our KPIs in this area, as shown on page 40 and discussed on page 55, are total shareholder return and adjusted earnings per share. Other performance measures include adjusted operating profit for the year (see pages 56 to 59) and operating cash flows (see page 69). A full discussion of our financial performance can be found on pages 54 to 69.

Future changes to performance measures

Following the strategic review discussed on page 38, and the adoption of the new Company and regional objectives noted on page 39, we will be reviewing our KPIs and other performance measures and will report any changes in the 2011/12 Annual Report and Accounts.

OCTOBER 2010

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.



Driving improvements in our 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 National Grid, 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, operating major hazard sites and pipelines means 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.

We have continued to report process safety KPIs up to Executive level throughout the year and 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, we continued to converge our approach to process safety management across the Company with the development of a Group level major accident hazard framework. Each part of our business has an effective safety management system in place which is the product of the legislation in the region 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 each part of the business to demonstrate it has 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.

Following a significant reduction in lost time injury frequency rate from 0.25 in 2008/09 to 0.15 in 2009/10, this year saw a slight deterioration, although most of the gains made in the previous year have been sustained. At the end of 2010/11, lost time injury frequency rate was 0.18 and the number of lost time injuries was 96 compared with 86 in 2009/10. Definitions for lost time injury and lost time injury frequency rate are included in the glossary on page 185.

At the same time, we have seen a significant improvement in the lost time injury performance of our contract partners' workforce. In 2010/11, there were 51 contractor lost time injuries compared with 85 in 2009/10.

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 including: installing cameras in our vehicles in the US to enable better investigation of road traffic collisions; running safe driving workshops in conjunction with local police forces in the UK; sharing good practice from the US soft tissue injury prevention programme to develop a similar programme in the UK looking at ergonomic assessment; early referral of injury to physiotherapists; and rehabilitation of people with long-term injuries.

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, 52 members of the public were injured as a result of our activities, compared with 39 in 2009/10 (restated from 44 to remove five incidents not attributable to National Grid activities). The principal causes of injury were slips, trips and falls around our streetworks and road traffic collisions with our vehicles.

Enforcement action

During 2010/11, we received two Improvement Notices in the UK from the Health and Safety Executive (HSE). The first was in relation to the maintenance of a short section of buried steel pipe running from an LPG vessel at one of our training centres. The notice was complied with and the pipe was subsequently found to be plastic. The second notice was in relation to our approach to collecting data on the condition of service pipes in blocks of flats. We have agreed a programme of work with the HSE to be completed by the end of September 2011.

In the US, we received five citations from the Occupational Safety and Health Administration totalling $21,750 (£13,854). These were as a result of an incident in an excavation where the side collapsed injuring an employee.

Performance against objectives continued

Customer service

Excellent customer service is not only consistent with our values and simply the right thing to do, it makes good business sense as good customer service means fewer complaints and decreased rework.

Gas Distribution UK

Over the summer of 2010, work was completed on a new five year Gas Distribution customer strategy. While building on a number of existing initiatives to improve customer performance, we expect to benefit from continuous improvement to our current working practices and processes, and the implementation of our new customer and user friendly systems (see Gas Distribution front office on page 50).

We recognise that system and process change alone is not enough to get us to our targets; we require more to deliver the standards of customer service to which we aspire. In 2011/12, we aim to change the look and feel of the interaction customers experience with us through the internet and printed media, including reviewing other companies' methods to determine best practice. We will be able to use better management information to identify areas for closer focus for continuous improvement. We will develop and implement a stakeholder communication plan and implement training to support delivery of customer service. We will also improve our complaints handling processes to ensure we meet the Ofgem incentive and drive down complaints by understanding root causes and learning from them.

It is important to develop meaningful performance measurement tools, including performance targets for employees and contract partners to incentivise excellent performance.

Early indications are that our new strategy is driving improvements. All our networks are moving forward and we are scoring at or above our expectations for customer satisfaction.

Transmission UK

Transmission UK 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.

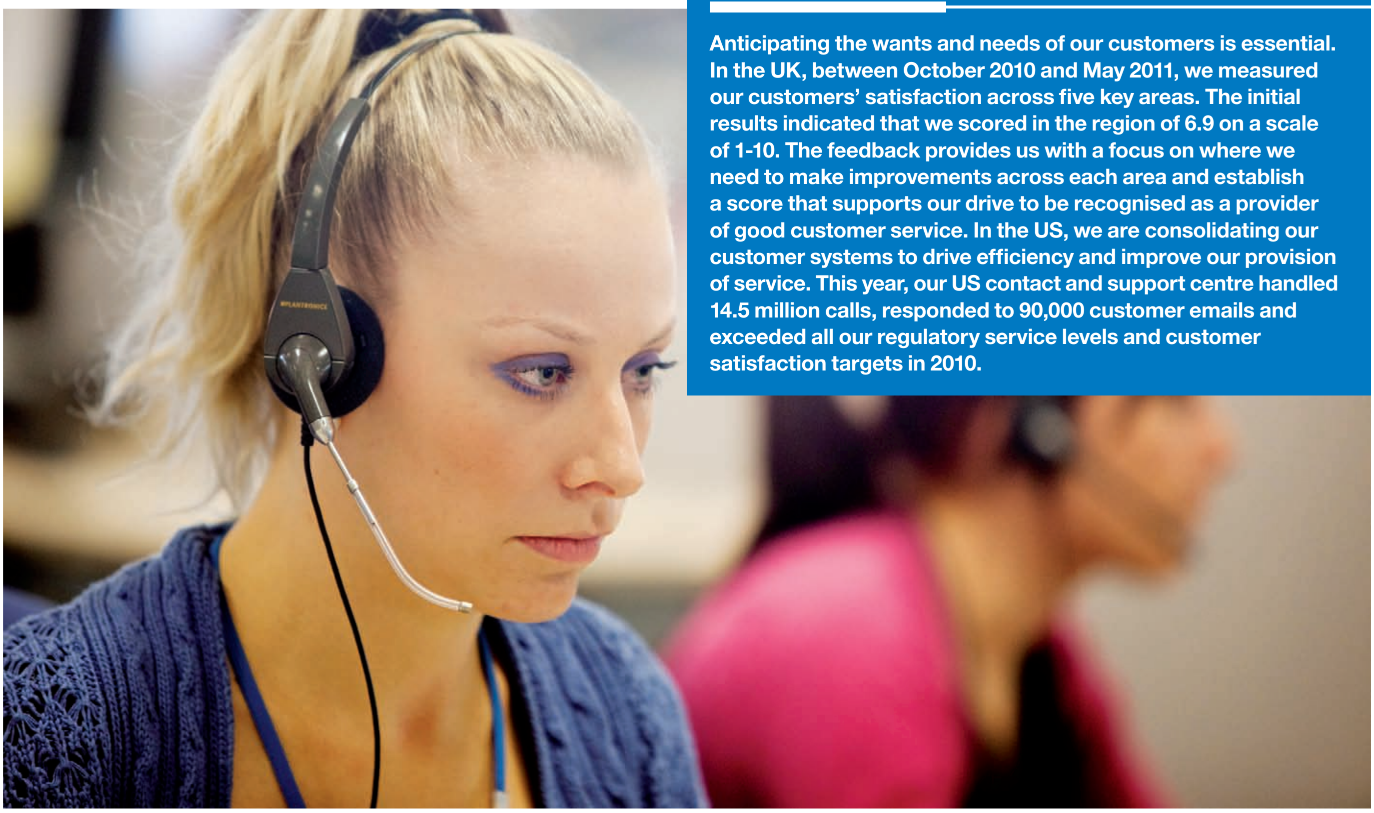
Our growing list of customers includes new developers, (from nuclear to wind, both on and offshore, wave and tidal power), gas storage and our more conventional gas and electricity customer connections. These new entrants will need our help in understanding our business and its complexity. We should 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.

OCTOBER 2010

Anticipating the wants and needs of our customers is essential. In the UK, between October 2010 and May 2011, we measured our customers' satisfaction across five key areas. The initial results indicated that we scored in the region of 6.9 on a scale of 1-10. The feedback provides us with a focus on where we need to make improvements across each area and establish a score that supports our drive to be recognised as a provider of good customer service. In the US, we are consolidating our customer systems to drive efficiency and improve our provision of service. This year, our US contact and support centre handled 14.5 million calls, responded to 90,000 customer emails and exceeded all our regulatory service levels and customer satisfaction targets in 2010.



US

Anticipating the wants and needs of our customers is essential to creating a future which delivers customer satisfaction. This year we have advanced projects supporting further consolidation of our customer systems which will drive efficiency and also provide improved customer service. The focus remained on strengthening our proactive collections strategy which provides for flexibility to treat customers differently based on their risk profile, no longer employing a uniform approach for all customers. In addition, we are piloting a home working programme for some of our employees designed to enhance employee satisfaction and loyalty while driving cost efficiencies.

Customer satisfaction

Reliable and efficient customer services are priorities. Improvements in our operations and how customers conduct their business with us have led to improvements in customer satisfaction. A key customer satisfaction metric comes from the J.D. Power and Associates independent customer satisfaction studies. Since the beginning of 2009, we have shown improvement overall in the J.D. Power satisfaction studies, moving from third to second quartile in two surveys, moving from fourth to third quartile in a third survey but falling to the fourth quartile in the commercial gas distribution survey in 2011.

We continue to enhance the experience customers have with us, giving them the channels and options they want to conduct their business with us. Our contact and support centre exceeded all regulatory service level and customer satisfaction targets in 2010.

The contact and support centre is the face of the Company to each and every one of our customers. Last year the centre handled 14.5 million calls, conducted 850,000 customer office interviews and responded to 90,000 customer emails. The success of our credit and collection programmes have helped to mitigate the effects of the economy on our bad debts, with write-offs being reduced by over $54 million (£34 million). Our consumer advocacy group assisted over 18,000 of our most vulnerable customers, who have demonstrated an inability to pay their energy bills, by identifying available programmes or services and implementing personalised payment plans designed to meet their individual needs.

Customer energy solutions

The customer energy solutions (CES, formerly customers and markets) group was designed to deliver integrated energy management solutions to help customers make better energy choices. Established in May 2010, CES is responsible for understanding market and customer needs, developing energy products and services, delivering integrated energy solutions and maintaining relationships with communities, key customers and local governments in support of business plans and priorities.

Given our customers' economic concerns, CES's marketing communications use bill inserts, direct mail and social media to provide customers with tips on how to manage their energy usage. To drive energy efficiency performance in our service territory, CES manages more than 100 different programmes across our regions and a budget of more than $400 million (£250 million) and growing. Since the inception of our efficiency programmes, more than 5.5 million National Grid customer projects have been completed in New England, saving over $4.0 billion (£2.5 billion) in lifetime energy costs and other benefits. Our programmes save customers nearly $80 million (£50 million) annually.

CES is also responsible for stakeholder management, which involves engaging the communities we serve when we are planning large construction projects to improve our service to customers. Further, as part of our energy management portfolio we consistently engage in research and development opportunities to provide diverse energy solutions offerings that include solar generation, alternative fuel and energy efficient options for our residential and commercial customers. We also help drive regional economic growth through economic development programmes.

Reliability

Transmission

We continue to maintain a world class standard of transmission network reliability in the UK, with reliability scores of 99.9999% for electricity and 100% for gas. Electricity 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.

In the US, annual electricity transmission network availability improved significantly to 99.97% from 98.8% last year. Peak demands were 7.580 GW in New England and 6.915 GW in upstate New York.

Gas Distribution

In the UK, despite the severe winter, we again achieved a high network reliability level of 99.999%, reflecting the low volume of customer interruptions during the year. We met our regulatory standards of service with the exception of one dealing with a category of connection quotations and several dealing with gas escapes. The coldest weather in December in over a century significantly increased emergency workload and hindered our engineers' travel. As a result we fell short in six of our eight standards of service for gas escapes, where we are required to attend 97% of the escapes between one and two hours of the report.

The US Gas Distribution business met all regulatory requirements regarding service quality indices and performance measures. These standards are set by state regulatory agencies and cover operational activities including, but not limited to: damage prevention; leak repair; emergency response; inspections; meter changes; and main and service replacements.

Electricity Distribution & Generation

We achieved all our regulatory reliability targets in upstate New York, Long Island and Nantucket. Massachusetts Electric achieved one regulatory target but failed to meet the other because of a wind storm in February. We have filed a request for this event to be excluded, but may incur a penalty of $5.5 million (£3.5 million) if that request is not granted. In New Hampshire we achieved one of our two regulatory targets, but no penalty applies for failure to meet the second target. In Rhode Island we failed to meet our regulatory targets and may incur a small penalty.

Performance against objectives continued

Delivering strong, sustainable regulatory and long-term contracts with good returns

Regulation

For a full description of UK regulation, including the key elements of current price controls and developments in the year, see pages 30 and 31.

For a full description of US regulation, including the key elements of our current rate plans and developments in the year, see pages 32 to 35.

Long-term contracts

On 7 May 2010, we signed an agreement with Cape Wind Associates to buy clean power from the first large scale offshore wind farm in the US. On 22 November 2010, the Massachusetts regulator approved the amended 15 year power purchase agreement between Massachusetts Electric, Nantucket Electric, Cape Wind Associates and the Attorney General of the Commonwealth of Massachusetts. We have an option to extend the contract for a further 10 years. Under the contract, we will purchase 50% of the wind farm's output at a fixed rate per kilowatt hour in the first full year of operation, rising at 3.5% per annum thereafter. This includes electricity, capacity and renewable energy attributes, and will begin on the commercial operation date of the facility, which is anticipated to be by the end of 2012. The contract will enable us to comply with the Massachusetts renewable energy and greenhouse gas emissions reduction requirements, and will enhance reliability and moderate peak load. Cape Wind has a capacity of 468 MW.

On 30 June 2010, pursuant to Rhode Island legislation passed in 2010, Narragansett Electric and Deepwater Wind signed an amended 20 year power purchase agreement for electricity generated from Deepwater's initial 28.8 MW offshore wind project near Block Island, Rhode Island. On 11 August 2010, the Rhode Island regulator approved the power purchase agreement between the two companies. The agreement is an amendment of an earlier purchased power agreement executed in 2009 but includes, among other things, a fixed bundled price under the contract in its first year as well as the ability of any project savings to be flowed through the agreement for the benefit of our customers. The initial offshore wind project will include up to eight turbines and we would buy Deepwater's output for a fixed rate per kilowatt hour in 2013, escalating at 3.5% per year.

After completion

NOVEMBER 2010

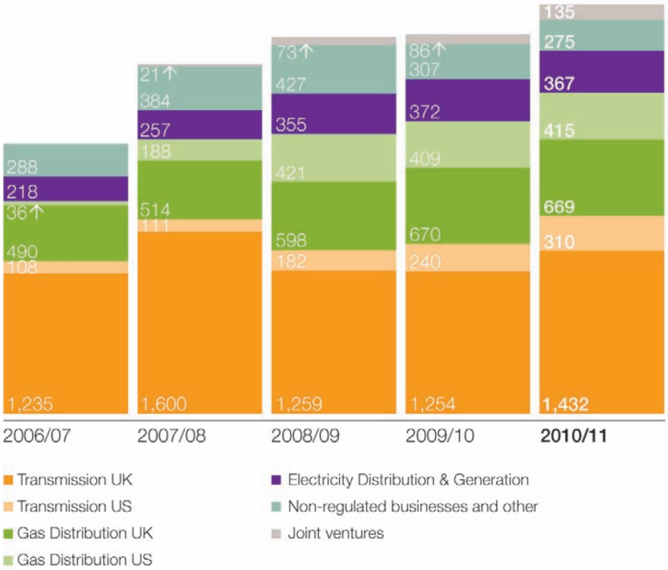
In the UK, a new high pressure pipeline was constructed in the Cotswolds to satisfy the requirement for additional capacity into the gas national transmission system. Gas can now be transported from the Wormington compressor station to an above ground installation at Sapperton in Gloucestershire via a pipeline over 40 km long. This pipeline presented significant design and engineering challenges and, due to environmental and physical constraints, the majority of the pipeline had to be routed through an area of outstanding natural beauty. The project team established relationships with statutory consultees, landowners and residents affected by the construction activities. We received praise from Cotswold District Council and Conservation Board for our workmanship.

During works

Modernising and extending our transmission and distribution networks

The principal measure we use to monitor organic investment is capital expenditure, including investment in property, plant and equipment, and software. The graph below shows our capital expenditure over the last five years, by segment. The largest area of organic growth is in the Transmission segment in the UK, and we expect that to be the case for the next few years.

Capital expenditure by segment
£m



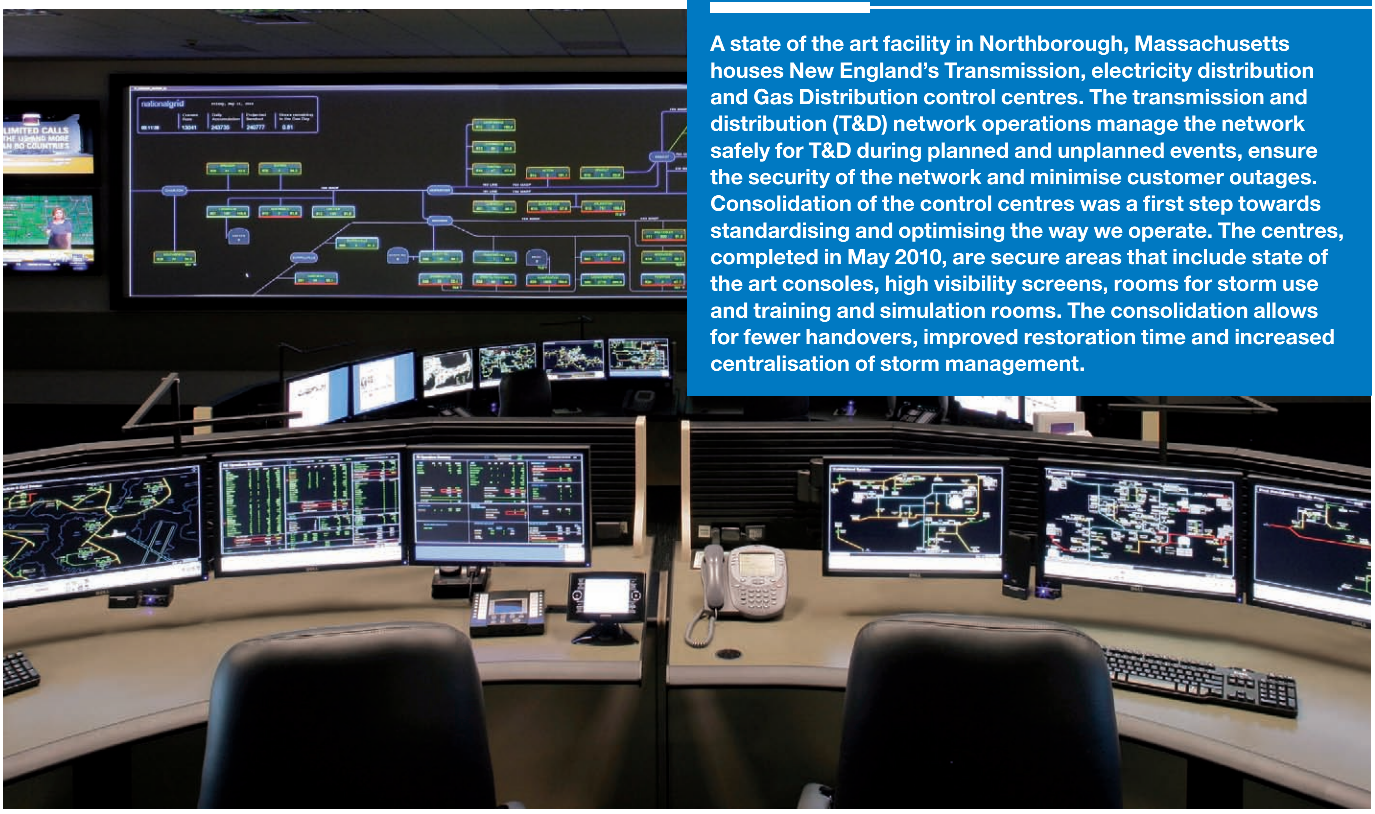
We have delivered a record level of capital investment this year of £3,603 million, including joint ventures, with significant projects across the Company but particularly in the UK where investment is focused on structural changes to the sources of gas and electricity supply. Ageing equipment and carbon 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.

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. Combined with procurement efficiencies this disciplined approach to capital investment has restricted the level of increase in our capital expenditure to approximately £265 million compared with last year.

MAY 2010

A state of the art facility in Northborough, Massachusetts houses New England's Transmission, electricity distribution and Gas Distribution control centres. The transmission and distribution (T&D) network operations manage the network safely for T&D during planned and unplanned events, ensure the security of the network and minimise customer outages. Consolidation of the control centres was a first step towards standardising and optimising the way we operate. The centres, completed in May 2010, are secure areas that include state of the art consoles, high visibility screens, rooms for storm use and training and simulation rooms. The consolidation allows for fewer handovers, improved restoration time and increased centralisation of storm management.



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Performance against objectives continued

Transmission UK

Capital investment of £1,432 million in 2010/11 (2009/10: £1,254 million; 2008/09: £1,259 million) mainly related to UK electricity transmission including investment to facilitate connection of renewable generation, the Thames Estuary reinforcement and our London cable tunnels project. Capital investment included £27 million with respect to intangible assets, principally software applications (2009/10: £21 million; 2008/09: £18 million).

Transmission US

Capital investment was £310 million in 2010/11 (2009/10: £240 million; 2008/09: £182 million). After excluding the £1 million effect of exchange movements, capital investment increased by £69 million in 2010/11 compared with 2009/10. The change principally reflects the increased investment in improving regional reliability including the New England East-West Solution, and the refurbishment of overhead lines in New England.

Gas Distribution UK

Capital investment of £669 million in 2010/11 (2009/10: £670 million; 2008/09: £598 million) consisted of £476 million replacement expenditure (2009/10: £465 million; 2008/09: £425 million) and £193 million other capital investment (2009/10: £205 million; 2008/09: £173 million). Expenditure on software applications included within the above amounts was £75 million (2009/10: £54 million; 2008/09: £22 million). The increase in expenditure is primarily driven by the Gas Distribution front office system (see page 50).

Replacement expenditure increased by £11 million compared with 2009/10. Performance under the mains and services replacement incentive scheme has been adversely affected by the severe winter weather and we therefore expect to make a loss on this incentive in 2010/11.

In collaboration with our gas alliance and coalition partners, we have replaced 1,791 kilometres of metallic gas main this year and more than 15,000 kilometres since 2002/03. The vast majority of this relates to the long-term gas main replacement programme agreed with the Health and Safety Executive.

The reduction in other capital expenditure in 2010/11 compared with 2009/10 primarily reflects the completion of a major new pipeline in west London in 2009/10.

Gas Distribution US

Capital expenditure of £415 million in 2010/11 (2009/10: £409 million; 2008/09: £421 million) mainly related to the replacement, reinforcement and extension of our US gas distribution networks. After excluding the effect of exchange movements of £1 million in 2010/11 compared with 2009/10, capital expenditure increased by £5 million, reflecting a greater volume of main and service replacements, coupled with higher growth programme spending, partially offset by a decrease in reliability programme spending.

Electricity Distribution & Generation

Capital investment of £367 million in 2010/11 (2009/10: £372 million; 2008/09: £355 million) mainly related to distribution line mandatory installations and statutory inspection and maintenance programmes, and policy driven spending associated with our feeder hardening, reliability, asset improvement and load relief programmes, substation asset condition improvement, solar investment and main office and special purpose facility renovations. After excluding the effect of exchange movements of £1 million in 2010/11 compared with 2009/10, capital investment decreased by £6 million.

Non-regulated businesses and other

Capital investment amounted to £275 million in 2010/11 (2009/10: £307 million; 2008/09: £427 million). We have delayed a decision on the construction of a fourth phase at our Isle of Grain LNG terminal until demand is clearer.

DECEMBER 2010

Grain LNG's phase III capacity expansion began commercial operations in December 2010. During the winter cold spell, on a number of occasions Grain LNG had the highest output of the country's three LNG terminals. In early January 2011, the 200th LNG vessel was unloaded bringing the amount of energy delivered into the UK gas market through the terminal to almost 200,000 GWh. Capacity is now equivalent to 20% of annual UK gas demand, helping to meet the UK's strategic need for a more diverse energy mix. Grain LNG now has two jetties, capable of berthing and unloading the world's largest LNG ships with a capacity of up to 265,000 cubic metres, into four of the world's largest above ground LNG storage tanks.

Expanding our capabilities and identifying new financeable opportunities to grow

In addition to the capital expenditure discussed above, we are actively investigating opportunities in relation to offshore transmission, possible electricity interconnectors with Belgium and Norway, and carbon capture and storage technology.

We will consider acquiring new businesses in our core markets of electricity and gas delivery in the UK and US.

We use the aggregate consideration paid and debt assumed to monitor this investment in new businesses. There is no specific target because each investment is considered on its own merits. We also monitor synergy savings generated following an acquisition.

There have been no acquisitions during the last two years.

Grain LNG

On 1 December 2010, we commenced commercial operations for the phase III capacity expansion of our LNG importation terminal at the Isle of Grain (Grain LNG), on time and to budget. Following the arrival of the first commissioning cargo of LNG on 29 October, the commissioning process was completed in just over a month, delivering a 50% increase in terminal capacity for the start of the winter period. This was achieved while continuing to deliver a high standard of service and meeting the daily operational needs of our existing customers.

At Grain LNG, work will continue through 2011/12 on reducing our carbon footprint. An innovative solution has been developed to use hot water from a nearby electricity plant to heat the LNG to convert it back to its gaseous form for supply.

The commitment to safety at Grain LNG was recognised by the Gas Industry Safety Group who gave us the accolade of an outstanding safety performance award.

An investment of around £1 billion has made Grain LNG one of the world's largest importation facilities, making a vital contribution to UK energy supply security.

Offshore transmission

The UK government has stated its commitment to supporting offshore wind generation and, together with Ofgem, has established a competitive offshore transmission regulatory regime. The first and second round of tenders, collectively known as the transitional regime, are under way to identify licensees to own and operate offshore transmission assets. In April 2011, National Grid Offshore Ltd was selected, along with three other bidders, to tender for each of the Lincs, Gwynt-y-Mor and London Array phase 1 wind farm projects, which collectively have a value of just over £1 billion.

Belgian interconnector

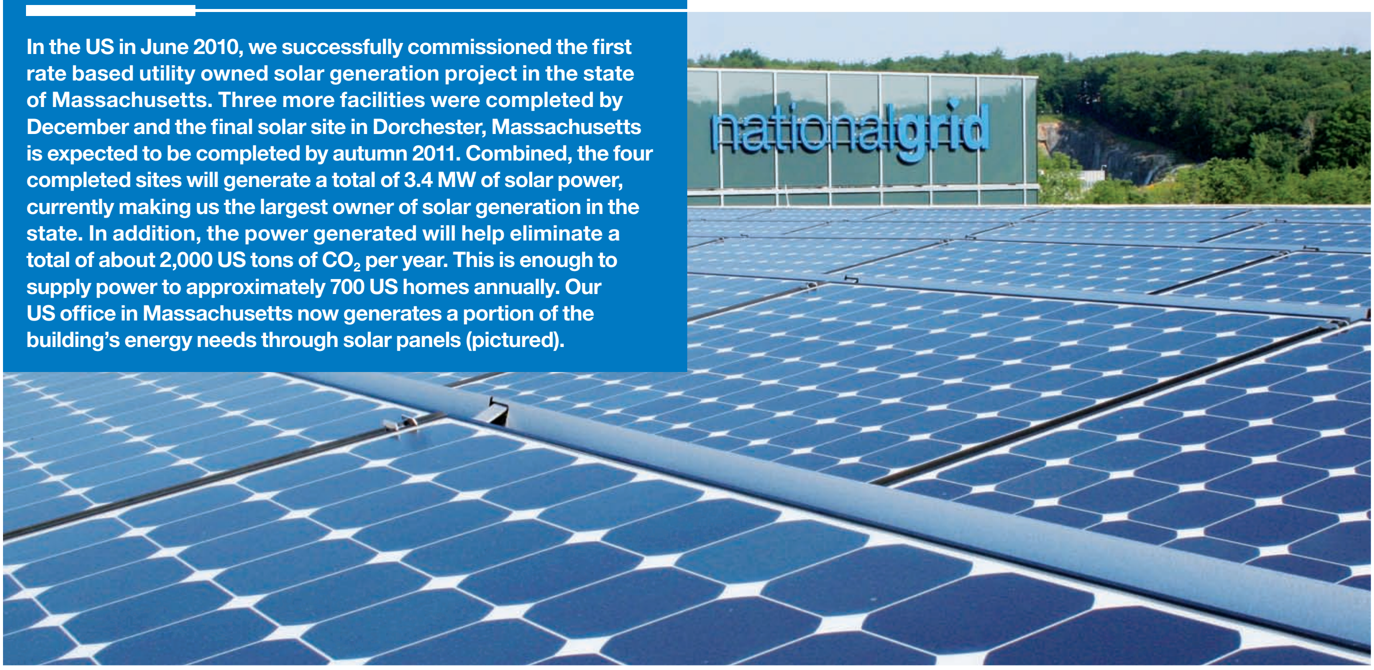
National Grid and Elia, the Belgian transmission system operator, continue to develop a project to construct a 1,000 MW electricity interconnector between the two countries. During 2010, a geophysical survey was completed and work is well under way in respect of a geotechnical survey. The results of the surveys will be used to inform the marine consenting activities and subsea cable design.

Discussions between National Grid, Elia and the two national energy regulators to find an acceptable regulatory framework are ongoing. During 2011, applications will be submitted to the respective consenting authorities in the UK and Belgium.

National Grid is also exploring further electricity interconnector projects to Norway and a second link to France.

JUNE 2010

In the US in June 2010, we successfully commissioned the first rate based utility owned solar generation project in the state of Massachusetts. Three more facilities were completed by December and the final solar site in Dorchester, Massachusetts is expected to be completed by autumn 2011. Combined, the four completed sites will generate a total of 3.4 MW of solar power, currently making us the largest owner of solar generation in the state. In addition, the power generated will help eliminate a total of about 2,000 US tons of CO_2 per year. This is enough to supply power to approximately 700 US homes annually. Our US office in Massachusetts now generates a portion of the building's energy needs through solar panels (pictured).



Performance against objectives continued

Carbon capture and storage (CCS)

Since 2009, we have been working in partnership with Scottish Power and Shell on a CCS demonstration project at Longannet in Scotland. As part of this project, we are investigating the potential to reuse one of our high pressure natural gas transmission pipelines for the transportation of carbon dioxide. During 2010, National Grid conducted a range of tests at Spadeadam in Cumbria to help establish safety standards in relation to this new technology. On Humberside, we are working to develop a potential shared pipeline network and storage site – a CCS cluster – and we are involved in a further project on Teesside.

Technological developments

The breadth of technological advances that offer opportunities and challenges to us across our businesses is vast, and we continually seek to identify them and feed them into our assessment process as early as possible.

Smart grid technology offers many possibilities, from radically improving our customer engagement and satisfaction through to further automating our electricity distribution systems, to reduce or eliminate interruptions to supply. Future networks will be cleaner, more integrated and more resilient and will offer the customer control over how and when they use their energy.

Advancements in gasification and anaerobic digestion technologies already mean many sources of waste in society and industry can be used as cost effective sources of gas for injection into the gas distribution networks. This offsets natural gas requirements and contributes to lower carbon intensity at the point of combustion.

Large scale battery energy storage is beginning to look attractive for a number of applications in managing our networks as we integrate more intermittent renewable and distributed generation sources. Adding large scale storage onto our network offers numerous operational and commercial opportunities.

Breakthroughs in voltage source converter technology will lead to high voltage direct current becoming the technology of choice within the next five to 10 years for bulk energy transfer over long distances, opening up opportunities for greater interconnection of networks and the development of offshore supergrids.

We are active participants in these and many other technologies as we look to trial and deploy those that offer business value and environmental benefits as soon as possible on our networks. To meet the challenges of a low carbon future, we believe new technology breakthroughs will be required and the pace of development will increase. To keep abreast we take a proactive approach with many external partners including leading technology providers, academics, research agencies, industry commentators and venture capitalists.

Becoming more efficient through transforming our operating model and increasingly aligning our processes

Gas Distribution front office (GDFO)

GDFO is a significant investment for National Grid in the replacement of our legacy IT applications for asset and work management systems and is planned to be deployed in three stages. The core of the new system is SAP with three further satellite applications providing the specialist software we need to optimise our asset management capabilities and ensure our field staff are able to respond to customers quickly and effectively.

The first release of the new front office system went live in October 2010 to over 1,000 employees who operate the maintenance process. We were also able to implement an early release to emergency response teams in the West and East Midlands areas ahead of the winter. As with all major IT projects, there were teething problems to resolve in the first few weeks after going live and we were able to gain valuable experience through the winter of how the new system works.

The next two stages of GDFO implementation will take place in 2011/12. In the spring/summer, we will complete the full rollout to the remaining 1,000 emergency response staff, add additional data capture functionality to the maintenance teams' application and introduce a new customer system into our call centres. The customer system will benefit from the integrated design. It will provide much greater information on job progress and any previous work at the customer's premises, and enable rapid communication of issues to and from the field in response to customers' needs. The final stage, following later in 2011/12, will be for our repair teams and to get all remaining new construction and mains replacement work flowing through the new system.

GDFO is not just a large IT replacement project. It forms the foundation of a wider transformation that is under way in Gas Distribution. The emphasis in our new operating model is to focus on improvements to all our processes. This focus will deliver big benefits for our customers and will enhance the efficiency and effectiveness of our operations. Coupled with the enhanced functionality from the investment in IT, we will be able to streamline our organisation and take advantage of our scale of operation.

Information services (IS) transformation

The IS transformation programme establishes a global IS function delivering services and new solutions to all parts of the Company.

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. 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. Alongside transformation, the demand for investments in IT systems next year is significant with a range of large projects across the UK and US being delivered or initiated to support key business initiatives.

US foundation

The US foundation programme is a critical enabler in the delivery of many of our strategic objectives. The primary focus of the programme is to provide an integrated SAP platform that will ensure process and systems standardisation. Creating a highly integrated IS infrastructure in the US, this programme will move the systems and business processes used to support finance, human resources, supply chain and certain elements of our operational systems such as fleet and inventory management to one common structure that will streamline reporting and reduce risk.

UK business process outsourcing

The outsourcing of some of our UK shared services activities to an external service provider in India 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 27,000 people. Communication is a key theme both at a corporate and business level. Multiple communication channels are used throughout National Grid, including the use of various business specific intranets, which we continue to develop to ensure the timely passing of information to employees.

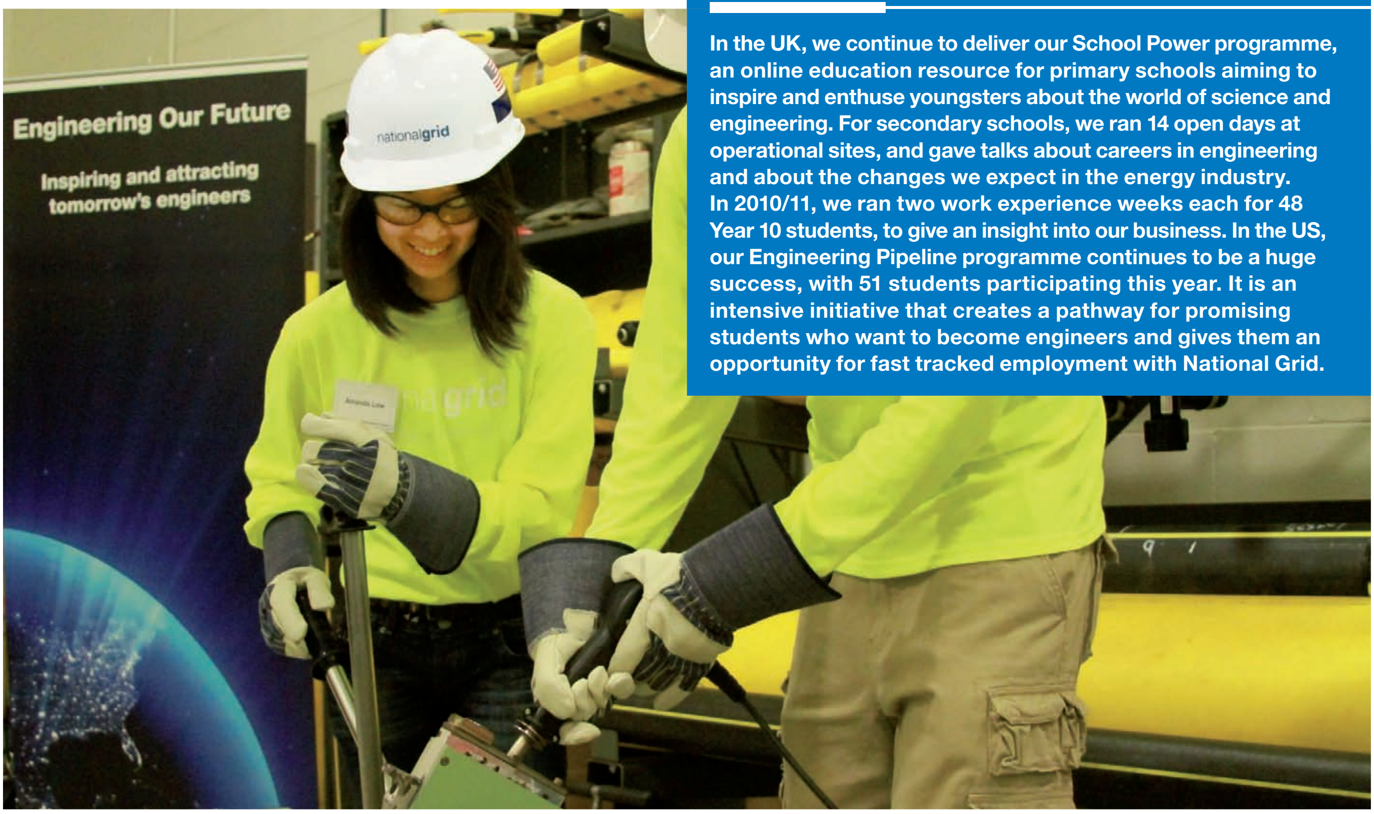
Employee engagement continues to be a key focus for National Grid. 2010 saw an unprecedented employee survey response rate of 97%. This response rate generated an extremely large amount of data and feedback to review.

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, we have decided to postpone the 2011 survey to enable us to work more deeply on action planning and other key engagement activities.

We are working at an Executive level 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.

2010–2011

In the UK, we continue to deliver our School Power programme, an online education resource for primary schools aiming to inspire and enthuse youngsters about the world of science and engineering. For secondary schools, we ran 14 open days at operational sites, and gave talks about careers in engineering and about the changes we expect in the energy industry. In 2010/11, we ran two work experience weeks each for 48 Year 10 students, to give an insight into our business. In the US, our Engineering Pipeline programme continues to be a huge success, with 51 students participating this year. It is an intensive initiative that creates a pathway for promising students who want to become engineers and gives them an opportunity for fast tracked employment with National Grid.



Performance against objectives continued

Inclusion and diversity

Measures such as the percentages of female and ethnic minority employees continue to be reviewed regularly at Executive Committee level. As at 31 March 2011, 22.3% of our employees were female and 13.5% were from ethnic minority groups. This compares with respectively 22.7% and 13.5% at 31 March 2010 and 22.6% and 13.2% at 31 March 2009.

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 National Grid.

We have continued to make our inclusive leadership programme available to our middle managers in the UK, while the Foundations of Leadership (FoL) programme, which is aimed at the next generation of managers and which contains an inclusive leadership module, has been completed by 500 employees since 1 April 2010. In addition, in the US a programme focusing on the prevention of workplace bullying and sexual harassment was also implemented; approximately 97% of US non union employees had completed the training by 31 March 2011.

For a fourth year we have received 100% in the Human Rights Campaign's Equality Index in the US. In the UK, we have been placed in the Top 100 of the Stonewall Workplace Equality Index for the third year running, and were also in the Times Top 50 Employers for Women. In December 2010, National Grid was featured in Profiles in Diversity Journal as a leader in diversity, and was also recognised for its work in the US on supplier diversity.

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 such as the American Association of Blacks in Energy; and working to increase broader understanding of inclusion through workshops, presentations and other educational events.

We have established a programme known as level playing field which seeks to address the ongoing challenge we face around retention of under represented groups such as women and ethnic minorities. The programme is designed to enhance or make better use of existing processes such as mentoring and sponsorship, drive individual accountability for inclusion within the performance management framework, and encourage the application of flexible working policies.

Developing our 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 (DFL) was created for senior leaders, in 2009, FoL 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. Middle managers also have access to a suite of solutions that can be used to customise a curriculum for their unique needs. Given our significant investment in leadership development, we set out to evaluate the impact of DFL and FoL with the help of an external party. The results were compelling. For FoL, participation in the programme was associated with lower turnover rates and improvements in performance ratings. For DFL, participants showed improvements in leadership ratings and in several managerial indices from the employee survey.

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. In 2010/11, over 97,000 learning hours were delivered in professional and leadership development.

We continued our focus on safeguarding our future talent. In the US, 21 highly energetic and skilled graduates have taken on a variety of roles as the first class to graduate from the graduate development programme. Across the US, 51 high school students participated in a one week 'introduction to engineering' academy as part of the US launch of Engineering our Future. In the UK, 164 new early career learners were inducted into various strategic technical programmes. The UK apprenticeship training programmes enjoy Ofsted outstanding ratings on all criteria and we were awarded the East Midlands National Training Award for our advanced apprenticeship model.

To accommodate year on year growth in technical training needs in both the UK and US, significant investments have been made in expanding the Eakring, Nottinghamshire and Millbury, Massachusetts learning centres. In 2010/11, nearly one million learning hours of technical development were delivered.

We have incorporated cutting edge technology into our learning strategy to accommodate diverse learning styles and manage costs. This includes 3D technology, eLearning modules, online assessments, SmartBoards and virtual classrooms.

Positively shaping the energy and climate change agenda

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. We will continue to press for ambitious national and international plans to tackle the causes and consequences of climate change.

We are invited to have a seat at the table on a range of policy debates on facilitating the move to a low carbon economy. For example, in New York and Massachusetts we were asked to serve on both the climate change policy teams and adaptation committees. In the UK, we have worked closely with the Department for Environment, Food and Rural Affairs (Defra) on the implementation of climate change adaptation reporting.

We have continued to work with Ceres in the US and with the Worldwide Fund for Nature (WWF) in the UK to seek their views on our internal and external efforts to reduce our climate change impacts and shape our positive influence on legislators and regulators.

We run nationally recognised energy efficiency programmes with customers in the US, where we are also actively promoting the use of renewables, having signed a contract with the country's first offshore wind development project (see page 46).

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 our 45% by 2020 and 80% by 2050 greenhouse gas emissions reduction targets for our Scope 1 and 2 emissions.

During 2010/11, each line of business worked to deliver their targets under year one of our first five year plan for greenhouse gas reduction. The plan established a trajectory to 2015 as the half way point to our 2020 target. Performance against the plan is linked to the executive compensation scheme. A more detailed breakdown of our emissions and performance against the plan can be found on our website.

Our total Scope 1 and 2 emissions for 2010/11 were 9.7 million tonnes carbon dioxide equivalent (CO_2e), compared with 8.8 million tonnes in 2009/10. Our 2010/11 performance equates to a 51% reduction against our 1990 baseline, but is an increase of 4% with respect to our 1990 baseline compared with 2009/10. Virtually all of this is attributable to increased utilisation of our generating plant on Long Island in order to meet increased consumer demand and to pick up capacity shortfall from other generators. We have continued to invest in modernisation of these plants and this has resulted in a 3.8% increase in efficiency, or a saving of 35,375 tonnes CO_2e over the year on a like for like output basis.

As a result of participating in the World Resources Institute/World Business Council for Sustainable Development pilot study during 2010, we are now in a position to report our Scope 3 emissions in more detail. Our Scope 3 emissions for 2010/11 consisted of: 5.1 million tonnes CO_2e associated with electricity transmission and distribution losses; 2.8 million tonnes associated with the procurement of goods and services; and 29.6 million tonnes associated with sold product (gas and electricity) in the US.

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 and distribution losses as the grid average carbon intensity decreases. In the US, our reported emissions associated with customers may rise as our customer base increases. However, as many of our new customers were previously using fuel oil supplied by others for domestic heating, which is a more carbon intensive fuel, on a like for like basis this will have resulted in a regional reduction in emissions that does not appear on our inventory. Our energy efficiency campaigns are also supporting a reduction in the energy used by our customers.

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 rate 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 and US 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 gas and electricity businesses. 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 National Grid has a good understanding of the risks posed by potential future climate change and has 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 our website. In the US, we are working with state task forces and the primary focus of our adaptation work has been on flood risk assessment and mitigation requirements for our electricity assets. 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

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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 businesses and segments, we analyse each of our primary financial measures of operating profit, profit before tax, profit for the year attributable to equity shareholders and earnings per share 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, remeasurements, stranded cost recoveries, and the amortisation of acquisition-related intangibles. 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 T on page 117 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.

Exchange rates

Our financial results are reported in sterling. Transactions for our US operations are denominated in dollars and so the related amounts that are reported in sterling depend on the dollar to sterling exchange rate. As the average rate of the dollar at $1.57:£1 in 2010/11 was stronger than the average rate of $1.58:£1 in 2009/10, the same amount of revenue, adjusted operating profit and operating profit in dollars earned in 2009/10 would have been reported as £29 million, £3 million and £4 million higher respectively if earned in 2010/11. In 2008/09 the average rate was $1.54:£1; if the revenue, adjusted operating profit and operating profit in dollars recognised in 2008/09 was earned in 2009/10 it would have been reported as £261 million, £27 million and £23 million lower respectively.

However, the effect of movements in the dollar exchange rate on adjusted operating profit and operating profit in 2010/11 was entirely offset by the impact of interest and tax charges denominated in dollars, when translated into sterling. This includes the effect of derivative financial instruments that swap debt raised in other currencies into dollars as part of the financing of our US operations. As a result, adjusted profit for the year and profit for the year from continuing operations for 2009/10 would have been no different if translated at the 2010/11 average exchange rate of $1.57:£1 (2008/09: £7 million and £5 million lower respectively if translated at the 2009/10 average exchange rate of $1.58:£1).

The balance sheet at the end of the financial year has been translated at an exchange rate of $1.61:£1 at 31 March 2011 ($1.52:£1 at 31 March 2010).

Continuing and discontinued operations

The financial results of our businesses and segments and of our other activities (as described on pages 60 to 68) are presented within continuing operations. There were no discontinued operations in 2010/11 or in 2009/10. Discontinued operations in 2008/09 comprised the Ravenswood generation station in New York, KeySpan Communications and KeySpan engineering companies.

Timing

Our profit for the year includes a number of timing differences, including an over-recovery of revenues compared to regulatory allowed revenues, of £270 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 £66 million. All other things being equal, that balance should be returned to customers in 2011/12, which would lead to a variance of £336 million when comparing 2011/12 operating profit to 2010/11.

Key performance indicators (KPIs)

Total shareholder return (TSR)

We measure total shareholder return as a KPI on a cumulative three year basis. The measure reflects changes in our share price and also assumes that dividends paid to shareholders over that period were reinvested in our shares. Cumulative total shareholder return for the period from 1 April 2008 to 31 March 2011 was 4% (1 April 2007 to 31 March 2010: -3%; 1 April 2006 to 31 March 2009: 11%). This reflects the fact that, although equity prices generally fell sharply amid the turbulence in the financial markets during 2008/09, the subsequent recovery during 2009/10 and 2010/11 has reversed those losses.

We have changed the presentation of TSR from previous years in order to align the Company KPI with the methodology which will be used to determine an element of Executive Directors' remuneration under the new Long Term Performance Plan (see page 98).

Group return on equity

We measure our performance in generating value from the investments we make by dividing our annual return by our equity base. Our annual return consists of adjusted earnings, amended for a number of items including regulatory depreciation, retail price index (RPI) inflation on our UK regulatory asset value (RAV), and a pension deficit adjustment. Our equity base consists of invested capital less opening net debt. Invested capital is the opening UK RAV inflated to mid year using RPI inflation, plus opening US invested capital excluding stranded cost assets and assets disposed in the year, plus the closing net book value of assets and liabilities of UK based non-regulated businesses, corporate activities and joint ventures. Opening net debt is adjusted for significant individual transactions during the year such as disposal proceeds and our rights issue.

We monitor our performance using a three year average return rather than a return for a specific year. We believe this provides a better measure of our ongoing performance because it helps to reduce short-term fluctuations due to temporary market conditions such as inflation volatility. For 2010/11, our three year average return on equity was 11.9%, compared with 11.3% in 2009/10 and 10.8% in 2008/09. The increase in the year was primarily driven by movements in UK inflation.

Regulated controllable operating costs

We measure regulated controllable operating costs as a proportion of our regulated assets, as measured by our RAV in the UK and our rate base in the US.

This ratio decreased to 7.3% in 2010/11, compared with 7.5% in 2009/10 and 8.0% in 2008/09 on a constant currency basis, reflecting our continuing drive to improve our efficiency while maintaining safety and reliability.

Adjusted earnings per share

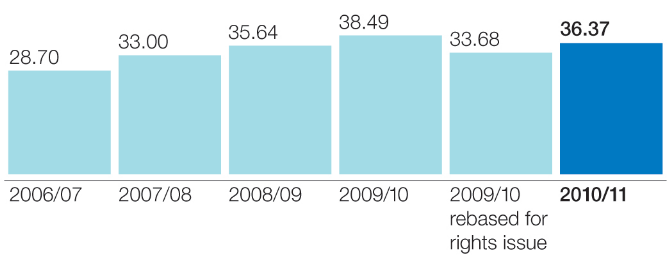
We monitor our financial performance during the year by measuring adjusted earnings per share. This and other profit measures are described on the following pages.

Other performance measures

Dividends and dividend cover

The proposed total ordinary dividend for 2010/11 amounts to £1,275 million or 36.37 pence per ordinary share. This represents an increase of 8% over the previous year's ordinary dividend per share of 38.49 pence, after adjusting for the bonus element of the rights issue.

Dividends per share
pence



The table below shows the ordinary dividends paid or payable by National Grid for the past five financial years. These dividends do not include any associated UK tax credit in respect of such dividends, and represent the gross dividends declared whether settled in cash or by new shares.

Dividends	**2011 pence**	2010 pence	2009 pence	2008 pence	2007 pence
Interim	**12.90**	13.65	12.64	11.70	10.90
Final	**23.47**	24.84	23.00	21.30	17.80
Total	**36.37**	38.49	35.64	33.00	28.70

Interim	**1.02**	1.15	0.95	1.21	1.03
Final	**1.90**	1.77	1.74	2.05	1.76
Total	**2.92**	2.92	2.69	3.26	2.79

Financial performance continued

Dividends expressed in dollars per American Depositary Share (ADS) in the table on page 55 reflect the amounts paid or payable to ADS holders, rounded to two decimal places.

The total ordinary dividend per share was covered 1.4 times by adjusted earnings from continuing operations per ordinary share (2009/10: covered 1.5 times; 2008/09: covered 1.4 times) and covered 1.8 times by earnings per ordinary share from continuing operations (2009/10: covered 1.5 times; 2008/09: covered 1.0 times).

For the final dividend of 2008/09, and subsequent dividends, shareholders were offered the option of a scrip dividend, whereby they could elect to receive the dividend in the form of new shares rather than cash. The proportion of shareholders taking up the scrip dividend option was as follows:

Dividend	Proportion taking up scrip
2008/09 final	25%
2009/10 interim	20%
2009/10 final	23%
2010/11 interim	14%

In accordance with IFRS, the final dividend proposed in respect of each financial year is reported in the financial statements for the following year. Therefore, the proposed final dividend for 2010/11 of 23.47 pence per share, amounting to approximately £824 million (assuming all dividends are settled in cash), will be reported in the financial statements for the year ending 31 March 2012.

Interest cover

In order to deliver sustainable growth, we must be disciplined in the way we manage our balance sheet. The principal measure we use to monitor financial discipline is interest cover, being a measure of the cash flows we generate compared with the net interest cost of servicing our borrowings.

Our long-term target range for interest cover is between 3.0 and 3.5. Interest cover for the year ended 31 March 2011 was above our target range, having fallen slightly to 3.8 compared with 3.9 for the year ended 31 March 2010 (year ended 31 March 2009: 3.1). The primary reasons for the decrease in 2010/11 were increased interest expense on our index-linked debt, due to the return of UK inflation, offset by a reduction in debt following the rights issue in June 2010 and higher levels of cash inflows from operations during the financial year.

Profit for the year

Adjusted profit, adjusted earnings and adjusted earnings per share

Adjusted profit for the year from continuing operations was £1,751 million in 2010/11 (2009/10: £1,421 million; 2008/09: £1,253 million). Adjusted earnings, being adjusted profit for the year from continuing operations attributable to equity shareholders of the parent, were £1,747 million (2009/10: £1,418 million; 2008/09: £1,250 million).

Adjusted earnings per share from continuing operations were 51.7 pence in 2010/11, 49.5 pence per share in 2009/10 and 43.3 pence per share in 2008/09.

The following chart shows the five year trend in adjusted profit and adjusted earnings per share.

Adjusted profit and adjusted earnings per share

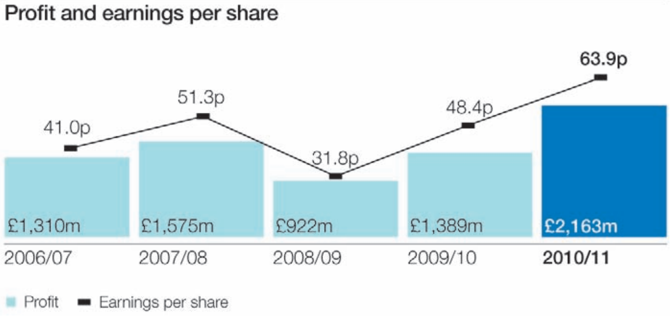
Profit, earnings and earnings per share

Profit for the year from continuing operations was £2,163 million in 2010/11 (2009/10: £1,389 million; 2008/09: £922 million). After excluding amounts attributable to non-controlling interests, earnings were £2,159 million in 2010/11, compared with £1,386 million in 2009/10 and £919 million in 2008/09.

Total earnings per share from continuing operations were 63.9 pence in 2010/11, 48.4 pence per share in 2009/10 and 31.8 pence per share in 2008/09.

The following chart shows the five year trend in profit and earnings per share from continuing operations.

Profit and earnings per share



The increases in profit and adjusted profit, and in 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.

In accordance with IAS 33, all earnings per share and adjusted earnings per share amounts for comparative periods have been restated as a result of shares issued via scrip dividends and the bonus element of the rights issue.

Reconciliation of adjusted earnings to earnings

Adjusted earnings are presented in note 8 to the consolidated financial statements, under the heading adjusted earnings – continuing operations.

Adjusted earnings	**1,747**	1,418	1,250
Exceptional items	**(16)**	(270)	(247)
Remeasurements	**219**	17	(340)
Stranded cost recoveries	**209**	221	256
Earnings	**2,159**	1,386	919

Reconciliation of adjusted earnings per share to total earnings per share

Adjusted earnings per share	**51.7**	49.5	43.3
Exceptional items	**(0.5)**	(9.4)	(8.6)
Remeasurements	**6.5**	0.6	(11.8)
Stranded cost recoveries	**6.2**	7.7	8.9
Earnings per share	**63.9**	48.4	31.8

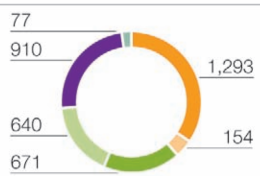
Revenue by operating segment

Transmission UK	**3,484**	3,475	3,517
Transmission US	**429**	405	420
Gas Distribution UK	**1,524**	1,518	1,468
Gas Distribution US	**3,811**	3,708	4,786
Electricity Distribution & Generation	**4,567**	4,339	4,972
Other activities	**678**	741	750
Total segmental revenues	**14,493**	14,186	15,913
Less: sales between operating segments	**(150)**	(179)	(226)
Total	**14,343**	14,007	15,687

Operating profit by segment

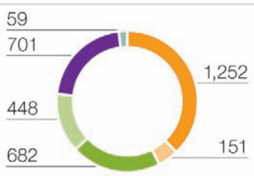
Year ended 31 March 2011

£m

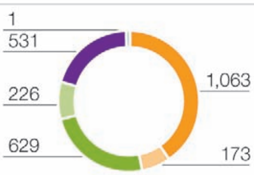


Year ended 31 March 2010

£m



Year ended 31 March 2009

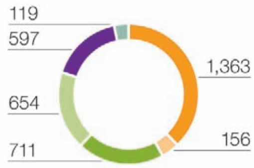


■ Transmission UK ■ Gas Distribution UK ■ Electricity Distribution & Generation
■ Transmission US ■ Gas Distribution US ■ Non-regulated businesses and other

Adjusted operating profit by segment

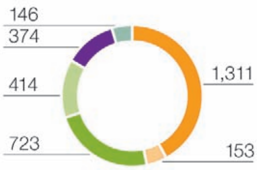
Year ended 31 March 2011

£m

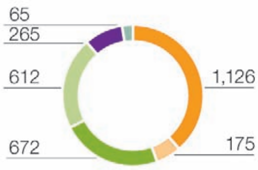


Year ended 31 March 2010

£m



Year ended 31 March 2009



■ Transmission UK ■ Gas Distribution UK ■ Electricity Distribution & Generation
■ Transmission US ■ Gas Distribution US ■ Non-regulated businesses and other

Reconciliation of adjusted operating profit to adjusted profit and adjusted earnings

	Years ended 31 March		
	2011	2010	2009
Continuing operations	**£m**	£m	£m
Adjusted operating profit	**3,600**	3,121	2,915
Net finance costs excluding exceptional items and remeasurements	**(1,134)**	(1,155)	(1,150)
Share of post-tax results of joint ventures	**7**	8	5
Adjusted profit before taxation	**2,473**	1,974	1,770
Taxation excluding tax on exceptional items, remeasurements and stranded cost recoveries	**(722)**	(553)	(517)
Adjusted profit	**1,751**	1,421	1,253
Attributable to non-controlling interests	**(4)**	(3)	(3)
Adjusted earnings	**1,747**	1,418	1,250
	pence	pence	pence
Adjusted earnings per share	**51.7**	49.5	43.3

Reconciliation of operating profit to profit and earnings

	Years ended 31 March		
	2011	2010	2009
Continuing operations	**£m**	£m	£m
Total operating profit	**3,745**	3,293	2,623
Net finance costs	**(1,128)**	(1,108)	(1,234)
Share of post-tax results of joint ventures	**7**	8	5
Profit before taxation	**2,624**	2,193	1,394
Taxation	**(461)**	(804)	(472)
Profit	**2,163**	1,389	922
Attributable to non-controlling interests	**(4)**	(3)	(3)
Earnings	**2,159**	1,386	919
	pence	pence	pence
Earnings per share	**63.9**	48.4	31.8

Financial performance continued

Reconciliation of adjusted operating profit to total operating profit

Adjusted operating profit is presented on the face of the income statement under the heading operating profit before exceptional items, remeasurements and stranded cost recoveries.

Continuing operations	Years ended 31 March 2011 £m	2010 £m	2009 £m
Adjusted operating profit	**3,600**	3,121	2,915
Exceptional items	**(350)**	(268)	(275)
Remeasurements	**147**	71	(443)
Stranded cost recoveries	**348**	369	426
Total operating profit	**3,745**	3,293	2,623

Reconciliation of adjusted profit before tax to total profit before tax

Adjusted profit before tax is presented on the face of the income statement under the heading profit before tax before exceptional items, remeasurements and stranded cost recoveries.

Continuing operations	Years ended 31 March 2011 £m	2010 £m	2009 £m
Adjusted profit before taxation	**2,473**	1,974	1,770
Exceptional items	**(380)**	(301)	(275)
Remeasurements	**183**	151	(527)
Stranded cost recoveries	**348**	369	426
Total profit before taxation	**2,624**	2,193	1,394

Diluted earnings per share

Diluted adjusted earnings per share from continuing operations were 51.4 pence in 2010/11 (0.3 pence lower than basic adjusted earnings per share), compared with 49.3 pence in 2009/10 (0.2 pence lower) and 43.1 pence in 2008/09 (0.2 pence lower).

Diluted earnings per share from continuing operations were 63.6 pence in 2010/11 (0.3 pence lower than basic earnings per share from continuing operations), compared with 48.2 pence in 2009/10 (0.2 pence lower) and 31.7 pence in 2008/09 (0.1 pence lower).

The principal reason for the dilution in each year relates to employee share plans.

Net finance costs

Net finance costs excluding exceptional items and remeasurements were £1,134 million in 2010/11 compared with £1,155 million in 2009/10 and £1,150 million in 2008/09. The slight decrease in 2010/11 compared with 2009/10 primarily reflected lower net pension interest due to higher plan assets and higher rates of return on those assets, offset by higher accretions on index-linked debt following the return of UK inflation. The slight increase in 2009/10 compared with 2008/09 primarily reflected an increase in net pension interest due to a fall in the value of plan assets, partially offset by a lower effective interest rate due to lower RPI and LIBOR rates.

Exceptional items

Exceptional charges of £350 million in 2010/11 consisted of restructuring costs of £89 million, environmental charges of £128 million, impairment costs and related charges of £133 million and other charges of £15 million, offset by net gains on disposals of three subsidiaries and an associate of £15 million.

Exceptional charges of £268 million in 2009/10 consisted of restructuring charges of £149 million, environmental charges of £63 million and other charges of £67 million, offset by net gains on disposals of £11 million.

Exceptional charges of £275 million in 2008/09 consisted of restructuring charges of £192 million, environmental charges of £78 million and other charges of £5 million.

Exceptional finance costs and remeasurements

There were £73 million of exceptional finance costs during 2010/11 relating to the early redemption of debt following the rights issue in June 2010, offset by £43 million of exceptional interest income relating to tax settlements in the US. There were £33 million of exceptional finance costs during 2009/10 relating to the early redemption of debt. There were no exceptional finance costs in 2008/09.

Financial remeasurements relate to net gains on derivative financial instruments of £36 million (2009/10: £81 million gains; 2008/09: £82 million losses). The financial element of commodity contract revaluations was nil in 2010/11 (2009/10: £1 million loss; 2008/09: £2 million loss).

Taxation

A net charge of £461 million arose in 2010/11 (2009/10: £804 million; 2008/09: £472 million) comprising a £722 million charge (2009/10: £553 million charge; 2008/09: £517 million charge) on profit before tax excluding exceptional items, remeasurements and stranded cost recoveries, and a £261 million credit (2009/10: £251 million charge; 2008/09: £45 million credit) on exceptional items, remeasurements and stranded cost recoveries.

In 2010/11, exceptional items, remeasurements and stranded cost recoveries included a £226 million deferred tax credit arising on a reduction in the UK tax rate, and a £59 million tax credit primarily arising as a result of settling a number of KeySpan pre-acquisition items with the US tax authorities.

In 2009/10, exceptional items, remeasurements and stranded cost recoveries included a £41 million tax charge due to a change in US tax legislation under the Patient Protection and Affordable Care Act.

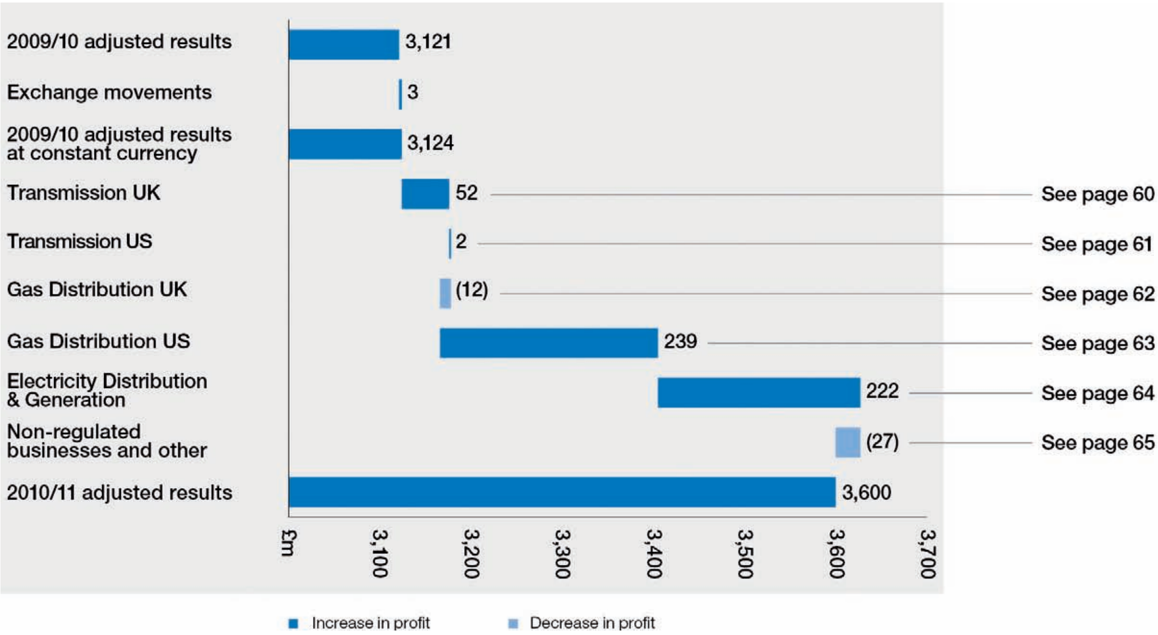
In 2008/09, exceptional items, remeasurements and stranded cost recoveries included a £49 million tax charge for increased deferred tax liabilities due to a change in the UK industrial buildings allowance regime.

The effective tax rates before and after exceptional items, remeasurements and stranded cost recoveries were 29.2% and 17.6% respectively (2009/10: 28.0% and 36.7%; 2008/09: 29.2% and 33.9%).

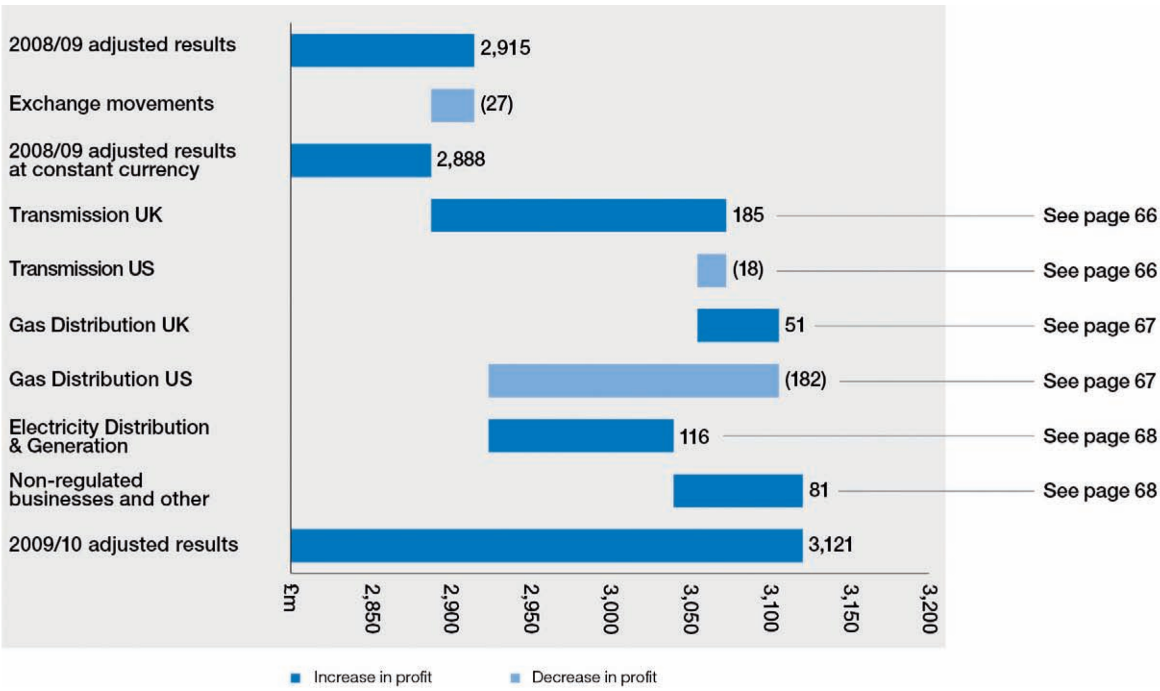
Analysis of adjusted operating profit

The charts on this page analyse the movements in adjusted operating profit by segment, comparing 2010/11 with 2009/10 and comparing 2009/10 with 2008/09. The charts on the following pages show the principal movements in each segment. Analysis of 2010/11 compared with 2009/10 can be found on pages 60 to 65 and analysis of 2009/10 compared with 2008/09 can be found on pages 66 to 68.

2010/11 compared with 2009/10



2009/10 compared with 2008/09



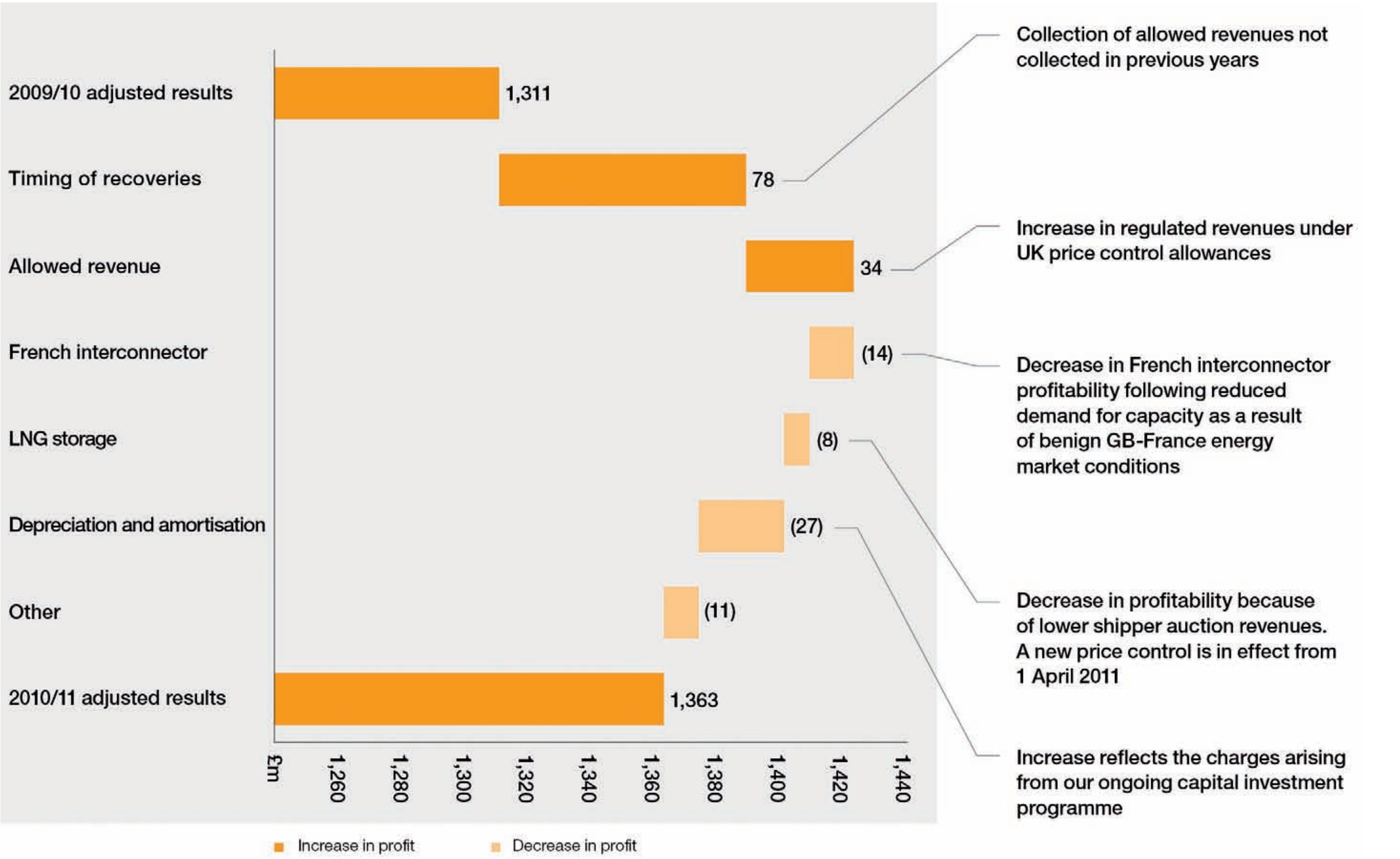
Financial performance continued

Transmission UK

The results of the Transmission UK segment for the years ended 31 March 2011, 2010 and 2009 were as follows:

	Years ended 31 March 2011 £m	2010 £m	2009 £m
Revenue and other operating income	**3,484**	3,475	3,517
Operating costs excluding exceptional items	**(2,121)**	(2,164)	(2,391)
Adjusted operating profits	**1,363**	1,311	1,126
Exceptional items	**(70)**	(59)	(63)
Operating profit	**1,293**	1,252	1,063

2010/11 compared with 2009/10

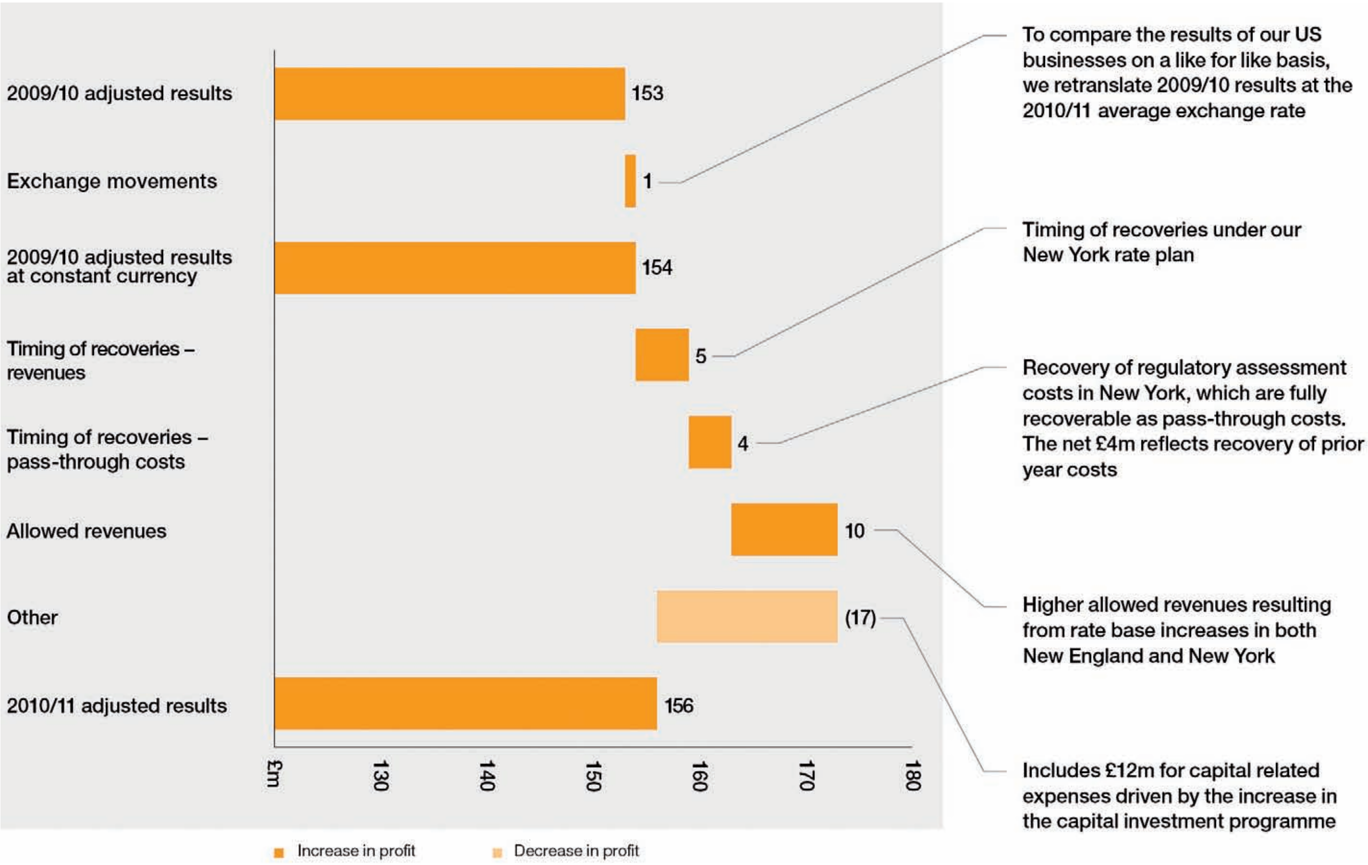


Transmission US

The results of the Transmission US segment for the years ended 31 March 2011, 2010 and 2009 were as follows:

	Years ended 31 March		
	2011 £m	2010 £m	2009 £m
Revenue and other operating income	**429**	405	420
Operating costs excluding exceptional items	**(273)**	(252)	(245)
Adjusted operating profits	**156**	153	175
Exceptional items	**(2)**	(2)	(2)
Operating profit	**154**	151	173

2010/11 compared with 2009/10



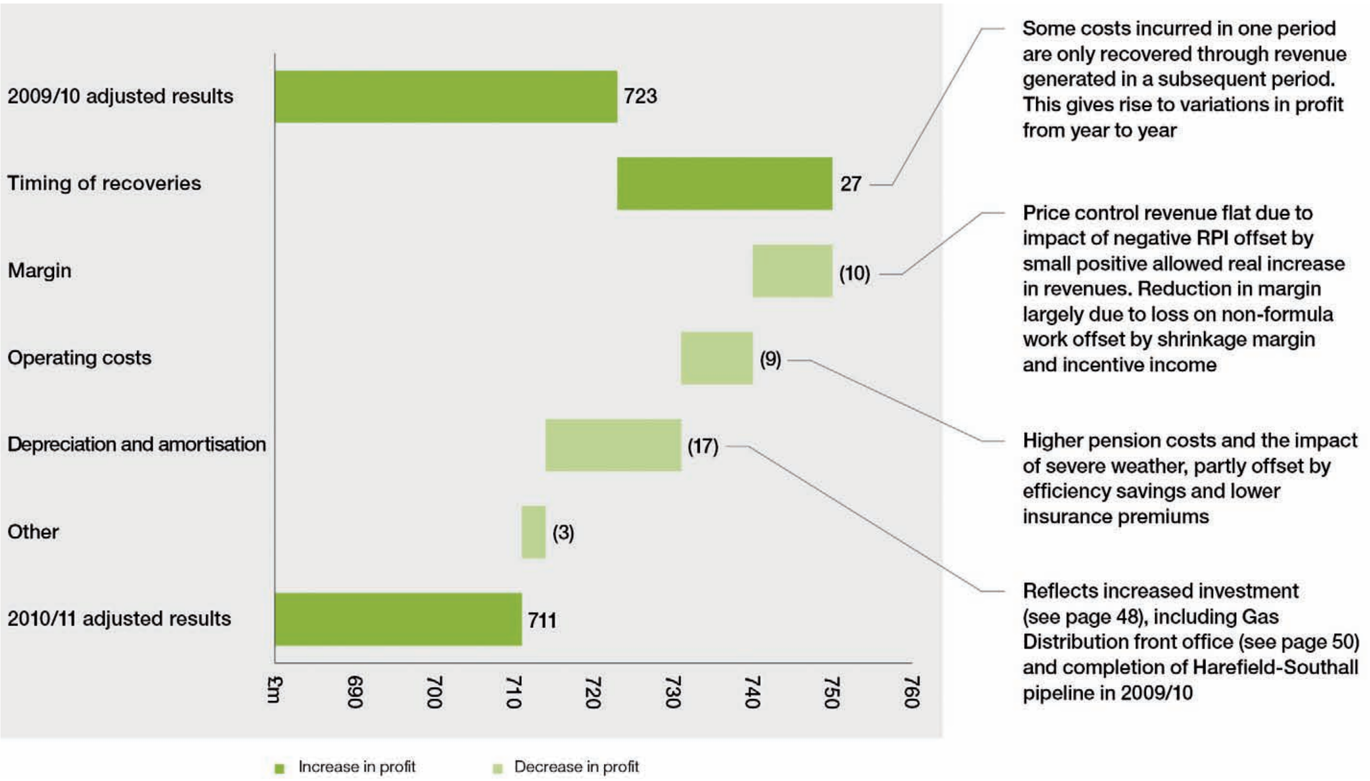
Financial performance continued

Gas Distribution UK

The results of the Gas Distribution UK segment for the years ended 31 March 2011, 2010 and 2009 were as follows:

	Years ended 31 March		
	2011 £m	2010 £m	2009 £m
Revenue and other operating income	**1,524**	1,518	1,468
Operating costs excluding exceptional items	**(813)**	(795)	(796)
Adjusted operating profits	**711**	723	672
Exceptional items	**(40)**	(41)	(43)
Operating profit	**671**	682	629

2010/11 compared with 2009/10

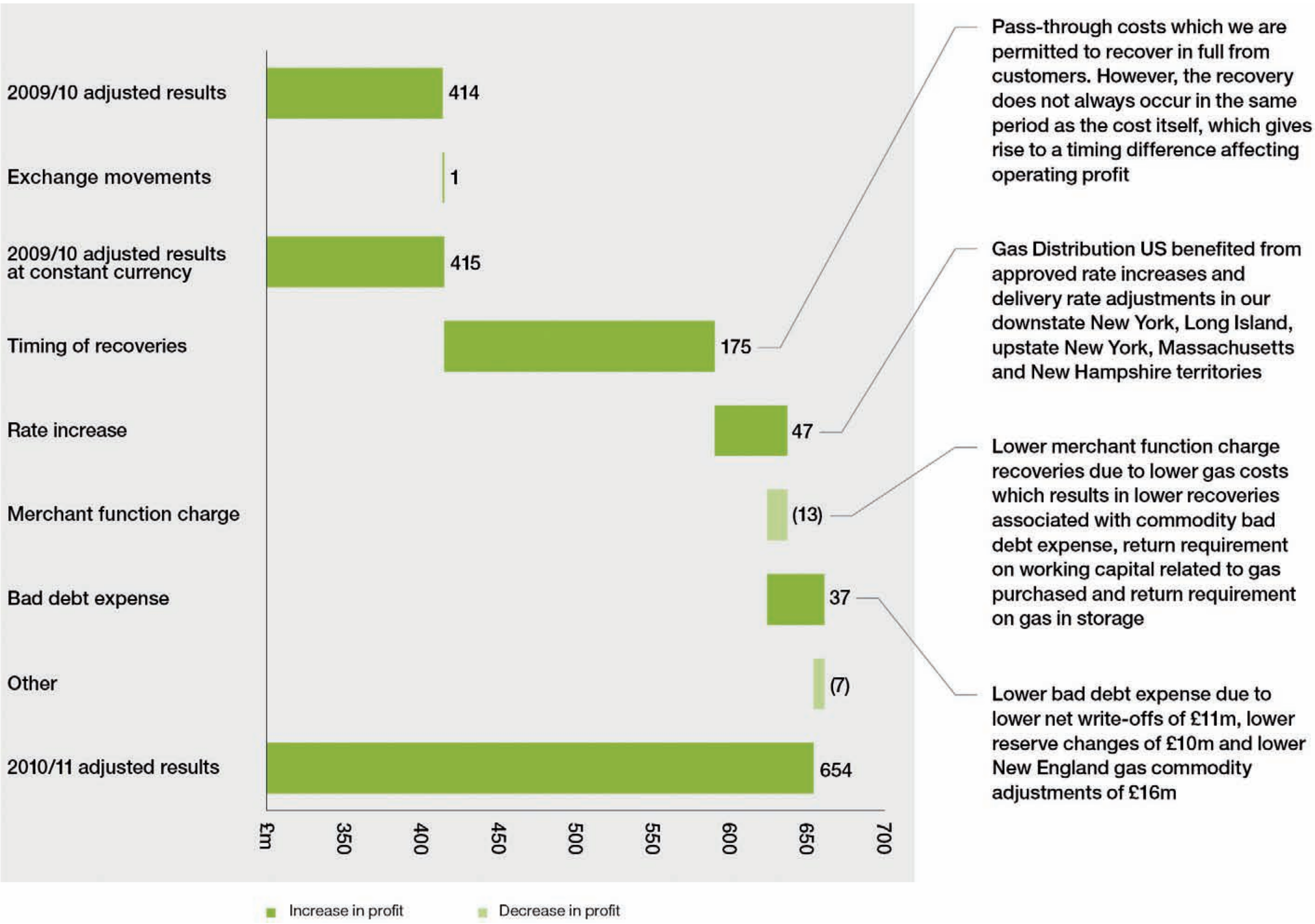


Gas Distribution US

The results of the Gas Distribution US segment for the years ended 31 March 2011, 2010 and 2009 were as follows:

	Years ended 31 March 2011 £m	2010 £m	2009 £m
Revenue	**3,811**	3,708	4,786
Operating costs excluding exceptional items and remeasurements	**(3,157)**	(3,294)	(4,174)
Adjusted operating profits	**654**	414	612
Exceptional items and remeasurements	**(14)**	34	(386)
Operating profit	**640**	448	226

2010/11 compared with 2009/10



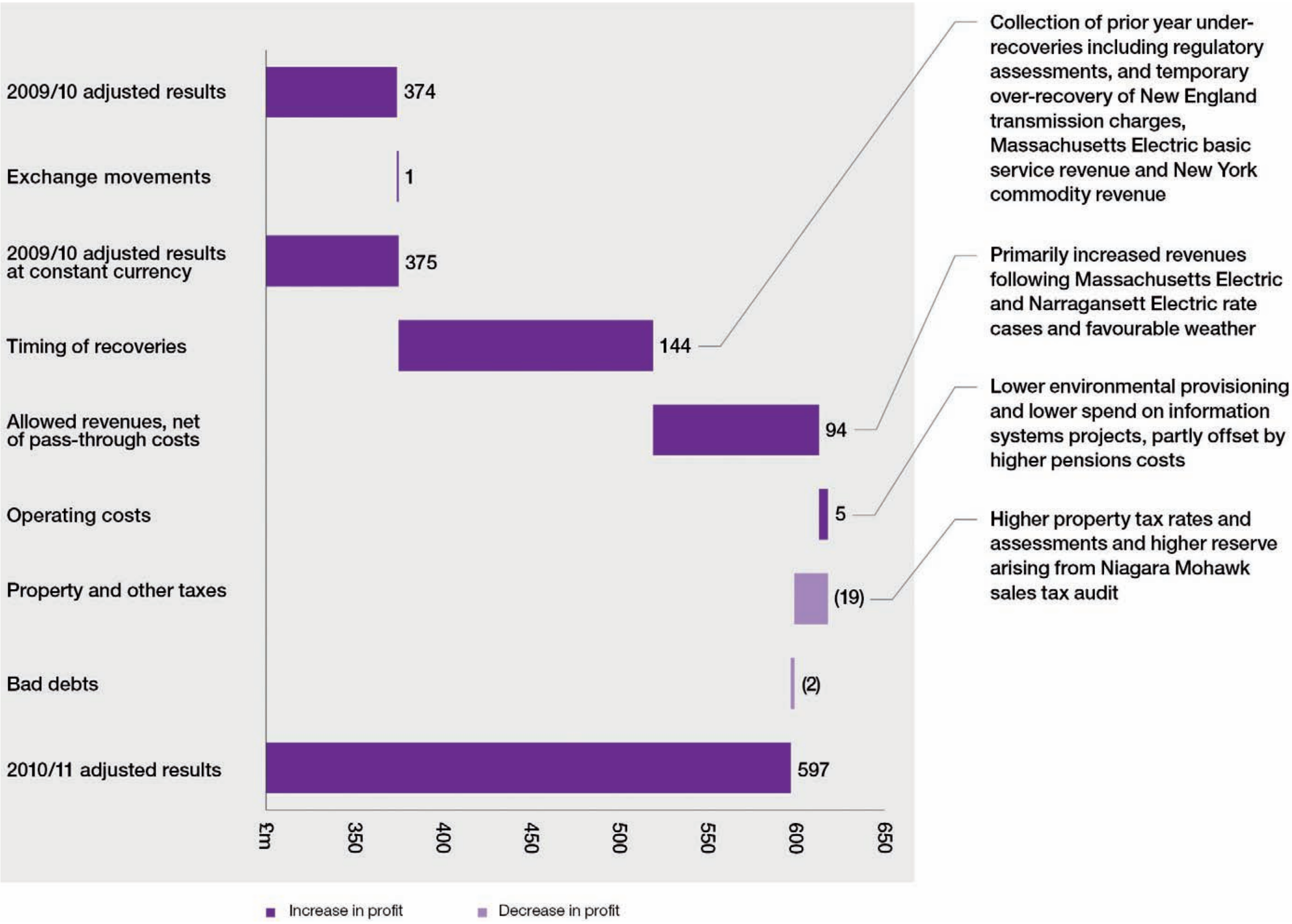
Financial performance continued

Electricity Distribution & Generation

The results of the Electricity Distribution & Generation segment for the years ended 31 March 2011, 2010 and 2009 were as follows:

	Years ended 31 March 2011 £m	2010 £m	2009 £m
Revenue excluding stranded cost recoveries	**4,212**	3,963	4,537
Operating costs excluding exceptional items and remeasurements	**(3,615)**	(3,589)	(4,272)
Adjusted operating profits	**597**	374	265
Exceptional items and remeasurements	**(35)**	(42)	(160)
Stranded cost recoveries	**348**	369	426
Operating profit	**910**	701	531

2010/11 compared with 2009/10

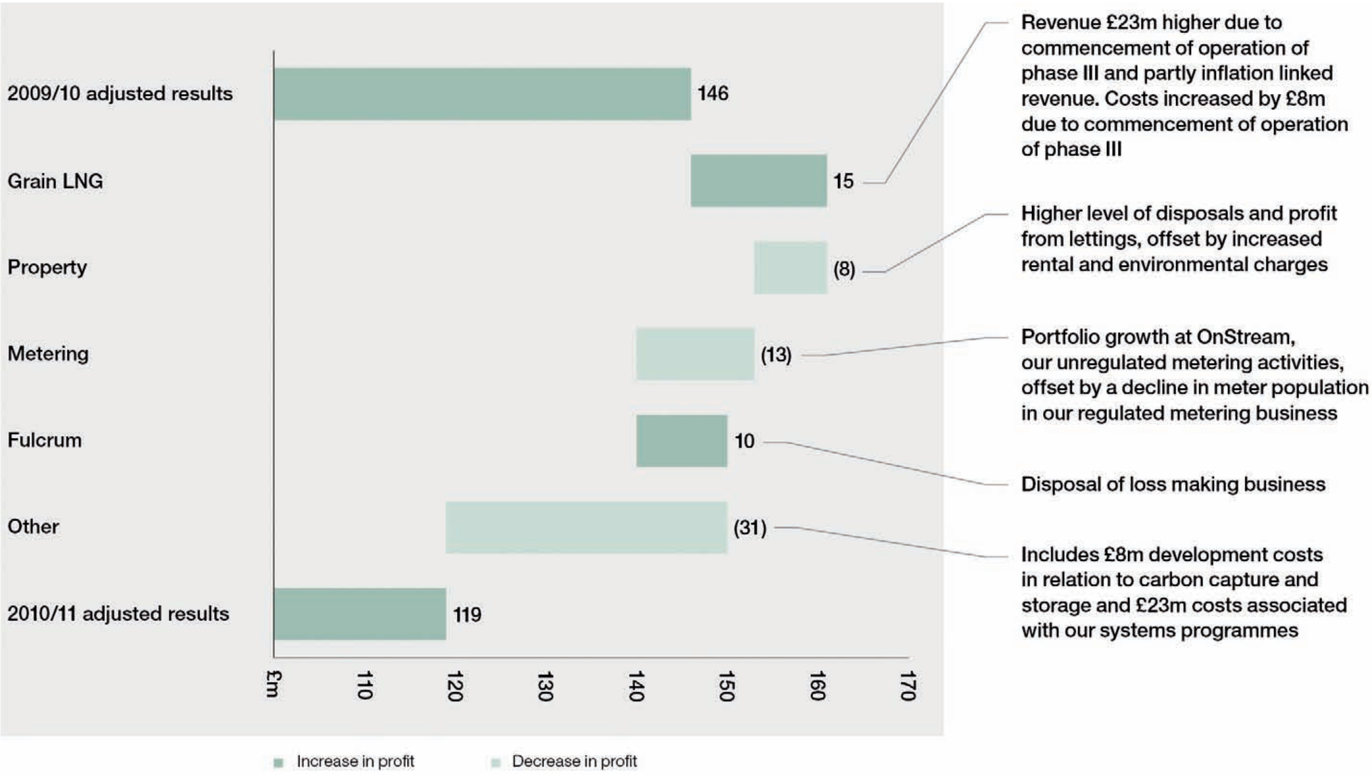


Non-regulated businesses and other

The results of our non-regulated businesses and other activities for the years ended 31 March 2011, 2010 and 2009 were as follows:

	Years ended 31 March		
	2011 £m	2010 £m	2009 £m
Revenue and other operating income	**678**	741	750
Operating costs excluding exceptional items	**(559)**	(595)	(685)
Adjusted operating profit	**119**	146	65
Exceptional items	**(42)**	(87)	(64)
Operating profit	**77**	59	1

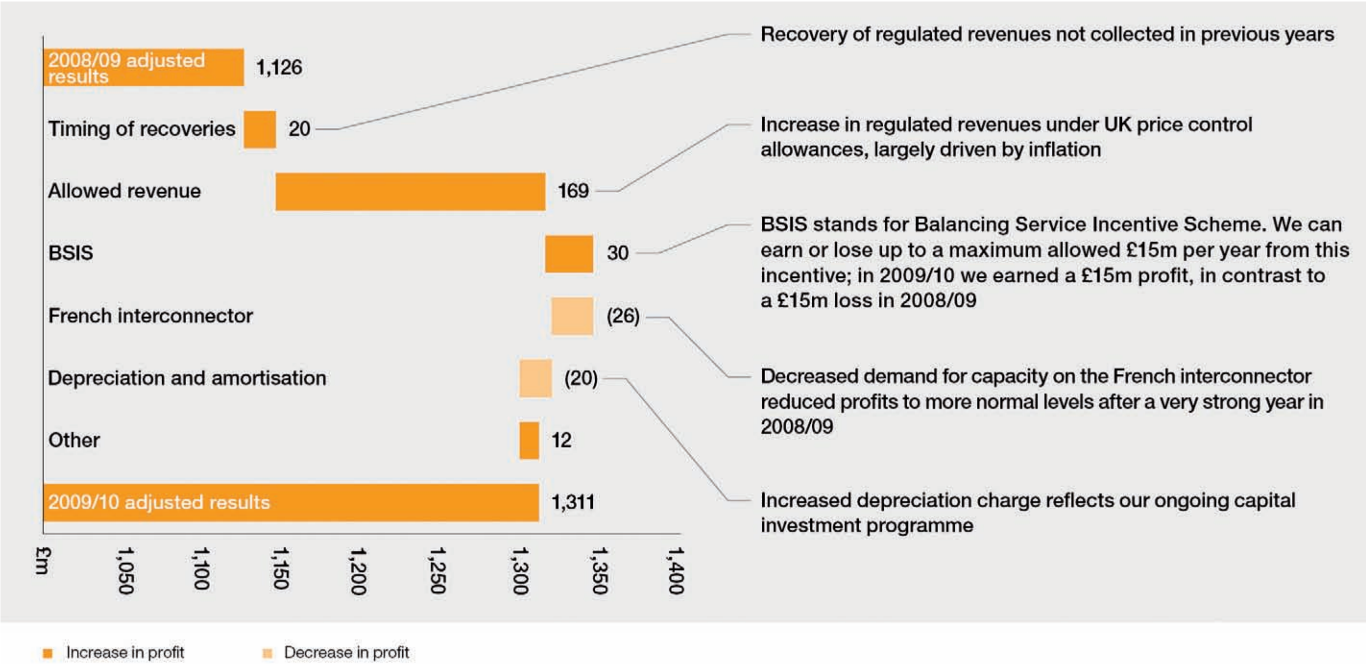
2010/11 compared with 2009/10



Financial performance continued

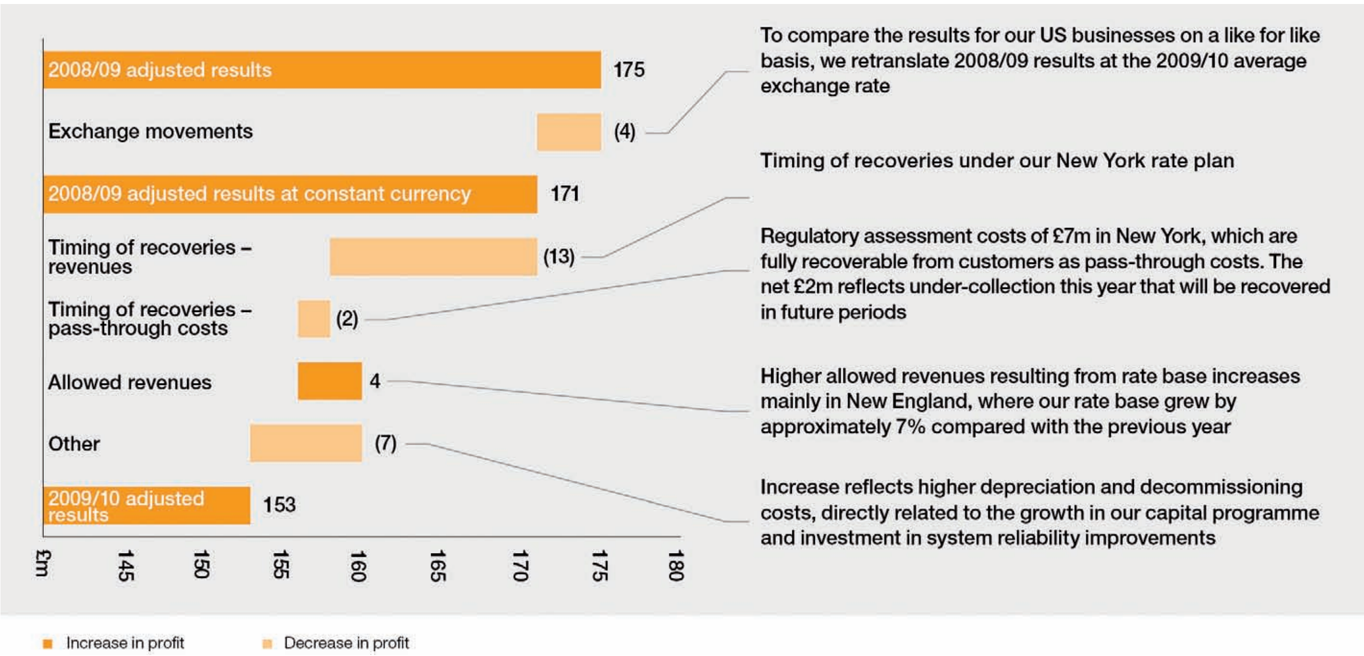
Transmission UK

The principal movements between 2008/09 and 2009/10 for the Transmission UK segment were as follows:



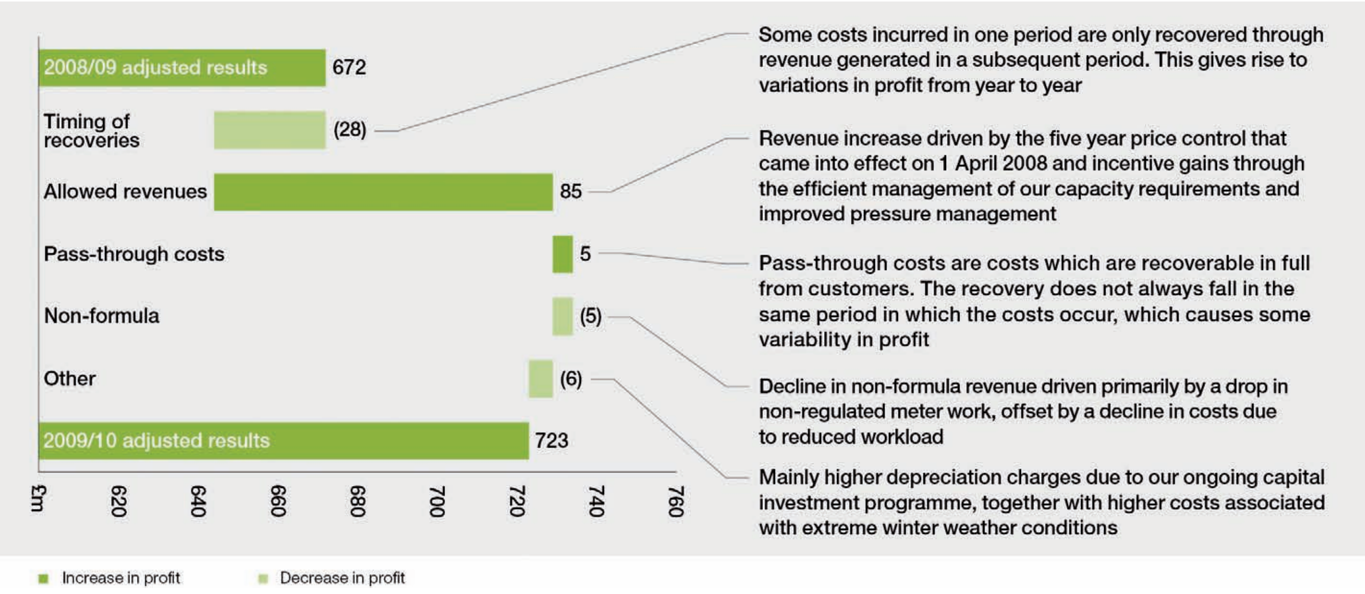
Transmission US

The principal movements between 2008/09 and 2009/10 for the Transmission US segment were as follows:



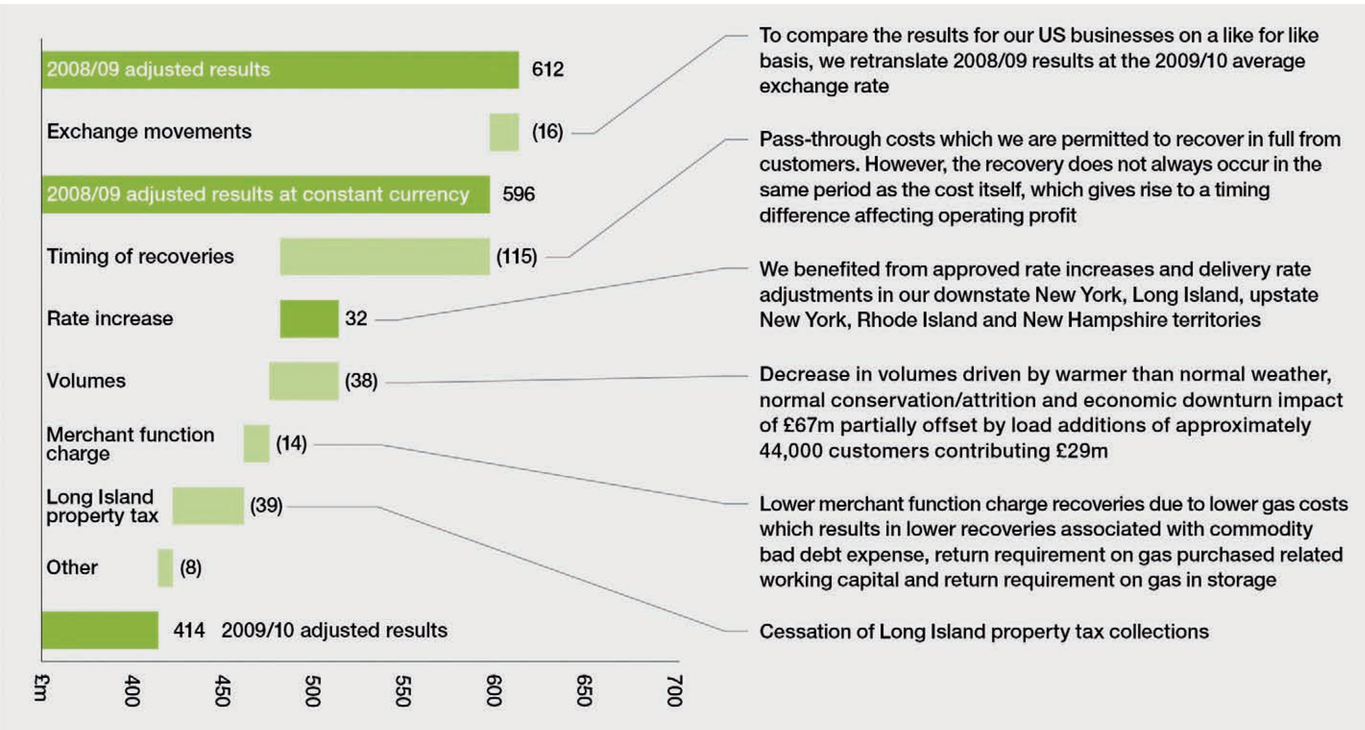
Gas Distribution UK

The principal movements between 2008/09 and 2009/10 for the Gas Distribution UK segment were as follows:



Gas Distribution US

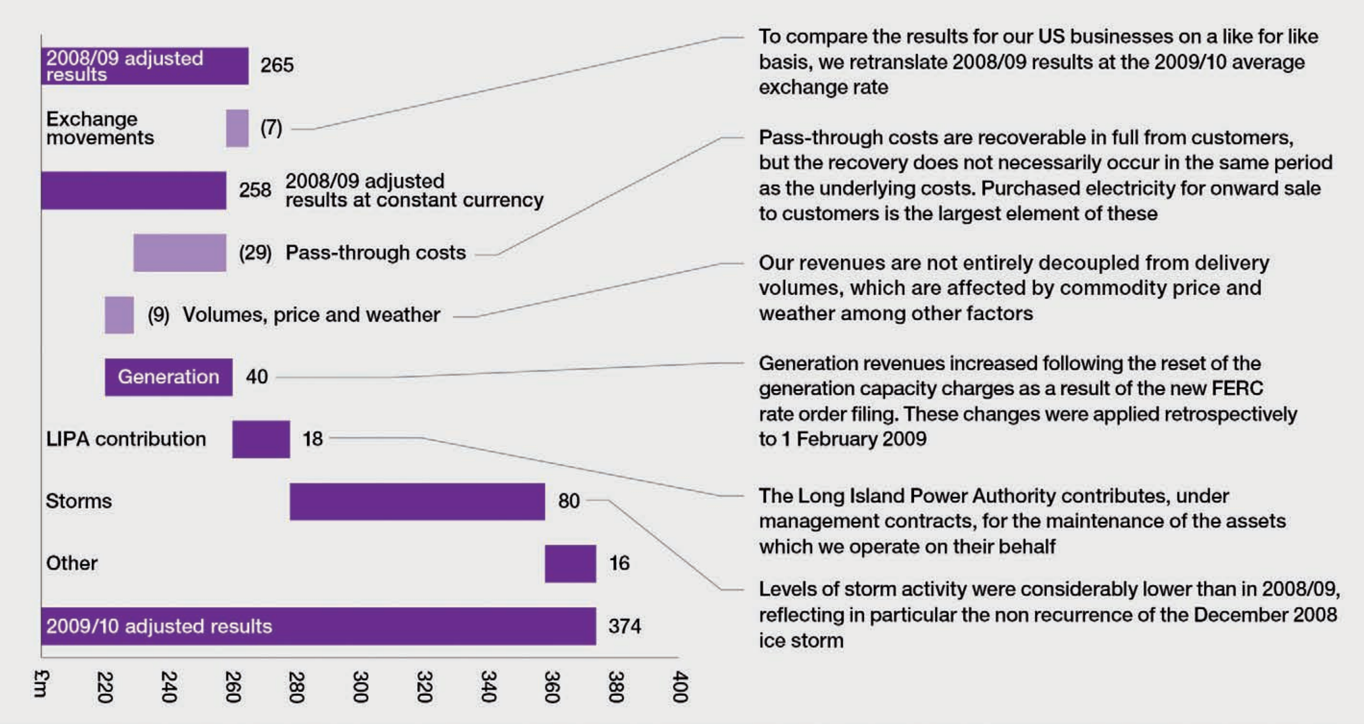
The principal movements between 2008/09 and 2009/10 for the Gas Distribution US segment were as follows:



Financial performance continued

Electricity Distribution & Generation

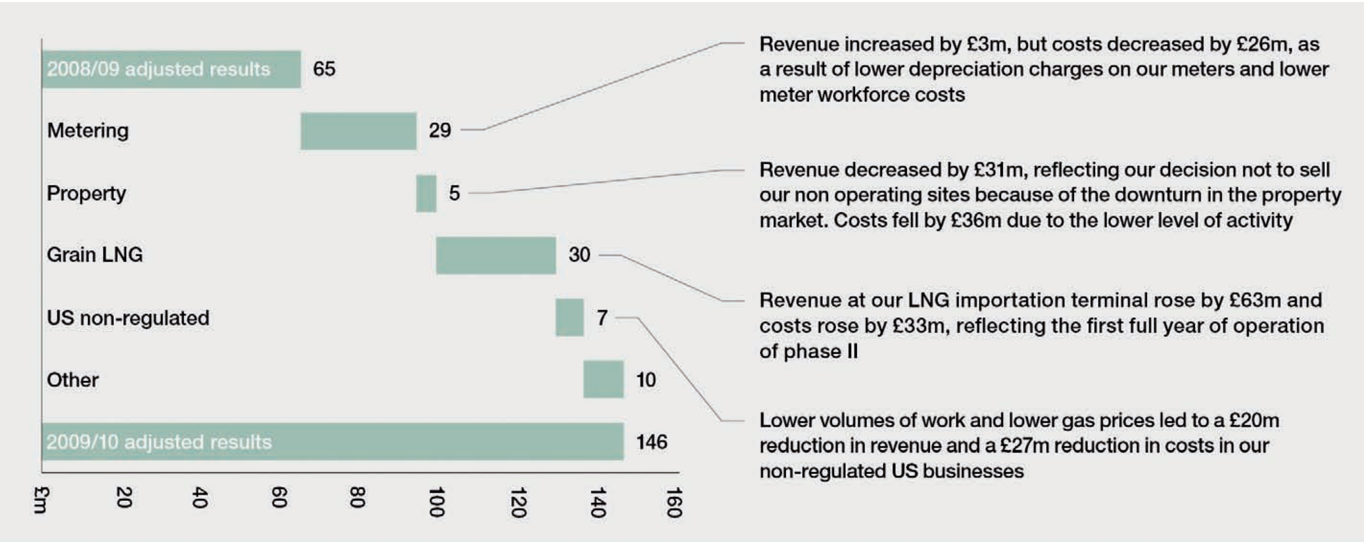
The principal movements between 2008/09 and 2009/10 for the Electricity Distribution & Generation segment were as follows:



■ Increase in profit ■ Decrease in profit

Non-regulated businesses and other

The principal movements between 2008/09 and 2009/10 for non-regulated businesses and other activities were as follows:



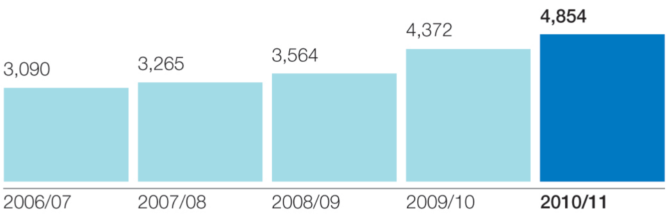
■ Increase in profit

Cash flows

Cash flows from operating activities

Cash generated from continuing operations was £4,854 million in 2010/11, compared with £4,372 million in 2009/10 and £3,564 million in 2008/09. This included cash outflows for continuing operations relating to exceptional items of £147 million, £135 million and £131 million respectively, and cash inflows from stranded cost recoveries of £343 million, compared with £361 million and £359 million respectively.

Operating cash flows
£m



After reflecting taxes, net cash inflow from operating activities was £4,858 million, compared with £4,516 million in 2009/10 and £3,413 million in 2008/09. This included net corporate tax receipts amounting to £4 million in 2010/11 (2009/10: £144 million tax receipts; £143 million tax payments).

Cash flows from investing activities

Cash outflows from investing activities were £4,774 million in 2010/11, compared with £2,332 million in 2009/10 and £1,998 million in 2008/09.

Net purchases of financial investments were £1,577 million in 2010/11, compared with net sales of £805 million in 2009/10 and £99 million in 2008/09. Proceeds from sales of subsidiaries, joint ventures and other investments were £11 million in 2010/11, compared with £6 million in 2009/10 and £nil in 2008/09.

Excluding acquisitions and disposals of financial investments, cash outflows from investing activities for continuing operations increased by £60 million compared with 2009/10 (2009/10: decreased by £9 million compared with 2008/09). Investing activities of discontinued operations were £nil in the period and in 2009/10, compared with a cash inflow of £1,049 million in 2008/09.

Cash flows from financing activities

Net cash outflows from financing activities excluding the rights issue were £3,644 million in 2010/11 compared with £2,212 million in 2009/10 and £877 million in 2008/09. This reflected net outflows from borrowings of £1,763 million (2009/10: £499 million outflow; 2008/09: £1,641 million inflow) and share repurchases of £3 million (2009/10: £7 million; 2008/09: £627 million).

Payments to providers of finance, in the form of interest and dividends, totalled £1,823 million in 2010/11 compared with £1,691 million in 2009/10 and £1,899 million in 2008/09.

Interest payments decreased from £1,003 million in 2009/10 to £965 million in 2010/11 (decreased from £1,061 million in 2008/09 to £1,003 million in 2009/10).

Dividends paid to shareholders increased from £688 million in 2009/10 to £858 million in 2010/11 reflecting both the increase in the amount of the dividend per share and the increase in the number of shares in issue following the rights issue in June 2010. Dividends paid to shareholders decreased from £838 million in 2008/09 to £688 million in 2009/10.

Statutory disclosures

Research and development

Expenditure on research and development during the year was £16 million (2009/10: £19 million; 2008/09: £10 million). This included development of new materials for use in the electricity transmission business and research into low carbon energy such as carbon capture and storage.

Charitable donations

During 2010/11, approximately £13 million (2009/10: £11 million; 2008/09: £10 million) was invested in support of community initiatives and relationships. The London Benchmarking Group model was used to assess this overall community investment. Direct donations to charitable organisations amounted to £0.8 million (2009/10: £1.1 million; 2008/09: £1.4 million). In addition to our charitable donations, financial support was provided for our affordable warmth programme, education programme, university research and our Young Offenders Programme.

Political donations and expenditure

National Grid made no donations in the UK or European Union during the year, including donations as defined for the purposes of the Political Parties, Elections and Referendums Act 2000. National Grid USA and certain of its subsidiaries made political donations in the US of $151,000 (£96,000) (2009/10: $177,000; 2008/09: $180,000) during the year to affiliated Federal and New York and New Hampshire state political action committees (PACs). National Grid USA's affiliated New York PACs were funded partly by contributions from National Grid USA and certain of its subsidiaries and partly by voluntary employee contributions. National Grid USA's affiliated New Hampshire PAC was funded wholly by contributions from National Grid USA and certain of its subsidiaries. National Grid USA's affiliated federal PACs were funded wholly by voluntary employee contributions.

Policy and practice on payment of creditors

It is National Grid's policy to include in contracts or other agreements terms of payment with suppliers. Once agreed, National Grid aims to abide by these payment terms. The average creditor payment period at 31 March 2011 for National Grid's principal operations in the UK was 20 days (14 days at 31 March 2010).

Financial position and financial management

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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 on page 72 and in note 32(d) to the consolidated financial statements.

Financial position

Balance sheet

Our balance sheet at 31 March 2011 can be summarised as follows:

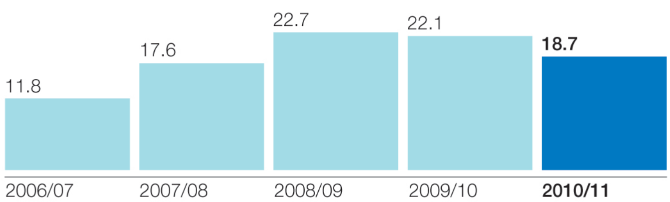
	Assets £m	Liabilities £m	Net assets £m
Property, plant and equipment and non-current intangible assets	32,457	–	32,457
Goodwill and non-current investments	5,369	–	5,369
Current assets and liabilities	2,822	(3,794)	(972)
Other non-current assets and liabilities	135	(3,405)	(3,270)
Post-retirement assets and obligations	556	(2,574)	(2,018)
Deferred tax	–	(3,766)	(3,766)
Total before net debt	41,339	(13,539)	27,800
Net debt	5,061	(23,792)	(18,731)
Total as at 31 March 2011	**46,400**	**(37,331)**	**9,069**
Total as at 31 March 2010	43,553	(39,342)	4,211

The increase in net assets from £4,211 million at 31 March 2010 to £9,069 million at 31 March 2011 resulted from: the profit for the year of £2,163 million; the rights issue which raised £3,214 million net of costs; income recognised directly in equity of £301 million; and other items totalling £38 million; offset by dividends payable net of scrip issues of £858 million.

Net debt

Net debt decreased by £3,408 million from £22,139 million at 31 March 2010 to £18,731 million at 31 March 2011. Cash flow from operations of £4.9 billion and the net proceeds of the rights issue of £3.2 billion were offset by capital expenditure of £3.3 billion and payment of dividends of £0.9 billion, resulting in a net cash inflow of £3.9 billion. Interest charges of £1.2 billion were offset by a £0.7 billion impact of the movement in the dollar exchange rate on our dollar denominated debt and other fair value movements. A five year history of net debt is shown below.

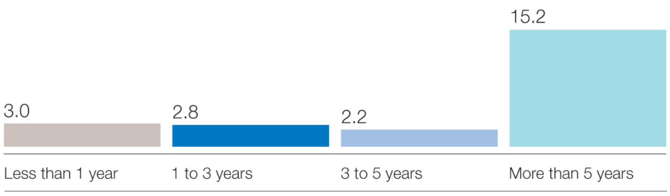
Net debt at 31 March
£bn



At 31 March 2011, net debt comprised borrowings of £23,198 million (2010: £25,124 million) including bank overdrafts of £42 million (2010: £29 million), less cash and cash equivalents of £384 million (2010: £720 million), financial investments of £2,939 million (2010: £1,397 million) and derivative financial instruments with a net carrying value of £1,144 million (2010: £868 million).

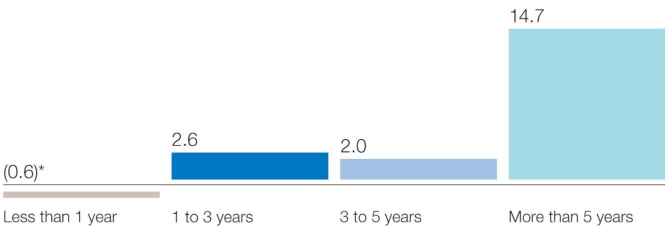
The maturity of borrowings at 31 March 2011 is provided in note 19 to the consolidated financial statements and is illustrated below.

Maturity of borrowings at 31 March 2011
£bn



The maturity of net debt, defined as borrowings plus derivative financial liabilities, less cash and cash equivalents, current financial investments and derivative financial assets, is illustrated below.

Maturity of net debt at 31 March 2011
£bn



* Negative figure indicates that cash and short-term financial investments exceed debt maturities

Capital structure

The principal measure of our balance sheet efficiency is our interest cover ratio as described on page 56. Our target long-term range for interest cover is between 3.0 and 3.5, which we believe is consistent with single A range long-term senior unsecured debt credit ratings within our main UK operating companies, National Grid Electricity Transmission plc (NGET plc) and National Grid Gas plc (NGG plc).

Interest cover for the year ended 31 March 2011 was above our target range, having fallen slightly to 3.8 from 3.9 for the year ended 31 March 2010. The primary reasons for the decrease in 2010/11 were increased interest expense on our retail price index (RPI) linked debt, due to the return of UK inflation, offset by a reduction in debt following the rights issue which completed in June 2010 and higher levels of operating cash inflows.

Gearing at 31 March 2011 and 31 March 2010, calculated as net debt expressed as a percentage of net debt plus net assets shown in the balance sheet, amounted to 67% and 84% respectively. We do not consider that this standard gearing ratio is an appropriate measure of our balance sheet efficiency as it does not reflect the economic value of the assets of our UK and US regulated businesses.

In addition, we monitor the regulatory asset value (RAV) gearing within each of NGET plc and the regulated transmission and distribution businesses within NGG plc. This is calculated as net debt expressed as a percentage of RAV, and indicates the level of debt employed to fund our UK regulated businesses. It is compared with the level of RAV gearing indicated by Ofgem as being appropriate for these businesses, at around 60%. The table below shows the RAV gearing for NGET plc and for the regulated transmission and distribution businesses within NGG plc as at 31 March 2011 and 31 March 2010.

To calculate RAV gearing for the regulated transmission and distribution businesses within NGG plc, we exclude an element of debt that is associated with funding the metering business within NGG plc which no longer has a RAV associated with it.

RAV gearing	2011 %	2010 %
Regulated transmission and distribution businesses within National Grid Gas plc	**54**	57
National Grid Electricity Transmission plc	**54**	56

Some of our regulatory agreements impose lower limits for the long-term senior unsecured debt credit ratings that certain companies within the group must hold or the amount of equity within their capital structures. These requirements are monitored on a regular basis in order to ensure compliance. One of the key limits requires National Grid plc to hold an investment grade long-term senior unsecured debt credit rating. We believe that our aim of maintaining single A range long-term senior unsecured debt credit ratings within our main UK operating companies is consistent with this.

Rights issue

On 19 May 2010, the Board resolved to offer a fully underwritten rights issue to raise approximately £3.2 billion, net of expenses. The rights issue completed successfully in June, with 94.2% of qualifying shareholders taking up their rights. The capital raised will allow us to increase our capital investment in the UK significantly, and assist in maintaining single A credit ratings for our UK operating companies, thereby improving our long-term competitive position.

Liquidity and treasury management

Treasury policy

Funding and treasury risk management is carried out by the treasury function under policies and guidelines approved by the Finance Committee of the Board. The Finance Committee (for further details see page 84) has authority delegated from the Board, and is responsible for the regular review and monitoring of treasury activity and for the approval of specific transactions, the authority for which may be further delegated.

The primary objective of the treasury function is to manage our funding and liquidity requirements. 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 Finance Committee.

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.

Commodity derivatives entered into in respect of gas and electricity commodities are used in support of the operational requirements of the business, and the policy regarding their use is explained on page 74.

Financial position and financial management continued

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 our rights issue, which completed in June 2010, our funding requirements were modest. Nevertheless, we issued approximately £0.8 billion of new long-term debt but also repurchased £1.3 billion and did not refinance £1.6 billion of debt maturities. In addition, we have issued £1.6 billion of commercial paper, £457 million of which remained outstanding as at 31 March 2011. We remain confident of our ability to access the public debt markets in the future.

Cash flow and cash flow forecasting
Cash flows from our operations are largely stable over a period of years. Our electricity and gas transmission and distribution operations in the UK and US are subject to multi-year rate agreements with regulators. In the UK, we have largely stable annual cash flows. However, in the US our short-term cash flows are dependent on the price of gas and electricity and the timing of customer payments. The regulatory mechanisms for recovering costs from customers can result in very significant cash flow swings from year to year. Significant changes in volumes in the US, for example as a consequence of abnormally mild or extreme weather or economic conditions affecting the level of demand, can affect cash inflows in particular. In addition, our cash flows arising in the US are exposed to movements in the dollar exchange rate, although our foreign exchange risk management policy aims to limit this exposure. Further detail is provided under the foreign exchange risk management section on page 73.

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 require us to maintain adequate financial resources within certain parts of our operating businesses and restrict our ability to undertake transactions between certain subsidiary companies including paying dividends, lending cash and levying charges. Our assessment of National Grid’s liquidity takes into account these restrictions.

Funding and liquidity management
We maintain a number of commercial paper and medium-term note programmes in both the UK and US to facilitate short- and long-term debt issuance into the money markets and capital markets. National Grid plc also has a Securities and Exchange Commission registered debt shelf in place to facilitate long-term debt issuance specifically into the US capital markets. Details of the programmes we maintain can be found in the debt investors section of our website.

In addition, we have both committed and uncommitted bank borrowing facilities that are available for general corporate purposes to support our liquidity requirements. The vast majority of our committed borrowing facilities are used to provide back up to our commercial paper programmes or other specific debt issuances. These have never been drawn and there is currently no intention to draw them in the future.

Details of the bank facilities we maintain can be found in the debt investors section of our website. During the year, the $850 million short-term syndicated committed facility at National Grid plc expired and was renewed at the same level, but over five years instead of 364 days. In addition, the long-term committed facilities at National Grid Electricity Transmission plc and National Grid Gas plc were renewed for four years at levels of £715 million and £425 million respectively.

None of the committed facilities were drawn at any time during the year. Note 34 to the consolidated financial statements shows the maturity profile of undrawn committed borrowing facilities at 31 March 2011.

To facilitate debt issuance into the capital and money markets, many of the companies within National Grid maintain credit ratings. Details of the long-term senior unsecured debt and short-term debt credit ratings respectively provided by Moody’s Investor Services, Standard & Poor’s and Fitch Ratings can be found in the debt investors section of our website.

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 17 to the consolidated financial statements.

We believe that maturing amounts in respect of contractual obligations as shown in commitments and contingencies in note 28 to the consolidated financial statements can be met from existing cash and investments, operating cash flows and other financings that we reasonably expect to be able to secure in the future, together with the use of committed facilities if required.

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.

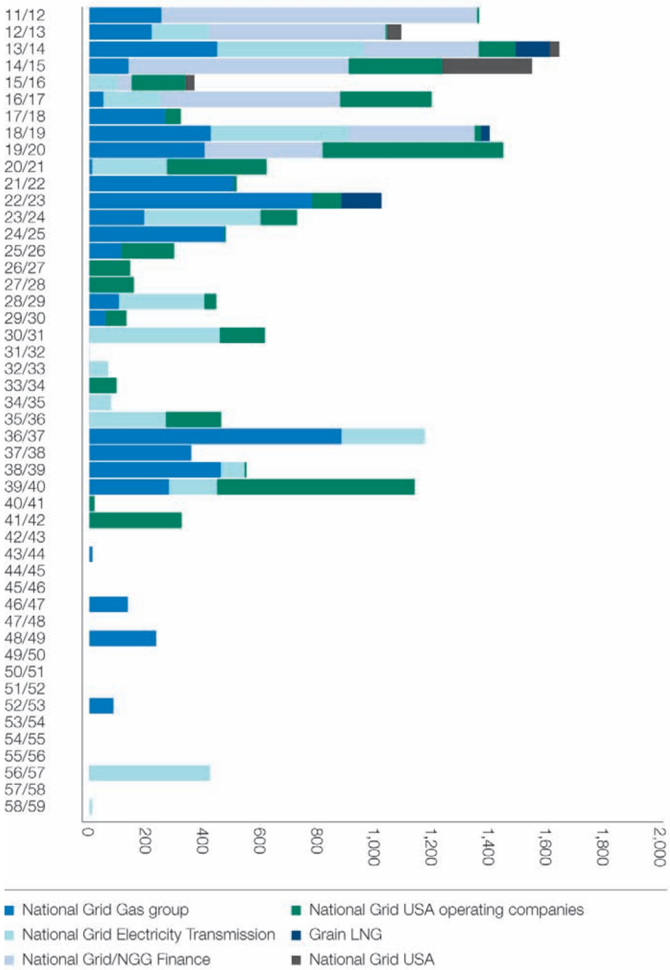
Use of derivative financial instruments
As part of our business operations, including our treasury activities, we are exposed to risks arising from fluctuations in interest rates and exchange rates. We use financial instruments, including derivative financial instruments, to manage exposures of this type. Our policy is not to use derivative financial instruments for trading purposes.

More details on derivative financial instruments are provided in note 14 to the consolidated financial statements.

Refinancing risk management
The Board controls refinancing risk mainly by limiting the amount of debt maturities arising on borrowings in any financial year.

The following chart shows the maturities of our long-term debt, which extend to 2058/59. This shows that, at 31 March 2011, we had £1.36 billion of long-term debt maturing in 2011/12, and no more than £1.64 billion of long-term debt maturing in any future year. We expect to be able to refinance this debt through the capital and money markets.

National Grid long-term debt maturity profile
£m



Interest rate risk management

Our interest rate exposure arising from borrowings and deposits is managed by the use of fixed-rate and floating-rate debt and derivative financial instruments, including interest rate swaps, swaptions and forward rate agreements. 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) 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.

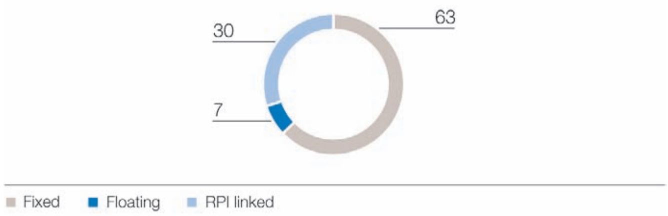
Some of the bonds in issue from NGET plc and NGG plc are inflation linked, that is their cost is linked to changes in the UK retail price index (RPI). We believe that these bonds provide an appropriate hedge for revenues and our regulatory asset values that are also RPI linked under our price control formulae in the UK.

The performance of the treasury function in interest rate risk management is measured by comparing the actual total financing costs of its 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.

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 shown at 31 March 2011 will change over time.

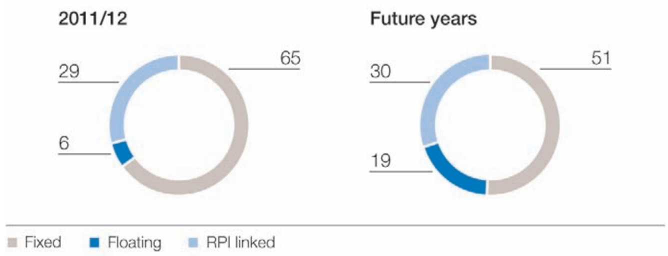
The chart below shows the interest rate profile of our net debt before derivatives.

Interest rate profile pre-derivatives at 31 March 2011
%



The chart below shows the impact, as at 31 March 2011, of derivatives on our net debt for 2011/12 and for future years. The 2011/12 position reflects the use of derivatives, including forward rate agreements, to lock in interest rates in the short term. The future years' position excludes derivatives that mature within the next year.

Interest rate profile post-derivatives at 31 March 2011
%



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 32(a)(ii) to the consolidated financial statements.

Foreign exchange risk management

Translation risk arising from assets and liabilities denominated in dollars forms our principal foreign exchange exposure. In relation to this risk, our objective is to maintain the ratio of dollar denominated financial liabilities to dollar denominated gross assets between 85% and 95%, by using debt and foreign exchange derivatives, so as to provide an economic offset of our cash flows that arise in dollars against the servicing of those liabilities.

We have a policy of managing our foreign exchange transaction risk by hedging contractually committed foreign exchange transactions occurring in currencies other than the dollar 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 such transactions occurring between six and 12 months in the future. In addition, where foreign currency cash flow forecasts are uncertain and a judgement has to be made, our policy is to hedge a proportion of such cash flows based on the likelihood of them occurring, with the aim of hedging substantially all the cash flows without overhedging. Cover generally takes the form of forward sale or purchase of foreign currencies and must always relate to forecast underlying operational cash flows.

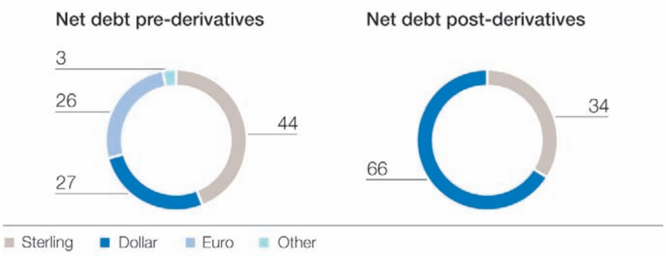
Financial position and financial management continued

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 and the dollar, principally the euro. This currency exposure is managed through the use of cross-currency swaps, so that post-derivatives the currency profile of our debt is almost entirely sterling/dollar, as shown below.

Currency profile at 31 March 2011
%



More details can be found in note 32(a)(i) to the consolidated financial statements.

Counterparty risk management

Counterparty risk arises from the investment of surplus funds, from the use of derivative instruments including commodity contracts, and from commercial contracts entered into by the businesses. The Finance Committee has agreed a policy for managing such risk. This policy sets limits as to the exposure that we can have with any one counterparty, based on that counterparty's credit rating from independent credit rating agencies. Our exposure to individual counterparties is monitored daily and counterparty limits are regularly updated for changes in credit ratings. We have a central treasury department, which is responsible for managing the policy. Where business areas enter into contracts carrying credit risk, part of the relevant counterparty limit can be allocated to the business area involved. This ensures that our 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 in relation to 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 agreement with a counterparty.

Further information on the management of counterparty risk is provided in note 32(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 derivative 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 32(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. This analysis does not take account of the change in value in our income stream or in the value of our US operations that certain of these financial instruments are being used to hedge.

	2010/11		2009/10	
	Income statement £m	**Other equity reserves £m**	Income statement £m	Other equity reserves £m
UK retail price index ±0.50%	**19**	**–**	17	–
UK interest rates ±0.50%	**38**	**50**	51	71
US interest rates ±0.50%	**39**	**15**	52	14
US dollar exchange rate ±10%	**44**	**636**	68	623

Commodity contracts

We purchase electricity and gas in order to supply our customers in the US and also to meet our own energy requirements, primarily in the UK. We also enter into physical and financial derivative transactions to manage electricity and gas cost volatility on behalf of customers in the US. Substantially all our costs of purchasing electricity and gas for supply to customers are recoverable at an amount equal to cost. The timing of recovery of these costs can vary between financial periods leading to an under- or over-recovery within any particular financial period.

Our US operating companies participate in the physical and financial markets related only to those commodities for which we or our customers have a physical market requirement, and transact only within pre-defined risk parameters. These parameters are approved by the energy procurement risk management committee, which operates in accordance with authority delegated to it by the Finance Committee and Executive Committee of the Board.

The most significant gas purchases for our own use relate to the operation of our gas transmission and gas distribution networks, mainly in the UK. We also purchase fuel for our vehicle fleets in the UK. In the US, we also sell gas produced by our West Virginia gas fields.

In the US, during the year we also had a management contract with ConocoPhillips, under which we and ConocoPhillips shared the responsibilities for managing upstream gas distribution assets associated with our Massachusetts gas distribution operations, as well as providing city gate delivered supply. This contract allowed for both parties to employ derivative instruments to maximise the profitability of the portfolio of gas distribution assets. Profits associated with these activities were shared between us, ConocoPhillips and our customers in Massachusetts. This contract expired on 31 March 2011.

In our UK gas transmission operations, we are obliged to offer for sale through a series of auctions, both short- and long-term, a predetermined quantity of entry capacity for every day in the year at pre-defined locations. Where, on the day, the gas transmission system's capability is constrained, such that gas is prevented from entering the system for which entry capacity rights have been sold, then UK gas transmission is required to buy back those entry capacity rights sold in excess of system capability. Forward and option contracts may be used to reduce the risk and exposure to on the day entry capacity prices.

Our UK electricity transmission operations have also entered into electricity options, pursuant to the requirement to stabilise the electricity system 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 UK 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.

Energy purchase contracts

The majority of our electricity contracts and certain of our gas contracts are entered into to meet our expected purchase, sale or usage requirements and so are accounted for as ordinary sales or purchase contracts. These include contractual commitments to purchase energy under long-term contracts amounting to £3,543 million as at 31 March 2011 (2010: £3,948 million) of which £1,081 million is due within one year (2010: £1,195 million). Further information is included in note 28 to the consolidated financial statements.

Commodity purchase contracts accounted for as derivative contracts

Certain of our forward purchases of electricity, gas and electricity capacity do not meet the own use exemption for accounting purposes and hence are accounted for as derivatives. Mark-to-market changes in the value of these contracts are reflected through earnings under the heading of commodity remeasurements. The fair value of these contracts includes contracts with a positive value of £42 million (2010: £51 million), recorded as assets in our balance sheet and contracts with a negative value of £184 million (2010: £228 million) recorded as liabilities.

Commodity purchase contracts accounted for as derivatives include contracts for the forward purchase of electricity that reverted to us as part of the settlement arising from USGen's bankruptcy in 2005, which were originally entered into prior to the restructuring of the electricity industry in New England. The electricity purchased under these contracts is not required for our normal activities and is sold in the energy markets at prices which are currently significantly below the amount we are required to pay. The fair value of these contracts amounted to a £101 million liability at 31 March 2011 (2010: £127 million liability).

Derivative financial instruments linked to commodity prices

We also enter into derivative financial instruments linked to commodity prices, including index-linked swaps and futures contracts. These derivative financial instruments are used to reduce market price volatility and are principally used to manage commodity prices associated with our gas and electricity delivery operations in the US on behalf of our customers.

Derivative financial instruments are carried at fair value in the balance sheet and mark-to-market changes in the value of these contracts are reflected through earnings under commodity remeasurements with the exception of those relating to our West Virginia gas fields that are designated as cash flow hedges.

We use NYMEX electricity and natural gas futures to reduce the cash flow variability associated with the purchase price for a portion of future electricity and gas purchases associated with certain of our electricity and gas distribution operations in the US. These had a negative fair value at 31 March 2011 of £12 million (2010: £41 million), but the liability on the balance sheet has been reduced by the amount of collateral paid to counterparties in respect of these contracts due to accounting netting requirements for such instruments.

In addition, we utilise over the counter swaps and options to reduce the cash flow variability associated with the purchase price for a portion of future electricity and gas purchases associated with certain of our electricity and gas distribution operations in the US. These had a net fair value at 31 March 2011 of £33 million (2010: £45 million negative).

We also utilise over the counter gas swaps in the US to hedge the cash flow variability associated with forecast sales of a portion of gas production from our West Virginia gas fields.

Sensitivity analysis

As described in note 33(d) to the consolidated financial statements, movements in commodity prices would have the following estimated impact on the financial statements in the value of commodities. This analysis does not take account of any change in the composition of our commodity portfolio.

	2010/11		2009/10	
	Income statement £m	**Other equity reserves £m**	Income statement £m	Other equity reserves £m
10% increase in commodity prices	**58**	**–**	71	(1)
10% decrease in commodity prices	**(54)**	**–**	(64)	1

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	**1,614**	1,738
Total operating lease commitments	**795**	926
Power commitments	**3,543**	3,948
Guarantees and letters of credit	**762**	1,189

* Comparatives have been restated to present items on a basis consistent with the current year classification

The energy commitments shown in the commitments and contingencies table above reflect obligations to purchase energy under long-term contracts. These contracts are used in respect of our normal sale and purchase requirements and do not include commodity contracts carried at fair value as described above.

We propose to meet all 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.

Contractual obligations at 31 March 2011

The table of contractual obligations shown below analyses our long-term contractual obligations according to payment period.

Purchase obligations reflect commitments under power contracts and future capital expenditure contracted for but not provided. The other long-term liabilities reflected in the balance sheet at 31 March 2011 comprise commodity contracts carried at fair value and other creditors that represent contractual obligations falling due after more than one year.

Financial position and financial management continued

Interest on borrowings is calculated based on borrowings at 31 March 2011 and does not reflect future debt issues. Floating-rate interest has been estimated using future interest rate curves at 31 March 2011.

	Less than 1 year £m	1-3 years £m	3-5 years £m	More than 5 years £m	**Total £m**
Financial liabilities					
Borrowings	2,616	2,762	2,141	15,314	**22,833**
Interest payments on borrowings	828	1,548	1,278	8,050	**11,704**
Finance lease liabilities	20	71	52	105	**248**
Other non interest-bearing liabilities	2,320	279	–	–	**2,599**
Derivatives payments	1,213	514	881	464	**3,072**
Derivatives receipts	(1,596)	(1,056)	(1,151)	(455)	**(4,258)**
Commodity contracts	290	124	62	(19)	**457**
Other contractual obligations					
Capital commitments	1,217	294	92	11	**1,614**
Operating leases	83	172	142	398	**795**
Energy commitments	1,081	808	513	1,141	**3,543**
Total at 31 March 2011	**8,072**	**5,516**	**4,010**	**25,009**	**42,607**

Off balance sheet arrangements

There were no significant off balance sheet arrangements other than the contractual obligations and commitments described above.

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. Save as set out below, there have been no governmental, legal or arbitration proceedings in the last 12 months which may have or have had significant effects on the Company's financial position or profitability.

Metering competition investigation

As previously reported, on 25 February 2008 the Gas and Electricity Markets Authority (GEMA) announced it had decided we breached Chapter II of the Competition Act 1998 and Article 82 (now Article 102) of the Treaty of the Functioning of the European Union and fined us £41.6 million. Following appeals, the Competition Appeal Tribunal reduced the fine to £30 million and the Court of Appeal further reduced the fine to £15 million. On 22 March 2010, we applied to the Supreme Court for leave to appeal the Court of Appeal's judgement. On 28 July 2010, the Supreme Court denied our application and this ends the legal process. The £15 million fine was paid to GEMA on 1 April 2010.

Gas Distribution mains replacement investigation

As previously reported, in October 2008 we informed Ofgem that mains replacement activity carried out by the UK Gas Distribution business may have been inaccurately reported. Ofgem has now concluded its investigation and, following the reaching of a settlement between Ofgem and National Grid Gas plc, on 6 January 2011 Ofgem announced its intention to impose a penalty of £8 million and to find National Grid Gas plc in breach of certain obligations in respect of the reporting of mains replacement data. Ofgem also stated that the penalty would have been higher had it not been for the cooperation and corrective action by National Grid Gas plc. On 10 March 2011, following the end of the period in which representations could be made in respect of the proposed decision, Ofgem wrote to National Grid Gas plc to confirm its decision. On 13 May 2011, we received the Final Penalty Notice and must pay the penalty by 27 June 2011.

KeySpan Department of Justice investigation

As previously reported, in May 2007 KeySpan received a civil investigative demand (CID) from the Antitrust Division of the United States Department of Justice (DOJ), requesting the production of documents and information relating to its investigation of competitive issues in the New York City electricity capacity market prior to our acquisition of KeySpan. In April 2008, we received a second CID in connection with this matter.

On 22 February 2010, DOJ filed a proposed final judgement in the US District Court for the Southern District of New York. Under the terms of the proposed settlement, DOJ and KeySpan agreed that KeySpan would pay $12 million (£7.5 million) in full and final resolution of DOJ's CIDs. This amount has been paid in full. The agreement contained no admissions of wrongdoing by KeySpan and was subject to court approval, which was obtained on 2 February 2011. On 9 February 2011, we transferred $12 million to DOJ in full and final settlement and this matter is now closed.

KeySpan class action

Two putative class actions were commenced against KeySpan and Morgan Stanley, one in a New York state court and one in the federal court. The claims are based on allegations that the financial swap transaction between KeySpan and Morgan Stanley dated 18 January 2006 caused customers of Consolidated Edison, Inc. to overpay for electricity between May 2006 and February 2008. We believe that both complaints and their allegations are without merit and we have applied to have both actions dismissed. Our application for dismissal in the federal court was granted on 22 March 2011 but the plaintiffs may still appeal.

Related party transactions

We provide goods and services to and receive goods and services from related parties, principally joint ventures. In the year ended 31 March 2011, we charged £11 million and received charges of £84 million from related parties (other than Directors) compared with £5 million and £73 million in 2009/10 and £4 million and £44 million in 2008/09.

Further information relating to related party transactions is contained within note 29 to the consolidated financial statements. Details on amounts paid to Directors are included within the Directors' Remuneration Report on pages 96 to 108.

Retirement arrangements

We operate pension arrangements on behalf of our employees in both the UK and US and also provide post-retirement healthcare and life insurance benefits to qualifying retirees in the US.

In the UK, the defined benefit section of the National Grid UK Pension Scheme and the National Grid section of the Electricity Supply Pension Scheme (National Grid Electricity Supply Pension Scheme) are closed to new entrants. Membership of the defined contribution section of the National Grid UK Pension Scheme is offered to all new employees in the UK.

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 two UK pension schemes 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 £55 million reduction in plan liabilities.

In the US, we operate a number of pension plans in the various states in which we operate, which provide both defined benefits and defined contribution benefits. We also provide post-retirement benefits other than pensions to the majority of employees. Benefits include health care and life insurance coverage to eligible retired employees.

Net pension and other post-retirement obligations

The following table summarises the pension and other post-retirement obligations recorded in the consolidated financial statements:

As at 1 April 2010	(646)	(2,452)	(3,098)
Exchange movements	–	125	125
Current service cost	(90)	(112)	(202)
Expected return less interest	79	(54)	25
Curtailments, settlements and other	(7)	2	(5)
Actuarial gains/(losses)			
– on plan assets	124	234	358
– on plan liabilities	301	(88)	213
Employer contributions	149	417	566
As at 31 March 2011	**(90)**	**(1,928)**	**(2,018)**
Represented by:			
Plan assets	15,353	4,616	19,969
Plan liabilities	(15,443)	(6,544)	(21,987)
Net plan liability	(90)	(1,928)	(2,018)

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 into each arrangement.

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 and US debt markets of an equivalent term to the liability.

The principal movements in net obligations during the year arose as a consequence of actuarial gains on plan assets reflecting improvements in bond markets in particular and actuarial gains in the UK on plan liabilities principally as a consequence of using higher real discount rates partially offset by actuarial losses in the US due to a decrease in nominal discount rates.

UK funding valuation

A triennial valuation is carried out for the independent trustees of our two UK defined benefit plans 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 2010 valuations are nearing completion but the formal agreement has not yet been completed with the trustees. The valuations are on track to be completed by no later than the end of June 2011.

The last completed full actuarial valuation of the National Grid UK Pension Scheme was as at 31 March 2007. This concluded that the pre-tax funding deficit was £442 million in the defined benefit section on the basis of the funding assumptions. Employer cash contributions for the ongoing cost of this plan are currently being made at a rate of 29.4% of pensionable payroll.

The last completed full actuarial valuation of National Grid Electricity Supply Pension Scheme was as at 31 March 2007. This concluded that the pre-tax funding deficit was £405 million on the basis of the funding assumptions. Employer cash contributions for the ongoing cost of this plan are currently being made at a rate of 20.5% of pensionable payroll.

Contributions

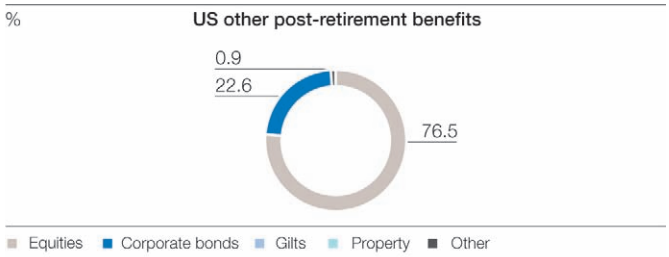
In addition to ongoing employer contributions, as part of the initial valuation discussions with the trustees of the National Grid Electricity Supply Pension Scheme it was agreed that a deficit payment of £45 million would be made in March 2011.

In accordance with our funding policy for US pension and other post-retirement benefit plans, we made contributions of £417 million in 2010/11 and expect to contribute approximately £413 million to these plans during 2011/12.

Plan assets

Plan assets are predominantly invested in equities, corporate bonds, gilts, property and short-term investments. Our plans are trustee administered and the trustees are responsible for setting the investment strategy and monitoring investment performance, consulting with us where appropriate.

Pension plan assets
31 March 2011



Accounting policies

Basis of accounting

The consolidated financial statements present our results for the years ended 31 March 2011, 2010 and 2009 and our 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, remeasurements and stranded cost recoveries. Exceptional items, remeasurements and stranded cost recoveries are presented separately on the face of the income statement.

Customer contributions

Contributions received prior to 1 July 2009 towards capital expenditure are recorded as deferred income and amortised in line with the depreciation on the associated asset.

Financial instruments

We normally opt to apply hedge accounting in most circumstances where this is permitted. For net investment hedges, we have chosen to use the spot rate method, rather than the alternative forward rate method.

Timing of goodwill impairment reviews

Goodwill impairment reviews are carried out annually in the final quarter of the financial year.

Critical accounting policies

The application of accounting principles requires us to make estimates, judgements 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 the consolidated financial statements on pages 112 to 118.

Revenue

Revenue includes an assessment of energy and accruals for transportation services supplied to customers between the date of the last meter reading and the year end. Changes to the estimate of the energy or transportation services supplied during this period would have an impact on our reported results.

Unbilled revenues at 31 March 2011 are estimated at £303 million in the UK and £445 million in the US compared with £308 million and £415 million respectively 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 judgements exercised in determining their estimated economic lives.

Hedge accounting

We use derivative financial instruments to hedge certain economic exposures arising from movements in exchange and interest rates or other factors that could affect either the value of our assets or liabilities or our future cash flows. Movements in the fair values of derivative financial instruments may be accounted for using hedge accounting where we meet the relevant eligibility, documentation and effectiveness testing requirements. If a hedge does not meet the strict criteria for hedge accounting, or where there is ineffectiveness or partial ineffectiveness, then the movements will be recorded in the income statement immediately instead of being recognised in other comprehensive income or by being offset by adjustments to the carrying value of debt.

Exceptional items, remeasurements and stranded cost recoveries

Exceptional items, remeasurements and stranded cost recoveries are items of income and expense that, in the judgement of management, should be disclosed separately on the basis that they are material, either by their nature or their size, to an understanding of our financial performance and distort the comparability of our financial performance between periods.

Items of income or expense that are considered by management for designation as exceptional items include such items as significant restructurings, write-downs or impairments of non-current assets, significant changes in environmental or decommissioning provisions, integration of acquired businesses, gains or losses on disposals of businesses or investments and debt redemption costs as a consequence of transactions such as significant disposals or issues of equity.

Remeasurements comprise gains or losses recorded in the income statement arising from changes in the fair value of commodity contracts and of derivative financial instruments. These fair values increase or decrease as a consequence of changes in commodity and financial indices and prices over which we have no control.

Stranded cost recoveries relate to the recovery, through charges to electricity customers in upstate New York and in New England, of costs mainly incurred prior to divestiture of generation assets.

Tax estimates

Our 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 either when a change in circumstance is identified that indicates an asset might be impaired or, in the case of goodwill, annually. 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 assets and liabilities, principally financial investments, derivative financial instruments and certain commodity contracts, 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 is that of derivative financial instruments where market prices exist. Other derivative financial instruments and those commodity contracts carried at fair value are valued using financial models, which include judgements on, in particular, future movements in exchange and interest rates as well as equity and commodity prices.

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, decommissioning of nuclear facilities we no longer own but to which we still have a responsibility to contribute, 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 significant. The amounts and timing of cash flows relating to these liabilities are based on management estimates supported by external consultants.

Pensions and other post-retirement obligations

Pensions and other post-retirement benefit obligations recorded in the balance sheet are calculated actuarially using a number of assumptions about the future, including inflation, salary increases, life expectancy, 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.

Energy commitments

Our energy commitments relate to contractual commitments to purchase electricity or gas to satisfy physical delivery requirements to our customers or for energy that we use ourselves. In management's judgement these commitments meet the normal purchase, sale or usage exemption in IAS 39 and are not recognised in the financial statements.

If these commitments were judged not to meet the exemption under IAS 39 they would have to be carried in the balance sheet at fair value as derivative instruments, with movements in their fair value shown in the income statement under remeasurements.

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 £49 million net of tax.

Asset useful lives

An increase in the economic useful lives of assets of one year on average would reduce our annual depreciation charge on property, plant and equipment by £40 million (pre-tax) and our annual amortisation charge on intangible assets by £7 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 after tax for the year would have been £336 million higher than that reported net of tax, and net assets would have been £82 million lower.

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 and commodity contract liabilities of £114 million and £11 million respectively.

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 £181 million.

Pensions and other post-retirement obligations

Our 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 £304 million, £162 million and £653 million and a change in the annual pension cost of £7 million, £8 million and £7 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 consolidated financial statements on page 119. 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 consolidated financial statements on page 119.

Corporate Governance

Chairman's foreword

I am delighted to report we are again compliant with the Combined Code and have made preparations for our future reporting under the UK Corporate Governance Code.

I have always endeavoured to take my responsibilities as Chairman seriously and to lead the Board by example. I review and discuss with each Director the outcomes of the annual performance evaluation process and continually look for enhancements to the way we function and perform to ensure we are as effective as we ought to be. The Non-executive Directors constructively challenge our Executive team and continue to be highly engaged in developing strategy.

The Nominations Committee and I regularly review the balance of skills, experience, independence and knowledge on the Board and its Committees. These will continue to be important factors when pursuing our diversity objectives on the Board. In this regard, we have conducted a review of the recommendations in the Davies Review 'Women on boards', are committed to the principles and will be publishing our aspirational goals by the end of September.

Our new Finance Director, Andrew Bonfield, has had a varied induction programme including meetings with senior management across the Company, briefings on key processes such as audit, governance, human resources and risk, together with meetings with external stakeholders such as the auditors, corporate brokers and analysts. Combined with his previous international experience and his clear capabilities, this induction programme has assisted him in making a valuable early contribution to our business.

The Board is collectively responsible for the long-term success of the Company. We take decisions only after the necessary level of information has been made available to us and with due consideration of all the relevant facts including the risk profile. The Board is always mindful of its obligations to act in the best interests of the Company, its shareholders and all its stakeholders.

We continually strive for best practice in our communications and I truly hope you find the revised format of the Corporate Governance report transparent and informative.

Sir John Parker
Chairman

Board focus during the year

- safety, including actions taken to reduce risks and improve performance;
- the rights issue and subsequent investor reaction;
- reorganisation of the Company and associated changes in Executive Director responsibilities announced 31 January 2011;
- risks associated with the political and regulatory landscape, including the US rate cases; and
- the performance evaluation process, including how the Board and its Committees could operate more effectively.

Expected Board focus for the next year

- safety, as part of the Chief Executive's monthly report;
- monitoring implementation of the reorganisation, including progress with anticipated efficiencies and associated employee relations issues;
- strategy sessions, including business development;
- UK and US regulatory updates;
- impact of the Bribery Act 2010;
- reviewing and implementing as appropriate the recommendations of the Davies Review;
- updates on the allocation of US expenses; and
- monitoring and discussing progress with Ofgem on price controls.

Governance framework

The Company is committed to operating our businesses in a responsible and sustainable manner. Our corporate governance framework forms an integral part of this approach in order to safeguard shareholder value. Our Company wide policies and procedures including risk management, which are referred to later in this report, are considered as part of the overall governance of the business. This report focuses on the Company's approach to corporate governance as provided in the Combined Code on Corporate Governance as revised in 2008 (the Code) which is applicable to the Company for the financial year being reported. The Company also has regard to, and regularly reviews, developing corporate governance best practice including matters contained in various investor guidelines.

The Board considers that it complied in full with the provisions of the Code during the year.

This report explains key features of the Company's governance structure and how it applies the principles of the Code, and includes reporting required by the Disclosure and Transparency Rules. The location within the Annual Report and Accounts of each of the disclosures required in the Directors' Report is set out in the index at the top of the following page.

Directors' Report statutory disclosures

94	Annual General Meeting	83	Code of Ethics	72-75, 78	Financial instruments	83	Post balance sheet events
83	Articles of Association	30-35	Contractual and other arrangements	11-79	Future developments	11-95	Principal activities and business review
89	Audit information	83	Directors' indemnity	95	Material interests in shares	69	Research and development
8-9	Board of Directors	96-108	Directors' share interests	69	Policy and practice on payment of creditors	94	Share capital
83	Change of control provisions	55-56	Dividends	69	Political donations and expenditure		
69	Charitable donations	51-52	Employees – I&D				

Our Board

During the year, Steve Lucas retired following 10 years' service and Andrew Bonfield was appointed as Finance Director. Additionally, Mark Fairbairn stepped down from the Board at the year end, in conjunction with the reorganisation of the Company to a regional model. The Directors during the year are as set out on page 85.

Balance is considered a key requirement for the composition of the Board, not only in terms of the Executives and Non-executives, but also with regard to the mix of skills, experience, knowledge, independence and diversity. Biographical details for all the Directors can be found on pages 8 and 9, together with details of Board Committee memberships.

The role of the Board

During the year, the Board has reviewed its role and matters reserved for its consideration as part of a review of the Delegations of Authority. As a result of this review, minor changes to add clarity and update terminology were made to the matters reserved to the Board in September 2010.

The Board reserves a number of matters for its sole consideration where these matters impact the strategic direction and effective oversight of the Company and its businesses. Examples include:

- corporate governance, including policy and procedure statements, codes of conduct, the Delegations of Authority, the Framework for Responsible Business and Doing the Right Thing – Our Standards of Ethical Business Conduct;
- overall business strategy;
- financial policy, the budget and business plan;
- acquisitions or divestments;
- shareholder documents;
- Director/employee issues such as Director succession planning, with input and recommendations from the Nominations Committee; and
- stock exchange and listing requirements such as approval/ recommendation of dividend and approval of results announcements, interim management statements and the Annual Report and Accounts.

A full description of the matters reserved to the Board and the framework and standards described above, together with other documentation relating to the Company's governance, are available on our website at www.nationalgrid.com.

In addition to the above matters reserved to the Board, certain items of strategic, operational or governance importance are considered at every scheduled Board meeting including:

- safety, health and the environment;
- financial status of the Company;
- operational headlines from the Company's businesses, together with a detailed update from one of the business areas on a rotating basis;
- business development and strategy implementation;
- external matters affecting the Company and any legal or new risk issues;
- reports from the Board Committees; and
- updates on the governance of the Company and its businesses.

The Board and its Committees

In order to operate effectively and to give appropriate attention and consideration to matters, the Board has delegated authority to its Committees to carry out certain tasks as defined in, and regulated by, the Committees' terms of reference, which are available on our website at www.nationalgrid.com. The Board has delegated to the Executive Committee responsibility for day-to-day management decisions. The Committee structure is set out on pages 84 and 85.

The Board is kept apprised by the Committee chairmen through the provision of a summary of the issues discussed and decisions taken by the Committee. Minutes of Committee meetings are circulated to other Directors once available and as appropriate.

Board members are required to attend Board and Committee meetings regularly in order to ensure they are kept up to date with the business and accordingly can contribute to meetings. Should any Director be unable to attend a meeting, the Chairman and Committee chairman are informed and the absent Director is encouraged to communicate opinions and comments on the matters to be considered. Instances of non attendance during the year were considered and determined as being reasonable in each case due to the individual circumstances.

In order to have the opportunity to discuss matters, for example relating to governance, independently of management, the Chairman and other Non-executive Directors meet formally at least once a year without Executive Directors or other members of management present. The Chairman and Non-executive Directors also meet formally at least once a year with the Chief Executive. Ad hoc meetings may also be held as required.

Non-executive Director independence

In order for the Non-executive Directors to contribute fully, and in particular to challenge the Executive Directors over strategic matters where appropriate, it is important the Non-executive Directors bring experience, probity and independence to the Board. Accordingly, the independence of the Non-executive Directors is considered at least annually along with their character, judgement, commitment and performance on the Board and relevant Committees.

The Board in its deliberations specifically took into consideration the Code and examples of indicators of potential non independence including length of service, with a particularly rigorous review for those Directors who have served greater than six years. Following this evaluation, each of the Non-executive Directors at year end has been determined by the Board to be independent notwithstanding that Ken Harvey, George Rose and Stephen Pettit have served on the Board for more than nine years when their appointments as directors of Lattice Group plc are included. The Board believes they have retained independent character and judgement and recognise the significant changes in the Company's operations over the years noting that Lattice Group plc had limited overseas operations and no electricity businesses. The Board acknowledges that some of its Non-executive Directors have been in tenure for a number of years and the Nominations Committee will be actively considering Board and Committee composition in the year ahead. The Board considers the varied and relevant experience of all the Non-executive Directors to be of great benefit to the Company.

Roles of the Chairman, Chief Executive and Senior Independent Director

In order to avoid the potential for apparent concentration of power in one individual, the Chairman and the Chief Executive have separate roles and responsibilities, which have been approved by the Board. The Chairman's main responsibility is the leadership

Corporate Governance continued

and management of the Board and its governance, ensuring a culture of openness which encourages active debate. He chairs the Board meetings ensuring that, for example, the forward agendas are appropriate, relevant business is brought to the Board for consideration in accordance with the schedule of matters reserved to the Board, the Delegations of Authority and the Board's strategic remit, and each Director has the opportunity to consider the matters brought to the meeting and to contribute accordingly.

The Chief Executive, as head of the Company's Executive team, retains responsibility for the leadership and day-to-day management of the Company and the execution of its strategy as approved by the Board. In addition to the other Executive Directors, key corporate executives report directly to the Chief Executive.

The Senior Independent Director, Ken Harvey, was appointed to this role in 2004. His responsibilities include leading the Non-executive Directors' annual consideration of the Chairman's performance and holding discussions with Non-executive Directors without Executive Directors or other members of management present as well as acting as a sounding board for the Chairman. He is also available to shareholders in the event they feel it inappropriate to communicate via the Chairman, the Chief Executive or the Finance Director. The Senior Independent Director did not meet with shareholders during the year.

Director induction, development and support

The Chairman, with the support of the Company Secretary & General Counsel, is responsible for the induction of new Directors and involved with ongoing development of all Directors. This includes a discussion on any personal development needs at the one-to-one meetings held with the Chairman as part of the performance evaluation process. On appointment to the Board, new Directors receive a tailored induction programme including one-to-one meetings with other Directors and senior management, and a Directors' information pack to provide background information on the Company's businesses and operations including issues relating to corporate responsibility. For further details of Andrew Bonfield's induction programme, see Chairman's foreword on page 80. Board meetings are regularly held at the Company's sites and additional visits are organised in order for the Directors to develop their understanding of the business.

Ongoing development for Non-executive Directors includes:

- informing them at each Board meeting of the latest training courses which may be of interest;
- attendance at key site visits;
- providing updates on legal, economic, corporate governance and best practice matters; and
- tailored management presentations.

For Executive Directors, coaching and development programmes include:

- external coaching;
- attendance at external training; and
- experience of other boardrooms through non-executive appointments.

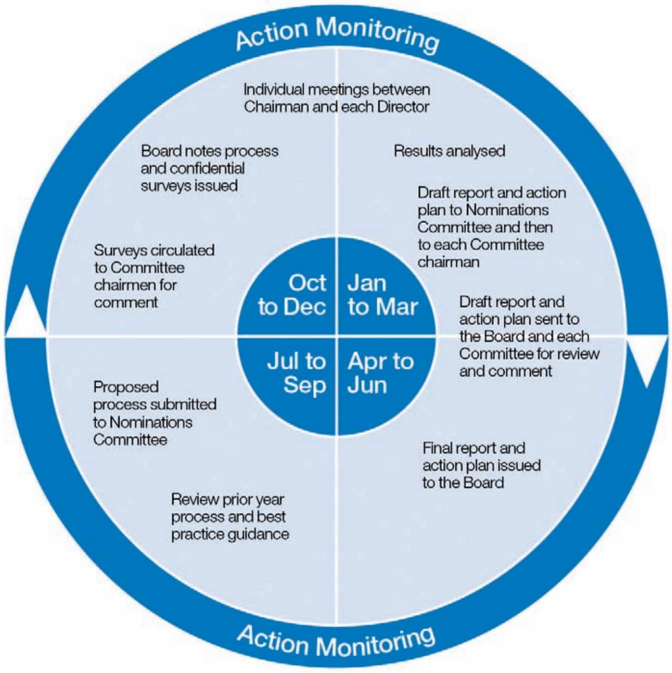
Accordingly, as part of their development and with the agreement of the Board, Steve Holliday, Andrew Bonfield, Nick Winser and the Company Secretary & General Counsel hold other directorships as set out on pages 8 and 9. The fees for these positions are retained by the Directors and the Company Secretary & General Counsel and details for Directors are on page 101.

The number and perceived responsibility of other directorships are considered annually to satisfy the Board that Directors do not have excessive commitments that could potentially affect the time they are able to devote to the Company. Prior to any new commitment, agreement is sought from the Chairman. The Board is satisfied that the Chairman and other Non-executive Directors, if required, would be available as needed outside their contracted hours.

The Company Secretariat is available to provide assistance and information on governance, corporate administration and legal matters to Directors as appropriate. Directors may also seek, at the Company's expense, advice directly from independent professional advisors should they so wish. This is in addition to the advice provided by independent advisors to the Board Committees. No such requests for external professional advice were received during the year.

Performance evaluation

Continuous improvement and development through a cycle of action monitoring and engagement is key to ensuring the Board and Board Committee processes, procedures and governance structures remain in line with best practice. Following a review of the appropriateness of the internal process, the Nominations Committee agreed the performance evaluation process remains robust. This year, the Board survey was supplemented with additional questions following Professor Andrew Kakabadse's (Professor of International Management Development, Cranfield School of Management) review last year and the Committee questionnaires were enhanced to reflect the UK Corporate Governance Code. The Nominations Committee also considers if an external party should be engaged to facilitate and/or perform the annual performance evaluation and going forward will take into account the requirements of the UK Corporate Governance Code to conduct an external evaluation at least every three years.



The 2010/11 process, led by the Chairman and assisted by the Company Secretary & General Counsel, was a formal and rigorous evaluation of the performance of the Board, its Committees and the Directors. A summary of the annual cycle for this process is set out in the diagram above.

A positive set of results was recorded once again across all surveys, indicating the Board and Committees are working effectively.

Examples of actions completed in 2010/11 and actions identified as a result of this year's evaluation are set out in the tables below.

Area	Actions completed 2010/11
Training and development	Enhancement of the Non-executive Directors' familiarity and interaction with each line of business. Responsibility: Board
Information and support	Development of a more standard presentation format for in depth line of business reviews, in order to promote consistency and ease of comparison. Responsibility: Executive Directors
Information and support	Greater transparency of key performance indicator data provided to the Board. Responsibility: Chief Executive

Area	Actions for 2011/12
Training and development	Ongoing review and assessment of training and development opportunities for Board members, including any areas of interest for training sessions to be delivered by internal or external parties. Responsibility: Board
Board composition	Review and agree clarity of succession planning focus between the Nominations Committee and the Board. Responsibility: Board and Nominations Committee
Role and structure	Continue to monitor and review advice from, and effectiveness of, advisors including appropriateness of each advisor. Responsibility: Remuneration and Risk & Responsibility Committees

Taking into account the views of the Executive Directors, the Non-executive Directors, led by the Senior Independent Director, reviewed the Chairman's performance at a private meeting. The Chairman's leadership and performance were considered to have been of a high standard.

Director appointment and election

Shareholders have the opportunity to consider the appointment and performance of each Director by voting in relation to their election or re-election as a Director at the Annual General Meeting (AGM). Following Andrew Bonfield's appointment during the year, he will seek election at the AGM. In accordance with best practice and our commitment last year, all Directors, with the exception of John Allan, will seek re-election this year as set out in the Notice of 2011 AGM.

In order to ensure transparency regarding the terms of their appointment, the service contracts (Executive Directors) and letters of appointment (Non-executive Directors) are available to our shareholders and may also be inspected at the AGM prior to the meeting. For further details regarding the Directors' service contracts and letters of appointment see pages 101 and 102 in the Directors' Remuneration Report.

Conflicts of interest

The Board continues to monitor and note possible conflicts of interest that each Director may have and Directors are reminded of their continuing obligations in relation to conflicts at each Board meeting. Potential conflicts are considered and, if appropriate, approved and noted, with the conflicted Director not voting on the matter. During the year ended 31 March 2011, the Board has been advised by the Directors of a number of situations in relation to which no actual conflict of interest was identified and has therefore authorised such situations in accordance with its powers.

Directors' indemnity

In addition to the Directors' and Officers' liability insurance cover for each Director, the Company has arranged, in accordance with the Companies Act 2006 and the Articles of Association, qualifying third party indemnities against financial exposure that Directors may incur in the course of their professional duties.

Code of Ethics

In accordance with US legal requirements, the Board has adopted a Code of Ethics for senior financial professionals. This code is available on our website at www.nationalgrid.com (where any amendments or waivers will also be posted). There were no amendments to, or waivers of, our Code of Ethics during the year.

Change of control provisions

No compensation would be paid for loss of office of Directors on a change of control of the Company. As at 31 March 2011, the Company had undrawn borrowing facilities with a number of its banks of £1.8 billion and a further £1.2 billion of drawn bank loans which, on a change of control of the Company following a takeover bid, may alter or terminate. All the Company's share plans contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time. No other agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid are considered to be significant in terms of their potential impact on the business as a whole.

Articles of Association

The Articles of Association set out the internal regulation of the Company and cover such matters as the rights of shareholders and the conduct of the Board and general meetings. Copies are available upon request and are displayed on the Company's website at www.nationalgrid.com. In accordance with the Articles of Association, Directors can be appointed or removed by the Board or shareholders in general meeting. Amendments to the Articles of Association have to be approved by at least 75% of those voting in person or by proxy at a general meeting of the Company. Subject to company law and the Articles of Association, the Directors may exercise all the powers of the Company, and may delegate authorities to Committees and day-to-day management and decision making to individual Executive Directors. The Committee structure is set out on pages 84 and 85.

Post balance sheet events

There have been no material post balance sheet events.

Corporate Governance continued

Our Board and Committee governance structure

The Board

The Board provides effective oversight of the Company and its businesses and determines the governance structure and strategic direction of the Company.

In order to operate efficiently and to give appropriate attention and consideration to matters, the Board has delegated authority to its Committees to carry out tasks as summarised below, with further details on the following pages.

Listed below is the Committee membership and attendance together with details of the other attendees who are invited to ensure the respective Committees receive relevant updates and background information.

Executive Committee

Role and focus
The Committee oversees the financial, operational and safety performance of the Company, taking management action it considers necessary to safeguard the interests of the Company and to further the strategy, business objectives and targets established by the Board.

Membership and attendance

Name	Attendance*
Committee chairman	
Steve Holliday	11 of 11
Executive Directors	
Andrew Bonfield **	5 of 5
Tom King	11 of 11
Nick Winser	11 of 11
Steve Lucas ***	8 of 8
Mark Fairbairn ****	11 of 11
Other members	
David Lister chief information officer	11 of 11
Helen Mahy Company Secretary & General Counsel	11 of 11
George Mayhew corporate affairs director	11 of 11
Mike Westcott global human resources director	11 of 11
Alison Wood global director of strategy and business development	11 of 11

Other attendees:
Senior management as necessary to keep the Committee fully apprised of the Company's businesses.

Finance Committee

Role and focus
The Committee sets policy and grants authority for financing decisions, bank accounts, credit exposure, control mechanisms for hedging and foreign exchange transactions, guarantees and indemnities and approves, or if appropriate recommends to the Board, other treasury, tax, pensions and insurance strategies.

Membership and attendance

Name	Attendance*
Committee chairman	
Maria Richter	5 of 5
Executive Directors	
Steve Holliday	5 of 5
Andrew Bonfield **	3 of 3
Steve Lucas ***	3 of 3
Non-executive Directors	
John Allan	5 of 5
Stephen Pettit	5 of 5

Other attendees:
- global director of tax and treasury;
- head of group tax;
- head of risk and insurance;
- global head of retirement plans;
- external advisors as appropriate; and
- management, as required.

Nominations Committee

Role and focus
The Committee is responsible for considering the structure, size and composition of the Board and for identifying and proposing individuals to be Directors and senior management, together with establishing the criteria for any new position.

Membership and attendance

Name	Attendance*
Committee chairman	
Sir John Parker	5 of 5
Non-executive Directors	
Ken Harvey	5 of 5
Maria Richter	5 of 5
George Rose	4 of 5

Other attendees:
- Chief Executive;
- global human resources director; and
- external advisors, as required.

Board composition, attendance and independence

Non independent

Name	Attendance*
Non-executive Chairman	
Sir John Parker	10 of 10
Chief Executive	
Steve Holliday	10 of 10
Executive Directors	
Andrew Bonfield **	4 of 5
Tom King	10 of 10
Nick Winser	9 of 10
Steve Lucas ***	7 of 7
Mark Fairbairn ****	10 of 10

Independent

Name	Attendance*
Non-executive Directors	
Ken Harvey (Senior Independent Director)	10 of 10
Linda Adamany	10 of 10
Philip Aiken	10 of 10
John Allan	10 of 10
Stephen Pettit	10 of 10
Maria Richter	10 of 10
George Rose	8 of 10

* Attendance is expressed as number of meetings attended out of number possible or applicable for the individual Director
** Andrew Bonfield was appointed to the Board on 1 November 2010
*** Steve Lucas retired on 31 December 2010
**** Mark Fairbairn left the Company on 31 March 2011

Remuneration Committee

Role and focus
The Committee is responsible for developing policy regarding executive remuneration, and determining the remuneration of the Executive Directors and certain executives below Board level. It also has oversight of the remuneration policies for other employees and provides direction over the Company's employee share plans.

Membership and attendance

Name	Attendance*
Committee chairman	
John Allan	9 of 9
Non-executive Directors	
Ken Harvey	9 of 9
Stephen Pettit	9 of 9
George Rose	8 of 9

Other attendees:
- Chairman;
- Chief Executive;
- global human resources director and global head of compensation & benefits; and
- independent external advisors.

Risk & Responsibility Committee

Role and focus
The Committee monitors and reviews the Company's non-financial risks and interfaces with the Audit Committee. The Committee is responsible for reviewing the strategies, policies, targets and performance of the Company within its Framework for Responsible Business.

Membership and attendance

Name	Attendance*
Committee chairman	
Stephen Pettit	4 of 4
Non-executive Directors	
Linda Adamany	4 of 4
Philip Aiken	4 of 4
Ken Harvey	4 of 4

Other attendees:
- Chief Executive;
- Company Secretary & General Counsel;
- director of UK safety, health and environment;
- US senior VP safety, health, environmental services;
- Executive Directors, as appropriate; and
- director of corporate audit or corporate affairs director on an alternate basis.

Audit Committee

Role and focus
The Committee has oversight of the Company's internal controls and their effectiveness, together with financial reporting and the procedures for the identification, assessment and reporting of risks. It also has oversight of the services provided by the external auditors and their remuneration.

Membership and attendance

Name	Attendance*
Committee chairman	
George Rose	6 of 6
Non-executive Directors	
Linda Adamany	6 of 6
Philip Aiken	6 of 6
Maria Richter	6 of 6

Other attendees:
- external auditors;
- Chairman;
- Chief Executive;
- Finance Director;
- director of corporate audit, financial controller, Company Secretary & General Counsel; and
- other Executive Directors, global director of tax and treasury, chief accountant and global head of risk management, as appropriate.

Reporting line

Disclosure committee

See page 88

Corporate Governance continued

Executive Committee

Steve Holliday
Committee chairman

Review of the year
Examples of matters the Committee considered during the year include:

- the financial, operational, safety and environmental performance of the Company and its businesses, including process safety improvements;
- strategic business development and implementation, in particular the redesign of our organisational structure;
- approving capital and operational expenditure under the authorities delegated to it by the Board;
- global regulatory matters, including the UK price controls RIIO –T1 and RIIO –GD1, and US rate filings;
- business conduct, risk and compliance reports, including adequacy and effectiveness of internal control and risk management;
- employee issues such as inclusion and diversity, employee reward and succession planning; and
- global information systems strategic issues.

"Our focus this year has been on the delivery of our strategic actions, including the step up in our capital plan and regulatory developments. We have also reviewed and redesigned our organisational structure from a global line of business model to a regional model, as our customers and regulators look for a business more closely tuned to their needs. This represents an evolution in the way we run our business. We will of course continue to collaborate to share best practice and knowledge and maintain the value that we have gained from our global lines of business."

Steve Holliday

Finance Committee

Maria Richter
Committee chairman

Review of the year
Examples of matters the Committee considered during the year include:

- transaction structure for the rights issue;
- debt management policy, with policy changes to take advantage of market conditions, an external presentation on the 2010 debt capital markets and key drivers for 2011;
- UK and US tax strategy;
- activities of the energy procurement risk management committee in the US;
- pensions update, including the funding status of all plans, discussions on actions to address funding deficits and their treatment in price control reviews;
- insurance, including a review of premium levels and liability policy limits; and
- approved financing to meet the Company's anticipated increased role in US energy efficiency programmes.

"It has been a particularly busy year for the Committee. We've considered several proposals between the scheduled meetings to enable the Company to remain competitive with its financing activities and to secure the best market deals available. Despite the uncertainties within the economy, I am pleased to say that our specialist finance, treasury, tax, insurance and pensions teams have all risen to the challenges and we remain well placed for the year ahead."

Maria Richter

Nominations Committee

Sir John Parker
Committee chairman

Review of the year
Appointment during the year
Andrew Bonfield was appointed to the Board on the recommendation of the Nominations Committee, which deemed him to be the most suitable candidate. The selection process undertaken in relation to this appointment was formal and rigorous with due regard to diversity, skills, experience and other time commitments. External recruitment consultants were engaged to ensure the widest possible candidate pool.

Examples of other matters the Committee considered during the year include:

- the size of the Board, its structure and composition;
- aspects of the performance evaluation process, see pages 82 and 83 for details;
- ongoing succession planning for Board members and senior management; and
- development plans for senior management, as proposed by the Chief Executive and global human resources director.

"Succession planning ensures the Company continues to be managed by people with the necessary skills, experience and knowledge and that the Board itself has the right balance of skills and experience to be able to perform its duties effectively. With the renewed focus on Board gender diversity, the Committee will continue to review Board succession aiming to ensure that, following the Davies Review, we can meet our aspirational goals."

Sir John Parker

Remuneration Committee

John Allan
Committee chairman

Review of the year
Examples of matters the Committee considered during the year include:

- impact of the rights issue on the employee share plans, including on the earnings per share performance condition in the Performance Share Plan;
- salary review proposals and performance objectives;
- compensation and benefit arrangements for departing and new Executive Directors;
- market trends in remuneration and benchmarking of individual roles;
- long-term ill health benefits within the defined contribution section of The National Grid UK Pension Scheme; and
- impact of UK income tax relief changes on pensions.

See Directors' Remuneration Report on pages 96 to 108 for further details on remuneration and remuneration policy, including Directors' interests in shares and in options to receive shares, and any changes that have occurred since 31 March 2011.

"Remuneration at Board and senior management level has again been firmly in the public eye over the last year. The Committee acknowledges that there is considerable focus on this topic and that decisions it makes must be fully justifiable. We have continued to consider the interests of shareholders, customers, regulators and other stakeholders as appropriate, which has been illustrated by the consultation with major shareholders in respect of the new Long Term Performance Plan."

John Allan

Risk & Responsibility Committee

Stephen Pettit
Committee chairman

Review of the year
Examples of matters the Committee considered during the year include:

- serious incident and near miss reports, such as an electric arc flash incident at a US substation, noting root causes and associated learning;
- climate change strategy, performance against targets and the challenges related to Scope III emissions;
- safety, health and environment audit plans and findings from such audits;
- progress toward embedding a security culture and actions being taken to improve digital and asset security;
- changes in the non-financial risk profile of the Company; and
- findings from the new external safety advisor and subsequent response from management.

"We undertook a number of site visits during the year starting with a tour of a US LNG site, which focused on process safety. We also went to a London electricity substation, where we gained a greater understanding of the issues associated with the failure of certain types of transformer and the actions being taken to manage them. Later in the year, we visited a Gas Distribution training centre in the UK, where we observed the work under way to increase our level of performance in the field. During all these visits, we were impressed by the commitment of everyone we met to safety – of themselves, their colleagues and the public."

Stephen Pettit

Audit Committee

George Rose
Committee chairman

Experience
As required, the Board has determined that George Rose, finance director of BAE Systems plc until 31 March this year, has recent and relevant financial experience and is a suitably qualified financial expert.

Review of the year
Examples of matters the Committee considered during the year include:

- developments in the US finance environment including recruitment to strengthen capabilities;
- accounting for goodwill, including an outline of the approach adopted for goodwill impairment testing;
- implications of the Bribery Act 2010, including a review of policies and procedures to ensure adequate controls are in place;
- the risk management process in Transmission, noting the principal risks; and
- the rights issue, including the transaction structure and the external auditors' review of working capital projections.

"The role and responsibilities of audit committees have come under continued scrutiny. During the year, the bodies responsible for oversight of financial reporting, both in the UK and internationally, have consulted on initiatives to improve the accountability and transparency of companies' reporting. We have observed closely and participated in these processes and aim to be at the forefront of transparent financial reporting. The Committee will continue to consider best practice reporting to stakeholders as an integral part of its business."

George Rose

Corporate Governance continued

Audit Committee

The Audit Committee, in accordance with the authority delegated to it by the Board, together with the Risk & Responsibility Committee, supports the Board with oversight of the risks facing the Company. It has primary responsibility for consideration of the transparency of reporting of financial performance of the Company to its stakeholders.

Regular updates are provided by management where issues are ongoing, as was the case with the Ofgem investigation into the inaccurate reporting of the gas mains replacement data and is currently the case with the review of the allocation of expenses in the US. Management is also required to demonstrate how the lessons learned from certain events have been implemented, including changes to systems and processes, in order to provide satisfactory assurance to the Committee, the Board and other stakeholders.

Financial reporting

The Audit Committee is responsible for reviewing the Company's results statements, interim management statements, Performance Summary and Annual Report and Accounts before publication, and making appropriate recommendations to the Board following review. The financial information in such documents, including in particular the consolidated accounts, is prepared and reviewed by experienced accountants in a specialist financial control team. When considering the financial information to be published, the director of investor relations attends the Audit Committee meeting and provides it with the opportunity to review particular drafting and content. In addition, the Committee also reviews reports of, and discusses any issues raised by, the disclosure committee (see below for more information).

Accounting policies are reviewed in the context of international accounting developments and regular reports are provided to the Committee on topical financial reporting matters from management and the external auditors. The Committee also considers best practice in light of the Company's operations and business environment. If there is scope under the accounting regulations for assumptions or judgements, the Committee is informed of management's suggested position in reporting financial performance and the views of the external auditors are also considered.

Disclosure committee

The role of the Company's disclosure committee is to assist the Chief Executive and the Finance Director in fulfilling their responsibility for oversight of the accuracy and timeliness of the disclosures made by the Company whether in connection with its financial reporting obligations or other material stock exchange announcements and presentations to analysts. It is chaired by the Finance Director and its members are the Company Secretary & General Counsel, the global director of tax and treasury, the financial controller, the director of investor relations, the director of corporate audit and the corporate counsel together with such other attendees as may be appropriate.

Accordingly, during the year the committee reviewed the process and controls over external disclosures and key documents before their release including the Annual Report and Accounts, the preliminary and half year results statements and the interim management statements, as well as the changes in Executive Directors and Company reorganisation. Additionally, the committee considered the announcement for the rights issue, as well as the financial information contained in the rights issue prospectus and the presentations made by the Chief Executive and the Finance Director on the day of announcement.

Confidential reporting procedures and whistleblowing

Any employee may, via National Grid's confidential helplines (one of which is run internally and one by an independent third party), raise concerns relating to potential fraud, health and safety, harassment, discrimination, security or any other matter. Such concerns can be raised anonymously if the employee wishes and employees are protected from any retaliation. The Company also ensures that a proportionate and independent investigation is undertaken in each case with disciplinary or other follow up action being taken as appropriate.

The Audit Committee reviews at least annually the procedures for the receipt, retention and treatment of complaints received to ensure that all concerns raised by employees are treated confidentially and are investigated and reported appropriately. Matters relating to business conduct and other relevant subjects within the Risk & Responsibility Committee's terms of reference are reported to the Audit Committee as appropriate.

All instances of alleged fraud, irrespective of the amounts involved, and actions taken as a result of fraud investigations, including consequential amendments to processes by management, are considered and reviewed by the Audit Committee.

Internal (corporate) audit

The Committee is responsible for monitoring and reviewing the effectiveness of internal audit activities. This includes discussions with the director of corporate audit without management present on the remit of the internal audit function and issues arising from its activities.

The appointment and removal of the director of corporate audit is subject to the approval of the Committee and that person is accountable to the Committee and works closely with it. The Committee receives, reviews and approves the corporate audit charter, the plan for the upcoming year's activities and ensures that the corporate audit function has sufficient resources to carry out its work effectively. The internal auditors provide regular reports on key control issues and significant control findings and management's response to such matters.

External audit

The Committee is responsible for making recommendations to the Board on the appointment, reappointment and fees of the external auditors, which are then subject to shareholder approval each year at the AGM. The lead partner from the external auditors and other senior representatives are invited to attend meetings to provide additional information to aid the Committee's discussions. Additionally, meetings of the Committee without management present are held at least annually so that the external auditors have the opportunity to raise any matters in confidence.

Auditor independence and objectivity

Safeguards are in place to eliminate, or reduce to an acceptable level, any threat to objectivity and independence in the conduct of the audit resulting from the provision of non-audit services by the external auditors, with this work being subject to prior approval by the Audit Committee. The engagement of the external auditors for non-audit services is also restricted by the Sarbanes-Oxley Act 2002, which prohibits them from providing certain services. Where a service is permissible, the Company's policy is that the external auditors will not be used for non statutory audit work unless it can be demonstrated as part of the approval process the engagement will not compromise independence, is a natural extension of their audit work or there are other overriding reasons that make them the most suitably qualified to undertake it. The non-audit services in the year ended 31 March 2011 related primarily to work in connection with the rights issue and tax advice. Approval was given for the provision of non-audit services by the external auditors where the services were legally required to be provided, as in the case of the rights issue, were otherwise closely related to the statutory audit, or where the Audit Committee was satisfied that the external auditors were able to provide better value for money or had specialist knowledge not available from other providers. Details of the fees paid to the external auditors for non-audit work carried out during the year can be found in note 2(e) to the consolidated financial statements on page 128.

An annual review is conducted by the Committee of the level and constitution of external audit and non-audit fees and the independence and objectivity of the external auditors, including an evaluation of the external audit process globally, incorporating a review of the expertise of the audit firm and our relationship with them.

Following the latest annual review, the Committee is satisfied with the effectiveness, objectivity and independence of the external auditors, who have been engaged since the merger with Lattice Group plc in 2002, and they will be recommended to shareholders for reappointment at the AGM. There are no contractual obligations restricting the Company's choice of external auditors and no auditor liability agreement has been entered into by the Company. The external auditors are required to rotate the audit partner responsible for the Company every five years and a new partner was appointed during the year.

In addition to the annual review of the service provided by the external auditors, the Committee considers formally at least every three years whether the audit might be provided more efficiently or effectively by an alternative audit firm. However, the Company may put the audit out to tender at any time.

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.

Internal control, risk and compliance

The Audit Committee regularly considers the effectiveness of the Company's financial reporting, internal controls and compliance with applicable legal requirements. The Committee monitors risk and compliance management procedures across the Company and reviewed specific risks during the year, details of which can be found below and on pages 91 to 93.

The Committee also receives reports from the business separation compliance officer via the compliance committees as required under National Grid Gas plc's gas transporter licences. The Committee oversees the business separation compliance officer's role in ensuring that no unfair commercial advantage is conferred by the UK regulated gas transportation businesses on any National Grid business. Robust systems are in place to prevent this and the business separation compliance officer monitors the situation and reports his findings to the Committee.

The Committee reviews the Company's systems for risk identification, how the risks are graded and what methods are employed to mitigate those risks. During the year, the Committee also received regular updates on the status of the risks and any changes, including lessons learned from other companies and industries and the Bribery Act 2010.

As with the risk management process, the Audit Committee also reviews the compliance management process at least once a year and reports on this to the Board. The compliance management process also contributes toward the entity level testing that is performed under the Sarbanes-Oxley Act 2002, as well as some of the Company's other internal assurance activities.

Risk management and internal control

The Board is committed to the long-term success of the Company and the protection of the value of our reputation and assets. The Board ensures that the Company maintains a sound system of internal control in order to safeguard the interests of our shareholders. An effective system of operational and financial controls, including the maintenance of qualitative financial records, is an important element of internal control.

In order to understand the risks and potential control issues facing the Company, the following sections as well as pages 36 and 37 in the Operating and Financial Review should be considered. The system of internal control, and in particular the risk management policy, has been designed to manage rather than eliminate material risks to the achievement of our strategic and business objectives while also recognising that any such process can provide only reasonable, and not absolute, assurance against material misstatement or loss. This process complies with the Turnbull working party guidance, revised October 2005, and additionally contributes to our compliance with the obligations under the Sarbanes-Oxley Act 2002 and other internal assurance activities.

Framework

In accordance with the Code and the schedule of matters reserved to the Board, the Board retains overall responsibility for the Company's system of internal control and monitoring its effectiveness. There is an established system of internal control throughout the Company and its businesses. This system is based on thorough and systematic processes for the identification and assessment of business critical risks and their management and monitoring over time. In depth reports are provided from both line managers and certain internal assurance providers such as corporate audit and risk and compliance. These reports are provided to the Board Committees in relation to their specific areas of responsibility. The Committees then, in turn, provide reports to the Board.

Review

The Board reviews the internal control process, including around financial reporting, and its effectiveness on an annual basis to ensure it remains robust and to identify any control weaknesses. The latest review covered the financial year to 31 March 2011 and included the period to the approval of this Annual Report and Accounts.

This review includes:

- the receipt of a Letter of Assurance from the Chief Executive, which consolidates key matters of interest raised through the year-end assurance process;
- assurance from its Committees as appropriate, with particular reference to the reports received from the Audit Committee and Risk & Responsibility Committee on the reviews undertaken at their respective meetings; and
- assurances in relation to the certifications required under the Sarbanes-Oxley Act 2002 as a result of the Company's NYSE listing.

Corporate Governance continued

Risk management

Our risk management programme is designed to protect value and enhance performance by building vigilance, agility and resilience into our management process. We continue to have a well established, enterprise wide risk management process that ensures our business leaders look to the future to identify risks to our strategic plan. Once identified, the process ensures that risks are assessed against a uniform set of criteria, continuously managed and regularly reported in a visible and structured manner. We rely on the output of this process both to inform management decisions and to provide assurance to management and the Board, thus helping to safeguard our assets and reputation.

The risk management process is based on comprehensive bottom-up and top-down assessments of a wide range of risks, which typically include operational (including safety and reliability), financial, strategic and project. All businesses and the corporate and global functions that support them, prepare and maintain risk registers that capture their key risks and the actions being taken to manage them. Executive Directors and other senior management review, challenge and debate these bottom-up results, thereby producing an overall evaluation of the risks facing the Company. The Executive, Audit and Risk & Responsibility Committees review the risk profile and any changes to it in accordance with their terms of reference, and the Audit Committee reviews the overall risk management process.

The risk management process is subject to regular review. In the last year, a comprehensive assessment of the process has been undertaken and we are currently implementing a number of enhancements. A closer alignment with the activities of the corporate strategy, corporate audit and Sarbanes-Oxley compliance functions has been achieved as a result. Additionally, new analytical tools that support the strategic planning process have been developed, together with a risk based process to better evaluate the safety risks associated with key facilities, such as electricity generation plants, LNG facilities and compressor stations. Also in progress is the implementation of a state of the art governance risk and compliance system that will improve our ability to link risks, automate risk metrics and capture a full range of assurance data.

Compliance management

Our enterprise wide compliance management process is comprehensive, well established and continues to provide visibility on performance against key internal and external obligations. The process provides assurance to senior management on the effectiveness of control frameworks to manage key internal and external obligations and also highlights any instances of significant non compliance with those obligations. Our external obligations are driven primarily by key legal and regulatory requirements, whereas our internal obligations focus on compliance with the Company's own corporate policies and procedures.

In examining a business area's compliance performance, we look for any actual or potential instances of non compliance and consult with other assurance providers such as internal and external auditors, and frequently review the effectiveness of communications and training programmes. Before issuing an opinion on an area's compliance control framework, we obtain the views of experts in the field such as internal safety and environmental experts.

The compliance management process is consistent with, and complementary to, our risk management process and provides, among other things, a more detailed breakdown of the risk of non compliance with laws, regulations, standards of service, corporate policies and procedures.

The Executive, Risk & Responsibility and Audit Committees each receive a report twice a year setting out the key internal and external compliance obligations across the Company and any significant non compliance with those obligations, together with compliance opinions and action plans to improve controls where necessary.

Internal control

Internal control – information assurance

The Board considers that it is imperative to have accurate and reliable information within the Company to enable informed decisions to be taken that further the Company's objectives. Key elements in managing information assurance risks include education, training and awareness.

These initiatives emphasise the importance of information security, the quality of data collection and the affirmation process that supports our business transactions, evidencing our decisions and actions. All communication channels, including training for our newly revised Doing the Right Thing, make it clear that the accurate and honest reporting of data must never be compromised. These initiatives are supported by the Letter of Assurance process in which managers affirm, among other things, that they have control frameworks in place to ensure data is reported accurately.

The Company continues to work collaboratively with a variety of organisations and professional bodies to develop and implement best practice, examples being the Institute of Business Ethics in the UK and the Ethics and Compliance Officer Association in the US.

Internal control over financial reporting – Sarbanes-Oxley

National Grid has carried out an assessment of its internal control over consolidated financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act 2002 and the Disclosure and Transparency Rules. The management of the Company, which is responsible under the Sarbanes-Oxley Act 2002 for establishing and maintaining an adequate system of internal control over consolidated financial reporting, evaluated the effectiveness of that system using the Committee of Sponsoring Organizations of the Treadway Commission framework. Based on that evaluation, the management of the Company expects to conclude in its Annual Report on Form 20-F filing with the US Securities and Exchange Commission that the system of internal control over consolidated financial reporting was effective as at 31 March 2011.

Risk factors

Our risk management process has identified the following risk factors that could have a material adverse effect on our business, financial condition, results of operations and reputation, as well as the value and liquidity of our securities. Not all of these factors are within our control. Any investment decision regarding our securities and any forward-looking statements made by us should be considered in the light of these risk factors and the cautionary statement set out on the back cover.

Changes in law or regulation and decisions by governmental bodies or regulators

Many of our businesses are utilities or networks that are subject to regulation by governments and other authorities.

Changes in law or regulation or regulatory policy and precedent in the countries or states in which we operate (including the new RIIO approach in the UK) could materially adversely affect us. Decisions or rulings concerning, for example:

- whether licences, approvals or agreements to operate or supply are granted or are renewed or whether there has been any breach of the terms of a licence, approval or regulatory requirement; and
- timely recovery of incurred expenditure or obligations, the ability to pass through commodity costs, a decoupling of energy usage and revenue and other decisions relating to the impact of general economic conditions on us, our markets and customers, implications of climate change, remuneration for stranded assets, the level of permitted revenues and dividend distributions for our businesses and in relation to proposed business development activities,

could have a material adverse impact on our results of operations, cash flows, the financial condition of our businesses and the ability to develop those businesses in the future.

For further information, see the Operating and Financial Review and, in particular, the operating environment section.

Potentially harmful activities, the environment and climate change

Aspects of our activities are potentially dangerous and could potentially harm members of the public and our employees, such as the operation and maintenance of electricity generation facilities and electricity lines and the transmission and distribution of gas. We are subject to laws and regulations in the UK and US governing health and safety matters protecting the public and our employees. Electricity and gas utilities also typically use and generate in their operations hazardous and potentially hazardous products and by-products. In addition, there may be other aspects of our operations that are not currently regarded or proved to have adverse effects but could become so, such as the effects of electric and magnetic fields.

We are subject to laws and regulations relating to pollution, the protection of the environment, and the use and disposal of hazardous substances and waste materials. These expose us to costs and liabilities relating to our operations and our properties whether current, including those inherited from predecessor bodies, or formerly owned by us and sites used for the disposal of our waste. The cost of future environmental remediation obligations is often inherently difficult to estimate and uncertainties can include the extent of contamination, the appropriate corrective actions and our share of the liability. We are increasingly subject to regulation in relation to climate change and are affected by requirements to reduce our own carbon emissions as well as reduction in energy use by our customers.

We commit significant expenditure toward complying with these laws and regulations and to meeting our obligations under negotiated settlements. If additional requirements are imposed, or our ability to recover these costs under regulatory frameworks changes, this could have a material adverse impact on our businesses, results of operations and financial position. Furthermore, any breach of our regulatory or contractual obligations, or our climate change targets, or even incidents that do not amount to a breach, could materially adversely affect our results of operations and our reputation.

For further information about environmental, climate change and health and safety matters relating to our businesses, see the Corporate responsibility section of our website at www.nationalgrid.com.

Network failure or interruption, the inability to carry out critical non network operations and damage to infrastructure

We may suffer a major network failure or interruption or may not be able to carry out critical non network operations. Operational performance could be materially adversely affected by a failure to maintain the health of the system or network, inadequate forecasting of demand, inadequate record keeping or control of data or failure of information systems and supporting technology. This could cause us to fail to meet agreed standards of service or incentive and reliability targets or be in breach of a licence, approval, regulatory requirement or contractual obligation, and even incidents that do not amount to a breach could result in adverse regulatory and financial consequences, as well as harming our reputation.

In addition to these risks, we may be affected by other potential events that are largely outside our control such as the impact of weather (including as a result of climate change), unlawful or unintentional acts of third parties, insufficient supply or force majeure. Weather conditions, including prolonged periods of adverse weather, can affect financial performance and severe weather that causes outages or damages infrastructure will materially adversely affect operational and potentially business performance and our reputation. Malicious attack, sabotage or other intentional acts may also damage our assets or affect corporate activities and as a consequence have a material adverse impact on our results of operations and financial condition. Even where we establish business continuity controls, these may not be sufficient.

Corporate Governance continued

Business performance	Earnings maintenance and growth from our regulated businesses will be affected by our ability to meet or exceed efficiency and integration targets and service quality standards set by, or agreed with, our regulators. In addition, from time to time, we publish cost and efficiency savings targets for our businesses. If we are to meet these targets and standards, perform well against our peers, meet the expectations of our stakeholders and deliver our business plan, we must continue to improve operational performance, service reliability and customer service and continue to invest in our infrastructure and the development of our information technology. We are also restructuring our organisation and carrying out other major internal transformation projects. If we do not meet these targets and standards, deliver our business plan or implement the restructuring or transformation projects as envisaged, we may not achieve the expected benefits, our business may be materially adversely affected and our performance, results of operations and reputation may be materially harmed.
Exchange rates, interest rates and commodity price indices	We have significant operations in the US and we are therefore subject to the exchange rate risks normally associated with non domestic operations, including the need to translate US assets and liabilities, and income and expenses, into sterling, our primary reporting currency. In addition, our results of operations and net debt position may be affected because a significant proportion of our borrowings, derivative financial instruments and commodity contracts are affected by changes in exchange rates, interest rates and commodity price indices, in particular the dollar to sterling exchange rate. Furthermore, our cash flow may be materially affected as a result of settling hedging arrangements entered into to manage our exchange rate, commodity and interest rate exposure, or by cash collateral movements relating to derivative market values, which also depend on euro and other exchange rates. For further information see the financial performance section of the Operating and Financial Review.
Borrowing and debt arrangements, funding costs, tax, access to financing and holding company	Our business is financed through cash generated from ongoing operations, bank lending facilities and the capital markets, particularly the long-term debt capital markets. Some of the debt we issue is rated by credit rating agencies and changes to these ratings may affect both our borrowing capacity and the cost of those borrowings. In addition, restrictions imposed by regulators may limit the manner in which we service the financial requirements of our current businesses or the financing of newly acquired or developing businesses. The effective rate of tax we pay may be influenced by a number of factors including changes in law and accounting standards, the results of which could increase that rate and therefore have a material adverse impact on our results of operations. Financial markets can be subject to periods of volatility and shortages of liquidity and, if we were unable to access the capital markets or other sources of finance at competitive rates for a prolonged period, our cost of financing may increase, the uncommitted and discretionary elements of our proposed capital investment programme may need to be reconsidered and the manner in which we implement our strategy may need to be reassessed. The occurrence of any such events could have a material adverse impact on our business, results of operations and prospects. In addition, National Grid plc is a holding company and, as such, has no revenue generating operations of its own. As a result, National Grid plc depends on (i) the earnings and cash flows of its operating subsidiaries, (ii) the ability of its subsidiaries to pay dividends (which may be restricted due to legal or regulatory constraints or otherwise), (iii) subsidiaries repaying funds due to it and (iv) the maintenance by its subsidiaries of certain minimum credit ratings (which also depend on the credit rating of National Grid plc). If National Grid plc's subsidiaries are unable to achieve any of the foregoing, National Grid plc may be unable to pay dividends and there may be a material adverse impact on its operations, costs associated with financing or its ability to access the capital markets or other forms of bank financing at competitive rates.
Inflation	Our income under our price controls in the UK is linked to the retail price index. During a period of inflation our operating costs may increase without a corresponding increase in the retail price index and therefore without a corresponding increase in UK revenues. Our income under the rate plans in the US is not typically linked to inflation. In periods of inflation in the US, our operating costs may increase by more than our revenues. In both the UK and US such increased costs may materially adversely affect our results of operations.
Business development activity	Business development activities, including acquisitions and disposals, entail a number of risks, including an inability to identify suitable acquisition opportunities or obtain funding for such acquisitions, that such transactions may be based on incorrect assumptions or conclusions, the inability to integrate acquired businesses effectively with our existing operations, failure to realise planned levels of synergy and efficiency savings from acquisitions, unanticipated operational, financial and tax impacts (including unanticipated costs) and other unanticipated effects. We may also be liable for the past acts, omissions or liabilities of companies or businesses we have acquired, which may be unforeseen or greater than anticipated at the time of the relevant acquisition. The occurrence of any of these events could have a material adverse impact on our results of operations or financial condition, and could also impact our ability to enter into other transactions.

Funding of our pension schemes and other post-retirement benefits	We participate in a number of pension schemes that together cover substantially all our employees. In both the UK and US, the principal schemes are defined benefit schemes where the scheme assets are held independently of our own financial resources. In the US, we also have other post-retirement benefit schemes. Estimates of the amount and timing of future funding for these schemes are based on actuarial assumptions and other factors including the actual and projected market performance of the scheme assets, future long-term bond yields, average life expectancies and relevant legal requirements. The impact of these assumptions and other factors may require us to make additional contributions to these pension schemes which, to the extent they are not recoverable under our price controls or state rate plans, could materially adversely affect our results of operations and financial condition.
Customers and counterparty risk	Our operations are exposed to the risk that customers and counterparties to our transactions that owe us money or commodities will not perform their obligations, which could materially adversely affect our financial position. This risk is most significant where our subsidiaries have concentrations of receivables from gas and electricity utilities and their affiliates, as well as industrial customers and other purchasers and may also arise where customers are unable to pay us as a result of increasing commodity prices or adverse economic conditions. A substantial portion of our US electricity distribution and generation business's revenues are derived from a series of agreements with the Long Island Power Authority (LIPA) pursuant to which we manage LIPA's transmission and distribution system and supply the majority of LIPA's generating capacity. These agreements are largely scheduled to expire in 2013. If these agreements are not renewed, our income may be reduced and we may suffer stranded costs, for which we may not be remunerated.
Employees and others	Our ability to implement our long-term business strategy depends on the capabilities and performance of our personnel. Loss of key personnel or an inability to attract, train or retain appropriately qualified personnel (in particular for technical positions where availability of appropriately qualified personnel may be limited), or if significant disputes arise with our employees, our ability to implement our long-term business strategy may be affected and there may be a material adverse effect on our business, financial condition, results of operations and prospects. There is a risk that an employee or someone acting on our behalf commits a breach of anti-bribery legislation or otherwise commits a breach of our internal controls or internal governance framework. This could impact our results of operations, our reputation and our relationship with our regulators and other stakeholders.
Seasonal fluctuations	Our electricity and gas businesses are seasonal businesses and are subject to weather conditions. In particular, revenues from our gas distribution networks in the US are weighted towards the end of our financial year, when demand for gas increases due to colder weather conditions. As a result, we are subject to seasonal variations in working capital because we purchase gas supplies for storage in the first half of our financial year and must finance these purchases. Accordingly, our results of operations for this business fluctuate substantially on a seasonal basis. In addition, portions of our electricity businesses are seasonal and subject to weather and weather related market conditions. Sales of electricity to customers are influenced by temperature changes. Significant changes in heating or cooling requirements, for example, could have a substantial effect. As a result, fluctuations in weather and competitive supply between years may have a significant effect on our results of operations for both gas and electricity businesses.

Corporate Governance continued

Shareholder and share capital information

Shareholders

Our aim is to ensure the appropriate value of our business is fully reflected in our share price and that capital markets have up-to-date information on which to base their decisions.

The Company considers it has an effective and open process of engagement with all shareholders through its regular communications, the AGM and other investor relations activities.

In line with established best practice and in support of The UK Stewardship Code for institutional investors, the Board has responsibility for ensuring effective communication takes place with all shareholders and it considers carefully major announcements to the market. Relations with shareholders are managed mainly by the Chief Executive, Finance Director and director of investor relations. Meetings are held regularly throughout the year with institutional investors, fund managers and analysts to discuss the public disclosures and announcements made by the Company.

The Chairman also writes to major shareholders following the announcement of the Company's preliminary and half year results to offer them the opportunity to meet with him, the Senior Independent Director or any of the other Non-executive Directors. This enables major shareholders to take up with these individuals any issue they feel unable to raise with members of the Executive team.

The Board receives feedback from the Company's brokers and the director of investor relations to ensure that they are aware of and understand the views of our shareholders. An independent audit of investor sentiment is also undertaken on a periodic basis and presented to the Board in full. In addition, analysts' notes on the Company are also circulated regularly to Directors for their information.

During the year we conducted over 250 investor meetings in the UK and Europe and 220 investor meetings in the US, maintaining a presence at five UK and European conferences and at 10 North American conferences. We presented to 16 broker sales teams and held three web based presentations, covering UK and US regulation and the Company reorganisation. We also presented to debt investors in the major European financial centres, as well as across the US.

Following the appointment of Andrew Bonfield, a number of meetings were arranged, either as part of established roadshows or separately, to introduce him to major shareholders and analysts.

Issues relevant to our smaller shareholders are also considered by the Board. During the year ended 31 March 2011, the Company offered initiatives such as duplicate account amalgamation, a low cost share dealing service for sales and purchases, the shareholder networking programme and cost reduction of calls to Capita Registrars.

Shareholder networking

The shareholder networking programme, which is normally run twice a year with each event over two days, includes visits to UK operational sites and presentations by senior managers and employees. The costs of the programme (including shareholder travel to and from the event) are paid for by the Company. Open to UK resident shareholders, participation is by application and selection by ballot, with priority given to those who have not recently attended.

If you would like to take part please apply online at www.nationalgrid.com/corporate/Investor+Relations/ShareholderServices/ShareholderNetworking/. There is also the opportunity to apply in person at the AGM. Only those successful in the ballot will be contacted.

Annual General Meeting

National Grid's 2011 AGM will be held on Monday 25 July 2011 at The International Convention Centre in Birmingham. Details are set out in the Notice of AGM.

Share capital

The share capital of the Company consists of ordinary shares of $11\frac{17}{43}$ pence nominal value each and American Depositary Shares (ADSs) only. The ordinary shares and ADSs allow holders to receive dividends and vote at general meetings of the Company. Shares held in treasury do not attract a vote or dividends. There are no restrictions on the transfer or sale of ordinary shares.

Some of the Company's employee share plans, details of which are contained in the Directors' Remuneration Report, include restrictions on transfer of shares while the shares are subject to the plan.

Where, under an employee share plan operated by the Company, participants are the beneficial owners of the shares but not the registered owner, the voting rights may be exercised by the registered owner at the direction of the participant.

A number of our share plans have been reviewed this year. The all-employee share plans, namely the Sharesave Plan, Share Incentive Plan and Employee Stock Purchase Plan, are subject to shareholder approval or reapproval under corporate governance guidelines with minor, administrative changes being suggested. With respect to the Performance Share Plan, the long term incentive plan for the most senior employees, all aspects of the plan have been reviewed and a replacement plan, the Long Term Performance Plan, is to be presented for approval by shareholders at this year's AGM.

Further details of the operation of this new plan and changes to the other plans can be found in the Directors' Remuneration Report. Resolutions regarding the reapproval of the plan rules for the Share Incentive Plan and Employee Stock Purchase Plan and the approval of the plan rules for the Sharesave Plan and the new Long Term Performance Plan are set out in the Notice of AGM.

At the Company's 2010 AGM, shareholder authority was given to purchase up to 10% of the Company's ordinary shares. The Directors intend to seek shareholder approval to renew this authority at this year's AGM. No shares were repurchased during the year. Of the shares repurchased in prior years and held in treasury, 3,951,389 have been transferred to employees under the employee share plans and, as at the date of this report, 137,141,164 were held in treasury.

Shareholders also approved the authority for the Directors to allot relevant securities up to approximately one third of the issued share capital and a further third in connection with an offer by way of a rights issue. The Directors intend to seek shareholder approval to renew this authority at this year's AGM, details of which are contained in the Notice of AGM.

The Directors consider it desirable to have the maximum flexibility permitted by investor guidelines to respond to market developments. No issue of shares will be made which would effectively alter control of the Company without the sanction of shareholders in general meeting. Each authority will be subject to renewal annually.

The Directors currently have no intention of issuing new shares, or of granting rights to subscribe for or to convert any security into shares, except in relation to the Company's Scrip Dividend Scheme and in connection with the exercise of options under the Company's share schemes.

Dividends

The Company normally pays dividends twice each year, in accordance with the timetable set out on page 188. We encourage shareholders to elect to have their dividends paid directly into their bank or building society account. As well as being convenient for the shareholder, as the dividend will normally reach their account on the day of payment, there will be no delays from paying in or losing cheques.

Shareholders can elect to acquire further National Grid ordinary shares without payment of dealing charges or stamp duty reserve tax through the Scrip Dividend Scheme. Details and an application form are available from Capita Registrars for ordinary shareholders, or from Bank of New York Mellon for ADS holders, contact information is set out on the back cover. Ordinary shareholders can also elect to participate in the Scrip Dividend Scheme at www.nationalgridshareholders.com.

The Directors are recommending a final dividend of 23.47 pence per ordinary share ($1.9005 per ADS) to be paid on 17 August 2011 to shareholders on the register at 3 June 2011. Further details in respect of dividend payments can be found on pages 55 and 56.

Shareholdings

Shareholder analysis

The following table includes a brief analysis of shareholder numbers and shareholdings as at 31 March 2011:

1–50	190,832	17.3231	5,656,922	0.1551
51–100	309,117	28.0606	21,879,729	0.5997
101–500	475,163	43.1337	98,764,846	2.7071
501–1,000	62,591	5.6818	43,761,154	1.1995
1,001–10,000	60,728	5.5127	148,499,028	4.0703
10,001–50,000	2,095	0.1902	37,952,684	1.0403
50,001–100,000	204	0.0185	14,789,851	0.4054
100,001–500,000	424	0.0385	101,943,724	2.7942
500,001–1,000,000	155	0.0140	114,266,975	3.1320
1,000,001+	296	0.0269	3,060,824,562	83.8964
Total	**1,101,605**	**100**	**3,648,339,475**	**100**

Material interests in shares

As at the date of this report, National Grid had been notified of the following holdings in voting rights of 3% or more in the issued share capital of the Company:

Black Rock Inc	5.21
Capital Group Companies, Inc	5.04
Crescent Holding GmbH	4.31
Legal and General Group plc	3.99

No further notifications have been received.

Share dealing, individual savings accounts (ISAs) and ShareGift

A share dealing service is available from Capita Registrars. For more information please call 0800 022 3374 or +44 203 367 2693 if calling from outside the UK or visit www.capitadeal.com/nationalgrid. Lines are open from 8am to 4.30pm Monday to Friday. High street banks may also offer share dealing services. Corporate ISAs for National Grid shares are available from Stocktrade. For more information, call Stocktrade on 0131 240 0443 or 0845 213 4443, email isa@stocktrade.co.uk or write to Stocktrade, 81 George Street, Edinburgh EH2 3ES.

If you hold only a few shares and feel that it is uneconomical or otherwise not worthwhile to sell them, you could consider donating your shares to charity. ShareGift is an independent registered charity (no. 1052686) that provides a free service for shareholders wishing to give holdings of shares to benefit charitable causes. For more information please visit www.sharegift.org or call Capita Registrars, see contact details on the back cover.

These details are provided for information only and any action you take is at your own risk. National Grid cannot advise you on what action, if any, you should take in respect of your shares. If you have any doubt as to the action you should take, you are recommended to seek your own financial advice from your stockbroker, bank manager, accountant or other independent financial advisor authorised pursuant to the Financial Services and Markets Act 2000.

Corporate governance practices: differences from New York Stock Exchange (NYSE) listing standards

As the Company has a US listing, it is required to disclose differences in corporate governance practices adopted by the Company as a UK listed company, compared with those of a US company. The corporate governance practices of the Company are primarily based on UK requirements but substantially conform to those required of US companies listed on the NYSE. The principal differences between the Company's governance practices pursuant to the Code and UK best practice and the Section 303A Corporate Governance Rules of the NYSE are:

- different tests of independence for Board members are applied under the Code and Section 303A;
- there is no requirement for a separate corporate governance committee in the UK; all Directors on the Board discuss and decide upon governance issues and the Nominations Committee makes recommendations to the Board with regard to certain of the responsibilities of a corporate governance committee;
- while the Company reports compliance with the Code in each Annual Report and Accounts, there is no requirement to adopt and disclose separate corporate governance guidelines; and
- while the Audit Committee, having a membership of four independent Non-executive Directors, exceeds the minimum membership requirements under Section 303A of three independent Non-executive Directors, it should be noted that the quorum for a meeting of the Audit Committee, of two independent Non-executive Directors, is less than the minimum membership requirements under Section 303A.

Directors' Remuneration Report

Review of the year by John Allan, Chairman of the Remuneration Committee

I am pleased to present the Directors' Remuneration Report for 2010/11. This year we have reviewed a number of our share plans, some purely on the basis they are subject to shareholder approval under corporate governance guidelines ie our all-employee share plans – the Sharesave Plan, Share Incentive Plan and Employee Stock Purchase Plan, where only minor, administrative changes have been made. With respect to the Performance Share Plan, the long-term incentive plan for our most senior employees, we have reviewed all aspects of the plan and a replacement plan, the Long Term Performance Plan, will be presented for approval by shareholders at this year's Annual General Meeting (AGM). While the changes to the long-term incentive are not major, we believe the introduction of a new measure (return on equity) provides a strong link with our key objectives. Details of the operation of this new plan are provided later in this report.

Our policy of relating pay to the performance of the Company continues to be a strong principle underlying the Remuneration Committee's consideration of executive remuneration. We aim to ensure the Company continues to attract, motivate and retain high calibre individuals to deliver the highest possible performance for our shareholders.

We firmly believe the mix of our remuneration package provides an appropriate and balanced opportunity for executives and their senior teams. Our incentive plans remain aligned with the Company's strategic objectives and our shareholders' interests, while continuing to motivate and engage the team leading the Company to achieve stretching targets.

Remuneration Committee

The Remuneration Committee members are John Allan, Ken Harvey, Stephen Pettit and George Rose. Each of these Non-executive Directors is regarded by the Board as independent and served throughout the year.

The Global Human Resources Director and Global Head of Compensation & Benefits provide advice on remuneration policies and practices and are usually invited to attend meetings, along with the Chairman and the Chief Executive.

No Director or other attendee is present during any discussion regarding his or her own remuneration.

The Remuneration Committee is responsible for developing Company policy regarding executive remuneration and for determining the remuneration of the Executive Directors and executives below Board level who report directly to the Chief Executive. It also has oversight of the remuneration policies for other employees of the Company and provides direction over the Company's employee share plans.

The Board has accepted all the recommendations made by the Remuneration Committee during the year.

The Remuneration Committee has authority to obtain the advice of external independent remuneration consultants. It is solely responsible for their appointment, retention and termination; and for approval of the basis of their fees and other terms.

In the year to 31 March 2011, the following advisors provided services to the Remuneration Committee:

- Towers Watson, independent remuneration advisors. It also provides general remuneration and benefits advice to the Company. In this respect, the Remuneration Committee is satisfied that any potential conflicts are appropriately managed. The Remuneration Committee has carefully reviewed the voluntary code of conduct in relation to executive consulting in the UK;
- Alithos Limited, provision of Total Shareholder Return calculations for the Performance Share Plan;
- Linklaters LLP, advice relating to Directors' service contracts as well as providing other legal advice to the Company; and
- KPMG LLP, advice relating to pension taxation legislation.

Remuneration policy

The Remuneration Committee determines remuneration policy and practices with the aim of attracting, motivating and retaining high calibre Executive Directors and other senior employees to deliver value for shareholders and high levels of customer service, safety and reliability in an efficient and responsible manner. The Remuneration Committee sets remuneration policies and practices in line with best practice in the markets in which the Company operates. Remuneration policies continue to be framed around the following key principles:

- total rewards should be set at levels that are competitive in the relevant market. For UK-based Executive Directors, the primary focus is placed on companies ranked (in terms of market capitalisation) 11-40 in the FTSE 100. This peer group is therefore weighted towards companies smaller than National Grid and positioning the package slightly below median against this group is considered to be appropriate for a large, international but predominately regulated business. For US-based Executive Directors, the primary focus is placed on US utility companies;
- a significant proportion of the Executive Directors' total reward should be performance based. Performance based incentives will be earned through the achievement of demanding targets for short-term business and individual performance as well as long-term shareholder value creation, consistent with our Framework for Responsible Business which can be found at: www.nationalgrid.com/corporate/About+Us/CorporateGovernance/Other;
- for higher levels of performance, rewards should be substantial but not excessive;
- incentive plans, performance measures and targets should be stretching and aligned as closely as possible with shareholders' long-term interests; and
- remuneration structures should motivate employees to enhance the Company's performance without encouraging them to take undue risks, whether financial or operational.

It is currently intended to continue this policy in subsequent years.

To ensure salary and employment benefits across the Company are taken into consideration when decisions regarding Executive Directors' remuneration are made, the Remuneration Committee is briefed on any key changes impacting employees; and depending on the scope of that change its approval is sought.

Executive Directors' remuneration

Remuneration packages for Executive Directors consist of the following elements:

- salary;
- Annual Performance Plan including the Deferred Share Plan;
- long-term incentive, the Performance Share Plan, to be replaced by the Long Term Performance Plan;
- all-employee share plans;
- pension contributions; and
- non-cash benefits.

Salary

Salaries are reviewed annually and targeted broadly at the median position against the relevant market. In determining the relevant market, the Remuneration Committee takes account of the regulated nature of the majority of the Company's operating activities along with the size, complexity and international scope of the business. For UK-based and US-based Executive Directors, UK and US markets are used respectively. In setting individual salary levels, the Remuneration Committee takes into account business performance, the individual's performance and experience in the role together with salary practices prevailing for other employees in the Company to ensure any increases are broadly in line with those for employees generally.

Annual Performance Plan including the Deferred Share Plan (DSP)

The Annual Performance Plan is based on the achievement of a combination of demanding Company, individual and, where applicable, divisional targets. The plan is cascaded through the management population, which provides a line of sight for employees to connect day to day activities with National Grid's vision, strategy and key financial and service provision metrics. The principal measures of Company performance in 2010/11 were adjusted earnings per share (EPS), see page 56 for further details, consolidated cash flow and regulated controllable costs. The main divisional measures were operating profit and line of business returns targets, with some employees having slightly different targets dependent upon their role and area of the business.

Financial targets for Executive Directors represent 70% of the plan. Individual targets, representing 30% of the plan, are set in relation to key operating and strategic objectives. These include, for example, stretch goals in regulatory management, business development activities, customer satisfaction improvement programmes and carbon efficiency targets. The split between financial targets and individual objectives changes at different levels of seniority in the Company to reflect line of sight and the impact of those different levels of seniority on the Company's performance.

The Remuneration Committee sets financial targets at the start of the year, including Executive Directors' individual objectives. It reviews performance against those targets and individual objectives at year end. When setting financial targets and individual objectives, and when reviewing performance against them, the Remuneration Committee takes into account the long-term impact and any risks that could be associated with those targets and objectives. In addition, the chairmen of the Audit and Risk & Responsibility Committees are both members of the Remuneration Committee and therefore are able to provide input from those Committees' reviews of the Company's performance.

The Remuneration Committee may use its discretion to reduce payments to take account of significant safety or service standard incidents; or to increase them in the event of exceptional value creation. The Remuneration Committee also has discretion to consider environmental, social and governance issues when determining payments to Executive Directors. Those principles may then be cascaded down the organisation to appropriate employee groups based on the specific circumstances.

In addition, the Remuneration Committee retains the right, in exceptional circumstances, to reclaim any monies based on financial misstatement and/or the misconduct of an individual through means deemed appropriate to those specific circumstances.

Directors' Remuneration Report continued

Performance against Company and divisional financial targets for this year is shown in the following table:

Financial measures	Level of performance achieved in 2010/11 as determined by the Remuneration Committee: Company targets	Divisional targets
Adjusted EPS	Between target and stretch	
Consolidated cash flow	Stretch	
Regulated controllable costs	Between target and stretch	
Operating profit		Varied performance (i), (ii)
Line of business returns targets		Varied performance (iii), (iv), (v)

(i) Transmission and Gas Distribution between target and stretch.
(ii) Electricity Distribution & Generation at stretch.
(iii) Transmission between target and stretch, UK and US.
(iv) Gas Distribution between threshold and target (UK), at stretch (US).
(v) Electricity Distribution & Generation at stretch (US only).

In 2010/11, the maximum opportunity under the Annual Performance Plan for Executive Directors was 150% of base salary, with 40% of the plan (60% of salary) being paid for target performance. One half of any award earned is automatically deferred into National Grid shares (ADSs for US-based Executive Directors) through the DSP. The shares are held in trust for three years before release. The Remuneration Committee may, at the time of release of the shares, use its discretion to pay a cash amount equivalent to the value of the dividends that would have accumulated on the deferred shares. The deferred shares may be forfeited if the Executive Director ceases employment during the three year holding period as a 'bad leaver', for example, resignation. We believe the forfeiture provision serves as a strong retention tool.

The Remuneration Committee believes that requiring Executive Directors to invest a substantial amount of their Annual Performance Plan award in National Grid shares increases the proportion of rewards linked to both short-term performance and longer-term Total Shareholder Return (TSR). This practice also ensures that Executive Directors share a significant level of risk with the Company's shareholders. Awards for UK-based Executive Directors are not pensionable but, in line with current US market practice, US-based Executive Directors' awards are pensionable.

Long-term incentive – Performance Share Plan (PSP) operated for awards between 2003 and 2010 inclusive

Executive Directors and approximately 400 other senior employees who have significant influence over the Company's ability to meet its strategic objectives, may receive an award which will vest subject to the achievement of performance conditions set by the Remuneration Committee at the date of grant. The value of shares (ADSs for US-based Executive Directors and relevant employees) constituting an award (as a percentage of salary) varies by grade and seniority subject to a maximum, for Executive Directors, of 200% of salary. Typically awards of 200% of salary have been awarded to Executive Directors. The provisions in the PSP rules allow awards up to a maximum value of 250% of salary.

Shares vest after three years, conditional upon the satisfaction of the relevant performance criteria. Vested shares must then be held for a further period (the retention period) after which they are released to the participant on the fourth anniversary of the date of grant. During the retention period, the Remuneration Committee has discretion to pay an amount, in cash or shares, equivalent to the dividend which would have been paid on the vested shares.

Awards vest based on the Company's TSR performance when compared to the FTSE 100 at the date of grant (50% of the award) and the annualised growth of the Company's EPS (50% of the award).

In calculating TSR it is assumed that all dividends are reinvested. No shares will be released under the TSR part of the award if the Company's TSR over the three year performance period, when ranked against that of the FTSE 100 comparator group, falls below the median. For TSR at the median, 30% of those shares will be released, 100% will be released where National Grid's TSR performance on an annualised compound basis is 7.5% above that of the median company in the FTSE 100 (upper target).

The EPS measure is calculated by reference to National Grid's real EPS growth, see page 56 for further details. Where annualised growth in adjusted EPS (on a continuing basis and excluding exceptional items, remeasurements and stranded costs) over the three year performance period exceeds the average annual increase in RPI (the general index of retail prices for all items) over the same period by 3% (threshold performance), 30% of the shares under the EPS part of the award will be released. All the shares will be released where EPS growth exceeds RPI growth by 8% (upper target).

Vested 2007 PSP award

The upper target for the EPS performance criteria was reached and vesting on a partial basis occurred for the TSR performance measure for the 2007 award. This resulted in vesting at 65.15% of the award. The shares then entered the retention period. The Remuneration Committee agreed to pay a cash amount equivalent in value to the net dividends (after taxes, commissions and any other charges) that would be paid during the retention period in respect of the shares comprised in the vested award. These payments were made in August 2010 and February 2011, to align broadly with dividend payments to our shareholders.

New long-term incentive – Long Term Performance Plan (LTPP)

This plan will replace the PSP effective from the 2011 award which will be made after the 2011 AGM, subject to shareholder approval. Further details of the LTPP can be found in the Notice of the 2011 AGM.

The plan will operate largely on the basis of the current PSP with respect to participants and their award levels, except the Remuneration Committee has decided the maximum award level for the Chief Executive will increase from 200% to 225% of salary, in order to further emphasise longer term performance related pay in his package. The provisions in the LTPP rules allow awards up to a maximum value of 250% of salary, as permissible under the current plan, in order to provide a degree of flexibility for the future.

Shares will vest (over three and four years) conditional upon the satisfaction of the relevant performance criteria. Awards will vest based on the annualised growth of the Company's EPS (50% of the award), the Company's TSR performance when compared to the FTSE 100 at the date of grant (25% of the award) and a return on equity (ROE) target measuring performance against allowed regulatory returns established through price control reviews in the UK and rate case settlements in the US (25% of the award).

The TSR and EPS targets will be measured over a three year performance period and ROE will be measured over four years. This will result in partial vesting after three years, subject to performance and the remainder relating purely to ROE after four years.

The Remuneration Committee is taking the opportunity to introduce ROE into the LTPP as return measures are established key performance indicators for our shareholders and regulators. Inclusion of returns in the plan will focus participants further on increasing efficiency and enhancing returns for shareholders over the longer term.

The ROE measure is derived from returns on pages 31 and 35. In the UK, this is based on electricity and gas Transmission returns and the Gas Distribution return. For the US, it is based on US electricity Transmission, Gas Distribution and Electricity Distribution & Generation by jurisdiction. The Chief Executive and Finance Director will be targeted on both the UK and US targets. For the UK and US-based operational Directors, they will be targeted on their respective UK or US targets.

The performance range for ROE will be measured as follows: threshold performance will be met where the allowed regulatory returns in the UK and -1% of the allowed regulatory returns in the US are achieved. The upper target will represent out-performance of regulatory returns by 2% UK and 1% US.

The Remuneration Committee believes the level of challenge for the performance ranges in the UK and the US are broadly similar, to provide stretch in both cases while at the same time being motivational for participants. The performance ranges reflect the different impacts of regulated incentives in the UK and US. The targets will be subject to review prior to any subsequent awards being made to ensure they remain appropriate and stretching.

The TSR and EPS targets will remain unchanged from those operated under the PSP, as detailed on page 98. However, the percentage of each element of the award that will vest for threshold performance will be reduced from 30% to 25%.

For performance, under each measure, between threshold and the upper target, the number of shares released is pro rated on a straight-line basis.

These measures will be used because the Remuneration Committee believes they offer a balance between meeting the needs of shareholders (by measuring TSR performance against other large UK companies) and providing a measure of performance (EPS growth and now ROE) over which the Executive Directors have direct influence.

In order to better align the interests of participants with those of shareholders, the rules of the LTPP allow the Remuneration Committee to determine that dividends accrue on the shares comprised in the award. The dividends will be released in shares when the award vests, if and to the extent that the performance criteria are achieved.

Common elements of the PSP and LTPP

The Remuneration Committee believes the overall mix of measures used in the plans are appropriate as they align with the Company's strategy. In addition, the LTPP will ensure continued focus on returns (particularly in the US) and shareholders' interests through the continued use of TSR and EPS.

No re-testing of performance is permitted for the awards that do not vest after the performance periods and any such awards lapse.

If the Remuneration Committee considers, in its absolute discretion, the underlying financial performance of the Company does not justify the vesting of awards, even if some or all of the performance measures are satisfied in whole or in part, it can declare that some or all of the award lapses.

In addition, the Remuneration Committee retains the right, in exceptional circumstances, to reclaim any monies based on financial misstatement and/or the misconduct of an individual through means deemed appropriate to those specific circumstances.

Under the terms of the plans, the Remuneration Committee may allow shares to vest early to departing participants, including Executive Directors, to the extent the performance conditions have been met, in which event the number of shares that vest will be pro rated to reflect the proportion of the performance period that has elapsed at the date of departure.

Recruitment promise – Special Retention Award (SRA)

As part of a contractual commitment made at the time of Tom King's recruitment, Tom received an SRA in November 2007. This one-off award of National Grid ADSs vested in equal tranches, over three years, on the anniversary of the award (November 2008 through to November 2010) and was subject to his continued employment. There were no performance conditions attached to this award. Details of the final tranche of vested ADSs can be found on page 106.

Share ownership guidelines

The Chief Executive is required to build up and retain a shareholding representing at least 200% of annual salary. For other Executive Directors, the requirement is 125% of salary. This will be achieved by retaining at least 50% of the after-tax gain on any options exercised or shares received through the long-term incentive or all-employee share plans and will include any shares held beneficially. Each of the Executive Directors has surpassed the respective share ownership guideline (except for Andrew Bonfield who is newly appointed).

Share dilution through the operation of share-based incentive plans

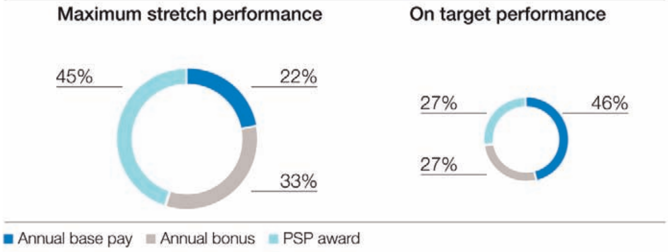
Where shares may be issued or treasury shares reissued to satisfy incentives, the aggregate dilution resulting from executive share-based incentives will not exceed 5% in any 10 year period. Dilution resulting from all incentives, including all-employee incentives, will not exceed 10% in any 10 year period. The Remuneration Committee reviews dilution against these limits regularly and under these limits, the Company currently has headroom of 4.00% and 7.14% respectively.

Directors' Remuneration Report continued

Executive Directors' remuneration package

Illustrated below is the current remuneration package for Executive Directors (excluding pensions, all-employee share plans and non-cash benefits) for both 'maximum stretch' performance and assuming 'on target' performance based on 40% (60% of salary) for the Annual Performance Plan; and TSR and EPS performance such that 30% (60% of salary) of PSP awards are released to participants at the end of the performance period and subsequent retention period. All Executive Directors have the same proportion of fixed and variable remuneration in this respect.

Executive Directors' remuneration package
2010/11 UK & US



Note: Excludes Tom King's SRA.

All-employee share plans

- Sharesave: Employees resident in the UK, including UK-based Executive Directors, are eligible to participate in HM Revenue & Customs approved all-employee Sharesave schemes. Under these schemes, participants may contribute between £5 and £250 in total each month, for a fixed period of three years, five years or both. Contributions are taken from net salary. At the end of the savings period, these contributions can be used to purchase ordinary shares in National Grid at a discount capped at 20% of the market price set at the launch of each scheme.
- Share Incentive Plan (SIP): Employees resident in the UK, including UK-based Executive Directors, are eligible to participate in the SIP. Contributions up to £125 are deducted from participants' gross salary and used to purchase ordinary shares in National Grid each month. The shares are placed in trust and if they are left in trust for at least five years, they can be removed free of UK income tax and National Insurance Contributions.
- US Incentive Thrift Plans: Employees of National Grid's US companies (including US-based Executive Directors) are eligible to participate in the Thrift Plans, which are tax-advantaged savings plans (commonly referred to as 401(k) plans). These are defined contribution pension plans that give participants the opportunity to invest up to applicable Federal salary limits ie for pre-tax contributions, a maximum of 50% of salary limited to $16,500 for those under the age of 50 and $22,000 for those over 50 for calendar years 2010 and 2011; for post-tax contributions, up to 15% of salary limited to the lesser of 100% of compensation or $49,000 for calendar years 2010 and 2011. Employees may invest their own and Company contributions in National Grid shares or various mutual fund options.

  With effect from 1 January 2011, the Company matches 50% of the first 8% of salary contributed. Prior to that, the Company matched 100% of the first 2% and 75% of the next 4% of salary contributed, resulting in a maximum matching contribution of 5% of salary up to the Federal salary cap. For employees in legacy KeySpan plans, the Company matched 50% of the first 6% of salary contributed. With effect from 1 January 2011, the Company no longer provides a discount to purchase Company stock, however, prior to this date legacy KeySpan employees invested in National Grid shares at a 10% discount.
- Employee Stock Purchase Plan (ESPP): Employees of National Grid's US companies (including US-based Executive Directors) are eligible to participate in the ESPP (commonly referred to as a 423b plan). Eligible employees have the opportunity to purchase ADSs on a monthly basis at a 10% discounted price. Under the plan employees may contribute up to 20% of base pay each year up to a maximum annual contribution of $18,888 to purchase ADSs in National Grid. Any ADSs purchased through the ESPP may be sold at any time, however, there are tax advantages for ADSs held for at least two years from the offer date.

Pensions

Steve Holliday and Nick Winser are provided with final salary pension benefits. These pension provisions are designed to provide a pension of one thirtieth of final salary at age 60 for each year of service subject to a maximum of two thirds of final salary, including any pension rights earned in previous employment. Within the pension schemes, the pensionable salary is normally the base salary in the 12 months prior to leaving the Company. Both Executive Directors participate in Flexible Pension Savings (FPS), a salary sacrifice arrangement available to all members of the Company's pension arrangements. Life assurance provision of four times pensionable salary and a spouse's pension equal to two thirds of the Executive Director's pension are provided on death.

Both aforementioned Executive Directors have elected to participate in the unfunded scheme in respect of any benefits in excess of the Lifetime Allowance or their Personal Lifetime Allowance. An appropriate provision in respect of the unfunded scheme has been made in the Company's balance sheet. Alternatively, these Executive Directors are able to cease accrual in the pension schemes and take a 30% cash allowance in lieu of pension if they so wish. These choices are in line with those offered to current senior employees in the Company, except the cash allowance varies depending upon organisational grade.

Andrew Bonfield is a member of the National Grid UK Pension Scheme – Defined Contribution Section. He has chosen to participate in FPS, the Company's salary sacrifice arrangement. Under this arrangement, if the Executive Director chooses the maximum standard contribution of 5% of salary, the Company will typically pay a pension contribution of 30%. Alternatively, the Company will pay a non-pensionable cash allowance to ensure the total value of the Company contribution (not including contributions paid via FPS) and the cash allowance is equal to 30% of base salary. The latter option was chosen by Andrew Bonfield. These benefits are in line with those offered to current senior employees in the Company, except the total value of the Company contribution and cash allowance varies depending upon organisational grade. Life assurance provision of four times pensionable salary and a spouse's pension equal to one third of the Executive Director's base salary are provided on death.

Following the changes to pensions tax relief introduced from April 2011, the Company has reviewed the pension benefits offered to members. The Company has agreed that senior employees most likely to be affected by the legislative changes will be offered more flexibility to take cash in lieu of Company contributions. The total level of benefits offered in the form of cash and/or pension contributions will not change. The Company continues to honour existing unfunded promises, however, no new unfunded promises have been granted since April 2006.

US-based Executive Directors participate in a qualified pension plan and an executive supplemental retirement plan provided by National Grid's US companies. These plans are non-contributory defined benefit arrangements. The qualified plan is directly funded, while the executive supplemental retirement plan is indirectly funded through a 'rabbi trust'. Benefits are calculated using a formula based on years of service and highest average compensation over five or three consecutive years. In line with many US plans, the calculation of benefits under the arrangements takes into account salary, Annual Performance Plan awards and incentive share awards (DSP) but not share options or PSP awards. The normal retirement age under the qualified pension plan is 65. The executive supplemental retirement plan provides unreduced pension benefits from age 55. On the death of the Executive Director, the plans also provide for a spouse's pension of at least 50% of that accrued by the Executive Director. Benefits under these arrangements do not increase once in payment.

Non-cash benefits

The Company provides competitive benefits to Executive Directors, such as a fully expensed car or a cash alternative in lieu of car, use of a driver when required, private medical insurance and life assurance. Business expenses incurred are reimbursed in such a way as to give rise to no benefit to the Executive Director.

Flexible benefits plan

Additional benefits may be purchased under the flexible benefits plan (the Plan), in which UK-based Executive Directors, along with most other UK employees, have been given the opportunity to participate. The Plan operates by way of salary sacrifice, that is, the participants' salaries are reduced by the monetary value used to purchase benefits under the Plan. Many of the benefits are linked to purchasing additional healthcare and insurance products for employees and their families. A number of the Executive Directors participate in this Plan and details of the impact on their salaries are shown in Table 1A on page 103.

Similar plans are offered to US-based employees. However, they are not salary sacrifice plans and therefore do not affect salary values. Tom King was a participant in such a plan during the year.

Executive Directors' service contracts, termination and mitigation

In its consideration of these matters, the Remuneration Committee takes into account the Companies Act 2006, the UK Listing Authority's Listing Rules, the Combined Code on Corporate Governance, as revised in 2008, and other requirements of legislation, regulation and good governance. Service contracts for all Executive Directors provide for one year's notice by either party.

In the event of early termination by the Company of an Executive Director's employment, contractual base salary reflecting the notice period would normally be payable. The Remuneration Committee operates a policy of mitigation in these circumstances with any payments being made on a monthly basis. The departing Executive Director would generally be expected to mitigate any losses where employment is taken up during the notice period, however, this policy remains subject to the Remuneration Committee's discretion, based on the circumstances of the termination.

	Date of contract	Notice period
Executive Directors		
Steve Holliday	1 April 2006	12 months
Andrew Bonfield (i)	1 November 2010	12 months
Nick Winser	28 April 2003	12 months
Tom King	11 July 2007	12 months
Steve Lucas (ii)	13 June 2002	12 months
Mark Fairbairn (iii)	23 January 2007	12 months

(i) Andrew Bonfield joined the Board on 1 November 2010.

(ii) Steve Lucas retired from the Board on 31 December 2010.

(iii) Mark Fairbairn left the Company on 31 March 2011.

External appointments and retention of fees

With the approval of the Board in each case, Executive Directors may normally accept an external appointment as a non-executive director of another company and retain any fees received for this appointment. The table below details the Executive Directors who served as non-executive directors in other companies during the year ended 31 March 2011.

	Company	Retained fees (£)
Executive Directors		
Steve Holliday	Marks and Spencer Group plc	81,000
Andrew Bonfield (i)	Kingfisher plc	30,000
Nick Winser	Kier Group plc	43,000
Steve Lucas (ii)	Compass Group PLC	71,000

(i) Andrew Bonfield's paid external appointment was taken up prior to joining the Board on 1 November 2010. The retained fees shown reflect the period 1 November 2010 to 31 March 2011.

(ii) The retained fees for Steve Lucas reflect the period 1 April 2010 to 31 December 2010 when he was an Executive Director of National Grid.

Non-executive Directors' remuneration – pre January 2011

Non-executive Directors' fees are determined by the Executive Directors subject to the limits applied by National Grid's Articles of Association. Non-executive Directors' remuneration comprised an annual fee (£45,000) and a fee for each Board meeting attended (£1,500) with a higher fee for meetings held outside the Non-executive Director's country of residence (£4,000). An additional fee of £12,500 pa was payable for chairmanship of a Board Committee and for holding the position of Senior Independent Director. The Audit Committee chairman received a chairmanship fee of £15,000 pa to recognise the additional responsibilities commensurate with this role. The Chairman is covered by the Company's personal accident and private medical insurance schemes and the Company provides him with life assurance cover, a car (with driver when appropriate) and fuel expenses.

Directors' Remuneration Report continued

Non-executive Directors' remuneration – post January 2011

From 1 January 2011, the framework for Non-executive Directors' fees has been amended to reflect market practice more generally, fees having last been adjusted in January 2007. Non-executive Directors' remuneration now comprises a basic fee (£60,000 pa for those who are UK-based and £72,000 pa for those who are US-based), a Committee membership fee of £8,000 pa per membership and for those who are chairmen of committees, an additional fee of £12,500 pa. The Audit Committee chairman will continue to receive a fee of £15,000 pa to recognise the additional responsibilities commensurate with that role and the Senior Independent Director fee has been increased to £20,000 pa.

Non-executive Directors do not participate in the Annual Performance Plan or the long-term incentive plan, nor do they receive any pension benefits from the Company.

Non-executive Directors' letters of appointment

The Chairman's letter of appointment provides for a period of six months' notice by either party to give the Company reasonable security with regard to his service. The terms of engagement of Non-executive Directors other than the Chairman are also set out in letters of appointment. For all Non-executive Directors, their initial appointment and any subsequent reappointment is subject to election by shareholders. The letters of appointment do not contain provision for termination payments.

	Date of appointment to the Board	Date of next election
Non-executive Directors		
Sir John Parker	21 October 2002	2011 AGM
Ken Harvey	21 October 2002	2011 AGM
Linda Adamany	1 November 2006	2011 AGM
Philip Aiken	15 May 2008	2011 AGM
John Allan	1 May 2005	–
Stephen Pettit	21 October 2002	2011 AGM
Maria Richter	1 October 2003	2011 AGM
George Rose	21 October 2002	2011 AGM

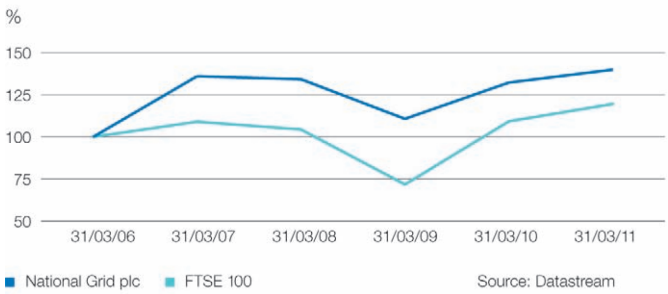
Performance graph

The graph below represents the comparative TSR performance of the Company from 31 March 2006 to 31 March 2011.

This graph represents the Company's performance against the performance of the FTSE 100 index, which is considered suitable for this purpose as it is a broad equity market index of which National Grid is a constituent. This graph has been produced in accordance with the requirements of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

In drawing this graph, it has been assumed that all dividends have been reinvested. The TSR level shown at 31 March each year is the average of the closing daily TSR levels for the 30 day period up to and including that date.

National Grid plc
TSR v FTSE 100



Remuneration during the year ended 31 March 2011

Sections 1, 2, 3, 4 and 6 comprise the 'auditable' part of the Directors' Remuneration Report, being the information required by Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

1. Directors' emoluments

The following tables set out the pre-tax emoluments for the years ended 31 March 2011 and 2010, including Annual Performance Plan awards but excluding pensions, for individual Directors who held office in National Grid during the year ended 31 March 2011.

Table 1A	Year ended 31 March 2011						Year ended 31 March 2010
	Salary (i) £000s	Annual Performance Plan £000s	Benefits in kind (ii) (cash) £000s	Benefits in kind (ii) (non-cash) £000s	Other emoluments £000s	Total £000s	Total £000s
Executive Directors							
Steve Holliday	946	1,154	12	14	–	2,126	2,273
Andrew Bonfield (iii)	281	346	83	1	–	711	–
Nick Winser	482	573	–	15	–	1,070	1,129
Tom King (iv)	684	855	5	17	–	1,561	1,582
Steve Lucas (v)	375	500	–	12	201	1,088	1,270
Mark Fairbairn (iii), (vi), (vii)	469	540	2	13	–	1,024	1,002
Total	**3,237**	**3,968**	**102**	**72**	**201**	**7,580**	**7,256**

(i) With effect from 1 June 2011, the Executive Directors' salaries are as follows: Steve Holliday £975,000; Andrew Bonfield £695,000; Nick Winser £530,000 and Tom King £714,740.

(ii) Benefits in kind comprise benefits such as private medical insurance, life assurance, either a fully expensed car or cash in lieu of a car and the use of a driver when required. In the case of Andrew Bonfield, a cash allowance in lieu of additional Company pension contributions is included (see Table 2 for further details).

(iii) These Executive Directors participate in the UK flexible benefits plan which operates by way of salary sacrifice, therefore, their salaries are reduced by the benefits they have purchased. The value of these benefits is included in the Benefits in kind (non-cash) figure. The values are: Andrew Bonfield £155.68 and Mark Fairbairn £543.36.

(iv) For the US-based Executive Director, the exchange rate averaged over the year 1 April 2010 to 31 March 2011 to convert dollars to UK pounds sterling is $1.574:£1.

(v) Steve Lucas left National Grid on 31 December 2010. He had a contractual entitlement of one year's salary on leaving, of which he worked three months. He therefore was entitled to nine months salary, which is payable in six monthly instalments and is subject to mitigation, at the Remuneration Committee's discretion, should he take employment during the period. Payment of £201,000 referred to above in Other emoluments reflects the first three months of those instalments.

(vi) Mark Fairbairn left National Grid on 31 March 2011. He had a contractual entitlement to one year's salary on leaving, of which he worked two months. He therefore was entitled to 10 months salary, which is payable in six monthly instalments and is subject to mitigation, at the Remuneration Committee's discretion, should he take employment during the period.

(vii) In addition to the amounts shown in the above table, Mark Fairbairn, on leaving, was entitled to a statutory redundancy payment of £10,200.

Table 1B	Year ended 31 March 2011			Year ended 31 March 2010
	Fees £000s	Other emoluments £000s	Total £000s	Total £000s
Non-executive Directors				
Sir John Parker (i)	550	71	621	615
Ken Harvey	83	–	83	80
Linda Adamany	74	–	74	78
Philip Aiken	68	–	68	68
John Allan	81	–	81	82
Stephen Pettit	83	–	83	82
Maria Richter	89	–	89	94
George Rose	79	–	79	81
Total	**1,107**	**71**	**1,178**	**1,180**

(i) Sir John Parker's Other emoluments comprise private medical insurance, life assurance and a fully expensed car.

Directors' Remuneration Report continued

2. Directors' pensions

The table below provides details of the Executive Directors' pension benefits.

Table 2	Additional benefit earned during year ended 31 March 2011 pension £000s	Accrued entitlement as at 31 March 2011 pension £000s	Transfer value of accrued benefits as at 31 March (i) 2011 £000s	Transfer value of accrued benefits as at 31 March (i) 2010 £000s	Increase in transfer value less Director's contributions (ii) £000s	Additional benefit earned in the year ended 31 March 2011 (excluding inflation) pension £000s	Transfer value of increase in accrued benefit in the year ended 31 March 2011 (excluding inflation & Director's contributions) (ii) £000s
Steve Holliday (iii)	39	352	7,122	5,995	1,127	24	478
Andrew Bonfield (iv)	–	–	–	–	–	–	–
Nick Winser (v)	18	215	3,888	3,379	509	9	157
Tom King (vi)	62	222	1,212	832	380	62	341
Steve Lucas (vii)	30	299	6,985	6,006	979	23	543
Mark Fairbairn (viii)	30	229	7,200	3,714	3,486	21	657

(i) The transfer values shown at 31 March 2010 and 2011 represent the value of each Executive Director's accrued benefits based on total service to the relevant date. Transfer values for the UK-based Executive Directors have been calculated in line with transfer value bases agreed by the UK Pension Scheme Trustees. The transfer values for the US-based Executive Director have been calculated using discount rates based on high quality US corporate bonds and associated yields at the relevant dates.

(ii) The UK-based Executive Directors participate in Flexible Pension Savings (FPS), a salary sacrifice arrangement, the effects of which have not been taken into account in the table above. Contributions paid via FPS should be deducted from the figures shown above.

(iii) In addition to the pension above, for Steve Holliday there is an accrued lump sum entitlement of £111,000 as at 31 March 2011. The increase to the accumulated lump sum including inflation was £2,000 and excluding inflation was nil in the year to 31 March 2011. The transfer value information above includes the value of the lump sum. Contributions were paid via FPS of £19,000.

(iv) Andrew Bonfield does not participate in either of the Company's defined benefit pension arrangements. Andrew joined the Defined Contribution Section of the National Grid UK Pension Scheme and the Company has made contributions of £9,000 to this arrangement. In addition, £4,500 was paid via FPS. Andrew also received a cash allowance in lieu of additional Company contributions equal to 26% of base salary. This allowance is included in Table 1A on page 103.

(v) In addition to the pension above, for Nick Winser there is an accrued lump sum entitlement of £271,000 as at 31 March 2011. The increase to the accumulated lump sum including inflation was £11,000 and excluding inflation was nil in the year to 31 March 2011. The transfer value information above includes the value of the lump sum. Contributions were paid via FPS of £29,000.

(vi) For Tom King, the exchange rate as at 31 March 2011 was \$1.60700:£1 and as at 31 March 2010 was \$1.51845:£1. In addition to the pension quoted above, through participation in the 401(k) plan in the US, the Company made contributions worth £5,497 to a defined contribution arrangement.

(vii) Contributions were paid via FPS of £24,000. It was agreed that £293,000, representing the value of 52,984 shares which Steve Lucas would otherwise have received in respect of his PSP awards (see Table 4 on page 107), instead be transferred into his pension fund. This is equivalent to nine months additional pension credit and is included above. Steve received a deferred pension on cessation of employment. He opted to take an immediate pension which was reduced for early retirement under the standard terms of the Trust Deed and Rules of the Pension Scheme.

(viii) In addition to the pension above, for Mark Fairbairn there is an accrued lump sum entitlement of £306,000 as at 31 March 2011. The increase to the accumulated lump sum including inflation was £26,000 and excluding inflation was £13,000 in the year to 31 March 2011. The transfer value information above includes the value of the lump sum. Contributions were paid via FPS of £28,000. Mark left the Company on 31 March 2011 and received an immediate unreduced pension on cessation of employment under the standard redundancy terms of the Trust Deed and Rules of the Pension Scheme.

3. Directors' interests in share options

Executive Share Option Plan (ESOP)

No further awards will be made under this plan but there are outstanding options granted in previous years. Such options will normally be exercisable between the third and tenth anniversary of the date of grant, subject to a performance condition.

Options worth up to 100% of an optionholder's base salary will become exercisable in full if TSR, measured over the period of three years beginning with the financial year in which the option is granted, is at least median compared with a comparator group of energy distribution companies; and UK and international utilities.

Grants in excess of 100% of salary vest on a sliding scale and become fully exercisable if the Company's TSR is in the top quartile.

The outstanding options have reached the required performance criteria and remain subject to exercise only.

The table below provides details of the Executive Directors' holdings of share options awarded under the ESOP, the Share Matching Plan (Share Match) and Sharesave schemes.

Table 3	Adjusted no. of options held at 1 April 2010 or, if later, on appointment * (i)	Adjusted no. options exercised or lapsed during the year (i)	Market price at exercise (pence)	Options granted during the year	Adjusted no. of options held at 31 March 2011 or, if earlier, on retirement † (i)	Adjusted exercise price per share (pence) (ii)	Normal exercise period
Steve Holliday							
ESOP	77,129	–	–	–	77,129	421.36	Jun 2005 to Jun 2012
Share Match	11,827	–	–	–	11,827	100 in total	Jun 2005 to Jun 2012
	16,092	–	–	–	16,092	100 in total	Jun 2006 to Jun 2013
	21,383	–	–	–	21,383	nil	May 2007 to May 2014
Sharesave	3,921	–	–	–	3,921	427.05	Apr 2014 to Sep 2014
Total	**130,352**	**–**		**–**	**130,352**		
Andrew Bonfield							
Sharesave	– *	–	–	3,421	3,421	445	Apr 2016 to Sep 2016
Total	**– ***	**–**		**3,421**	**3,421**		
Steve Lucas (iii)							
ESOP	62,167 (iv)	–	–	–	62,167 †	380.02	Jan 2011 to Dec 2011
Sharesave	3,416 (iv)	–	–	–	3,416 †	455.06	Jan 2011 to Jun 2011
Total	**65,583**	**–**		**–**	**65,583** †		
Mark Fairbairn (iii)							
Sharesave	2,011 (v)	–	–	–	2,011	488.31	Apr 2011 to Sep 2011
	585 (v)	–	–	–	585	573.19	Apr 2011 to Sep 2011
Total	**2,596**	**–**		**–**	**2,596**		

(i) The option numbers shown, for awards granted prior to the rights issue which completed on 14 June 2010, were adjusted using an adjustment factor of 1.14271765.

(ii) The exercise prices shown above, for awards granted prior to the rights issue which completed on 14 June 2010, were adjusted using an adjustment factor of 0.87510681.

(iii) On 1 April 2010, the first day of the financial year, Steve Lucas and Mark Fairbairn exercised Sharesave options over 1,693 and 862 shares respectively as reported in footnote (i) of Table 3 of the 2009/10 Directors' Remuneration Report. As a result, these options were not adjusted for the rights issue which completed on 14 June 2010 and are not included in this table.

(iv) On leaving, Steve Lucas was permitted 12 months from his termination date in which to exercise his ESOP options and six months to exercise his Sharesave options.

(v) On leaving, Mark Fairbairn was permitted six months from his termination date in which to exercise his Sharesave options.

Directors' Remuneration Report continued

4. Directors' interests in the PSP, DSP and SRA

The table below provides details of the Executive Directors' holdings of shares awarded under the PSP whereby Executive Directors receive a conditional award of shares, up to a current maximum of 200% of salary, which is subject to performance criteria over a three year performance period. Awards vest based on the Company's TSR performance when compared to the FTSE 100 at the date of grant (50% of the award) and the annualised growth of the Company's EPS (50% of the award), see page 98 for further information. Shares are then released on the fourth anniversary of the date of grant, following a retention period. The table includes share awards under the DSP, where Executive Directors receive an award of shares representing one half of any Annual Performance Plan award earned in the year. The deferred shares are held in trust for three years before release. As part of a contractual commitment made at the time of Tom King's recruitment, he received a SRA. The one-off award of National Grid ADSs vested in equal tranches, over three years, on the anniversary of the award (November 2008 through to November 2010). There were no performance conditions attached to the award.

Table 4	Type of award	Adjusted no. of PSP, DSP and SRA conditional awards at 1 April 2010 or, if later, on appointment * (i)	Adjusted no. of awards lapsed during year (i)	Adjusted no. of awards vested in year (i)	Release of PSP awards in year	Awards granted during year	Adjusted market price at award (pence except #) (ii)	Date of award	Adjusted no. of conditional awards at 31 March 2011 or, if earlier, on retirement † (i)	Release date
Steve Holliday										
	PSP	159,085	55,441 (iii)	103,644 (iii)	–	–	648.24	Jun 2007	103,644	Jun 2011
	PSP	88,271	30,763 (iii)	57,508 (iii)	–	–	700.95	Nov 2007	57,508	Nov 2011
	PSP	316,472	–	–	–	–	584.57	Jun 2008	316,472	Jun 2012
	PSP	391,212	–	–	–	–	472.89	Jun 2009	391,212	Jun 2013
	PSP	–	–	–	–	384,220	494.5076	Jun 2010	384,220	Jun 2014
	DSP	97,481	–	–	–	–	610.37	Jun 2008	97,481	Jun 2011
	DSP	68,960 (iv)	–	–	–	–	541.14	Jun 2009	68,960	Jun 2012
	DSP	–	–	–	–	130,636	506.294	Jun 2010	130,636	Jun 2013
Total		**1,121,481**	**86,204**	**161,152**	**–**	**514,856**			**1,550,133**	
Andrew Bonfield										
	PSP	– *	–	–	–	236,464 (v)	570.9098	Nov 2010	236,464	Nov 2014
Total		**– ***	**–**	**–**	**–**	**236,464**			**236,464**	
Nick Winser										
	PSP	85,712	29,871 (iii)	55,841 (iii)	–	–	648.24	Jun 2007	55,841	Jun 2011
	PSP	47,559	16,574 (iii)	30,985 (iii)	–	–	700.95	Nov 2007	30,985	Nov 2011
	PSP	158,166	–	–	–	–	584.57	Jun 2008	158,166	Jun 2012
	PSP	195,521	–	–	–	–	472.89	Jun 2009	195,521	Jun 2013
	PSP	–	–	–	–	196,356	494.5076	Jun 2010	196,356	Jun 2014
	DSP	41,146	–	–	–	–	610.37	Jun 2008	41,146	Jun 2011
	DSP	33,804 (iv)	–	–	–	–	541.14	Jun 2009	33,804	Jun 2012
	DSP	–	–	–	–	64,370	506.294	Jun 2010	64,370	Jun 2013
Total		**561,908**	**46,445**	**86,826**	**–**	**260,726**			**776,189**	
Tom King										
	PSP	ADSs 27,432	9,560 (iii)	17,872 (iii)	–	–	$72.907 #	Nov 2007	17,872	Nov 2011
	PSP	ADSs 36,680	–	–	–	–	$57.2505 #	Jun 2008	36,680	Jun 2012
	PSP	ADSs 54,403	–	–	–	–	$38.6002 #	Jun 2009	54,403	Jun 2013
	PSP	–	–	–	–	ADSs 57,762 (vi)	$37.4465 #	Jun 2010	57,762	Jun 2014
	SRA	ADSs 13,517	–	13,517 (vii)	–	–	$73.978 #	Nov 2007	–	Nov 2008 to Nov 2010
	DSP	ADSs 5,534	–	–	–	–	$59.61 #	Jun 2008	5,534	Jun 2011
	DSP	ADSs 13,804	–	–	–	–	$39.2373 #	Jun 2009	13,804	Jun 2012
	DSP	–	–	–	–	ADSs 18,776 (vi)	$37.7474 #	Jun 2010	18,776	Jun 2013
Total ADSs		**ADSs 151,370**	**ADSs 9,560**	**ADSs 31,389**	**–**	**ADSs 76,538**			**ADSs 204,831**	

Table 4	Type of award	Adjusted no. of PSP, DSP and SRA conditional awards at 1 April 2010 or, if later, on appointment * (i)	Adjusted no. of awards lapsed during year (i)	Adjusted no. of awards vested in year (i)	Release of PSP awards in year	Awards granted during year	Adjusted market price at award (pence except #) (ii)	Date of award	Adjusted no. of conditional awards at 31 March 2011 or, if earlier, on retirement † (i)	Release date
Steve Lucas										
	PSP	97,051	33,822 (iii)	63,229 (iii)	–	–	648.24	Jun 2007	63,229 †	Jan 2011
	PSP	53,850	18,767 (iii)	35,083 (iii)	–	–	700.95	Nov 2007	35,083 †	Jan 2011
	PSP	179,619 (viii)	–	–	–	–	584.57	Jun 2008	179,619 †	Jan 2011
	PSP	222,039 (viii)	–	–	–	–	472.89	Jun 2009	222,039 †	Jan 2011
	PSP	–	–	–	–	216,579 (viii)	494.5076	Jun 2010	216,579 †	Jan 2011
	DSP	54,008 (ix)	–	–	–	–	610.37	Jun 2008	54,008 †	Jan 2011
	DSP	38,656 (iv), (ix)	–	–	–	–	541.14	Jun 2009	38,656 †	Jan 2011
	DSP	–	–	–	–	72,073 (ix)	506.294	Jun 2010	72,073 †	Jan 2011
Total		**645,223**	**52,589**	**98,312**	**–**	**288,652**			**881,286 †**	
Mark Fairbairn										
	PSP	77,132	26,881 (iii)	50,251 (iii)	–	–	648.24	Jun 2007	50,251	Apr 2011
	PSP	42,798	14,916 (iii)	27,882 (iii)	–	–	700.95	Nov 2007	27,882	Apr 2011
	PSP	158,065 (x)	–	–	–	–	584.57	Jun 2008	158,065	Apr 2011
	PSP	195,394 (x)	–	–	–	–	472.89	Jun 2009	195,394	Apr 2011
	PSP	–	–	–	–	190,694 (x)	494.5076	Jun 2010	190,694	Apr 2011
	DSP	46,446 (x)	–	–	–	–	610.37	Jun 2008	46,446	Apr 2011
	DSP	32,605 (iv), (x)	–	–	–	–	541.14	Jun 2009	32,605	Apr 2011
	DSP	–	–	–	–	52,015 (x)	506.294	Jun 2010	52,015	Apr 2011
Total		**552,440**	**41,797**	**78,133**	**–**	**242,709**			**753,352**	

(i) The award numbers shown, for awards granted prior to the rights issue which completed on 14 June 2010, except those shares detailed in note (iv) below, were adjusted using an adjustment factor of 1.14271765.

(ii) The market prices of awards above, for awards granted prior to the rights issue which completed on 14 June 2010, except those shares detailed in note (iv) below, were adjusted using an adjustment factor of 0.87510681.

(iii) The 2007 PSP award vested partially in June 2010 at a vesting level of 65.15% of the award. The award then entered a retention period. Cash payments in lieu of dividends accrued during the retention period were paid as follows: Steve Holliday £44,478 in August 2010 and £23,098 in February 2011; Nick Winser £23,964 and £12,445; Tom King £20,139 and £11,626; Steve Lucas £27,134 in August 2010; and Mark Fairbairn £21,565 and £11,199 respectively.

(iv) Exceptionally, the 2009 DSP award for UK-based Executive Directors was made over restricted shares. The award was subject to income tax and National Insurance Contributions on grant and therefore shares shown reflect the net number of shares. As these shares are beneficially owned, UK-based Executive Directors were able to participate in the rights issue. They chose to take up their rights in full and these additional shares are included in Table 5 on page 108.

(v) Andrew Bonfield was appointed after the June 2010 PSP award was granted and he received a full award in November 2010.

(vi) Awards were made over ADSs and each ADS represents five ordinary shares.

(vii) Tom King received a SRA as part of a contractual commitment made at the time of his recruitment. The award vested in three equal tranches over three years, the final vesting for which was November 2010 for 13,517 ADSs. The ADS price on vesting for the final tranche was $44.8449.

(viii) Shortly after leaving, Steve Lucas received 246,712 PSP shares that vested as a result of time pro ration from the date of grant to his leave date, taking into account the performance criteria achieved for each award. In order to recognise his significant contribution to the business, the Remuneration Committee exercised its discretion and allowed a further 52,984 shares to vest. Instead of receiving the additional 52,984 shares, it was agreed an equivalent monetary value (using a share price of 553p) would be transferred into his pension fund. See Table 2 on page 104. All remaining PSP shares shown in the table above lapsed.

(ix) Shortly after leaving, Steve Lucas received the DSP shares awarded to him, as detailed in the table above. This treatment aligns with normal practice for such leavers under the plan rules.

(x) Shortly after leaving, Mark Fairbairn received the PSP shares for each award that vested as a result of time pro ration from the date of grant to his leave date, taking into account the performance criteria achieved for each award. This amounted to 231,407 shares. All remaining PSP shares shown in the table above lapsed. He also received his DSP shares, as detailed in the table above. This treatment aligns with normal practice for such leavers under the plan rules.

Directors' Remuneration Report continued

5. Directors' beneficial interests

The Directors' beneficial interests (which include those of their families) in National Grid ordinary shares of $11\frac{17}{43}$ pence each are shown below.

Table 5	Ordinary shares at 31 March 2011 or, if earlier, on retirement † (i)	Ordinary shares at 1 April 2010 or, if later, on appointment *	Adjusted no. of options/awards over ordinary shares at 31 March 2011 or, if earlier, on retirement † (ii)	Adjusted no. of options/awards over ordinary shares at 1 April 2010 or, if later, on appointment * (ii)
Sir John Parker	134,712	81,635	–	–
Steve Holliday (iii), (iv), (v)	339,451	221,472	1,680,485	1,251,839
Andrew Bonfield (iii), (iv), (v)	44	– *	239,885	– *
Nick Winser (iv)	325,914	223,138	776,189	561,912
Tom King	155,195	97,640	1,024,155	756,856
Steve Lucas (iv), (vi), (vii)	214,720 †	167,503	946,869 †	712,743
Mark Fairbairn (iv), (viii)	219,781	143,372	755,948	556,023
Ken Harvey	5,236	3,740	–	–
Linda Adamany	2,800	2,000	–	–
Philip Aiken	4,900	3,500	–	–
John Allan	14,500	7,000	–	–
Stephen Pettit	3,906	2,632	–	–
Maria Richter	14,357	10,255	–	–
George Rose	6,792	4,852	–	–

(i) The number of shares shown represent beneficial holdings, including those shares subscribed for by Directors under the rights issue.

(ii) The option/award numbers shown, for awards granted prior to the rights issue which completed on 14 June 2010, except those shares detailed in Table 4 note (iv) on page 107, were adjusted using an adjustment factor of 1.14271765.

(iii) There has been no other change in the beneficial interests of the Directors in ordinary shares between 1 April 2011 and 18 May 2011, except in respect of routine monthly purchases under the SIP (see note (v) below).

(iv) Each of the Executive Directors, with the exception of Tom King, was for Companies Act purposes deemed to be a potential beneficiary under the National Grid plc 1996 Employee Benefit Trust and the National Grid Employee Share Trust; Steve Holliday, Andrew Bonfield, Nick Winser, Steve Lucas and Mark Fairbairn thereby have an interest in 178,690 and 693,481 ordinary shares in the aforementioned trusts respectively, as at 31 March 2011 (with the latter trust holding 9,977 ADSs in addition).

(v) Beneficial interests includes shares purchased under the monthly operation of the SIP in the year to 31 March 2011. In April and May 2011 a further 42 shares were purchased on behalf of Steve Holliday and a further 41 shares were purchased on behalf of Andrew Bonfield thereby increasing their beneficial interests.

(vi) Steve Lucas was for Companies Act purposes deemed to be a potential beneficiary in 6,188 ordinary shares held by Lattice Group Trustees Limited as trustee of the Lattice Group Employee Share Ownership Trust as at 31 March 2011.

(vii) Steve Lucas retired from the Board as a Director on 31 December 2010.

(viii) Mark Fairbairn left the Company on 31 March 2011.

6. National Grid share price range

The closing price of a National Grid ordinary share on 31 March 2011 was 594p. The rights issue adjusted range during the year was 596.17p (high) and 484.20p (low). The Register of Directors' Interests contains full details of shareholdings and options/awards held by Directors as at 31 March 2011.

The Remuneration Report has been approved by the Board and signed on its behalf by:

John Allan

Chairman of the Remuneration Committee

18 May 2011

The Directors' Report on pages 10 to 108 was approved by the Board and signed on its behalf by:

Helen Mahy

Company Secretary & General Counsel

18 May 2011

National Grid plc, 1-3 Strand, London WC2N 5EH

Registered in England and Wales No. 4031152

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Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and Accounts, including the consolidated financial statements and the Company financial statements, and the Directors' Report including the Directors' Remuneration Report, in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and the Company financial statements and the Directors' Remuneration Report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom generally accepted accounting practice, UK GAAP). In preparing the consolidated financial statements, the Directors have also elected to comply with IFRS, issued by the International Accounting Standards Board. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company on a consolidated and individual basis and of the profit or loss of the Company on a consolidated and individual basis for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the consolidated financial statements comply with IFRS as adopted by the European Union and, with regard to the Company financial statements, that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the consolidated financial statements and Company financial statements on a going concern basis unless it is inappropriate to presume that the Company, on a consolidated and individual basis, will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company on a consolidated and individual basis, and to enable them to ensure that the consolidated financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation and the Company financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and its subsidiaries and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the Directors, whose names and functions are listed on pages 8 and 9, confirms that, to the best of their knowledge:

- the consolidated financial statements and the Company financial statements, which have been prepared in accordance with IFRS as adopted by the European Union and UK GAAP respectively, give a true and fair view of the assets, liabilities, financial position and profit of the Company on a consolidated and individual basis; and
- the Annual Report includes a fair review of the development and performance of the business and the position of the Company on a consolidated and individual basis, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

Helen Mahy
Company Secretary & General Counsel
18 May 2011

Independent Auditors' report to the Members of National Grid plc

We have audited the consolidated and Company financial statements (the 'financial statements') of National Grid plc for the year ended 31 March 2011, which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and Company balance sheets, the consolidated statement of changes in equity, the consolidated cash flow statement, the accounting policies and Company accounting policies, the adoption of new accounting standards, the notes to the consolidated financial statements and the notes to the Company financial statements. The financial reporting framework that has been applied in the preparation of the consolidated financial statements is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' responsibilities set out on page 110, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the Company's affairs as at 31 March 2011 and of the group's profit and cash flows for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the consolidated financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 70, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Nicholas Blackwood (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
18 May 2011

Accounting policies

A. Basis of preparation of consolidated financial statements under IFRS

National Grid's principal activities involve the transmission and distribution of electricity and gas in Great Britain and the northeastern United States. The Company is a public limited liability company incorporated and domiciled in England, with its registered office at 1-3 Strand, London WC2N 5EH.

The Company has its primary listing on the London Stock Exchange and is also quoted on the New York Stock Exchange. These consolidated financial statements were approved for issue by the Board of Directors on 18 May 2011.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and IFRS as adopted by the European Union. They are prepared on the basis of all IFRS accounting standards and interpretations that are mandatory for periods ending 31 March 2011 and in accordance with the Companies Act 2006 applicable to companies reporting under IFRS and Article 4 of the European Union IAS Regulation. The 2010 and 2009 comparative financial information has also been prepared on this basis.

The consolidated financial statements have been prepared on an historical cost basis, except for the recording of pension assets and liabilities, the revaluation of derivative financial instruments and certain commodity contracts and investments classified as available for sale.

These consolidated financial statements are presented in pounds sterling, which is the functional currency of the Company.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period (see accounting policy Y). Actual results could differ from these estimates.

B. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries, together with a share of the results, assets and liabilities of jointly controlled entities (joint ventures) and associates using the equity method of accounting, where the investment is carried at cost plus post-acquisition changes in the share of net assets of the joint venture, less any provision for impairment.

A subsidiary is defined as an entity controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. A joint venture is an entity established to engage in economic activity, which the Company jointly controls with its fellow venturers. An associate is an entity which is neither a subsidiary nor a joint venture, but over which the Company has significant influence.

Losses in excess of the consolidated interest in joint ventures are not recognised, except where the Company or its subsidiaries have made a commitment to make good those losses.

Where necessary, adjustments are made to bring the accounting policies used in the individual financial statements of the Company, subsidiaries, joint ventures and associates into line with those used by the Company in its consolidated financial statements under IFRS. Intercompany transactions are eliminated.

The results of subsidiaries, joint ventures and associates acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Acquisitions are accounted for using the purchase method, where the purchase price is allocated to the identifiable assets acquired and liabilities assumed on a fair value basis and the remainder recognised as goodwill.

C. Foreign currencies

Transactions in currencies other than the functional currency of the Company or subsidiary concerned are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at closing exchange rates. Non-monetary assets are not retranslated unless they are carried at fair value.

Gains and losses arising on the retranslation of monetary assets and liabilities are included in the income statement, except where the adoption of hedge accounting requires inclusion in other comprehensive income (accounting policy R).

On consolidation, the assets and liabilities of operations that have a functional currency different from the Company's functional currency of pounds sterling, principally our US operations that have a functional currency of dollars, are translated at exchange rates prevailing at the balance sheet date. Income and expense items are translated at the weighted average exchange rates for the period where these do not differ materially from rates at the date of the transaction. Exchange differences arising are classified as equity and transferred to the consolidated translation reserve.

D. Goodwill

Goodwill arising on a business combination represents the difference between the cost of acquisition and the Company's consolidated interest in the fair value of the identifiable assets and liabilities of a subsidiary or joint venture as at the date of acquisition.

Goodwill is recognised as an asset and is not amortised, but is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Goodwill recorded under UK GAAP arising on acquisitions before 1 April 2004, the date of transition to IFRS, has been frozen at that date, subject to subsequent testing for impairment.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rate.

E. Intangible assets other than goodwill

With the exception of goodwill, as described above, identifiable intangible assets are recorded at cost less accumulated amortisation and any provision for impairment.

Internally generated intangible fixed assets, such as software, are recognised only if: an asset is created that can be identified; it is probable that the asset created will generate future economic benefits; and the development cost of the asset can be measured reliably. Where no internally generated intangible asset can be recognised, development expenditure is recorded as an expense in the period in which it is incurred.

On a business combination, as well as recording separable intangible assets possessed by the acquired entity at their fair value, identifiable intangible assets that arise from contractual or other legal rights are also included in the balance sheet at their fair value. Acquisition-related intangible assets principally comprise customer relationships.

Non-current intangible assets, other than goodwill, are amortised on a straight-line basis over their estimated useful economic lives. Amortisation periods for categories of intangible assets are:

Amortisation periods	Years
Software	3 to 7
Acquisition-related intangibles	10 to 25
Other – licences and other intangibles	3 to 5

Intangible emission allowances are accounted for in accordance with accounting policy U.

F. Property, plant and equipment

Property, plant and equipment is recorded at cost or deemed cost at the date of transition to IFRS, less accumulated depreciation and any impairment losses.

Cost includes payroll and finance costs incurred which are directly attributable to the construction of property, plant and equipment as well as the cost of any associated asset retirement obligations.

Property, plant and equipment includes assets in which the Company's interest comprises legally protected statutory or contractual rights of use.

Additions represent the purchase or construction of new assets, including capital expenditure for safety and environmental assets, and extensions to, enhancements to, or replacement of existing assets.

Contributions received prior to 1 July 2009 towards the cost of property, plant and equipment are included in trade and other payables as deferred income and credited on a straight-line basis to the income statement over the estimated useful economic lives of the assets to which they relate.

Contributions received post 1 July 2009 are recognised in revenue immediately, except where the contributions are consideration for a future service, in which case they are recognised initially as deferred income and revenue is subsequently recognised over the period in which the service is provided.

No depreciation is provided on freehold land or assets in the course of construction.

Other items of property, plant and equipment are depreciated, principally on a straight-line basis, at rates estimated to write off their book values over their estimated useful economic lives. In assessing estimated useful economic lives, which are reviewed on a regular basis, consideration is given to any contractual arrangements and operational requirements relating to particular assets. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of property, plant and equipment are, in general, as shown in the table below:

Depreciation periods	Years
Freehold and leasehold buildings	up to 65
Plant and machinery	
Electricity transmission plant	15 to 60
Electricity distribution plant	15 to 60
Electricity generation plant	20 to 40
Interconnector plant	15 to 60
Gas plant – mains, services and regulating equipment	30 to 100
Gas plant – storage	40
Gas plant – meters	10 to 33
Motor vehicles and office equipment	up to 10

G. Impairment of assets

Impairments of assets are calculated as the difference between the carrying value of the asset and its recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash-generating unit to which that asset belongs is estimated. Recoverable amount is defined as the higher of fair value less costs to sell and estimated value-in-use at the date the impairment review is undertaken.

Value-in-use represents the present value of expected future cash flows, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Goodwill is tested for impairment at least annually. Otherwise, tests for impairment are carried out only if there is some indication that the carrying value of the assets may have been impaired.

Material impairments are recognised in the income statement and are disclosed separately.

Accounting policies continued

H. Taxation

Current tax

Current tax assets and liabilities are measured at the amounts expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted by the balance sheet date. Current tax is charged or credited to the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In these cases the tax is also recognised in other comprehensive income or directly in equity, respectively.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax and investment tax credits

Deferred tax is provided for using the balance sheet liability method and is recognised on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised on all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of other assets and liabilities in a transaction (other than a business combination) that affects neither the accounting nor taxable profit or loss.

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries and jointly controlled entities, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In these cases the tax is also recognised in other comprehensive income or directly in equity, respectively.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company and its subsidiaries intend to settle their current tax assets and liabilities on a net basis.

Investment tax credits are amortised over the economic life of the assets that give rise to the credits.

I. Discontinued operations, assets and businesses held for sale

Cash flows and operations that relate to a major component of the business or geographical region that has been sold or is classified as held for sale are shown separately from continuing operations.

Assets and businesses classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. No depreciation is charged on assets and businesses classified as held for sale.

Assets and businesses are classified as held for sale if their carrying amount will be recovered or settled principally through a sale transaction rather than through continuing use. This condition is regarded as being met only when the sale is highly probable and the assets or businesses are available for immediate sale in their present condition or the sale relates to a subsidiary acquired exclusively with a view to resale. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Finance income or costs are included in discontinued operations only in respect of financial assets or liabilities classified as held for sale or derecognised on sale.

J. Inventories

Inventories are stated at the lower of cost, calculated on a weighted average basis, and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs as well as those overheads that have been incurred in bringing the inventories to their present location and condition.

K. Decommissioning and environmental costs

Provision is made for decommissioning and environmental costs, based on future estimated expenditures, discounted to present values. An initial estimate of decommissioning and environmental costs attributable to property, plant and equipment is recorded as part of the original cost of the related property, plant and equipment.

Changes in the provision arising from revised estimates or discount rates or changes in the expected timing of expenditures that relate to property, plant and equipment are recorded as adjustments to their carrying value and depreciated prospectively over their remaining estimated economic useful lives; otherwise such changes are recognised in the income statement.

The unwinding of the discount is included within the income statement as a financing charge.

L. Revenue

Revenue primarily represents the sales value derived from the generation, transmission, and distribution of energy and recovery of US stranded costs together with the sales value derived from the provision of other services to customers during the year and excludes value added tax and intra-group sales.

US stranded costs are various generation-related costs incurred prior to the divestiture of generation assets beginning in the late 1990s and costs of legacy contracts that are being recovered from customers. The recovery of stranded costs and other amounts allowed to be collected from customers under regulatory arrangements is recognised in the period in which these amounts are recoverable from customers.

Revenue includes an assessment of unbilled energy and transportation services supplied to customers between the date of the last meter reading and the year end.

Where revenue received or receivable exceeds the maximum amount permitted by regulatory agreement and adjustments will be made to future prices to reflect this over-recovery, no liability is recognised as such an adjustment to future prices relates to the provision of future services. Similarly no asset is recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery.

M. Segmental information

Segmental information is based on the information the Board of Directors uses internally for the purposes of evaluating the performance of operating segments and determining resource allocation between operating segments. The Board of Directors is deemed to be the chief operating decision maker and assesses the performance of operations principally on the basis of operating profit before exceptional items, remeasurements and stranded cost recoveries (see accounting policy T).

N. Pensions and other post-retirement benefits

For defined benefit retirement schemes, the cost of providing benefits is determined using the projected unit method, with actuarial valuations being carried out at each balance sheet date.

Current service cost is recognised in operating costs in the period in which the defined benefit obligation increases as a result of employee services.

Actuarial gains and losses are recognised in full in the period in which they occur in the statement of other comprehensive income.

Past service costs are recognised immediately to the extent that benefits are already vested. Otherwise such costs are amortised on a straight-line basis over the period until the benefits vest.

Settlements are recognised when a transaction is entered into that eliminates all further legal or constructive obligations for benefits under a scheme.

Curtailments are recognised when a commitment is made to a material reduction in the number of employees covered by a scheme.

The retirement benefit obligations recognised in the balance sheet represent the present value of the defined benefit obligations, as reduced by the fair value of scheme assets and any unrecognised past service cost.

The expected return on scheme assets and the unwinding of the discount on defined benefit obligations are recognised within interest income and expense respectively.

O. Leases

Rentals under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

Assets held under finance leases are recognised at their fair value or, if lower, the present value of the minimum lease payments on inception. The corresponding liability is recognised as a finance lease obligation within borrowings. Rental payments are apportioned between finance costs and reduction in the finance lease obligation, so as to achieve a constant rate of interest.

Assets held under finance leases are depreciated over the shorter of their useful life and the lease term.

P. Financial instruments

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into, and recognised on trade date. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories.

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, less any appropriate allowances for estimated irrecoverable amounts. A provision is established for irrecoverable amounts when there is objective evidence that amounts due under the original payment terms will not be collected. Indications that the trade receivable may become irrecoverable would include financial difficulties of the debtor, likelihood of the debtor's insolvency, and default or significant failure of payment. Trade payables are initially recognised at fair value and subsequently measured at amortised cost.

Loans receivable and other receivables are carried at amortised cost using the effective interest method. Interest income, together with gains and losses when the loans and receivables are derecognised or impaired, are recognised in the income statement.

Accounting policies continued

Other financial investments are recognised at fair value plus, in the case of available-for-sale financial investments, directly related incremental transaction costs, and are subsequently carried at fair value on the balance sheet. Changes in the fair value of investments classified as fair value through profit and loss are included in the income statement, while changes in the fair value of investments classified as available-for-sale are recognised directly in equity, until the investment is disposed of or is determined to be impaired. At this time the cumulative gain or loss previously recognised in equity is included in the income statement for the period. In the case of securities classified as available-for-sale, a significant or prolonged decline in the fair value of the securities below their cost is considered as an indicator that the securities are impaired. Investment income on investments classified as fair value through profit and loss and on available-for-sale investments is recognised using the effective interest method and taken through interest income in the income statement.

Borrowings, which include interest bearing loans, UK retail price index (RPI) linked debt and overdrafts are recorded at their initial fair value which normally reflects the proceeds received, net of direct issue costs less any repayments. Subsequently these are stated at amortised cost, using the effective interest method. Any difference between the proceeds after direct issue costs and the redemption value is recognised over the term of the borrowing in the income statement using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (being assets that necessarily take a substantial period of time to prepare for their intended use or sale) are added to their cost. Such additions cease when the assets are substantially ready for their intended use.

Derivative financial instruments are recorded at fair value. Where the fair value of a derivative is positive it is carried as a derivative asset, and where negative as a derivative liability. Assets and liabilities on different transactions are only netted if the transactions are with the same counterparty, a legal right of set off exists and the cash flows are intended to be settled on a net basis. Gains and losses arising from the changes in fair value are included in the income statement in the period they arise.

No adjustment is made with respect to derivative clauses embedded in financial instruments or other contracts that are closely related to those instruments or contracts. In particular, interest payments on UK RPI debt are linked to movements in the UK retail price index. The link to RPI is considered to be an embedded derivative, which is closely related to the underlying debt instrument based on the view that there is a strong relationship between interest rates and inflation in the UK economy. Consequently these embedded derivatives are not accounted for separately from the debt instrument. Where there are embedded derivatives in host contracts not closely related, the embedded derivative is separately accounted for as a derivative financial instrument and recorded at fair value.

An equity instrument is any contract that evidences a residual interest in the consolidated assets of the Company after deducting all its liabilities and is recorded at the proceeds received, net of direct issue costs, with an amount equal to the nominal amount of the shares issued included in the share capital account and the balance recorded in the share premium account.

Subsequent to initial recognition, the fair values of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets held and offer prices for issued liabilities. When independent prices are not available, fair values are determined by using valuation techniques which are consistent with techniques commonly used by the relevant market. The techniques use observable market data.

Q. Commodity contracts

Commodity contracts that meet the definition of a derivative and which do not meet the exemption for normal sale, purchase or usage are carried at fair value.

Energy purchase contracts for the forward purchase of electricity or gas that are used to satisfy physical delivery requirements to customers or for energy that the Company uses itself meet the normal purchase, sale or usage exemption of IAS 32 'Financial Instruments: Presentation'. They are, therefore, not recognised in the financial statements. Disclosure of commitments under such contracts is made in the notes to the financial statements (see note 28).

Remeasurements of commodity contracts carried at fair value are recognised in the income statement, with changes due to movements in commodity prices recorded in operating costs and changes relating to movements in interest rates recorded in finance costs.

Where contracts are traded on a recognised exchange and margin payments are made, the contract fair values are reported net of the associated margin payments.

R. Hedge accounting

The Company and its subsidiaries enter into both derivative financial instruments (derivatives) and non-derivative financial instruments in order to manage interest rate and foreign currency exposures, and commodity price risks associated with underlying business activities and the financing of those activities.

Hedge accounting allows derivatives to be designated as a hedge of another (non-derivative) financial instrument, to mitigate the impact of potential volatility in the income statement of changes in the fair value of the derivative instruments. To qualify for hedge accounting, documentation is prepared specifying the hedging strategy, the component transactions and methodology used for effectiveness measurement. National Grid uses three hedge accounting methods.

Firstly, changes in the carrying value of financial instruments that are designated and effective as hedges of future cash flows (cash flow hedges) are recognised directly in equity and any ineffective portion is recognised immediately in the income statement. Amounts deferred in equity in respect of cash flow hedges are subsequently recognised in the income statement in the same period in which the hedged item affects net profit or loss. Where a non-financial asset or a non-financial liability results from a forecasted transaction or firm commitment being hedged, the amounts deferred in equity are included in the initial measurement of that non-monetary asset or liability.

Secondly, fair value hedge accounting offsets the changes in the fair value of the hedging instrument against the change in the fair value of the hedged item with respect to the risk being hedged. These changes are recognised in the income statement to the extent the fair value hedge is effective. Adjustments made to the carrying amount of the hedged item for fair value hedges will be amortised over the remaining life, in line with the hedged item.

Thirdly, foreign exchange gains or losses arising on financial instruments that are designated and effective as hedges of the Company's consolidated net investment in overseas operations (net investment hedges) are recorded directly in equity, with any ineffective portion recognised immediately in the income statement.

Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised in the income statement as they arise, within finance costs (included in remeasurements – see accounting policy T).

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. At that time, any cumulative gains or losses relating to cash flow hedges recognised in equity are initially retained in equity and subsequently recognised in the income statement in the same periods in which the previously hedged item affects net profit or loss. Amounts deferred in equity with respect to net investment hedges are subsequently recognised in the income statement in the event of the disposal of the overseas operations concerned. For fair value hedges, the cumulative adjustment recorded to the carrying value of the hedged item at the date hedge accounting is discontinued is amortised to the income statement using the effective interest method.

If a hedged forecast transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement immediately.

S. Share-based payments

The Company issues equity-settled, share-based payments to certain employees of the Company's subsidiary undertakings.

Equity-settled, share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled, share-based payments is expensed on a straight-line basis over the vesting period, based on an estimate of the number of shares that will eventually vest.

T. Business performance and exceptional items, remeasurements and stranded cost recoveries

Our financial performance is analysed into two components: business performance, which excludes exceptional items, remeasurements, stranded cost recoveries and amortisation of acquisition-related intangibles; and exceptional items, remeasurements, stranded cost recoveries and amortisation of acquisition-related intangibles. Business performance is used by management to monitor financial performance as it is considered that it improves the comparability of our reported financial performance from year to year. Business performance subtotals, which exclude exceptional items, remeasurements, stranded cost recoveries and amortisation of acquisition-related intangibles are presented on the face of the income statement or in the notes to the financial statements.

Exceptional items, remeasurements, stranded cost recoveries and amortisation of acquisition-related intangibles are items of income and expense that, in the judgement of management, should be disclosed separately on the basis that they are material, either by their nature or their size, to an understanding of our financial performance and significantly distort the comparability of financial performance between periods.

Items of income or expense that are considered by management for designation as exceptional items include such items as significant restructurings, write-downs or impairments of non-current assets, significant changes in environmental or decommissioning provisions, integration of acquired businesses, restructuring costs, gains or losses on disposals of businesses or investments and debt redemption costs as a consequence of transactions such as significant disposals or issues of equity.

Costs arising from restructuring programmes include redundancy costs. Redundancy costs are charged to the income statement in the year in which an irrevocable commitment is made to incur the costs and the main features of the restructuring plan have been announced to affected employees.

Remeasurements comprise gains or losses recorded in the income statement arising from changes in the fair value of commodity contracts and of derivative financial instruments to the extent that hedge accounting is not achieved or is not effective.

Accounting policies continued

Stranded cost recoveries represent the recovery of historical generation-related costs in the US, related to generation assets that are no longer owned by National Grid. Such costs are being recovered from customers as permitted by regulatory agreements.

Acquisition-related intangibles comprise intangible assets, principally customer relationships, that are only recognised as a consequence of accounting required for a business combination. The amortisation of acquisition-related intangibles distorts the comparison of the financial performance of acquired businesses with non-acquired businesses.

U. Emission allowances

Emission allowances, principally relating to the emissions of carbon dioxide in the UK and sulphur and nitrous oxides in the US, are recorded as intangible assets within current assets and are initially recorded at cost and subsequently at the lower of cost and net realisable value. Where emission allowances are granted by relevant authorities, cost is deemed to be equal to the fair value at the date of allocation. Receipts of such grants are treated as deferred income, which is recognised in the income statement as the related charges for emissions are recognised or on impairment of the related intangible asset. A provision is recorded in respect of the obligation to deliver emission allowances and emission charges are recognised in the income statement in the period in which emissions are made.

Income from emission allowances that are sold is reported in revenue.

V. Cash and cash equivalents

Cash and cash equivalents include cash held at bank and in hand, together with short-term highly liquid investments with an original maturity of less than three months that are readily convertible to known amounts of cash and subject to an insignificant change in value. Net cash and cash equivalents reflected in the cash flow statement are net of bank overdrafts, which are reported in borrowings.

W. Other equity reserves

Other equity reserves comprise the translation reserve (see accounting policy C), cash flow hedge reserve (see accounting policy R), available-for-sale reserve (see accounting policy P), the capital redemption reserve and the merger reserve. The merger reserve arose as a result of the application of merger accounting principles under the then prevailing UK GAAP, which under IFRS 1 was retained for mergers that occurred prior to the IFRS transition date of 1 April 2004. Under merger accounting principles, the difference between the carrying amount of the capital structure of the acquiring vehicle and that of the acquired business was treated as a merger difference and included within reserves.

As the amounts included in other equity reserves are not attributable to any of the other classes of equity presented, they have been disclosed as a separate classification of equity.

X. Dividends

Interim dividends are recognised when they become payable to the Company's shareholders. Final dividends are recognised when they are approved by shareholders.

Y. Areas of judgement and key sources of estimation uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Information about such judgements and estimations is contained in the accounting policies or the notes to the financial statements, and the key areas are summarised below.

Areas of judgement that have the most significant effect on the amounts recognised in the financial statements are as follows:

- The categorisation of certain items as exceptional items, remeasurements and stranded cost recoveries and the definition of adjusted earnings – notes 3 and 8.
- The exemptions adopted on transition to IFRS on 1 April 2004 including, in particular, those relating to business combinations.
- Classification of business activities as held for sale and discontinued operations – accounting policy I.
- Hedge accounting – accounting policy R.
- Energy purchase contracts – classification as being for normal purchase, sale or usage – accounting policy Q and note 28.

Key sources of estimation uncertainty that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

- Impairment of goodwill – accounting policy D and note 9.
- Review of residual lives, carrying values and impairment charges for other intangible assets and property, plant and equipment – accounting policies E, F and G.
- Estimation of liabilities for pensions and other post-retirement benefits – note 23.
- Valuation of financial instruments and derivatives – notes 14 and 31.
- Revenue recognition and assessment of unbilled revenue – accounting policy L.
- Recoverability of deferred tax assets – accounting policy H and note 22.
- Environmental and decommissioning provisions – note 24.

Adoption of new accounting standards

New IFRS accounting standards and interpretations adopted in 2010/11

During the year ended 31 March 2011, the Company adopted the following International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) or amendments, and interpretations by the IFRS Interpretations Committee. None of the pronouncements had a material impact on the Company's consolidated results or assets and liabilities.

- IFRS 3R on business combinations
- IAS 27R on consolidated and individual financial statements
- Amendment to IAS 39 Financial Instruments: Recognition and measurement on eligible hedged items
- Revised IFRS 1 on first time adoption of IFRS
- IFRIC 17 on distribution of non-cash assets to owners
- Improvements to IFRS 2009
- Amendment to IFRS 2 on group cash-settled share-based payments
- Amendment to IFRS 1 on first time adoption of IFRS
- Amendment to IAS 32 on classification of rights issues

New IFRS accounting standards and interpretations not yet adopted

The standards and interpretations listed below were not effective for the year ended 31 March 2011.

The Company enters into a significant number of transactions which fall within the scope of IFRS 9 on financial instruments. The International Accounting Standards Board is completing IFRS 9 on financial instruments in phases and the Company is evaluating the impact of the standard as it develops.

IFRS 10, 11, 12 and 13 and the consequent amendments to IAS 27 and IAS 28 were issued on 12 May 2011. The Company is evaluating the impact of these standards on the financial statements.

None of the other standards and interpretations listed below are expected to have a material impact on the Company's consolidated results or assets and liabilities.

- IFRS 9 on financial instruments
- Revised IAS 24 on related party disclosures
- IFRIC 19 on extinguishing financial liabilities with equity instruments
- Amendment to IFRIC 14 on prepayments of a minimum funding requirement
- Amendment to IFRS 1 on comparative IFRS 7 disclosures
- Improvements to IFRS 2010
- Amendment to IFRS 7 on disclosures for transfers of financial assets
- Amendment to IFRS 1 on severe hyperinflation and removal of fixed dates for first-time adoption
- Amendment to IAS 12 on deferred tax on recovery of underlying assets
- IFRS 10 on consolidated financial statements
- IFRS 11 on joint arrangements
- IFRS 12 on disclosures of interests in other entities
- IFRS 13 on fair value measurements
- IAS 27 on separate financial statements
- IAS 28 on investment in associates and joint ventures

Consolidated income statement

for the years ended 31 March

	Notes	2011 £m	2011 £m	2010 £m	2010 £m	2009 £m	2009 £m
Revenue*	1(a)		**14,343**		14,007		15,687
Operating costs	2		**(10,598)**		(10,714)		(13,064)
Operating profit							
Before exceptional items, remeasurements and stranded cost recoveries	1(b)	**3,600**		3,121		2,915	
Exceptional items, remeasurements and stranded cost recoveries	3	**145**		172		(292)	
Total operating profit	1(b)		**3,745**		3,293		2,623
Interest income and similar income							
Before exceptional items	4	**1,281**		1,005		1,315	
Exceptional items	3,4	**43**		–		–	
Total interest income and similar income	4		**1,324**		1,005		1,315
Interest expense and other finance costs							
Before exceptional items and remeasurements	4	**(2,415)**		(2,160)		(2,465)	
Exceptional items and remeasurements	3,4	**(37)**		47		(84)	
Total interest expense and other finance costs	4		**(2,452)**		(2,113)		(2,549)
Share of post-tax results of joint ventures and associates	13		**7**		8		5
Profit before tax							
Before exceptional items, remeasurements and stranded cost recoveries	1(b)	**2,473**		1,974		1,770	
Exceptional items, remeasurements and stranded cost recoveries	3	**151**		219		(376)	
Total profit before tax	1(b)		**2,624**		2,193		1,394
Taxation							
Before exceptional items, remeasurements and stranded cost recoveries	5	**(722)**		(553)		(517)	
Exceptional items, remeasurements and stranded cost recoveries	3,5	**261**		(251)		45	
Total taxation	5		**(461)**		(804)		(472)
Profit from continuing operations after tax							
Before exceptional items, remeasurements and stranded cost recoveries		**1,751**		1,421		1,253	
Exceptional items, remeasurements and stranded cost recoveries	3	**412**		(32)		(331)	
Profit for the year from continuing operations			**2,163**		1,389		922
Profit for the year from discontinued operations	6		**–**		–		25
Profit for the year			**2,163**		1,389		947
Attributable to:							
Equity shareholders of the parent			**2,159**		1,386		944
Non-controlling interests			**4**		3		3
			2,163		1,389		947
Earnings per share from continuing operations**							
Basic	8		**63.9p**		48.4p		31.8p
Diluted	8		**63.6p**		48.2p		31.7p
Earnings per share**							
Basic	8		**63.9p**		48.4p		32.7p
Diluted	8		**63.6p**		48.2p		32.5p

* Items previously reported separately as 'other operating income' have been included within revenue

**Restated to reflect the impact of the bonus element of the rights issue and as a result of the additional shares issued as scrip dividends

The notes on pages 125 to 176 form part of the consolidated financial statements.

Consolidated statement of comprehensive income

for the years ended 31 March

	Notes	2011 £m	2010 £m	2009 £m
Profit for the year		**2,163**	1,389	947
Other comprehensive income/(loss):				
Exchange adjustments		**(95)**	33	464
Actuarial net gains/(losses)	23	**571**	(731)	(2,018)
Deferred tax on actuarial net gains and losses	5	**(181)**	175	678
Net gains/(losses) in respect of cash flow hedges		**7**	(45)	(1)
Transferred to profit or loss on cash flow hedges		**(7)**	3	(53)
Deferred tax on cash flow hedges	5	**(2)**	9	19
Net gains on available-for-sale investments		**16**	54	9
Transferred to profit or loss on sale of available-for-sale investments		**(3)**	(6)	(18)
Deferred tax on available-for-sale investments	5	**(1)**	(5)	7
Share of post-tax other comprehensive (loss)/income of joint ventures		**(4)**	5	–
Other comprehensive income/(loss) for the year, net of tax		**301**	(508)	(913)
Total comprehensive income for the year		**2,464**	881	34
Total comprehensive income attributable to:				
Equity shareholders of the parent		**2,460**	879	26
Non-controlling interests		**4**	2	8
		2,464	881	34

Consolidated balance sheet

as at 31 March

	Notes	2011 £m	2010 £m
Non-current assets			
Goodwill	9	**4,776**	5,102
Other intangible assets	10	**501**	389
Property, plant and equipment	11	**31,956**	30,855
Other non-current assets	12	**135**	162
Pension assets	23	**556**	–
Financial and other investments	13	**593**	486
Derivative financial assets	14	**1,270**	1,494
Total non-current assets		**39,787**	38,488
Current assets			
Inventories and current intangible assets	15	**320**	407
Trade and other receivables	16	**2,212**	2,293
Financial and other investments	13	**2,939**	1,397
Derivative financial assets	14	**468**	248
Cash and cash equivalents	17	**384**	720
Total current assets		**6,323**	5,065
Assets of businesses held for sale	18	**290**	–
Total assets		**46,400**	43,553
Current liabilities			
Borrowings	19	**(2,952)**	(2,806)
Derivative financial liabilities	14	**(190)**	(212)
Trade and other payables	20	**(2,828)**	(2,847)
Current tax liabilities		**(503)**	(391)
Provisions	24	**(353)**	(303)
Total current liabilities		**(6,826)**	(6,559)
Non-current liabilities			
Borrowings	19	**(20,246)**	(22,318)
Derivative financial liabilities	14	**(404)**	(662)
Other non-current liabilities	21	**(1,944)**	(1,974)
Deferred tax liabilities	22	**(3,766)**	(3,324)
Pensions and other post-retirement benefit obligations	23	**(2,574)**	(3,098)
Provisions	24	**(1,461)**	(1,407)
Total non-current liabilities		**(30,395)**	(32,783)
Liabilities of businesses held for sale	18	**(110)**	–
Total liabilities		**(37,331)**	(39,342)
Net assets		**9,069**	4,211
Equity			
Called up share capital	25	**416**	298
Share premium account		**1,361**	1,366
Retained earnings		**12,153**	7,316
Other equity reserves	26	**(4,870)**	(4,781)
Shareholders' equity		**9,060**	4,199
Non-controlling interests		**9**	12
Total equity		**9,069**	4,211

These financial statements comprising the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement, accounting policies, adoption of new accounting standards and the notes to the consolidated financial statements 1 to 37, were approved by the Board of Directors on 18 May 2011 and were signed on its behalf by:

Sir John Parker Chairman
Andrew Bonfield Finance Director

Consolidated statement of changes in equity

for the years ended 31 March

	Called-up share capital £m	Share premium account £m	Retained earnings £m	Other equity reserves[(i)] £m	Total shareholders' equity £m	Non-controlling interests £m	Total equity £m
At 31 March 2008	294	1,371	8,943	(5,252)	5,356	18	5,374
Total comprehensive (loss)/income for the year	–	–	(396)	422	26	8	34
Equity dividends	–	–	(838)	–	(838)	–	(838)
Issue of treasury shares	–	–	8	–	8	–	8
Repurchase of share capital and purchase of treasury shares	–	–	(603)	–	(603)	–	(603)
Other movements in non-controlling interests	–	–	–	–	–	(12)	(12)
Share-based payment	–	–	22	–	22	–	22
Tax on share-based payment	–	–	(1)	–	(1)	–	(1)
At 31 March 2009	294	1,371	7,135	(4,830)	3,970	14	3,984
Total comprehensive income for the year	–	–	830	49	879	2	881
Equity dividends	–	–	(893)	–	(893)	–	(893)
Scrip dividend related share issue	4	(5)	205	–	204	–	204
Issue of treasury shares	–	–	18	–	18	–	18
Purchase of own shares	–	–	(7)	–	(7)	–	(7)
Other movements in non-controlling interests	–	–	–	–	–	(4)	(4)
Share-based payment	–	–	25	–	25	–	25
Tax on share-based payment	–	–	3	–	3	–	3
At 31 March 2010	298	1,366	7,316	(4,781)	4,199	12	4,211
Total comprehensive income for the year	–	–	2,549	(89)	2,460	4	2,464
Rights issue	113	–	–	3,101	3,214	–	3,214
Transfer between reserves	–	–	3,101	(3,101)	–	–	–
Equity dividends	–	–	(1,064)	–	(1,064)	–	(1,064)
Scrip dividend related share issue	5	(5)	206	–	206	–	206
Issue of treasury shares	–	–	18	–	18	–	18
Purchase of own shares	–	–	(3)	–	(3)	–	(3)
Other movements in non-controlling interests	–	–	–	–	–	(7)	(7)
Share-based payment	–	–	25	–	25	–	25
Tax on share-based payment	–	–	5	–	5	–	5
At 31 March 2011	**416**	**1,361**	**12,153**	**(4,870)**	**9,060**	**9**	**9,069**

(i) For further details of other reserves, see note 26.

Consolidated cash flow statement

for the years ended 31 March

	Notes	2011 £m	2010 £m	2009 £m
Cash flows from operating activities				
Total operating profit	1(b)	**3,745**	3,293	2,623
Adjustments for:				
Exceptional items, remeasurements and stranded cost recoveries	3	**(145)**	(172)	292
Depreciation and amortisation		**1,245**	1,188	1,122
Share-based payment charge		**25**	25	22
Changes in working capital		**185**	431	54
Changes in provisions		**(93)**	(98)	(99)
Changes in pensions and other post-retirement benefit obligations		**(304)**	(521)	(678)
Cash flows relating to exceptional items		**(147)**	(135)	(131)
Cash flows relating to stranded cost recoveries		**343**	361	359
Cash flows generated from continuing operations		**4,854**	4,372	3,564
Cash flows relating to discontinued operations (excluding tax)	27(a)	**–**	–	(8)
Cash generated from operations		**4,854**	4,372	3,556
Tax received/(paid)		**4**	144	(143)
Net cash inflow from operating activities		**4,858**	4,516	3,413
Cash flows from investing activities				
Acquisition of investments		**(135)**	(86)	(73)
Net proceeds from sale of investments in subsidiaries		**11**	6	–
Purchases of intangible assets		**(176)**	(104)	(78)
Purchases of property, plant and equipment		**(2,958)**	(3,007)	(3,107)
Disposals of property, plant and equipment		**26**	15	27
Dividends received from joint ventures		**9**	18	–
Interest received		**26**	21	85
Net movement in short-term financial investments		**(1,577)**	805	99
Cash flows used in continuing operations – investing activities		**(4,774)**	(2,332)	(3,047)
Cash flows relating to discontinued operations – investing activities (net of tax)	27(b)	**–**	–	1,049
Net cash flow used in investing activities		**(4,774)**	(2,332)	(1,998)
Cash flows from financing activities				
Proceeds of rights issue		**3,214**	–	–
Proceeds from issue of treasury shares		**18**	18	8
Proceeds from loans received		**767**	1,933	4,892
Repayment of loans		**(2,878)**	(2,257)	(2,618)
Net movements in short-term borrowings and derivatives		**348**	(175)	(633)
Interest paid		**(965)**	(1,003)	(1,061)
Exceptional finance costs on the redemption of debt		**(73)**	(33)	–
Dividends paid to shareholders		**(858)**	(688)	(838)
Repurchase of share capital and purchase of treasury shares		**(3)**	(7)	(627)
Net cash flow used in financing activities		**(430)**	(2,212)	(877)
Net (decrease)/increase in cash and cash equivalents	27(c)	**(346)**	(28)	538
Exchange movements		**(3)**	(1)	18
Net cash and cash equivalents at start of year		**691**	720	164
Net cash and cash equivalents at end of year (i)	17	**342**	691	720

(i) Net of bank overdrafts of £42m (2010: £29m; 2009: £17m).

Notes to the consolidated financial statements – analysis of items in the primary statements

1. Segmental analysis

The Board of Directors is National Grid's chief operating decision making body (as defined by IFRS 8 on operating segments). The segmental analysis is based on the information the Board of Directors uses internally for the purposes of evaluating the performance of operating segments and determining resource allocation between segments. The performance of operating segments is assessed principally on the basis of operating profit before exceptional items, remeasurements and stranded cost recoveries. The following table describes the main activities for each operating segment:

Transmission UK	High voltage electricity transmission networks, the gas transmission network in Great Britain, UK liquefied natural gas (LNG) storage activities and the French electricity interconnector.
Transmission US	High voltage electricity transmission networks in New York and New England.
Gas Distribution UK	Four of the eight regional networks of Great Britain's gas distribution system.
Gas Distribution US	Gas distribution networks in New York and New England.
Electricity Distribution & Generation US	Electricity distribution networks in New York and New England and electricity generation facilities in New York.

Other activities primarily relate to non-regulated businesses and other commercial operations not included within the above segments, including: UK-based gas and electricity metering activities; UK property management; a UK LNG import terminal; other LNG operations; US unregulated transmission pipelines; US gas fields; together with corporate activities.

For the year ended 31 March 2009, discontinued operations comprise the Ravenswood generation station in New York City and the engineering and communications operations in the US acquired as part of the KeySpan acquisition which were sold during the years ended 31 March 2009 and 2010. For additional disclosures relating to discontinued operations, see note 6.

Sales between operating segments are priced having regard to the regulatory and legal requirements to which the businesses are subject. The analysis of revenue by geographical area is on the basis of destination. There are no material sales between the UK and US geographical areas.

As a consequence of the introduction of a new operating model, which took effect on 4 April 2011, there will be a corresponding change to our reported segments in future reporting periods. The US Transmission, US Gas Distribution and US Electricity Distribution & Generation segments are expected to be combined and reported as a single US segment.

(a) Revenue

	Total sales 2011 £m	Sales between segments 2011 £m	Sales to third parties 2011 £m	Total sales 2010 £m	Sales between segments 2010 £m	Sales to third parties 2010 £m	Total sales 2009 £m	Sales between segments 2009 £m	Sales to third parties 2009 £m
Operating segments – continuing operations									
Transmission UK*	**3,484**	**(7)**	**3,477**	3,475	(6)	3,469	3,517	(2)	3,515
Transmission US	**429**	**(56)**	**373**	405	(74)	331	420	(83)	337
Gas Distribution UK*	**1,524**	**(60)**	**1,464**	1,518	(70)	1,448	1,468	(79)	1,389
Gas Distribution US	**3,811**	**(4)**	**3,807**	3,708	(5)	3,703	4,786	(3)	4,783
Electricity Distribution & Generation US	**4,567**	**(1)**	**4,566**	4,339	(1)	4,338	4,972	(1)	4,971
Other activities*	**678**	**(22)**	**656**	741	(23)	718	750	(58)	692
	14,493	**(150)**	**14,343**	14,186	(179)	14,007	15,913	(226)	15,687
Total excluding stranded cost recoveries			**13,988**			13,631			15,252
Stranded cost recoveries			**355**			376			435
			14,343			14,007			15,687
Geographical areas									
UK			**5,556**			5,543			5,397
US			**8,787**			8,464			10,290
			14,343			14,007			15,687

*Items previously reported separately as 'other operating income' have been included within revenue

Where revenue received or receivable exceeds the maximum amount permitted by regulatory agreement and adjustments will be made to future prices to reflect the over-recovery, no liability is recognised. Similarly, no asset is recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery. In the UK, there was an under-recovery of £34m at 31 March 2011 (2010: £100m; 2009: £52m). In the US, under-recoveries and other regulatory entitlements to future revenue (including stranded cost recoveries) amounted to £1,618m at 31 March 2011 (2010: £2,333m; 2009: £2,289m).

Notes to the consolidated financial statements continued

1. Segmental analysis continued

(b) Operating profit

A reconciliation of the operating segments' measure of profit to total profit before taxation is provided below. Further details of the exceptional items, remeasurements and stranded cost recoveries are provided in note 3.

	Before exceptional items, remeasurements and stranded cost recoveries			After exceptional items, remeasurements and stranded cost recoveries		
	2011 £m	2010 £m	2009 £m	**2011 £m**	2010 £m	2009 £m
Operating segments – continuing operations						
Transmission UK	**1,363**	1,311	1,126	**1,293**	1,252	1,063
Transmission US	**156**	153	175	**154**	151	173
Gas Distribution UK	**711**	723	672	**671**	682	629
Gas Distribution US	**654**	414	612	**640**	448	226
Electricity Distribution & Generation US	**597**	374	265	**910**	701	531
Other activities	**119**	146	65	**77**	59	1
	3,600	3,121	2,915	**3,745**	3,293	2,623
Geographical areas						
UK	**2,226**	2,180	1,875	**2,055**	2,007	1,729
US	**1,374**	941	1,040	**1,690**	1,286	894
	3,600	3,121	2,915	**3,745**	3,293	2,623
Reconciliation to profit before tax:						
Operating profit	**3,600**	3,121	2,915	**3,745**	3,293	2,623
Interest income and similar income	**1,281**	1,005	1,315	**1,324**	1,005	1,315
Interest expense and other finance costs	**(2,415)**	(2,160)	(2,465)	**(2,452)**	(2,113)	(2,549)
Share of post-tax results of joint ventures and associates	**7**	8	5	**7**	8	5
Profit before tax – continuing operations	**2,473**	1,974	1,770	**2,624**	2,193	1,394

(c) Capital expenditure and depreciation

	Capital expenditure			Depreciation and amortisation		
	2011 £m	2010 £m	2009 £m	**2011 £m**	2010 £m	2009 £m
Operating segments – continuing operations						
Transmission UK	**1,432**	1,254	1,259	**(400)**	(373)	(353)
Transmission US	**310**	240	182	**(63)**	(59)	(56)
Gas Distribution UK	**669**	670	598	**(218)**	(201)	(177)
Gas Distribution US	**415**	409	421	**(175)**	(173)	(172)
Electricity Distribution & Generation US	**367**	372	355	**(207)**	(215)	(223)
Other activities	**275**	307	427	**(189)**	(173)	(146)
	3,468	3,252	3,242	**(1,252)**	(1,194)	(1,127)
Geographical areas						
UK	**2,310**	2,187	2,270	**(789)**	(733)	(679)
US	**1,158**	1,065	972	**(463)**	(461)	(448)
	3,468	3,252	3,242	**(1,252)**	(1,194)	(1,127)
By asset type						
Property, plant and equipment	**3,292**	3,148	3,164	**(1,182)**	(1,131)	(1,058)
Other non-current intangible assets	**176**	104	78	**(70)**	(63)	(69)
	3,468	3,252	3,242	**(1,252)**	(1,194)	(1,127)

2. Operating costs

	Before exceptional items, remeasurements and stranded cost recoveries			Exceptional items, remeasurements and stranded cost recoveries			Total		
	2011 £m	2010 £m	2009 £m	**2011 £m**	2010 £m	2009 £m	**2011 £m**	2010 £m	2009 £m
Depreciation and amortisation	**1,245**	1,188	1,122	**7**	6	5	**1,252**	1,194	1,127
Payroll costs	**1,460**	1,354	1,415	**36**	48	34	**1,496**	1,402	1,449
Purchases of electricity	**1,547**	1,592	2,199	**(65)**	(19)	28	**1,482**	1,573	2,227
Purchases of gas	**2,102**	2,294	3,228	**(82)**	(52)	334	**2,020**	2,242	3,562
Rates and property taxes	**945**	907	881	**–**	–	–	**945**	907	881
Balancing Service Incentive Scheme	**581**	691	904	**–**	–	–	**581**	691	904
Payments to Scottish transmission owners	**298**	260	243	**–**	–	–	**298**	260	243
Other	**2,210**	2,224	2,345	**314**	221	326	**2,524**	2,445	2,671
	10,388	10,510	12,337	**210**	204	727	**10,598**	10,714	13,064
Operating costs include:									
Inventory consumed							**451**	475	788
Operating leases							**89**	87	81
Research expenditure							**16**	19	10

(a) Payroll costs

	2011 £m	2010 £m	2009 £m
Wages and salaries	**1,592**	1,596	1,615
Social security costs	**119**	120	118
Other pension costs	**208**	161	160
Share-based payments (note 35)	**25**	25	22
Severance costs (excluding pension costs)	**56**	16	16
	2,000	1,918	1,931
Less: payroll costs capitalised	**(504)**	(516)	(482)
	1,496	1,402	1,449

Payroll costs of discontinued operations for the year ended 31 March 2009 were £11m.

(b) Number of employees

	31 March 2011 Number	**Average 2011 Number**	31 March 2010 Number	Average 2010 Number
UK	**9,807**	**9,953**	10,211	10,269
US	**17,282**	**17,719**	17,895	17,798
	27,089	**27,672**	28,106	28,067

The vast majority of employees in the US are either directly or indirectly employed in the transmission, distribution and generation of electricity or the distribution of gas, while those in the UK are either directly or indirectly employed in the transmission and distribution of gas or the transmission of electricity. At 31 March 2011, there were 2,597 (2010: 3,533) employees in other operations, excluding shared services.

Notes to the consolidated financial statements continued

2. Operating costs continued

(c) Key management compensation

	2010 £m	2009 £m
Salaries and short-term employee benefits	10	11
Post-retirement benefits	4	3
Share-based payments	5	5
	19	19

Key management compensation relates to the Board of Directors, including the Executive Directors and Non-executive Directors for the years presented.

(d) Directors' emoluments

Details of Directors' emoluments are contained in the auditable part of the Directors' Remuneration Report, which forms part of these financial statements.

(e) Auditors' remuneration

	2011 £m	2010 £m	2009 £m
Total services pursuant to legislation			
Audit services:			
Audit of parent company and consolidated financial statements	**1.0**	1.1	1.5
Other services pursuant to legislation: (i)			
Audit of subsidiary financial statements	**4.8**	5.4	5.8
Other services supplied	**2.1**	1.9	2.4
	7.9	8.4	9.7
Total other services			
Services relating to tax compliance	**0.5**	0.6	0.6
Services relating to tax advice	**0.4**	0.8	0.3
Services relating to information technology	**0.2**	–	–
Services relating to corporate finance transactions*	**0.4**	0.4	0.1
All other services* (ii)	**1.2**	0.8	0.8
	2.7	2.6	1.8
Total auditors' remuneration	**10.6**	11.0	11.5

*Comparatives have been re-presented on a basis consistent with the current year classification

(i) Other services supplied pursuant to legislation represent fees payable for services in relation to other statutory filings or engagements that are required to be carried out by the auditors. In particular, this includes fees for reports under section 404 of the US Public Company Accounting Reform and Investor Protection Act of 2002 (Sarbanes-Oxley) and audit reports on regulatory returns.

(ii) All other services include fees relating to corporate responsibility reporting, treasury related projects and sundry services, all of which have been subject to prior approval by the Audit Committee.

In addition, fees of £0.1m were incurred in 2011 in relation to the audits of the pension schemes of the Company (2010: £0.1m; 2009: £0.1m).

3. Exceptional items, remeasurements and stranded cost recoveries

	2011 £m	2010 £m	2009 £m
Included within operating profit:			
Exceptional items:			
Restructuring costs(1)	**(89)**	(149)	(192)
Environmental charges(2)	**(128)**	(63)	(78)
Net gain on disposal of subsidiaries and associate(3)	**15**	11	–
Impairment charges and related costs(4)	**(133)**	–	–
Other(5)	**(15)**	(67)	(5)
	(350)	(268)	(275)
Remeasurements – commodity contracts(6)	**147**	71	(443)
Stranded cost recoveries(7)	**348**	369	426
	145	172	(292)
Included within interest income and similar income:			
Exceptional items:			
Interest credit on tax settlement(8)	**43**	–	–
Included within finance costs:			
Exceptional items:			
Debt redemption costs(9)	**(73)**	(33)	–
Remeasurements:			
Commodity contracts(6)	**–**	(1)	(2)
Net gains/(losses) on derivative financial instruments(10)	**36**	81	(82)
	(37)	47	(84)
Total included within profit before tax	**151**	219	(376)
Included within taxation:			
Exceptional credits/(charges) arising on items not included in profit before tax:			
Deferred tax credit arising on the reduction in the UK tax rate(11)	**226**	–	–
Deferred tax charge arising from change in UK industrial building allowance regime(12)	**–**	–	(49)
Other(13,14)	**59**	(41)	–
Tax on exceptional items	**79**	72	77
Tax on remeasurements (6,10)	**36**	(134)	187
Tax on stranded cost recoveries	**(139)**	(148)	(170)
	261	(251)	45
Total exceptional items, remeasurements and stranded cost recoveries after tax	**412**	(32)	(331)
Analysis of total exceptional items, remeasurements and stranded cost recoveries after tax:			
Exceptional items after tax	**(16)**	(270)	(247)
Remeasurements after tax	**219**	17	(340)
Stranded cost recoveries after tax	**209**	221	256
Total	**412**	(32)	(331)

(1) Restructuring costs include:

- costs related to the integration of KeySpan of £15m (2010: £30m; 2009: £53m);
- transformation related initiatives of £103m (2010: £78m; 2009: £68m);
- a charge of £10m related to the restructuring of our US operations, which includes a severance provision offset by a pension and other post-retirement benefits curtailment gain; and
- a release of £39m of restructuring provisions recognised in prior years.

Charges in 2010 and 2009 also included an amount for the restructuring of our liquefied natural gas (LNG) storage facilities of £41m and £50m respectively and in 2009 charges related to planned cost reduction programmes in our UK businesses of £21m.

(2) Environmental charges include £70m (2010: £42m; 2009: £37m) and £58m (2010: £21m; 2009: £41m) related to specific exposures in the UK and US respectively. Costs incurred with respect to US environmental provisions are substantially recoverable from customers.

(3) During the year we sold three wholly-owned subsidiaries and an interest in an associate resulting in a gain of £15m. During the year ended 31 March 2010 there was a gain of £5m on the sale of an associate and the release of various unutilised provisions amounting to £6m originally recorded on the sale of a wholly-owned subsidiary in 2008.

Notes to the consolidated financial statements continued

3. Exceptional items, remeasurements and stranded cost recoveries continued

(4) Impairment charges and related costs include:
- a charge of £49m relating to our investment in Blue-NG, a joint venture investing in combined heat and power generation. The charge comprises an impairment of the carrying value of the investment together with committed funding and associated exit costs;
- an impairment charge of £34m against the carrying value of the goodwill relating to our US companies in New Hampshire following our announcement in December 2010 of the proposed sale of these businesses; and
- a charge of £50m relating to our US generation assets for impairment and associated decommissioning.

(5) Other exceptional charges for the year include an amortisation charge of £7m (2010: £6m; 2009: £5m) in relation to acquisition-related intangibles plus an £8m penalty levied by Ofgem on our UK Gas Distribution business. For the year ended 31 March 2010, other exceptional items also included an impairment charge of £11m in relation to acquisition-related intangibles, a charge of £9m relating to US healthcare costs arising from legislative changes, and £41m related to a fine of £15m levied by the Gas and Electricity Markets Authority (GEMA) together with associated costs and provisions against receivables and other balance sheet items. For further details of the fine levied upon us by GEMA refer to note 28.

(6) Remeasurements – commodity contracts represent mark-to-market movements on certain physical and financial commodity contract obligations in the US. These contracts primarily relate to the forward purchase of energy for supply to customers, or to the economic hedging thereof, that are required to be measured at fair value and that do not qualify for hedge accounting. Under the existing rate plans in the US, commodity costs are recoverable from customers although the timing of recovery may differ from the pattern of costs incurred. These movements are comprised of those affecting operating profit which are based on the change in the commodity contract liability and those recorded in finance costs as a result of the time value of money.

(7) Stranded cost recoveries include the recovery of some of our historical investments in generating plants that were divested as part of the restructuring and wholesale power deregulation process in New England and New York during the 1990s. Stranded cost recoveries on a pre-tax basis consist of revenue of £355m (2010: £376m; 2009: £435m) and operating costs of £7m (2010: £7m; 2009: £9m).

(8) During the year we reached agreement with the US tax authorities on the settlement of pre-acquisition tax liabilities which resulted in the repayment of tax and interest accruing.

(9) Debt redemption costs represent costs arising from our debt repurchase programme, undertaken primarily in the first half of the year, to manage our cash resources efficiently following the rights issue. Debt redemption costs in the year ended 31 March 2010 represented costs relating to the early redemption of a significant loan.

(10) Remeasurements – net gains/(losses) on derivative financial instruments comprise gains/(losses) arising on derivative financial instruments reported in the income statement. These exclude gains and losses for which hedge accounting has been effective, which have been recognised directly in other comprehensive income or which are offset by adjustments to the carrying value of debt. The tax credit in the year includes a credit of £104m (2010: £78m charge; 2009: £1m charge) in respect of prior years.

(11) The exceptional tax credit arises from a reduction in the UK corporation tax rate from 28% to 26% included and enacted in the Finance (No. 2) Act 2010 and the Provisional Collection of Taxes Act 1968 and applicable from 1 April 2011. This results in a reduction in deferred tax liabilities.

(12) The exceptional tax charge of £49m in the year ended 31 March 2009 arose from a change in the UK industrial building allowance regime arising in the 2008 Finance Act. This resulted in an increase in deferred tax liabilities.

(13) The exceptional tax charge of £41m in the year ended 31 March 2010 arose from a change in US tax legislation under the Patient Protection and Affordable Care Act.

(14) The exceptional tax credit for the year ended 31 March 2011 primarily arose from a settlement of pre-acquisition tax liabilities with the US tax authorities.

4. Finance income and costs

	2011 £m	2010 £m	2009 £m
Interest income and similar income			
Expected return on pension and other post-retirement benefit plan assets	**1,256**	981	1,236
Interest income on financial instruments:			
Bank deposits and other financial assets	**22**	18	61
Gains on disposal of available-for-sale investments	**3**	6	18
Interest income and similar income before exceptional items	**1,281**	1,005	1,315
Exceptional items			
Exceptional interest credit on tax settlement	**43**	–	–
Interest income and similar income	**1,324**	1,005	1,315
Interest expense and other finance costs			
Interest on pension and other post-retirement benefit plan obligations	**(1,231)**	(1,193)	(1,250)
Interest expense on financial liabilities held at amortised cost:			
Bank loans and overdrafts	**(85)**	(80)	(136)
Other borrowings	**(1,184)**	(938)	(1,149)
Derivatives	**84**	22	5
Unwinding of discounts on provisions	**(128)**	(70)	(68)
Less: Interest capitalised (i)	**129**	99	133
Interest expense and other finance costs before exceptional items and remeasurements	**(2,415)**	(2,160)	(2,465)
Exceptional items			
Exceptional debt redemption costs	**(73)**	(33)	–
Remeasurements			
Net gains/(losses) on derivative financial instruments included in remeasurements (ii):			
Ineffectiveness on derivatives designated as:			
Fair value hedges (iii)	**40**	67	(34)
Cash flow hedges	**9**	(5)	(18)
Net investment hedges	**7**	(19)	(2)
Net investment hedges – undesignated forward rate risk	**(16)**	51	112
Derivatives not designated as hedges or ineligible for hedge accounting	**(4)**	(13)	(140)
Financial element of remeasurements on commodity contracts	**–**	(1)	(2)
	36	80	(84)
Exceptional items and remeasurements included within interest expense	**(37)**	47	(84)
Interest expense and other finance costs	**(2,452)**	(2,113)	(2,549)
Net finance costs		(1,108)	(1,234)

(i) Interest on funding attributable to assets in the course of construction was capitalised during the year at a rate of 5.3% (2010: 2.8%; 2009: 5.7%).

(ii) Includes a net foreign exchange gain on financing activities of £173m (2010: £334m gain; 2009: £1,500m loss) offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.

(iii) Includes a net gain on instruments designated as fair value hedges of £86m (2010: £90m loss; 2009: £382m gain) offset by a net loss of £46m (2010: £157m gain; 2009: £416m loss) arising from fair value adjustments to the carrying value of debt.

Notes to the consolidated financial statements continued

5. Taxation

Taxation on items charged/(credited) to the income statement

	2011 £m	2010 £m	2009 £m
Tax before exceptional items, remeasurements and stranded cost recoveries	**722**	553	517
Exceptional tax on items not included in profit before tax (see note 3)	**(285)**	41	49
Tax on other exceptional items, remeasurements and stranded cost recoveries	**24**	210	(94)
Tax on total exceptional items, remeasurements and stranded cost recoveries (see note 3)	**(261)**	251	(45)
Total tax charge	**461**	804	472

Taxation as a percentage of profit before tax

	2011 %	2010 %	2009 %
Before exceptional items, remeasurements and stranded cost recoveries	**29.2**	28.0	29.2
After exceptional items, remeasurements and stranded cost recoveries	**17.6**	36.7	33.9

The tax charge for the year can be analysed as follows:

	2011 £m	2010 £m	2009 £m
United Kingdom			
Corporation tax at 28%	**168**	197	37
Corporation tax adjustment in respect of prior years	**(161)**	(31)	(54)
Deferred tax	**53**	259	339
Deferred tax adjustment in respect of prior years	**(43)**	(5)	–
	17	420	322
Overseas			
Corporate tax	**105**	74	105
Corporate tax adjustment in respect of prior years	**(2)**	(364)	38
Deferred tax	**393**	279	37
Deferred tax adjustment in respect of prior years	**(52)**	395	(30)
	444	384	150
Total tax charge	**461**	804	472

Adjustments in respect of prior years include a £207m corporation tax credit (2010: £76m charge; 2009: £2m credit) and a £44m deferred tax charge (2010: £1m; 2009: £1m) that relate to exceptional items, remeasurements and stranded cost recoveries.

Tax on items (credited)/charged to other comprehensive income and equity

	2011 £m	2010 £m	2009 £m
Corporation tax			
Share-based payments	**(1)**	(3)	(2)
Deferred tax			
Share of other comprehensive income of joint ventures and associates	**(2)**	4	–
Available-for-sale investments	**1**	5	(7)
Cash flow hedges	**2**	(9)	(19)
Share-based payments	**(4)**	–	3
Actuarial gains/(losses) (i)	**181**	(175)	(678)
	177	(178)	(703)
Total tax recognised in the statement of comprehensive income	**182**	(175)	(704)
Total tax relating to share-based payments recognised directly in equity	**(5)**	(3)	1
	177	(178)	(703)

(i) 2010 includes a £42m charge relating to a change in US tax legislation under the Patient Protection and Affordable Care Act.

5. Taxation continued

The tax charge for the year after exceptional items, remeasurements and stranded cost recoveries is lower than (2010: higher; 2009: higher) the standard rate of corporation tax in the UK of 28% (2010: 28%; 2009: 28%):

	Before exceptional items, remeasurements and stranded cost recoveries 2011 £m	**After exceptional items, remeasurements and stranded cost recoveries 2011 £m**	Before exceptional items, remeasurements and stranded cost recoveries 2010 £m	After exceptional items, remeasurements and stranded cost recoveries 2010 £m	Before exceptional items, remeasurements and stranded cost recoveries 2009 £m	After exceptional items, remeasurements and stranded cost recoveries 2009 £m
Profit before tax						
Before exceptional items, remeasurements and stranded cost recoveries	**2,473**	**2,473**	1,974	1,974	1,770	1,770
Exceptional items, remeasurements and stranded cost recoveries	**–**	**151**	–	219	–	(376)
Profit before tax	**2,473**	**2,624**	1,974	2,193	1,770	1,394
Profit before tax multiplied by UK corporation tax rate of 28%	**692**	**735**	553	614	496	390
Effects of:						
Adjustments in respect of prior years	**(95)**	**(258)**	(82)	(5)	(45)	(46)
Expenses not deductible for tax purposes	**42**	**204**	62	237	76	82
Non-taxable income	**5**	**(136)**	(6)	(131)	(35)	(34)
Adjustment in respect of foreign tax rates	**74**	**120**	37	77	38	32
Impact of share-based payments	**1**	**1**	–	–	1	1
Deferred tax impact of change in UK tax rate	**–**	**(226)**	–	–	–	–
Other	**3**	**21**	(11)	12	(14)	47
Total tax	**722**	**461**	553	804	517	472

	%	**%**	%	%	%	%
Effective tax rate	**29.2**	**17.6**	28.0	36.7	29.2	33.9

Factors that may affect future tax charges

A number of changes to the UK corporation tax system were announced in the 2011 UK Budget Report and are expected to be enacted in the Finance Act 2011. However, the reduction in the UK corporation tax rate to 26% from 1 April 2011 has been substantively enacted and deferred tax balances have been calculated at this rate.

Other changes such as the reduction in the UK corporation tax rate to 25% from April 2012, with further 1% reductions to follow in each of the succeeding two years, will result in a UK corporation tax rate of 23% from April 2014. These changes have not been substantively enacted as at the balance sheet date and have therefore not been reflected in these financial statements.

The outcome of the ongoing UK consultation process on the reform of the controlled foreign company legislation, as part of the wider UK corporate tax reform agenda, is expected in the UK Finance Bill 2012. We will monitor the expected changes for their implications on our holdings in foreign operations.

Notes to the consolidated financial statements continued

6. Discontinued operations

For the year ended 31 March 2009, discontinued operations comprised the Ravenswood generation station in New York and the engineering and communications operations in the US acquired as part of the KeySpan acquisition. The Ravenswood generation station, KeySpan Communications and one of the KeySpan engineering companies were sold in the year ended 31 March 2009. The two further KeySpan engineering companies were sold at the beginning of the year ended 31 March 2010 and consequently did not have material operating results in that year.

Results of discontinued operations

	2011 £m	2010 £m	2009 £m
Revenue	–	–	97
Operating costs	–	–	(84)
Total operating profit	–	–	13
Taxation	–	–	(4)
Profit after tax	–	–	9
Gain on disposal	–	–	27
Taxation (i)	–	–	(11)
Gain on disposal after tax	–	–	16
Total profit for the year from discontinued operations	–	–	25

(i) The tax charge for the year ended 31 March 2009 included a current tax charge of £564m offset by a deferred tax credit of £564m.

7. Dividends

The following table shows the actual dividends paid to equity shareholders:

	2011 pence per share	2011 Total £m	2011 settled via scrip £m	2010 pence per share	2010 Total £m	2010 settled via scrip £m	2009 pence per share	2009 Total £m
Interim – year ended 31 March 2011	12.90	451	65	–	–	–	–	–
Final – year ended 31 March 2010	24.84	613	141	–	–	–	–	–
Interim – year ended 31 March 2010	–	–	–	13.65	336	68	–	–
Final – year ended 31 March 2009	–	–	–	23.00	557	137	–	–
Interim – year ended 31 March 2009	–	–	–	–	–	–	12.64	307
Final – year ended 31 March 2008	–	–	–	–	–	–	21.30	531
	37.74	1,064	206	36.65	893	205	33.94	838

For comparability purposes the table below presents rebased dividends per share after taking account of the impact of the rights issue:

	2011 pence per share (actual)	2011 impact of rights issue	2011 pence per share (rebased)	2010 pence per share (actual)	2010 impact of rights issue	2010 pence per share (rebased)	2009 pence per share (actual)	2009 pence per share (rebased)
Interim – year ended 31 March 2011	12.90	–	12.90	–	–	–	–	–
Final – year ended 31 March 2010	24.84	(3.10)	21.74	–	–	–	–	–
Interim – year ended 31 March 2010	–	–	–	13.65	(1.71)	11.94	–	–
Final – year ended 31 March 2009	–	–	–	23.00	(1.87)	20.13	–	–
Interim – year ended 31 March 2009	–	–	–	–	–	–	12.64	11.06
Final – year ended 31 March 2008	–	–	–	–	–	–	21.30	18.64
	37.74	(3.10)	34.64	36.65	(3.58)	32.07	33.94	29.70

The Directors are proposing a final dividend for 2011 of 23.47p per share that will absorb approximately £824m of shareholders' equity (assuming all amounts are settled in cash). It will be paid on 17 August 2011 to shareholders who are on the register of members at 3 June 2011 and a scrip dividend will be offered as an alternative, subject to shareholders' approval at the Annual General Meeting.

8. Earnings per share

Adjusted earnings per share, excluding exceptional items, remeasurements and stranded cost recoveries, are provided to reflect the business performance subtotals used by the Company. For further details of exceptional items, remeasurements and stranded cost recoveries, see note 3.

(a) Basic earnings per share

	Earnings 2011 £m	Earnings per share 2011 pence	Earnings 2010 £m	Earnings per share 2010* pence	Earnings 2009 £m	Earnings per share 2009* pence
Adjusted earnings – continuing operations	**1,747**	**51.7**	1,418	49.5	1,250	43.3
Exceptional items after tax	**(16)**	**(0.5)**	(270)	(9.4)	(247)	(8.6)
Remeasurements after tax	**219**	**6.5**	17	0.6	(340)	(11.8)
Stranded cost recoveries after tax	**209**	**6.2**	221	7.7	256	8.9
Earnings – continuing operations	**2,159**	**63.9**	1,386	48.4	919	31.8
Earnings – discontinued operations	**–**	**–**	–	–	25	0.9
Earnings	**2,159**	**63.9**	1,386	48.4	944	32.7

	2011 millions	2010 millions	2009 millions
Weighted average number of shares – basic*	**3,378**	2,864	2,886

*Comparative EPS data have been restated to reflect the impact of the bonus element of the rights issue and as a result of the additional shares issued as scrip dividends

(b) Diluted earnings per share

	Earnings 2011 £m	Earnings per share 2011 pence	Earnings 2010 £m	Earnings per share 2010* pence	Earnings 2009 £m	Earnings per share 2009* pence
Adjusted diluted earnings – continuing operations	**1,747**	**51.4**	1,418	49.3	1,250	43.1
Exceptional items after tax	**(16)**	**(0.5)**	(270)	(9.4)	(247)	(8.5)
Remeasurements after tax	**219**	**6.5**	17	0.6	(340)	(11.7)
Stranded cost recoveries after tax	**209**	**6.2**	221	7.7	256	8.8
Diluted earnings – continuing operations	**2,159**	**63.6**	1,386	48.2	919	31.7
Diluted earnings – discontinued operations	**–**	**–**	–	–	25	0.8
Diluted earnings	**2,159**	**63.6**	1,386	48.2	944	32.5

	2011 millions	2010 millions	2009 millions
Weighted average number of shares – diluted*	**3,397**	2,877	2,903

*Comparative EPS data have been restated to reflect the impact of the bonus element of the rights issue and as a result of the additional shares issued as scrip dividends

(c) Reconciliation of basic to diluted average number of shares

	2011 millions	2010 millions	2009 millions
Weighted average number of ordinary shares – basic	**3,378**	2,864	2,886
Effect of dilutive potential ordinary shares – employee share plans	**19**	13	17
Weighted average number of ordinary shares – diluted	**3,397**	2,877	2,903

Notes to the consolidated financial statements continued

9. Goodwill

	Total £m
Cost at 31 March 2009	5,391
Exchange adjustments	(289)
Cost at 31 March 2010	5,102
Exchange adjustments	(280)
Impairment of goodwill on businesses reclassified as held for sale (notes 3 and 18) (i)	(34)
Reclassified as held for sale	(12)
Cost at 31 March 2011	4,776
Net book value at 31 March 2011	**4,776**
Net book value at 31 March 2010	5,102

(i) Relates to our gas operations (£30m) and our electricity distribution operations (£4m).

The amounts disclosed above as at 31 March 2011 include balances relating to our US gas operations of £2,876m (2010: £3,077m), our New England electricity distribution operations of £819m (2010: £881m), our operations run by our subsidiary Niagara Mohawk Power Corporation of £849m (2010: £898m) and our New England transmission operations of £232m (2010: £246m).

Goodwill is reviewed annually for impairment and the recoverability of goodwill at 31 March 2011 has been assessed by comparing the carrying amount of our operations described above (our cash generating units) with the expected recoverable amount on a value-in-use basis. In each assessment the value-in-use has been calculated based on four year plan projections that incorporate our best estimates of future cash flows, customer rates, costs, future prices and growth. Such projections reflect our current regulatory rate plans taking into account regulatory arrangements to allow for future rate plan filings and recovery of investment. Our plans have proved to be reliable guides in the past and the Directors believe the estimates are appropriate.

The future growth rate used to extrapolate projections beyond four years has been reduced to 2.4%. The growth rate has been determined having regard to data on projected growth in US real gross domestic product (GDP). Based on our business's place in the underlying US economy, it is appropriate for the terminal growth rate to be based upon the overall growth in real GDP and, given the nature of our operations, to extend over a long period of time. Cash flow projections have been discounted to reflect the time value of money, using an effective pre-tax discount rate of 10% (2010: 10%). The discount rate represents the estimated weighted average cost of capital of these operations.

While it is possible that a key assumption in the calculation could change, the Directors believe that no reasonably foreseeable change would result in an impairment of goodwill, in view of the long-term nature of the key assumptions and the margin by which the estimated fair value exceeds the carrying amount.

10. Other intangible assets

	Software £m	Acquisition-related £m	Other £m	Total £m
Non-current				
Cost at 31 March 2009	525	129	16	670
Exchange adjustments	(8)	(7)	–	(15)
Additions	103	–	1	104
Reclassifications and disposals (i)	4	–	1	5
Cost at 31 March 2010	624	122	18	764
Exchange adjustments	(13)	(7)	–	(20)
Additions	176	–	–	176
Reclassified as held for sale	(4)	–	–	(4)
Other reclassifications and disposals (i)	17	–	(14)	3
Cost at 31 March 2011	800	115	4	919
Amortisation at 31 March 2009	(282)	(10)	(8)	(300)
Exchange adjustments	6	–	–	6
Amortisation charge for the year	(52)	(6)	(5)	(63)
Impairment charge for the year	(7)	(11)	–	(18)
Reclassifications and disposals (i)	1	–	(1)	–
Amortisation at 31 March 2010	(334)	(27)	(14)	(375)
Exchange adjustments	4	3	–	7
Amortisation charge for the year	(62)	(7)	(1)	(70)
Reclassified as held for sale	3	–	–	3
Other reclassifications and disposals (i)	6	–	11	17
Amortisation at 31 March 2011	(383)	(31)	(4)	(418)
Net book value at 31 March 2011	**417**	**84**	**–**	**501**
Net book value at 31 March 2010	290	95	4	389

(i) Primarily represents reclassifications between property, plant and equipment, trade and other receivables and between categories.

Notes to the consolidated financial statements continued

11. Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total £m
Cost at 31 March 2009	1,504	37,516	2,485	889	42,394
Exchange adjustments	(54)	(765)	(19)	(2)	(840)
Additions	43	893	2,108	104	3,148
Disposals	(12)	(288)	(2)	(48)	(350)
Reclassifications (i)	91	1,874	(2,031)	83	17
Cost at 31 March 2010	1,572	39,230	2,541	1,026	44,369
Exchange adjustments	(56)	(812)	(30)	(2)	(900)
Additions	123	888	2,194	87	3,292
Disposals	(22)	(305)	–	(25)	(352)
Reclassified as held for sale	(5)	(278)	(3)	(1)	(287)
Reclassifications (i)	146	2,175	(2,285)	(33)	3
Cost at 31 March 2011	1,758	40,898	2,417	1,052	46,125
Depreciation at 31 March 2009	(242)	(12,084)	–	(523)	(12,849)
Exchange adjustments	4	206	–	2	212
Depreciation charge for the year (ii)	(30)	(1,027)	–	(91)	(1,148)
Impairment charge for the year (iii)	(3)	(23)	(2)	(1)	(29)
Disposals	10	261	–	44	315
Reclassifications (i)	(22)	43	–	(36)	(15)
Depreciation at 31 March 2010	(283)	(12,624)	(2)	(605)	(13,514)
Exchange adjustments	7	218	–	–	225
Depreciation charge for the year (ii)	(39)	(1,072)	–	(89)	(1,200)
Impairment charge for the year (iv)	–	(20)	–	–	(20)
Disposals	9	228	–	19	256
Reclassified as held for sale	5	78	–	1	84
Reclassifications (i)	(108)	92	–	16	–
Depreciation at 31 March 2011	(409)	(13,100)	(2)	(658)	(14,169)
Net book value at 31 March 2011	**1,349**	**27,798**	**2,415**	**394**	**31,956**
Net book value at 31 March 2010	1,289	26,606	2,539	421	30,855

(i) Primarily represents reclassifications between categories, other intangible assets, trade and other receivables and other payables.

(ii) Includes amounts in respect of capitalised depreciation of £18m (2010: £17m).

(iii) Relates to write-down of the liquefied natural gas (LNG) storage facilities.

(iv) Relates to write-down of certain of our US generation assets.

	2011 £m	2010 £m
Information in relation to property, plant and equipment		
Capitalised interest included within cost	**1,023**	903
Net book value of assets held under finance leases	**199**	202
Additions to assets held under finance leases	**68**	13
Contributions to cost of property, plant and equipment included within:		
Trade and other payables	**40**	39
Non-current liabilities	**1,476**	1,478

12. Other non-current assets

	2011 £m	2010 £m
Commodity contract assets	**94**	84
Other receivables	**37**	71
Prepayments	**4**	7
	135	162

There is no material difference between the fair value and the carrying value of other non-current assets.

13. Financial and other investments

	2011 £m	2010 £m
Non-current		
Available-for-sale investments	**237**	236
Investments in joint ventures and associates (note 13a)	**356**	250
	593	486
Current		
Available-for-sale investments	**2,776**	1,285
Loans and receivables	**163**	112
	2,939	1,397
Total financial and other investments	**3,532**	1,883
Financial and other investments include the following:		
Investments in short-term money funds	**2,498**	1,000
Managed investments in equity and bonds (i)	**388**	385
Investment in joint ventures and associates (note 13a)	**356**	250
Cash surrender value of life insurance policies	**127**	126
Other investments	**2**	7
Restricted cash balances		
Collateral	**96**	58
Other	**65**	57
	3,532	1,883

(i) Includes £282m of current investments which are held by insurance captives and are therefore restricted.

Available-for-sale investments are recorded at fair value. Due to their short maturities the carrying value of loans and receivables approximates their fair value. The maximum exposure to credit risk at the reporting date is the fair value of the financial investments. For further information on our treasury related credit risk, refer to note 32(c). None of the financial investments are past due or impaired.

(a) Investments in joint ventures and associates

	2011 £m	2010 £m
Share of net assets at 1 April	**250**	168
Exchange adjustments	**5**	(7)
Additions	**135**	86
Share of retained profit for the year	**7**	8
Dividends received	**(9)**	(18)
Share of other comprehensive income	**(7)**	9
Impairment charge (note 3)	**(29)**	–
Other movements	**4**	4
Share of net assets at 31 March	**356**	250

A list of principal joint ventures and associates is provided in note 36.

Notes to the consolidated financial statements continued

14. Derivative financial instruments

Our use of derivatives may entail a derivative transaction qualifying for one or more hedge type designations under IAS 39. For further information and a detailed description of our derivative financial instruments and hedge type designations, refer to note 31. The fair value amounts by designated hedge type can be analysed as follows:

	2011			2010		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Fair value hedges						
Interest rate swaps	99	(9)	90	128	(4)	124
Cross-currency interest rate swaps	450	(4)	446	589	(20)	569
	549	(13)	536	717	(24)	693
Cash flow hedges						
Interest rate swaps	6	(50)	(44)	2	(112)	(110)
Cross-currency interest rate swaps	685	(28)	657	924	(16)	908
Foreign exchange forward contracts	2	(1)	1	2	–	2
	693	(79)	614	928	(128)	800
Net investment hedges						
Cross-currency interest rate swaps	179	(329)	(150)	135	(660)	(525)
Foreign exchange forward contracts	26	(4)	22	5	(42)	(37)
	205	(333)	(128)	140	(702)	(562)
Derivatives not in a formal hedge relationship						
Interest rate swaps	339	(258)	81	200	(233)	(33)
Cross-currency interest rate swaps	50	(4)	46	58	(1)	57
Foreign exchange forward contracts	19	(4)	15	3	(43)	(40)
Forward rate agreements	–	(20)	(20)	–	(47)	(47)
	408	(286)	122	261	(324)	(63)
	1,855	(711)	1,144	2,046	(1,178)	868
Hedge positions offset within derivative instruments	(117)	117	–	(304)	304	–
Total	1,738	(594)	1,144	1,742	(874)	868

The maturity of derivative financial instruments is as follows:

	2011			2010		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Less than 1 year	468	(190)	278	248	(212)	36
Current	468	(190)	278	248	(212)	36
In 1 – 2 years	129	(45)	84	278	(174)	104
In 2 – 3 years	167	(37)	130	152	(69)	83
In 3 – 4 years	96	(28)	68	240	(106)	134
In 4 – 5 years	66	(2)	64	57	(14)	43
More than 5 years	812	(292)	520	767	(299)	468
Non-current	1,270	(404)	866	1,494	(662)	832
	1,738	(594)	1,144	1,742	(874)	868

For each class of derivative the notional contract* amounts are as follows:

	2011 £m	2010 £m
Interest rate swaps	(19,217)	(13,320)
Cross-currency interest rate swaps	(7,585)	(9,528)
Foreign exchange forward contracts	(4,028)	(1,989)
Forward rate agreements	(13,752)	(10,454)
Other	(314)	(314)
Total	(44,896)	(35,605)

*The notional contract amounts of derivatives indicate the gross nominal value of transactions outstanding at the balance sheet date

15. Inventories and current intangible assets

	2011 £m	2010 £m
Fuel stocks	**114**	198
Raw materials and consumables	**152**	162
Work in progress	**12**	12
Current intangible assets – emission allowances	**42**	35
	320	407

A provision for obsolescence of £22m has been made against raw materials and consumables as at 31 March 2011 (2010: £19m).

16. Trade and other receivables

	2011 £m	2010 £m
Trade receivables	**1,163**	1,296
Prepayments and accrued income	**999**	937
Commodity contract assets	**16**	21
Other receivables	**34**	39
	2,212	2,293

Trade receivables are non interest-bearing and generally have a 30-90 day term. Due to their short maturities, the fair value of trade and other receivables approximates their book value. Commodity contract assets are recorded at fair value. All other receivables are recorded at amortised cost.

Provision for impairment of receivables

	2011 £m	2010 £m
At 1 April	**311**	303
Exchange adjustments	**(16)**	(15)
Charge for the year, net of recoveries	**112**	161
Uncollectible amounts written off against receivables	**(124)**	(138)
At 31 March	**283**	311

Trade receivables past due but not impaired

	2011 £m	2010 £m
Up to 3 months past due	**136**	111
3 to 6 months past due	**34**	35
Over 6 months past due	**74**	102
	244	248

For further information on our wholesale and retail credit risk, refer to note 32(c). For further information on our commodity risk, refer to note 33.

Notes to the consolidated financial statements continued

17. Cash and cash equivalents

	2011 £m	2010 £m
Cash at bank	94	136
Short-term deposits	290	584
Cash and cash equivalents excluding bank overdrafts	384	720
Bank overdrafts	(42)	(29)
Net cash and cash equivalents	342	691

The carrying amounts of cash and cash equivalents and bank overdrafts approximate their fair values.

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for periods varying between one day and three months, depending on the immediate cash requirements, and earn interest at the respective short-term deposit rates. Net cash and cash equivalents held in currencies other than sterling have been converted into sterling at year-end exchange rates. For further information on currency exposures, refer to note 32(a)(i).

At 31 March 2011, £50m (2010: £59m) of cash and cash equivalents were restricted. This primarily relates to cash held in insurance captive companies.

18. Businesses classified as held for sale

During the year, our EnergyNorth gas business and Granite State electricity business in New Hampshire were reclassified as businesses held for sale in the expectation that they will be disposed of during the year ending 31 March 2012. The following table shows the assets and liabilities related to businesses held for sale at 31 March 2011. There were no businesses held for sale at 31 March 2010.

The results of these businesses have not been separately disclosed from those of continuing operations as they do not constitute a separate major line of business or geographical area of National Grid's operations.

	2011 £m
Goodwill	12
Other intangible assets	1
Property, plant and equipment	203
Other receivables	40
Non-current assets	256
Inventories	5
Trade and other receivables	29
Current assets	34
Assets of businesses held for sale	290
Trade and other payables	(17)
Current liabilities	(17)
Borrowings	(9)
Other non-current liabilities	(6)
Deferred tax liabilities	(29)
Pensions and other post-retirement benefit obligations	(9)
Provisions	(40)
Non-current liabilities	(93)
Liabilities of businesses held for sale	(110)

19. Borrowings

	2011 £m	2010 £m
Current		
Bank loans	**831**	890
Bonds	**1,595**	1,730
Commercial paper	**457**	121
Finance leases	**20**	29
Other loans	**7**	7
Bank overdrafts	**42**	29
	2,952	2,806
Non-current		
Bank loans	**2,118**	2,163
Bonds	**17,787**	19,835
Finance leases	**182**	173
Other loans	**159**	147
	20,246	22,318
Total	**23,198**	25,124

Total borrowings are repayable as follows:

	2011 £m	2010 £m
In one year or less	**2,952**	2,806
1-2 years	**1,225**	2,146
2-3 years	**1,610**	1,356
3-4 years	**1,766**	1,890
4-5 years	**424**	1,862
In more than 5 years:		
by instalments	**77**	22
other than by instalments	**15,144**	15,042
	23,198	25,124

The fair value of borrowings at 31 March 2011 was £24,182m (2010: £26,196m). Market values, where available, have been used to determine fair value. Where market values are not available, fair values have been calculated by discounting cash flows at prevailing interest rates. The notional amount outstanding of the debt portfolio at 31 March 2011 was £23,035m (2010: £25,011m).

Charges over property, plant and other assets were provided as collateral over borrowings totalling £486m at 31 March 2011 (2010: £515m).

Collateral is placed with or received from any counterparty where we have entered into a credit support annex to the ISDA Master Agreement once the current mark-to-market valuation of the trades between the parties exceeds an agreed threshold. Included in current bank loans is £551m (2010: £501m) in respect of cash received under collateral agreements.

Finance lease obligations

	2011 £m	2010 £m
Gross finance lease liabilities are repayable as follows:		
Less than 1 year	**20**	30
1-5 years	**123**	107
More than 5 years	**105**	135
	248	272
Less: finance charges allocated to future periods	**(46)**	(70)
	202	202
The present value of finance lease liabilities is as follows:		
Less than 1 year	**20**	29
1-5 years	**104**	86
More than 5 years	**78**	87
	202	202

For further details of our bonds in issue and borrowing facilities, refer to note 34.

Notes to the consolidated financial statements continued

20. Trade and other payables

	2011 £m	2010 £m
Trade payables	**1,720**	1,702
Deferred income	**261**	244
Commodity contract liabilities	**118**	184
Social security and other taxes	**129**	132
Other payables	**600**	585
	2,828	2,847

Due to their short maturities, the fair value of trade and other payables approximates their book value. Commodity contract liabilities are recorded at fair value. All other trade and other payables are recorded at amortised cost.

21. Other non-current liabilities

	2011 £m	2010 £m
Deferred income	**1,564**	1,566
Commodity contract liabilities	**101**	143
Other payables	**279**	265
	1,944	1,974

Commodity contract liabilities are recorded at fair value. All other non-current liabilities are recorded at amortised cost. There is no material difference between the fair value and the carrying value of other non-current liabilities.

22. Deferred tax assets and liabilities

The following are the major deferred tax assets and liabilities recognised, and the movements thereon, during the current and prior reporting periods:

Deferred tax (assets)/liabilities

	Accelerated tax depreciation £m	Share-based payments £m	Pensions and other post-retirement benefits £m	Financial instruments £m	Other net temporary differences £m	Total £m
Deferred tax assets at 31 March 2009	(2)	(13)	(1,457)	(33)	(504)	(2,009)
Deferred tax liabilities at 31 March 2009	4,299	–	69	29	136	4,533
At 1 April 2009	4,297	(13)	(1,388)	(4)	(368)	2,524
Exchange adjustments	(54)	–	84	(3)	13	40
Charged/(credited) to income statement	1,129	1	154	(42)	(314)	928
Credited to equity	–	–	(175)	–	–	(175)
Other	(285)	–	180	(42)	154	7
At 31 March 2010	5,087	(12)	(1,145)	(91)	(515)	3,324
Deferred tax assets at 31 March 2010	(2)	(12)	(1,235)	(103)	(657)	(2,009)
Deferred tax liabilities at 31 March 2010	5,089	–	90	12	142	5,333
At 1 April 2010	5,087	(12)	(1,145)	(91)	(515)	3,324
Exchange adjustments	(122)	–	49	4	29	(40)
Charged/(credited) to income statement	251	(2)	137	32	(67)	351
(Credited)/charged to equity	–	(4)	181	1	–	178
Reclassified as held for sale	(31)	–	5	–	(3)	(29)
Other	(1)	–	2	–	(19)	(18)
At 31 March 2011	**5,184**	**(18)**	**(771)**	**(54)**	**(575)**	**3,766**
Deferred tax assets at 31 March 2011	(2)	(18)	(882)	(60)	(706)	(1,668)
Deferred tax liabilities at 31 March 2011	5,186	–	111	6	131	5,434
	5,184	(18)	(771)	(54)	(575)	3,766

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net. The following is an analysis of the deferred tax balances (after offset) for balance sheet purposes:

	2011 £m	2010 £m
Deferred tax liabilities	**3,766**	3,324
Deferred tax assets	**–**	–
	3,766	3,324

At the balance sheet date there were no material current deferred tax assets or liabilities (2010: £nil).

Deferred tax assets in respect of capital losses, trading losses and non-trade deficits have not been recognised as their future recovery is uncertain or not currently anticipated. The deferred tax assets not recognised are as follows:

	2011 £m	2010 £m
Capital losses	**368**	401
Non-trade deficits	**2**	2
Trading losses	**7**	2

The capital losses and non-trade deficits arise in the UK and are available to carry forward indefinitely. However, the capital losses can only be offset against specific types of future capital gains and non-trade deficits against specific future non-trade profits. The trading losses arise in the UK and the US and are also available to carry forward indefinitely.

The aggregate amount of temporary differences associated with the unremitted earnings of overseas subsidiaries and joint ventures for which deferred tax liabilities have not been recognised at the balance sheet date is approximately £1,837m (2010: £1,495m). No liability is recognised in respect of the differences because the Company and its subsidiaries are in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. In addition, as a result of a change in UK tax legislation which largely exempts overseas dividends received on or after 1 July 2009 from UK tax, the temporary differences are unlikely to lead to additional tax.

Notes to the consolidated financial statements continued

23. Pensions and other post-retirement benefits

Substantially all National Grid's employees are members of either defined benefit or defined contribution pension plans.

In the UK the principal schemes are the National Grid UK Pension Scheme and the National Grid section of the Electricity Supply Pension Scheme. In the US we have a number of plans and also provide healthcare and life insurance benefits to eligible retired US employees. The fair value of plan assets and present value of defined benefit obligations are updated annually. For further details of each scheme/plan's terms and the actuarial assumptions used to value the associated assets and obligations, see note 30.

Amounts recognised in the income statement and statement of other comprehensive income

	Pensions			US other post-retirement benefits		
	2011 £m	2010 £m	2009 £m	**2011 £m**	2010 £m	2009 £m
Included within payroll costs						
Defined contribution scheme costs	**11**	7	5	**–**	–	–
Defined benefit scheme costs:						
Current service cost	**165**	112	134	**37**	26	32
Past service cost	**28**	19	–	**3**	6	7
Curtailment gain on redundancies	**(4)**	(7)	(4)	**(29)**	–	–
Special termination benefits on redundancies	**6**	26	19	**–**	–	–
Curtailment cost – augmentations	**2**	4	6	**–**	–	–
US healthcare reform cost	**–**	–	–	**–**	9	–
	208	161	160	**11**	41	39
Loss on sale of subsidiary undertaking	**2**	–	–	**–**	–	–
Interest cost	**1,084**	1,050	1,106	**147**	143	144
Expected return on plan assets	**(1,185)**	(931)	(1,163)	**(71)**	(50)	(73)
	(101)	119	(57)	**76**	93	71
Included within other comprehensive income						
Actuarial net gain/(loss) during the year	**483**	(572)	(1,906)	**88**	(159)	(112)
Exchange differences	**38**	64	(141)	**87**	76	(408)
	521	(508)	(2,047)	**175**	(83)	(520)
Cumulative actuarial loss	**(673)**	(1,156)	(584)	**(274)**	(362)	(203)

Amounts recognised in the balance sheet

	Pensions			US other post-retirement benefits		
	2011 £m	2010 £m	2009 £m	**2011 £m**	2010 £m	2009 £m
Present value of funded obligations	**(19,255)**	(19,372)	(15,797)	**(2,458)**	(2,602)	(2,299)
Fair value of plan assets	**18,903**	18,186	14,797	**1,066**	950	722
	(352)	(1,186)	(1,000)	**(1,392)**	(1,652)	(1,577)
Present value of unfunded obligations	**(225)**	(226)	(203)	**–**	–	–
Other post-employment liabilities	**–**	–	–	**(62)**	(62)	(74)
Unrecognised past service cost	**4**	–	–	**9**	28	43
Net liability in the balance sheet	**(573)**	(1,412)	(1,203)	**(1,445)**	(1,686)	(1,608)
Liabilities	**(1,129)**	(1,412)	(1,472)	**(1,445)**	(1,686)	(1,608)
Assets	**556**	–	269	**–**	–	–
Net liability	**(573)**	(1,412)	(1,203)	**(1,445)**	(1,686)	(1,608)

23. Pensions and other post-retirement benefits continued

	Pensions			US other post-retirement benefits		
	2011 £m	2010 £m	2009 £m	2011 £m	2010 £m	2009 £m
Changes in the present value of the defined benefit obligations (including unfunded obligations)						
Opening defined benefit obligations	**(19,598)**	(16,000)	(16,391)	**(2,602)**	(2,299)	(1,784)
Current service cost	**(165)**	(112)	(136)	**(37)**	(26)	(32)
Interest cost	**(1,084)**	(1,050)	(1,106)	**(147)**	(143)	(144)
Actuarial gains/(losses)	**185**	(3,563)	1,719	**28**	(360)	215
Curtailment gain on redundancies	**10**	7	4	**29**	–	–
Transfers in/(out)	**1**	(3)	3	**–**	–	–
Special termination benefits	**(17)**	(26)	(19)	**–**	–	–
Curtailment cost – augmentations	**(2)**	(4)	(6)	**–**	–	–
Plan amendments	**(28)**	(19)	–	**14**	9	–
Plan amendments – US healthcare reform	**–**	–	–	**–**	(9)	–
Medicare subsidy received	**–**	–	–	**(5)**	(10)	–
Employee contributions	**(3)**	(10)	(13)	**–**	–	–
Benefits paid	**985**	1,008	1,003	**117**	132	116
Transferred to liabilities of businesses held for sale	**7**	–	–	**2**	–	–
Exchange adjustments	**229**	174	(1,058)	**143**	104	(670)
Closing defined benefit obligations	**(19,480)**	(19,598)	(16,000)	**(2,458)**	(2,602)	(2,299)
Changes in the fair value of plan assets						
Opening fair value of plan assets	**18,186**	14,797	16,536	**950**	722	737
Expected return on plan assets	**1,185**	931	1,163	**71**	50	73
Actuarial gains/(losses)	**298**	2,991	(3,625)	**60**	201	(327)
Transfers (out)/in	**(1)**	3	(3)	**–**	–	–
Employer contributions	**408**	572	799	**158**	137	93
Employee contributions	**3**	10	13	**–**	–	–
Benefits paid	**(985)**	(1,008)	(1,003)	**(117)**	(132)	(116)
Exchange adjustments	**(191)**	(110)	917	**(56)**	(28)	262
Closing fair value of plan assets	**18,903**	18,186	14,797	**1,066**	950	722
Actual return on plan assets	**1,483**	3,922	(2,462)	**131**	251	(254)
Expected contributions to plans in the following year	**353**	353	552	**200**	148	123

Notes to the consolidated financial statements continued

24. Provisions

	Environ-mental £m	Decom-missioning £m	Restructuring £m	Emissions £m	Other £m	Total provisions £m
At 31 March 2009	1,104	108	100	25	362	1,699
Exchange adjustments	(46)	(9)	–	(1)	(12)	(68)
Additions	85	5	36	4	16	146
Reclassifications*	–	–	–	–	70	70
Unused amounts reversed	(4)	(1)	(1)	–	(2)	(8)
Unwinding of discount	54	2	–	–	14	70
Utilised	(117)	(8)	(30)	(6)	(38)	(199)
At 31 March 2010	1,076	97	105	22	410	1,710
Exchange adjustments	(46)	(5)	(1)	(1)	(16)	(69)
Additions	167	43	87	9	30	336
Unused amounts reversed	(12)	(7)	(39)	(6)	(6)	(70)
Reclassified as held for sale	(39)	(1)	–	–	–	(40)
Unwinding of discount	104	2	–	–	22	128
Utilised	(100)	(9)	(24)	–	(48)	(181)
At 31 March 2011						

*Primarily represents reclassifications from other non-current liabilities

	2011 £m	2010 £m
Current	**353**	303
Non-current	**1,461**	1,407
	1,814	1,710

Environmental provision

The environmental provision represents the estimated restoration and remediation costs relating to a number of sites owned and managed by subsidiary undertakings, with the exception of certain US sites that National Grid no longer owns. The environmental provision is as follows:

	2011		2010		
	Discounted £m	**Undiscounted £m**	Discounted £m	Undiscounted £m	Real discount rate
UK sites (i)	**339**	**503**	263	377	2.0%
US sites (ii)	**811**	**923**	813	942	3.2%
	1,150	**1,426**	1,076	1,319	

(i) The remediation expenditure in the UK relates to old gas manufacturing sites and also to electricity transmission sites. Cash flows are expected to be incurred between 2011 and 2060. A number of uncertainties affect the calculation of the provision, including the impact of regulation, accuracy of the site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and changes in the discount rate. This provision incorporates our best estimate of the financial effect of these uncertainties, but future material changes in any of the assumptions could materially impact the calculation of the provision. The undiscounted amount is the undiscounted best estimate of the liability having regard to these uncertainties.

(ii) The remediation expenditure in the US is expected to be incurred between 2011 and 2067. The uncertainties regarding the calculation of this provision are similar to those considered in respect of UK sites. However, unlike the UK, with the exception of immaterial amounts of such costs, this expenditure is expected to be recoverable from ratepayers under the terms of various rate agreements in the US.

Decommissioning provision

The decommissioning provision primarily represents the net present value of the estimated expenditure (discounted at a nominal rate of 6%) expected to be incurred until 2037 in respect of the decommissioning of certain nuclear generating units that National Grid no longer owns. It also includes £73m (2010: £46m) of expenditure relating to other asset retirement obligations expected to be incurred until 2064.

24. Provisions continued

Restructuring provision

At 31 March 2011, £12m of the total restructuring provision (2010: £24m) consisted of provisions for the disposal of surplus leasehold interests and rates payable on surplus properties. The remainder of the restructuring provision, related to business reorganisation costs in the UK and the US, is expected to be paid until 2015.

Emissions provision

The provision for emission costs is expected to be settled using emission allowances granted.

Other provisions

Included within other provisions at 31 March 2011 are amounts provided in respect of onerous lease commitments of £196m (2010: £214m). Other provisions also included £118m (2010: £127m) of estimated liabilities in respect of past events insured by insurance subsidiary undertakings, including employer liability claims. In accordance with insurance industry practice, these estimates are based on experience from previous years and there is, therefore, no identifiable payment date. Other provisions also included £5m (2010: £6m) in respect of the sales of four UK gas distribution networks relating to property transfer costs and £20m (2010: £13m) in respect of obligations associated with investments in joint ventures.

25. Share capital

	Allotted, called up and fully paid	
Ordinary shares	millions	£m
At 31 March 2009	2,582	294
Issued during the year in lieu of dividends (i)	35	4
At 31 March 2010	2,617	298
Rights issue	990	113
Issued during the year in lieu of dividends (i)	41	5
At 31 March 2011	**3,648**	**416**

(i) The issue of shares in lieu of cash dividends is considered to be a bonus issue under the terms of the Companies Act 2006 and the nominal value of the shares is charged to the share premium account.

The share capital of the Company consists of ordinary shares of $11\frac{17}{43}$ pence nominal value each and American Depositary Shares. The ordinary and American Depositary Shares allow holders to receive dividends and vote at general meetings of the Company. The Company holds treasury shares but may not exercise any rights over these shares including the entitlement to vote or receive dividends. There are no restrictions on the transfer or sale of ordinary shares.

In line with the provisions of the Companies Act 2006, National Grid plc has adopted new Articles of Association, deleted the objects provisions of its Memorandum of Association and ceased to have authorised share capital.

Rights issue

On 14 June 2010, the Company raised £3.2bn (net of expenses of £105m) through a rights issue of 990m new ordinary shares at 335 pence each on the basis of two new ordinary shares for every five existing ordinary shares. The issue price represented a discount of 44% to the closing ex-dividend share price on 20 May 2010, the announcement date of the rights issue.

The structure of the rights issue initially gave rise to a merger reserve under section 612 of the Companies Act 2006, representing the net proceeds of the rights issue less the nominal value of the new shares issued. Following the receipt of the cash proceeds through the structure, the excess of the net proceeds over the nominal value of the share capital issued has been transferred from the merger reserve to retained earnings.

The discount element inherent in the rights issue is treated as a bonus issue of 353m shares. Earnings per share data have been restated for all comparative periods presented, by adjusting the weighted average number of shares to include the impact of the bonus shares. For comparability, dividends per share are also presented after taking account of the bonus element of the rights issue, in note 7.

Treasury shares

At 31 March 2011, the Company held 140m (2010: 144m) of its own shares. The market value of these shares as at 31 March 2011 was £833m (2010: £925m).

The maximum number of shares held during the year was 144m ordinary shares (2010: 154m) representing approximately 3.9% (2010: 5.9%) of the ordinary shares in issue as at 31 March 2011 and having a nominal value of £16m (2010: £18m). The shares held in treasury were not entitled to participate in the rights issue.

Notes to the consolidated financial statements continued

26. Other equity reserves

	Translation £m	Cash flow hedge £m	Available-for-sale £m	Capital redemption £m	Merger £m	Total £m
At 31 March 2008	(73)	(42)	9	19	(5,165)	(5,252)
Exchange adjustments	457	5	(3)	–	–	459
Net (losses)/gains taken to equity	–	(1)	9	–	–	8
Transferred to profit or loss	–	(53)	(18)	–	–	(71)
Deferred tax	–	19	7	–	–	26
At 31 March 2009	384	(72)	4	19	(5,165)	(4,830)
Exchange adjustments	30	3	1	–	–	34
Net (losses)/gains taken to equity	–	(45)	54	–	–	9
Transferred to profit or loss	–	3	(6)	–	–	(3)
Deferred tax	–	9	(5)	–	–	4
Share of other comprehensive income of joint ventures	–	5	–	–	–	5
At 31 March 2010	414	(97)	48	19	(5,165)	(4,781)
Exchange adjustments	(95)	–	–	–	–	(95)
Net gains taken to equity	–	7	16	–	–	23
Transferred to profit or loss	–	(7)	(3)	–	–	(10)
Rights issue (i)	–	–	–	–	3,101	3,101
Transfer to retained earnings (i)	–	–	–	–	(3,101)	(3,101)
Deferred tax	–	(2)	(1)	–	–	(3)
Share of other comprehensive loss of joint ventures	–	(4)	–	–	–	(4)
At 31 March 2011	**319**	**(103)**	**60**	**19**	**(5,165)**	**(4,870)**

(i) For details of the rights issue and subsequent transfer to retained earnings see note 25.

The merger reserve represents the difference between the carrying value of subsidiary undertaking investments and their respective capital structures following the Lattice demerger from BG Group plc and the 1999 Lattice refinancing of £5,745m and merger differences of £221m and £359m.

The cash flow hedge reserve on interest rate swap contracts will be continuously transferred to the income statement until the borrowings are repaid. The amount due to be released from reserves to the income statement next year is £11m and the remainder released with the same maturity profile as borrowings due after more than one year.

27. Consolidated cash flow statement

(a) Cash flow from operating activities – discontinued operations

	2011 £m	2010 £m	2009 £m
Operating profit	–	–	13
Changes in working capital, provisions and pensions	–	–	(21)
Cash flow relating to discontinued operations	–	–	(8)

(b) Cash flow from investing activities – discontinued operations

	2011 £m	2010 £m	2009 £m
Disposal proceeds (i)	–	–	1,617
Tax arising on disposal	–	–	(564)
Other investing activities	–	–	(4)
Cash flow relating to discontinued operations	–	–	1,049

(i) Disposal proceeds are in respect of the sale of assets and liabilities classified as held for sale.

(c) Reconciliation of net cash flow to movement in net debt

	2011 £m	2010 £m	2009 £m
(Decrease)/increase in cash and cash equivalents	**(346)**	(28)	538
Increase/(decrease) in financial investments	**1,577**	(805)	(99)
Decrease/(increase) in borrowings and related derivatives	**1,763**	499	(1,641)
Net interest paid on the components of net debt	**1,011**	999	956
Change in net debt resulting from cash flows	**4,005**	665	(246)
Changes in fair value of financial assets and liabilities and exchange movements	**690**	865	(3,625)
Net interest charge on the components of net debt	**(1,228)**	(996)	(1,161)
Reclassified as held for sale	**9**	–	–
Other non-cash movements	**(68)**	–	–
Movement in net debt (net of related derivative financial instruments) in the year	**3,408**	534	(5,032)
Net debt (net of related derivative financial instruments) at start of year	**(22,139)**	(22,673)	(17,641)
Net debt (net of related derivative financial instruments) at end of year	**(18,731)**	(22,139)	(22,673)

(d) Analysis of changes in net debt

	Cash and cash equivalents £m	Bank overdrafts £m	Net cash and cash equivalents £m	Financial investments £m	Borrowings £m	Derivatives £m	Total[(i)] £m
At 31 March 2008	174	(10)	164	2,095	(20,993)	1,093	(17,641)
Cash flow	545	(7)	538	(184)	(1,316)	716	(246)
Fair value gains and losses and exchange movements	18	–	18	207	(3,222)	(628)	(3,625)
Interest charges	–	–	–	79	(1,245)	5	(1,161)
At 31 March 2009	737	(17)	720	2,197	(26,776)	1,186	(22,673)
Cash flow	(16)	(12)	(28)	(826)	2,079	(560)	665
Fair value gains and losses and exchange movements	(1)	–	(1)	2	644	220	865
Interest charges	–	–	–	24	(1,042)	22	(996)
At 31 March 2010	720	(29)	691	1,397	(25,095)	868	(22,139)
Cash flow	(333)	(13)	(346)	1,551	2,933	(133)	4,005
Fair value gains and losses and exchange movements	(3)	–	(3)	(34)	402	325	690
Interest charges	–	–	–	25	(1,337)	84	(1,228)
Reclassified as held for sale	–	–	–	–	9	–	9
Other non-cash movements	–	–	–	–	(68)	–	(68)
At 31 March 2011	**384**	**(42)**	**342**	**2,939**	**(23,156)**	**1,144**	**(18,731)**
Balances at 31 March 2011 comprise:							
Non-current assets	–	–	–	–	–	1,270	1,270
Current assets	384	–	384	2,939	–	468	3,791
Current liabilities	–	(42)	(42)	–	(2,910)	(190)	(3,142)
Non-current liabilities	–	–	–	–	(20,246)	(404)	(20,650)
	384	(42)	342	2,939	(23,156)	1,144	(18,731)

(i) Includes accrued interest at 31 March 2011 of £162m (2010: £232m).

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28. Commitments and contingencies

	2011 £m	2010 £m
Future capital expenditure		
Contracted for but not provided	1,614	1,738
Operating lease commitments		
Less than 1 year	83	91
In 1-2 years	79	84
In 2-3 years	93	79
In 3-4 years	72	96
In 4-5 years	70	76
More than 5 years	398	500
	795	926
Energy purchase commitments (i)*		
Less than 1 year	1,081	1,195
In 1-2 years	480	506
In 2-3 years	328	372
In 3-4 years	272	304
In 4-5 years	241	245
More than 5 years	1,141	1,326
	3,543	3,948
Guarantees and letters of credit		
Guarantee of sublease for US property (expires 2040)	328	377
Letter of credit and guarantee of certain obligations of BritNed Interconnector (expire 2011)	36	374
Guarantees of certain obligations of Grain LNG Import Terminal (expire up to 2028)	139	164
Other guarantees and letters of credit (various expiry dates)	259	274
	762	1,189

*Comparatives have been restated to present items on a basis consistent with the current year classification

(i) Energy commitments relate to contractual commitments to purchase electricity or gas that are used to satisfy physical delivery requirements to our customers or for energy that we use ourselves (ie normal purchase, sale or usage) and hence are accounted for as ordinary purchase contracts. Details of commodity contracts that do not meet the normal purchase, sale or usage criteria, and hence are accounted for as derivative contracts, are shown in note 33.

The total of future minimum sublease payments expected to be received under non-cancellable subleases is £20m (2010: £14m).

Litigation and claims

Metering competition investigation

As previously reported, on 25 February 2008 the Gas and Electricity Markets Authority (GEMA) announced it had decided we breached Chapter II of the Competition Act 1998 and Article 82 (now Article 102) of the Treaty of the Functioning of the European Union and fined us £41.6m. Following appeals, the Competition Appeal Tribunal reduced the fine to £30m and the Court of Appeal further reduced the fine to £15m. On 22 March 2010, we applied to the Supreme Court for leave to appeal the Court of Appeal's judgement. On 28 July 2010, the Supreme Court denied our application and this ends the legal process. The £15m fine was paid to GEMA on 1 April 2010.

Gas Distribution mains replacement investigation

As previously reported, in October 2008 we informed Ofgem that mains replacement activity carried out by the UK Gas Distribution business may have been inaccurately reported. Ofgem has now concluded its investigation and, following the reaching of a settlement between Ofgem and National Grid Gas plc, on 6 January 2011 Ofgem announced its proposed decision to impose a penalty of £8m and to find National Grid Gas plc in breach of certain obligations in respect of the reporting of mains replacement data. Ofgem also stated that the penalty would have been higher had it not been for the cooperation and corrective action by National Grid Gas plc. On 10 March 2011, following the end of the period in which representations could be made, Ofgem wrote to National Grid Gas plc to confirm its decision. On 13 May 2011, we received the Final Penalty Notice and must pay the penalty by 27 June 2011.

KeySpan class actions

Two putative class actions were commenced against KeySpan and Morgan Stanley, one in a New York state court and one in the federal court. The claims are based on allegations that the financial swap transaction between KeySpan and Morgan Stanley dated 18 January 2006 caused customers of Consolidated Edison, Inc. to overpay for electricity between May 2006 and February 2008. We believe that both complaints and their allegations are without merit and we have applied to have both actions dismissed. Our application for dismissal in the federal court was granted on 22 March 2011 but the plaintiffs may still appeal.

29. Related party transactions

The following material transactions with related parties were in the normal course of business; amounts receivable from and payable to related parties are due on normal commercial terms:

	2011 £m	2010 £m	2009 £m
Sales: Services and goods supplied to a pension plan and joint ventures	**11**	5	4
Purchases: Services and goods received from joint ventures (i)	**84**	73	44
Interest income: Interest receivable on loans with joint ventures	**2**	1	–
Receivable from a pension plan and joint ventures	**2**	1	–
Loan to joint venture (ii)	**–**	23	–
Payable to joint ventures	**8**	6	6
Dividends received from joint ventures (iii)	**9**	18	–

(i) During the year the Company received services and goods from a number of joint ventures, including Iroquois Gas Transmission System, L.P. of £40m (2010: £38m) and Millennium Pipeline Company, LLC of £28m (2010: £26m) for the transportation of gas in the US.

(ii) Following a decision in August 2010 to cease investing in Blue-NG Limited (a joint venture), an impairment charge was recorded against the carrying value of the investment, together with provision against recovery of loans from National Grid to Blue-NG of £30m (2010: £23m) and associated interest receivable. For further details see note 3.

(iii) Dividends were received from Iroquois Gas Transmission System, L.P. of £9m (2010: £17m).

Details of investments in principal subsidiary undertakings, joint ventures and associates are disclosed in note 36 and information relating to pension fund arrangements is disclosed in notes 23 and 30. For details of Directors' and key management remuneration, refer to note 2(c) and the auditable section of the Directors' Remuneration Report.

30. Actuarial information on pensions and other post-retirement benefits

UK pension schemes

National Grid's defined benefit pension arrangements are funded with assets held in separate trustee administered funds. The arrangements are subject to independent actuarial valuations at least every three years, on the basis of which the qualified actuary certifies the rate of employers' contribution, which, together with the specified contributions payable by the employees and proceeds from the schemes' assets, are expected to be sufficient to fund the benefits payable under the schemes. The 2010 valuations are nearing completion but the formal agreement has not yet been completed with the Trustees. The valuations are on track to be completed by no later than the end of June 2011. The results of the 2007 valuations are shown below:

	NG UK pension scheme	NG section of ESPS
Latest full actuarial valuation	31 March 2007	31 March 2007
Actuary	Towers Watson	Hewitt Associates
Market value of scheme assets at latest valuation	£12,923m	£1,345m
Actuarial value of benefits due to members	£(13,365)m	£(1,750)m
Market value as percentage of benefits	97%	77%
Funding deficit	£442m	£405m
Funding deficit (net of tax)	£327m	£300m

National Grid UK Pension Scheme

The actuarial valuation showed that, based on long-term financial assumptions, the contribution rate required to meet future benefit accrual was 32.4% of pensionable earnings (29.4% employers and 3% employees). The employers also pay an allowance for administration expenses at 3.2% of pensionable earnings, giving a total employer contribution rate of 32.6%. The employer contribution rate will be reviewed as part of the current valuation, while the administration rate is reviewed annually. Contributions to the scheme during 2011/12 will be determined as part of the current valuation negotiations with the Trustees. This scheme ceased to allow new hires to join from 1 April 2002. A defined contribution arrangement was offered for employees joining from 1 April 2002 onwards.

Notes to the consolidated financial statements continued

30. Actuarial information on pensions and other post-retirement benefits continued

Electricity Supply Pension Scheme

The actuarial valuation showed that, based on long-term financial assumptions, the contribution rate required to meet future benefit accrual was 26.5% of pensionable earnings (20.5% employers and 6% employees). These contribution rates will be reviewed as part of the current valuation. As part of the initial valuation discussions with the Trustees it was agreed that a deficit payment of £45m (£32m net of tax) would be made in March 2011. Contributions to the scheme during 2011/12 will be determined as part of the current valuation negotiations with the Trustees. The Electricity Supply Pension Scheme is a funded scheme which is divided into sections, one of which is National Grid's section. National Grid's section of the scheme ceased to allow new hires to join from 1 April 2006.

Since 2007, National Grid has also agreed to bring forward payment of the outstanding deficit plus interest in the event that certain triggers are breached; namely if National Grid Electricity Transmission plc (NGET) ceases to hold the licence granted under the Electricity Act 1989 or NGET's credit rating by two out of three specified agencies falls below certain agreed levels for a period of 40 days.

US pension plans

National Grid's defined benefit pension plans in the US provide annuity or lump sum payments for vested employees who joined before 1 January 2011. Certain categories of new hires from that date are offered a defined contribution plan. In addition, a matched defined contribution plan is offered to all eligible employees. The assets of the plans are held in separate trustee administered funds.

Employees do not contribute to the defined benefit plans. Employer contributions are made in accordance with the rules set out by the US Internal Revenue Code and can vary according to the funded status of the plans and the amounts that are tax deductible. At present, there is some flexibility in the amount that is contributed on an annual basis. In general, the Company's policy for funding the US pension plans is to contribute amounts collected in rates. These contributions are expected to meet the requirements of the Pension Protection Act of 2006.

US retiree healthcare and life insurance plans

National Grid provides healthcare and life insurance benefits to eligible retired US employees. Eligibility is based on certain age and length of service requirements and in most cases retirees contribute to the cost of their coverage. In the US, there is no governmental requirement to pre fund post-retirement health and welfare plans. However, there may be requirements under the various state regulatory agreements to contribute to these plans. Depending upon the rate jurisdiction and the plan, the funding level may be equal to: the expense under US GAAP; the amount collected in rates; the maximum tax deductible contribution; or zero.

Asset allocations

	UK pensions			US pensions			US other post-retirement benefits		
	2011 %	2010 %	2009 %	**2011 %**	2010 %	2009 %	**2011 %**	2010 %	2009 %
Equities (i)	**34.5**	36.8	35.2	**51.5**	52.8	50.4	**76.5**	68.6	63.7
Corporate bonds (ii)	**30.3**	32.3	32.7	**40.7**	41.5	42.3	**22.6**	24.8	34.2
Gilts	**26.8**	22.4	22.2	**–**	–	–	**–**	–	–
Property	**5.9**	5.9	5.4	**2.0**	–	–	**–**	–	–
Other	**2.5**	2.6	4.5	**5.8**	5.7	7.3	**0.9**	6.6	2.1
Total	**100.0**	100.0	100.0	**100.0**	100.0	100.0	**100.0**	100.0	100.0

(i) Included within equities at 31 March 2011 were ordinary shares of National Grid plc with a value of £12m (2010: £17m; 2009: £17m).
(ii) Included within corporate bonds at 31 March 2011 was an investment in a number of bonds issued by subsidiary undertakings with a value of £39m.

Target asset allocations

	NGUK PS %	ESPS %	US pensions %	US OPEBs %
Equities (i)	32	49	60	70
Bonds, property and other	68	51	40	30
Total	100	100	100	100

(i) Included within equities are hedge fund and active currency investments.

30. Actuarial information on pensions and other post-retirement benefits continued

Actuarial assumptions

For UK schemes, the expected long-term rate of return on assets has been set reflecting the price inflation expectation, the expected real return on each major asset class and the long-term asset allocation strategy adopted for each scheme. The expected real returns on specific asset classes reflect historical returns, investment yields on the measurement date and general future return expectations, and have been set after taking advice from the schemes' actuaries.

For US plans, the estimated rate of return for various passive asset classes is based both on analysis of historical rates of return and forward looking analysis of risk premiums and yields. Current market conditions, such as inflation and interest rates, are evaluated in connection with the setting of our long-term assumptions. A small premium is added for active management of both equity and fixed income. The rates of return for each asset class are then weighted in accordance with the actual asset allocation resulting in a long-term return on asset rate for each plan.

	UK pensions			US pensions			US other post-retirement benefits		
	2011 %	2010 %	2009 %	**2011 %**	2010 %	2009 %	**2011 %**	2010 %	2009 %
Discount rate (i)	**5.5**	5.6	6.8	**5.9**	6.1	7.3	**5.9**	6.1	7.3
Expected return on plan assets	**6.1**	6.4	6.2	**7.2**	7.5	7.8	**7.1**	7.2	7.4
Rate of increase in salaries (ii)	**4.4**	4.7	3.8	**3.5**	3.5	3.5	**3.5**	3.5	3.5
Rate of increase in pensions in payment	**3.5**	3.8	3.0	**–**	–	–	**n/a**	n/a	n/a
Rate of increase in pensions in deferment	**3.5**	3.8	2.9	**–**	–	–	**n/a**	n/a	n/a
Rate of increase in RPI (or equivalent) (iii)	**3.5**	3.8	2.9	**2.2**	2.4	2.3	**n/a**	n/a	n/a
Initial healthcare cost trend rate	**n/a**	n/a	n/a	**n/a**	n/a	n/a	**8.5**	8.5	9.0
Ultimate healthcare cost trend rate	**n/a**	n/a	n/a	**n/a**	n/a	n/a	**5.0**	5.0	5.0

(i) The discount rates for pension liabilities have been determined by reference to appropriate yields on high quality corporate bonds prevailing in the UK and US debt markets at the balance sheet date.

(ii) A promotional scale has also been used where appropriate.

(iii) In September 2010, the UK Government changed the basis for statutory pension increases from the Retail Price Index (RPI) to the Consumer Price Index (CPI). The Scheme rules of National Grid's two UK pension schemes specifically reference RPI. As a consequence the impact of the Government's move to CPI was predominantly limited to National Grid's Guaranteed Minimum Pensions. The financial consequence of the change as at 31 March 2011 was an approximate £55m reduction in present value of the defined benefit obligation.

	2011		2010	
	UK years	**US years**	UK years	US years
Assumed life expectations for a retiree at age 65				
Today				
Males	**22.4**	**18.8**	21.0	18.8
Females	**24.9**	**20.8**	23.4	20.8
In 20 years				
Males	**24.7**	**18.8**	23.4	18.8
Females	**27.4**	**20.8**	25.7	20.8

Sensitivities to actuarial assumptions

	Change in pensions and OPEB liability		Change in annual pension and OPEB cost	
	2011 £m	2010 £m	**2011 £m**	2010 £m
Sensitivities (all other assumptions held constant)				
0.1% change in discount rate	**304**	317	**7**	4
0.5% change in long-term rate of increase in salaries	**162**	166	**8**	8
Change of one year to life expectations at age 60	**653**	670	**7**	5

	2011 £m	2010 £m	2009 £m
Sensitivities to a 1% change in assumed healthcare cost trend rates			
Increase			
Effect on the aggregate of the service costs and interest costs	**28**	25	29
Effect on defined benefit obligations	**330**	348	294
Decrease			
Effect on the aggregate of the service costs and interest costs	**(23)**	(21)	(24)
Effect on defined benefit obligations	**(282)**	(298)	(254)

Notes to the consolidated financial statements continued

30. Actuarial information on pensions and other post-retirement benefits continued

The history of the present value of obligations, the fair value of plan assets and of experience adjustments is as follows:

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Present value of funded and unfunded obligations	**(21,938)**	(22,200)	(18,299)	(18,175)	(17,253)
Fair value of plan assets	**19,969**	19,136	15,519	17,273	15,999
	(1,969)	(3,064)	(2,780)	(902)	(1,254)
Difference between the expected and actual return on plan assets	**358**	3,192	(3,952)	(911)	(81)
Experience gains/(losses) on plan liabilities	**28**	509	(125)	152	9
Actuarial gains/(losses) on plan liabilities	**213**	(3,923)	1,934	1,343	446

31. Supplementary information on derivative financial instruments

Derivatives are financial instruments that derive their value from the price of an underlying item such as interest rates, foreign exchange, credit spreads, commodities or equity or other indices. Derivatives enable their users to alter exposure to market or credit risks. We use derivatives to manage both our treasury financing and operational market risks. Operational market risks are managed using commodity contracts which are detailed in note 33.

Treasury financial instruments

Derivatives are used for hedging purposes in the management of exposure to market risks. This enables the optimisation of the overall cost of accessing debt capital markets, and mitigates the market risk which would otherwise arise from the Company assets and liabilities.

Hedging policies using derivative financial instruments are further explained in note 32. Derivatives held as hedging instruments are formally designated as hedges as defined in IAS 39. Derivatives may qualify as hedges for accounting purposes if they are fair value hedges, cash flow hedges or net investment hedges. These are described as follows:

Fair value hedges

Fair value hedges principally consist of interest rate and cross-currency swaps that are used to protect against changes in the fair value of fixed-rate, long-term financial instruments due to movements in market interest rates. For qualifying fair value hedges, all changes in the fair value of the derivative and changes in the fair value of the item in relation to the risk being hedged are recognised in the income statement. If the hedge relationship is terminated, the fair value adjustment to the hedged item continues to be reported as part of the basis of the item and is amortised to the income statement as a yield adjustment over the remainder of the life of the hedged item.

Cash flow hedges

Exposure arises from the variability in future interest and currency cash flows on assets and liabilities which bear interest at variable rates or are in a foreign currency. Interest rate and cross-currency swaps are maintained, and designated as cash flow hedges, where they qualify, to manage this exposure. Fair value changes on designated cash flow hedges are initially recognised directly in the cash flow hedge reserve, as gains or losses recognised in equity. Amounts are transferred from equity and recognised in the income statement as the income or expense is recognised on the hedged asset or liability.

Forward foreign currency contracts are used to hedge anticipated and committed future currency cash flows. Where these contracts qualify for hedge accounting they are designated as cash flow hedges. On recognition of the underlying transaction in the financial statements, the associated hedge gains and losses, deferred in equity, are transferred and included with the recognition of the underlying transaction.

The gains and losses on ineffective portions of such derivatives are recognised immediately in remeasurements within the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement or on the balance sheet. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to remeasurements within the income statement.

31. Supplementary information on derivative financial instruments continued

Net investment hedges

Borrowings, cross-currency swaps and forward currency contracts are used in the management of the foreign exchange exposure arising from the investment in non-sterling denominated subsidiaries. Where these contracts qualify for hedge accounting they are designated as net investment hedges.

The cross-currency swaps and forward foreign currency contracts are hedge accounted using the spot to spot method. The foreign exchange gain or loss on retranslation of the borrowings and the spot to spot movements on the cross-currency swaps and forward currency contracts are transferred to equity to offset gains or losses on translation of the net investment in the non-sterling denominated subsidiaries.

Derivatives not in a formal hedge relationship

Our policy is not to use derivatives for trading purposes. However, due to the complex nature of hedge accounting under IAS 39 some derivatives may not qualify for hedge accounting, or are specifically not designated as a hedge where natural offset is more appropriate. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in remeasurements within the income statement.

32. Financial risk

Our activities expose us to a variety of financial risks: market risk, including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and commodity price risk; credit risk; and liquidity risk. The overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance. Derivative financial instruments are used to hedge certain risk exposures.

Risk management related to financing activities is carried out by a central treasury department under policies approved by the Board of Directors. This department identifies, evaluates and hedges financial risks in close cooperation with the operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, liquidity risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity as discussed further in our treasury policy, described on pages 71 to 74.

(a) Market risk

(i) Foreign exchange risk

National Grid operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and investments in foreign operations.

With respect to near term foreign exchange risk, we use foreign exchange forwards to manage foreign exchange transaction exposure. Our policy is to hedge a minimum percentage of known contracted foreign currency flows in order to mitigate foreign currency movements in the intervening period. Where cash forecasts are less certain, we generally cover a percentage of the foreign currency flows depending on the level of agreed probability for those future cash flows.

We also manage the foreign exchange exposure to net investments in foreign operations, within a policy range, by maintaining a percentage of net debt and foreign exchange forwards in the relevant currency. The primary managed foreign exchange exposure arises from the dollar denominated assets and liabilities held by the US operations, with a further small euro exposure in respect of a joint venture investment.

During 2011 and 2010, derivative financial instruments were used to manage foreign currency risk as follows:

	2011					2010				
	Sterling £m	Euro £m	Dollar £m	Other £m	Total £m	Sterling £m	Euro £m	Dollar £m	Other £m	Total £m
Cash and cash equivalents	319	1	64	–	384	428	4	288	–	720
Financial investments	1,046	111	1,696	86	2,939	455	127	736	79	1,397
Borrowings (i)	(10,565)	(4,896)	(7,113)	(624)	(23,198)	(10,651)	(6,361)	(7,394)	(718)	(25,124)
Pre-derivative position	(9,200)	(4,784)	(5,353)	(538)	(19,875)	(9,768)	(6,230)	(6,370)	(639)	(23,007)
Derivative effect	2,921	4,637	(6,962)	548	1,144	438	6,172	(6,388)	646	868
Net debt position	(6,279)	(147)	(12,315)	10	(18,731)	(9,330)	(58)	(12,758)	7	(22,139)

(i) Includes bank overdrafts.

The overall exposure to dollars largely relates to our net investment hedge activities as described in note 31.

Notes to the consolidated financial statements continued

32. Financial risk continued

The currency exposure on other financial instruments is as follows:

	2011					2010				
	Sterling £m	Euro £m	Dollar £m	Other £m	Total £m	Sterling £m	Euro £m	Dollar £m	Other £m	Total £m
Trade and other receivables	**91**	**–**	**1,122**	**–**	**1,213**	128	–	1,228	–	1,356
Trade and other payables	**(1,319)**	**–**	**(1,248)**	**–**	**(2,567)**	(1,221)	–	(1,382)	–	(2,603)
Other non-current liabilities	**(26)**	**–**	**(354)**	**–**	**(380)**	(15)	–	(393)	–	(408)

The carrying amounts of other financial instruments are denominated in the above currencies, which in most instances are the functional currency of the respective subsidiaries. Our exposure to dollars is due to activities in our US subsidiaries. We do not have any other significant exposure to currency risk on these balances.

(ii) Cash flow and fair value interest rate risk

Interest rate risk arises from our borrowings. Borrowings issued at variable rates expose National Grid to cash flow interest rate risk. Borrowings issued at fixed rates expose National Grid to fair value interest rate risk. Our interest rate risk management policy as further explained on page 73 is to minimise the finance costs (being interest costs and changes in the market value of debt) subject to constraints approved by the Finance Committee. Some of our borrowings are inflation linked; that is, their cost is linked to changes in the UK retail price index (RPI). We believe that these borrowings provide a hedge for regulated UK revenues and our UK regulatory asset values that are also RPI linked.

Interest rate risk arising from our financial investments is primarily variable being composed of short-dated money funds.

The following table sets out the carrying amount, by contractual maturity, of borrowings that are exposed to interest rate risk before taking into account interest rate swaps:

	2011 £m	2010 £m
Fixed interest rate borrowings		
Less than 1 year	**(1,313)**	(1,237)
In 1-2 years	**(808)**	(1,413)
In 2-3 years	**(1,467)**	(956)
In 3-4 years	**(1,189)**	(1,762)
In 4-5 years	**(307)**	(1,265)
More than 5 years	**(8,487)**	(8,791)
	(13,571)	(15,424)
Floating interest rate borrowings (including inflation linked)	**(9,627)**	(9,700)
Total borrowings	**(23,198)**	(25,124)

During 2011 and 2010, net debt was managed using derivative instruments to hedge interest rate risk as follows:

	2011					2010				
	Fixed rate £m	Floating rate £m	Inflation linked(i) £m	Other(ii) £m	Total £m	Fixed rate £m	Floating rate £m	Inflation linked(i) £m	Other(ii) £m	Total £m
Cash and cash equivalents	**315**	**69**	**–**	**–**	**384**	599	121	–	–	720
Financial investments	**759**	**2,053**	**–**	**127**	**2,939**	602	673	–	122	1,397
Borrowings (iii)	**(13,571)**	**(3,933)**	**(5,694)**	**–**	**(23,198)**	(15,424)	(4,604)	(5,096)	–	(25,124)
Pre-derivative position	**(12,497)**	**(1,811)**	**(5,694)**	**127**	**(19,875)**	(14,223)	(3,810)	(5,096)	122	(23,007)
Derivative effect (iv)	**295**	**531**	**318**	**–**	**1,144**	(1,552)	2,292	204	(76)	868
Net debt position	**(12,202)**	**(1,280)**	**(5,376)**	**127**	**(18,731)**	(15,775)	(1,518)	(4,892)	46	(22,139)

(i) The post-derivative impact represents financial instruments linked to UK RPI.
(ii) Represents financial instruments which are not directly affected by interest rate risk, such as investments in equity or other similar financial instruments.
(iii) Includes bank overdrafts.
(iv) The impact of 2011/12 (2010: 2010/11) maturing short-dated interest rate derivatives is included.

32. Financial risk continued

(b) Fair value analysis

The following is an analysis of our financial instruments that are measured at fair value. They are reported in a tiered hierarchy based on the valuation methodology described on page 74, and reflecting the significance of market observable inputs. The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used.

	2011				2010			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets								
Available-for-sale investments	**2,834**	**179**	**–**	**3,013**	1,346	175	–	1,521
Derivative financial instruments	**–**	**1,684**	**54**	**1,738**	–	1,706	36	1,742
	2,834	**1,863**	**54**	**4,751**	1,346	1,881	36	3,263
Liabilities								
Derivative financial instruments	**–**	**(594)**	**–**	**(594)**	–	(874)	–	(874)
Total	**2,834**	**1,269**	**54**	**4,157**	1,346	1,007	36	2,389

Level 1: Financial instruments with quoted prices for identical instruments in active markets.

Level 2: Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are based directly or indirectly on observable market data.

Level 3: Financial instruments valued using valuation techniques where one or more significant inputs are based on unobservable market data.

During the year no transfers have been made between the hierarchy levels.

The financial instruments classified as level 3 include cross-currency swaps with an embedded call option and currency swaps where the currency forward curve is illiquid. Third party valuations are obtained from more than one source to support the reported fair value. The changes in the value of our level 3 derivative financial instruments are as follows:

	2011 Level 3 valuation £m	2010 Level 3 valuation £m
At 1 April	**36**	10
Net gains for the year (i)	**21**	29
Settlements	**(3)**	(3)
At 31 March	**54**	36

(i) Gains of £21m (2010: £29m) are attributable to assets or liabilities held at the end of the reporting period and have been recognised in finance costs in the income statement.

A reasonably possible change in assumptions is unlikely to result in a material change in the fair value of the level 3 instruments.

(c) Credit risk

Credit risk is the risk of loss resulting from counterparties' default on their commitments including failure to pay or make a delivery on a contract. This risk is inherent in the Company's commercial business activities and is managed on a portfolio basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Treasury related credit risk

Counterparty risk arises from the investment of surplus funds and from the use of derivative instruments. As at 31 March 2011, the following limits were in place for investments held with banks and financial institutions:

Rating	Maximum limit £m	Long-term limit £m
AAA rated G8 sovereign entities	Unlimited	Unlimited
Triple 'A' vehicles	275	233
Triple 'A' range institutions (AAA)	938 to 1,415	472 to 741
Double 'A' range institutions (AA)	560 to 705	285 to 353
Single 'A' range institutions (A)	192 to 275	99 to 140

Notes to the consolidated financial statements continued

32. Financial risk continued

As at 31 March 2010 and 2011, we had a number of exposures to individual counterparties. In accordance with our treasury policies and exposure management practices, counterparty credit exposure limits are continually monitored and no individual exposure is considered significant in the ordinary course of treasury management activity. Management does not expect any significant losses from non performance by these counterparties.

The counterparty exposure under derivative financial contracts as shown in note 14 was £1,738m (2010: £1,742m); after netting agreements it was £1,389m (2010: £1,229m). This exposure is further reduced by collateral received as shown in note 19. Additional information for commodity contract credit risk is in note 33.

Wholesale and retail credit risk

Our principal commercial exposure in the UK is governed by the credit rules within the regulated codes Uniform Network Code and Connection and Use of System Code. These lay down the level of credit relative to the regulatory asset value (RAV) for each credit rating. In the US, we are required to supply electricity and gas under state regulations. Our credit policies and practices are designed to limit credit exposure by collecting security deposits prior to providing utility services, or after utility service has commenced if certain applicable regulatory requirements are met. Collection activities are managed on a daily basis. Sales to retail customers are usually settled in cash, cheques, electronic bank payments or by using major credit cards. We are committed to measuring, monitoring, minimising and recording counterparty credit risk in our wholesale business. The utilisation of credit limits is regularly monitored and collateral is collected against these accounts when necessary. Management does not expect any significant losses of receivables that have not been provided for as shown in note 16.

(d) Liquidity analysis

We determine our liquidity requirements by the use of both short- and long-term cash flow forecasts. These forecasts are supplemented by a financial headroom analysis which is used to assess funding adequacy for at least a 12 month period.

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities and derivative assets and liabilities as at the balance sheet date:

At 31 March 2011	Less than 1 year £m	1-2 years £m	2-3 years £m	More than 3 years £m	Total £m
Non-derivative financial liabilities					
Borrowings, excluding finance lease liabilities	**(2,616)**	**(1,188)**	**(1,574)**	**(17,455)**	**(22,833)**
Interest payments on borrowings (i)	**(828)**	**(807)**	**(741)**	**(9,328)**	**(11,704)**
Finance lease liabilities	**(20)**	**(38)**	**(33)**	**(157)**	**(248)**
Other non interest-bearing liabilities	**(2,320)**	**(279)**	**–**	**–**	**(2,599)**
Derivative financial liabilities					
Derivative contracts – receipts	**1,596**	**407**	**649**	**1,606**	**4,258**
Derivative contracts – payments	**(1,213)**	**(169)**	**(345)**	**(1,345)**	**(3,072)**
Commodity contracts	**(290)**	**(84)**	**(40)**	**(43)**	**(457)**
Total at 31 March 2011	**(5,691)**	**(2,158)**	**(2,084)**	**(26,722)**	**(36,655)**

At 31 March 2010	Less than 1 year £m	1-2 years £m	2-3 years £m	More than 3 years £m	Total £m
Non-derivative financial liabilities					
Borrowings, excluding finance lease liabilities	(2,390)	(2,100)	(1,322)	(18,927)	(24,739)
Interest payments on borrowings (i)	(915)	(874)	(845)	(9,829)	(12,463)
Finance lease liabilities	(30)	(53)	(20)	(169)	(272)
Other non interest-bearing liabilities	(2,287)	(265)	–	–	(2,552)
Derivative financial liabilities					
Derivative contracts – receipts	1,027	1,649	171	2,235	5,082
Derivative contracts – payments	(859)	(1,464)	(104)	(1,874)	(4,301)
Commodity contracts	(488)	(168)	(35)	(101)	(792)
Total at 31 March 2010	(5,942)	(3,275)	(2,155)	(28,665)	(40,037)

(i) The interest on borrowings is calculated based on borrowings held at 31 March without taking account of future issues. Floating rate interest is estimated using a forward interest rate curve as at 31 March. Payments are included on the basis of the earliest date on which the Company can be required to settle.

32. Financial risk continued

(e) Sensitivity analysis

Financial instruments affected by market risk include borrowings, deposits, derivative financial instruments and commodity contracts. The following analysis illustrates the sensitivity to changes in market variables, being UK and US interest rates, the UK retail price index and the dollar to sterling exchange rate, on our financial instruments.

The analysis also excludes the impact of movements in market variables on the carrying value of pension and other post-retirement benefit obligations, provisions and on the non-financial assets and liabilities of overseas subsidiaries.

The sensitivity analysis has been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 March 2011 and 2010 respectively. As a consequence, this sensitivity analysis relates to the positions at those dates and is not representative of the years then ended, as all of these varied.

The following assumptions were made in calculating the sensitivity analysis:

- the balance sheet sensitivity to interest rates relates only to derivative financial instruments and available-for-sale investments, as debt and other deposits are carried at amortised cost and so their carrying value does not change as interest rates move;
- the sensitivity of accrued interest to movements in interest rates is calculated on net floating rate exposures on debt, deposits and derivative instruments;
- changes in the carrying value of derivatives from movements in interest rates designated as cash flow hedges are assumed to be recorded fully within equity;
- changes in the carrying value of derivative financial instruments designated as net investment hedges from movements in interest rates are recorded in the income statement as they are designated using the spot rather than the forward translation method. The impact of movements in the dollar to sterling exchange rate are recorded directly in equity;
- changes in the carrying value of derivative financial instruments not in hedging relationships only affect the income statement;
- all other changes in the carrying value of derivative financial instruments designated as hedges are fully effective with no impact on the income statement;
- debt with a maturity below one year is floating rate for the accrued interest part of the calculation;
- the floating leg of any swap or any floating rate debt is treated as not having any interest rate already set, therefore a change in interest rates affects a full 12 month period for the accrued interest portion of the sensitivity calculations; and
- sensitivity to the retail price index does not take into account any changes to revenue or operating costs that are affected by the retail price index or inflation generally.

Using the above assumptions, the following table shows the illustrative impact on the income statement and items that are recognised directly in equity that would result from reasonably possible movements in the UK retail price index, UK and US interest rates and in the dollar to sterling exchange rate, after the effects of tax.

	2011		2010	
	Income statement +/- £m	Other equity reserves +/- £m	Income statement +/- £m	Other equity reserves +/- £m
UK retail price index +/- 0.50%	19	–	17	–
UK interest rates +/- 0.50%	38	50	51	71
US interest rates +/- 0.50%	39	15	52	14
US dollar exchange rate +/- 10%	44	636	68	623

The income statement sensitivities impact interest expense and financial instrument remeasurements.

The other equity reserves impact does not reflect the exchange translation in our US subsidiary net assets, which it is estimated would change by £800m (2010: £796m) in the opposite direction if the dollar exchange rate changed by 10%.

Notes to the consolidated financial statements continued

32. Financial risk continued

(f) Capital and risk management

National Grid's objectives when managing capital are to safeguard our ability to continue as a going concern, to remain within regulatory constraints and to maintain an efficient mix of debt and equity funding thus achieving an optimal capital structure and cost of capital. We regularly review and maintain or adjust the capital structure as appropriate in order to achieve these objectives.

The principal measure of our balance sheet efficiency is our interest cover ratio. Interest cover for the year ended 31 March 2011 decreased to 3.8 from 3.9 for the year ended 31 March 2010. Our long-term target range for interest cover is between 3.0 and 3.5, which we believe is consistent with single A range long-term senior unsecured debt credit ratings within our main UK operating companies, National Grid Electricity Transmission plc and National Grid Gas plc, based on guidance from the rating agencies. This year's interest cover was lower than the previous year, reflecting the return to inflation on our retail price index (RPI) linked debt, impacting our interest expense, partially offset by strong operating cash flows. Additional information is provided on page 56.

In addition, we monitor the regulatory asset value (RAV) gearing within each of National Grid Electricity Transmission plc and the regulated transmission and distribution businesses within National Grid Gas plc. This is calculated as net debt expressed as a percentage of RAV, and indicates the level of debt employed to fund our UK regulated businesses. It is compared with the level of RAV gearing indicated by Ofgem as being appropriate for these businesses, at around 60%.

National Grid USA and its public utility subsidiaries, all consolidated subsidiaries of National Grid, are subject to restrictions on the payment of dividends by administrative order and contract. Orders by the Federal Energy Regulatory Commission and applicable state regulatory commissions limit the payment of dividends to cumulative retained earnings, including pre-acquisition retained earnings. Other orders by federal and state commissions require National Grid USA and its public utility subsidiaries to maintain a minimum equity to capital ratio of between 30% to 44%, varying by entity and order or covenant.

Some of our regulatory and bank loan agreements additionally impose lower limits for the long-term credit ratings that certain companies within the group must hold. All of the above requirements are monitored on a regular basis in order to ensure compliance. Additional information is provided on page 71. The Company has complied with all externally imposed capital requirements to which it is subject.

33. Commodity risk

We purchase electricity and gas in order to supply our customers in the US and also to meet our own energy requirements. We also engage in the sale of gas that is produced primarily by our West Virginia gas fields.

Substantially all our costs of purchasing electricity and gas for supply to customers are recoverable at an amount equal to cost. The timing of recovery of these costs can vary between financial periods leading to an under- or over-recovery within any particular financial period.

We enter into forward contracts for the purchase of commodities, some of which do not meet the own use exemption for accounting purposes and hence are accounted for as derivatives. We also enter into derivative financial instruments linked to commodity prices, including index-linked swaps and futures contracts. These derivative financial instruments are used to manage market price volatility and are carried at fair value on the balance sheet. The mark-to-market changes in these contracts are reflected through earnings with the exception of those related to our West Virginia gas fields that are designated as cash flow hedges when they arise.

Our energy procurement risk management policy and delegations of authority govern our US commodity trading activities for energy transactions. The purpose of this policy is to ensure we transact within pre-defined risk parameters and only in the physical and financial markets where we or our customers have a physical market requirement.

The credit policy for commodity transactions is owned and monitored by the energy procurement risk management committee and establishes controls and procedures to determine, monitor and minimise the credit risk of counterparties. The valuation of our commodity contracts considers the risk of credit by utilising the most current default probabilities and the most current published credit ratings. We also use internal analysis to guide us in setting credit and risk levels and use contractual arrangements including netting agreements as applicable.

The counterparty exposure for our commodity derivatives is £110m (2010: £105m), and after netting agreements it was £73m (2010: £91m).

33. Commodity risk continued

(a) Fair value analysis

The fair value of our commodity contracts by type can be analysed as follows:

	2011 Assets £m	2011 Liabilities £m	2011 Total £m	2010 Assets £m	2010 Liabilities £m	2010 Total £m
Commodity purchase contracts accounted for as derivative contracts						
Forward purchases of electricity	–	(101)	(101)	–	(127)	(127)
Forward purchases/sales of gas	42	(83)	(41)	51	(101)	(50)
Derivative financial instruments linked to commodity prices						
Electricity swaps	4	(18)	(14)	–	(47)	(47)
Electricity options	62	–	62	51	–	51
Gas swaps	2	(17)	(15)	3	(52)	(49)
	110	(219)	(109)	105	(327)	(222)

The fair value classification of our commodity contracts is as follows; a definition of each level can be found on page 159:

	2011 Level 1 £m	2011 Level 2 £m	2011 Level 3 £m	2011 Total £m	2010 Level 1 £m	2010 Level 2 £m	2010 Level 3 £m	2010 Total £m
Assets								
Commodity contracts	–	6	104	110	–	2	103	105
Liabilities								
Commodity contracts	–	(36)	(183)	(219)	–	(100)	(227)	(327)
Total	–	(30)	(79)	(109)	–	(98)	(124)	(222)

Our level 3 commodity contracts primarily consist of our forward purchases of electricity and gas where pricing inputs are unobservable, as well as other complex transactions. Complex transactions can introduce the need for internally developed models based on reasonable assumptions. Industry standard valuation techniques such as the Black-Scholes pricing model and Monte Carlo simulation are used for valuing such instruments. Level 3 is also applied in cases when optionality is present or where an extrapolated forward curve is considered unobservable. All published forward curves are verified to market data; if forward curves differ from market data by 5% or more they are considered unobservable.

The changes in the value of our level 3 commodity contracts are as follows:

	2011 £m	2010 £m
At 1 April 2010	(124)	(115)
Net gains for the year (i)	20	8
Purchases	(42)	(12)
Sales	–	(1)
Settlements	68	–
Reclassification into level 3	–	(3)
Reclassification out of level 3	(1)	(1)
At 31 March 2011	(79)	(124)

(i) Gains of £14m (2010: £67m loss) are attributable to assets or liabilities held at the end of the reporting period.

The transfers into and out of level 3 were driven by changes in the observability of extrapolated forward curves.

Notes to the consolidated financial statements continued

33. Commodity risk continued

The impacts on a post-tax basis of reasonably possible changes in significant level 3 assumptions are as follows:

	2011 Income statement £m	2010 Income statement £m
10% increase in commodity prices (i)	39	46
10% decrease in commodity prices (i)	(36)	(39)
10% increase in commodity volumes	(5)	(9)
10% decrease in commodity volumes	3	9
Forward curve extrapolation	(1)	(12)

(i) Level 3 commodity price sensitivity is included within the sensitivity analysis disclosed in (d) below.

The impacts disclosed above were considered on a contract by contract basis with the most significant unobservable inputs identified.

(b) Maturity analysis

The maturity of commodity contracts measured at fair value can be analysed as follows:

	2011			2010		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Less than one year	16	(118)	(102)	21	(184)	(163)
Current	16	(118)	(102)	21	(184)	(163)
In 1 – 2 years	18	(26)	(8)	8	(49)	(41)
In 2 – 3 years	9	(20)	(11)	11	(21)	(10)
In 3 – 4 years	8	(20)	(12)	13	(19)	(6)
In 4 – 5 years	11	(18)	(7)	11	(19)	(8)
More than 5 years	48	(17)	31	41	(35)	6
Non-current	94	(101)	(7)	84	(143)	(59)
Total	110	(219)	(109)	105	(327)	(222)

(c) Notional quantities

For each class of commodity contract, our exposure based on the notional quantities is as follows:

	2011	2010
Forward purchases of electricity (i)	4,257 GWh	3,883 GWh
Forward purchases/sales of gas (ii)	12m Dth	171m Dth
Electricity swaps	2,559 GWh	3,141 GWh
Electricity options	30,248 GWh	30,294 GWh
Gas swaps	27m Dth	59m Dth
Gas options	9m Dth	–
NYMEX gas futures (iii)	18m Dth	48m Dth

(i) Forward electricity purchases have terms up to 12 years. The contractual obligations under these contracts are £240m (2010: £269m).
(ii) Forward gas purchases have terms up to 7 years. The contractual obligations under these contracts are £247m (2010: £434m).
(iii) NYMEX gas futures have been offset with related margin accounts.

(d) Sensitivity analysis

A sensitivity analysis has been prepared on the basis that all commodity contracts are constant from the balance sheet date. Based on this, an illustrative 10% movement in commodity prices would have the following impacts after the effects of tax:

	2011		2010	
	Income statement £m	Other equity reserves £m	Income statement £m	Other equity reserves £m
10% increase in commodity prices	58	–	71	(1)
10% decrease in commodity prices	(54)	–	(64)	1

The income statement sensitivities would affect commodity remeasurements.

34. Bonds and facilities

The table below shows our significant bonds in issue, being those with approximately £100m equivalent original notional value or greater. Unless otherwise indicated, these instruments were outstanding at both 31 March 2011 and 2010.

Issuer	Original Notional Value	Description of instrument	Due
Bonds			
British Transco Finance Inc.	USD 300m	6.625% Fixed Rate	2018
British Transco International Finance BV	USD 1,500m	Zero Coupon Bond	2021
Brooklyn Union Gas Company	USD 153m	4.7% GFRB's Series 1996	2021
	USD 400m	5.6% Senior Unsecured Note	2016
KeySpan Corporation	USD 700m	MTN 7.625% (i)	2010
	USD 250m	MTN 8.00%	2030
	USD 307m	5.803% Notes	2035
	USD 150m	4.65% Notes	2013
	USD 150m	5.875% Notes	2033
KeySpan Gas East Corporation (National Grid Energy Delivery Long Island)	USD 500m	5.819% Fixed Rate (ii)	2041
Massachusetts Electric Company	USD 800m	5.90% Fixed Rate	2039
National Grid Electricity Transmission plc	EUR 600m	6.625% Fixed Rate	2014
	GBP 250m	4.75% Fixed Rate (i)	2010
	GBP 300m	2.983% Guaranteed Retail Price Index Linked	2018
	GBP 220m	3.806% Retail Price Index Linked	2020
	GBP 450m	5.875% Fixed Rate	2024
	GBP 360m	6.5% Fixed Rate	2028
	GBP 200m	1.6449% Retail Price Index Linked	2036
	GBP 150m	1.823% Retail Price Index Linked	2056
	GBP 150m	1.8575% Index Linked	2039
	GBP 379m	7.375% Fixed Rate	2031
National Grid Gas plc	GBP 300m	6.0% Fixed Rate	2017
	GBP 275m	8.75% Fixed Rate	2025
	GBP 100m	1.6747% Retail Price Index Linked	2036
	GBP 115m	1.7298% Retail Price Index Linked	2046
	GBP 100m	1.6298% Retail Price Index Linked	2048
	GBP 100m	1.5522% Retail Price Index Linked	2048
	GBP 300m	1.754% Retail Price Index Linked	2036
	GBP 140m	1.7864% Index Linked	2037
	GBP 100m	1.9158% Index Linked	2037
	GBP 100m	1.7762% Index Linked	2037
	GBP 100m	1.7744% Index Linked	2039
	GBP 100m	1.8625% Index Linked	2039
	GBP 484m	6.375% Fixed Rate	2020
	GBP 503m	4.1875% Index Linked	2022
	GBP 503m	7.0% Fixed Rate	2024
	EUR 800m	5.125% Fixed Rate	2013
	EUR 163m	4.36% EUR-HICP Linked	2018
	GBP 457m	6.0% Fixed Rate	2038

Notes to the consolidated financial statements continued

34. Bonds and facilities continued

Issuer	Original Notional Value	Description of instrument	Due
Bonds continued			
National Grid plc	CAD 200m	4.98% Fixed Rate	2011
	EUR 1,000m	4.125% Fixed Rate	2013
	EUR 600m	5.0% Fixed Rate	2018
	EUR 500m	4.375% Fixed Rate	2020
	EUR 600m	Floating Rate (i)	2010
	EUR 750m	Floating Rate	2012
	GBP 300m	5.25% Fixed Rate	2011
	GBP 310m	5.5% Fixed Rate	2013
	USD 1,000m	6.3% Fixed Rate	2016
	EUR 578m	6.5% Fixed Rate	2014
	GBP 414m	6.125% Fixed Rate	2014
NGG Finance plc	EUR 750m	6.125% Fixed Rate	2011
Niagara Mohawk Power Corporation	USD 750m	4.881% Fixed Rate	2019
	USD 500m	3.553% Fixed Rate	2014
The Narragansett Electric Company	USD 250m	4.534% Fixed Rate	2020
	USD 300m	5.638% Fixed Rate	2040
Bank loans and other loans			
National Grid plc	USD 200m	Floating Rate (i)	2010
	USD 250m	Floating Rate (i)	2014
	USD 150m	Floating Rate (i)	2014
National Grid Grain LNG Limited	GBP 120m	Floating Rate	2014
	GBP 140m	Floating Rate	2023
National Grid Electricity Transmission plc	GBP 200m	Floating Rate	2012
	GBP 200m	Floating Rate	2017
National Grid Gas plc	GBP 200m	Floating Rate	2012
	GBP 180m	1.88% Retail Price Index Linked	2022
	GBP 190m	2.14% Retail Price Index Linked	2022
	GBP 360m	Retail Price Index Linked (ii)	2024
National Grid USA	USD 150m	Floating Rate (i)	2011
	USD 250m	Floating Rate (ii)	2014
	USD 150m	Floating Rate (ii)	2014
National Grid Holdings Limited	GBP 250m	4.13840% Fixed Rate	2011

(i) Matured or repurchased during the year ended 31 March 2011.
(ii) Issued during the year ended 31 March 2011.

No significant bonds have been announced to the market or issued subsequent to 31 March 2011, up to the date of the signing of the accounts.

Borrowing facilities

At 31 March 2011, there were bilateral committed credit facilities of £2,086m (2010: £2,279m), of which £2,086m (2010: £2,189m) were undrawn. In addition, there were committed credit facilities from syndicates of banks of £812m at 31 March 2011 (2010: £833m), of which £812m (2010: £833m) were undrawn. An analysis of the maturity of these undrawn committed facilities is shown below:

	2011 £m	2010 £m
Undrawn committed borrowing facilities expiring:		
Less than 1 year	**330**	1,708
In 1-2 years	**899**	1,314
In 3-4 years	**1,140**	–
In 4-5 years	**529**	–
	2,898	3,022

At 31 March 2011 of the unused facilities £2,568m (2010: £2,673m) was held as back up to commercial paper and similar borrowings, while £330m (2010: £349m) is available as back up to specific US borrowings.

35. Share options and reward plans

We operate four principal forms of share option and share reward plans. These plans include an employee Sharesave scheme, a Performance Share Plan (PSP), the Deferred Share Plan and the Retention Award Plans. In any ten year period, the maximum number of shares that may be issued or issuable pursuant to these share plans may not exceed 10% of the issued ordinary share capital.

On 14 June 2010, the Company completed a rights issue as explained in note 25. The number of shares allocated to employees under the Company's share plans has been adjusted to reflect the bonus element of the rights issue. The terms of the Company's share plans were adjusted such that participants of the various plans were no better or worse off as a result of the rights issue.

Active share plans

- Sharesave scheme – share options are offered to employees at 80% of the market price at the time of the invitation. The share options are exercisable on completion of a three and/or five year Save As You Earn contract.
- PSP – awards delivered in National Grid shares (ADSs for US participants) are made to Executive Directors and senior employees. The criteria are based on the Company's total shareholder return (50%) when compared to FTSE 100 and annualised growth of the Company's EPS (50%) when compared to the growth in RPI.
- Deferred Share Plan – 50% of any Annual Performance Plan awarded to the Executive Directors and a fixed percentage awarded to senior employees is automatically deferred into National Grid shares (ADSs for US participants) which are held in trust for three years before release.
- Retention Award Plans – awards delivered in National Grid shares (ADSs for US participants) to senior employees and vest in equal tranches over two and four years provided the employee remains employed by the Company.

Additional information in respect of active share plans (excluding Sharesave scheme)

	2011 millions	2010 millions
Awards of ordinary share equivalents at 1 April	**10.2**	11.0
Impact of rights issue	**1.5**	–
Awards made	**5.5**	4.7
Lapses/forfeits	**(1.5)**	(0.9)
Awards vested	**(0.9)**	(4.6)
Awards of ordinary share equivalents at 31 March	**14.8**	10.2
Conditional awards available for release at 31 March	**1.4**	0.1

Non-active share plans

We also have historical plans where awards are still outstanding but no further awards will be granted. These include the Share Matching Plan, for which 156,000 awards are exercisable as at 31 March 2011 and the Executive Share Option Plan, for which details of movements are provided below.

Share options – Sharesave scheme and Executive Share Option Plan

	Sharesave scheme		Executive Share Option Plan		
	Weighted average price £	millions	Weighted average price £	millions	Total options millions
At 1 April 2009	4.74	20.1	4.95	1.5	21.6
Granted	5.20	3.7	–	–	3.7
Lapsed – expired	5.38	(0.9)	5.24	(0.1)	(1.0)
Exercised	3.77	(4.5)	4.93	(0.5)	(5.0)
At 31 March 2010	5.05	18.4	4.92	0.9	19.3
Impact of rights issue	–	2.1	–	0.1	2.2
Granted	4.45	3.9	–	–	3.9
Lapsed – expired	4.57	(1.4)	4.61	(0.3)	(1.7)
Exercised	4.31	(3.5)	4.37	(0.2)	(3.7)
At 31 March 2011	**4.43**	**19.5**	**4.03**	**0.5**	**20.0**
Exercisable					
At 31 March 2011	**4.83**	**1.2**	**4.03**	**0.4**	**1.6**
At 31 March 2010	4.98	0.8	4.71	0.5	1.3
Weighted average share price at exercise date					
Year ended 31 March 2011	**5.53**	**3.5**	**5.59**	**0.2**	**3.7**
Year ended 31 March 2010	5.74	4.5	6.03	0.5	5.0

The weighted average remaining contractual life of options in the employee Sharesave scheme at 31 March 2011 was two years and two months. These options have exercise prices between £3.80 and £5.73 per ordinary share. The aggregate intrinsic value of all options outstanding and exercisable at 31 March 2011 amounted to £192m and £3m respectively.

Notes to the consolidated financial statements continued

35. Share options and reward plans continued

Awards under share option and reward plans

	2011	2010	2009
Share options			
Average share price at date of grant	**564.5p**	676.0p	684.0p
Average exercise price	**445.0p**	520.0p	488.0p
Average fair value	**137.0p**	161.1p	153.7p
Other share plans			
Average share price at date of grant	**493.3p**	598.2p	670.1p
Average fair value	**327.8p**	355.6p	458.1p

Fair value calculation assumptions

	2011	2010	2009
Dividend yield (%)	**4.4-5.0**	4.4-5.0	4.4-5.0
Volatility (%)	**22.4-26.1**	22.4-26.1	22.4-26.1
Risk free investment rate (%)	**2.5**	2.5	2.5
Average life (years)	**4.0**	4.0	4.2

The fair values of awards under the Sharesave scheme have been calculated using the Black-Scholes European model. The fair value of awards with total shareholder return performance conditions are calculated using a Monte Carlo Simulation model. Fair values of other awards are calculated as the share price at grant date, less the present value of dividends not received in the vesting period.

Volatility was derived based on the following, and is assumed to revert from its current implied level to its long-run mean based on historical volatility under (ii) below:

(i) implied volatility in traded options over the Company's shares;

(ii) historical volatility of the Company's shares over a term commensurate with the expected life of each option; and

(iii) implied volatility of comparator companies where options in their shares are traded.

Additional information in respect of share options

	2011 £m	2010 £m	2009 £m
Share options exercised			
Cash received on exercise of all share options during the year	**18**	18	8
Tax benefits realised from share options exercised during the year	**3**	8	4

36. Subsidiary undertakings, joint ventures and associates

Principal subsidiary undertakings

The principal subsidiary undertakings included in the consolidated financial statements at 31 March 2011 are listed below. These undertakings are wholly-owned and, unless otherwise indicated, are incorporated in England and Wales.

	Principal activity
National Grid Gas plc	Transmission and distribution of gas
National Grid Electricity Transmission plc	Transmission of electricity
New England Power Company (i)	Transmission of electricity
Massachusetts Electric Company (i)	Distribution of electricity
The Narragansett Electric Company (i)	Transmission and distribution of electricity
Niagara Mohawk Power Corporation (i)	Transmission of electricity and distribution of electricity and gas
National Grid Metering Limited	Metering services
Utility Metering Services Limited	Metering services
National Grid Grain LNG Limited	LNG importation and storage
Boston Gas Company (i)	Distribution of gas
National Grid Generation LLC (i)	Generation of electricity
KeySpan Gas East Corporation (i)	Distribution of gas
The Brooklyn Union Gas Company (i)	Distribution of gas
NGG Finance plc	Financing
National Grid Property Holdings Limited	Property services
National Grid Holdings One plc	Holding company
Lattice Group plc	Holding company
National Grid USA (i)	Holding company
Niagara Mohawk Holdings, Inc. (i)	Holding company
National Grid Commercial Holdings Limited	Holding company
National Grid Holdings Limited	Holding company
KeySpan Corporation (i)	Holding company

(i) Incorporated in the US.

Principal joint ventures and associates

The principal joint ventures and associated undertakings included in the financial statements at 31 March 2011 are listed below. These undertakings are incorporated in England and Wales (unless otherwise indicated).

	% of ordinary shares held	Principal activity
BritNed Development Limited	50	UK / Netherlands interconnector
Millennium Pipeline Company, LLC (i)	26.25	Transmission of gas
Iroquois Gas Transmission System, L.P. (i)	20.4	Transmission of gas

(i) Incorporated in the US.

A full list of all subsidiary and associated undertakings is available from the Company Secretary & General Counsel of the Company.

Notes to the consolidated financial statements continued

37. National Grid Gas plc and Niagara Mohawk Power Corporation additional disclosures

The following condensed consolidating financial information, comprising income statements, balance sheets and cash flow statements, is given in respect of National Grid Gas plc (Subsidiary guarantor), which became joint full and unconditional guarantor on 11 May 2004 with National Grid plc (Parent guarantor) of the 6.625% Guaranteed Notes due 2018 issued in June 1998 by British Transco Finance Inc., then known as British Gas Finance Inc. (issuer of notes). Condensed consolidating financial information is also provided in respect of Niagara Mohawk Power Corporation as a result of National Grid plc's guarantee, dated 29 October 2007, of Niagara Mohawk's 3.6% and 3.9% issued preferred shares. National Grid Gas plc, British Transco Finance Inc., and Niagara Mohawk Power Corporation are wholly-owned subsidiaries of National Grid plc.

The following financial information for National Grid plc, National Grid Gas plc, British Transco Finance Inc., and Niagara Mohawk Power Corporation on a condensed consolidating basis is intended to provide investors with meaningful and comparable financial information and is provided pursuant to Rule 3-10 of Regulation S-X in lieu of the separate financial statements of each subsidiary issuer of public debt securities.

This financial information should be read in conjunction with the Company's financial statements and footnotes presented in our 2010/11 Annual Report and Accounts.

Summary income statements are presented, on a consolidating basis, for the three years ended 31 March 2011. Summary income statements of National Grid plc and National Grid Gas plc are presented under IFRS measurement principles, as modified by the inclusion of the results of subsidiary undertakings on the basis of equity accounting principles.

The summary balance sheets of National Grid plc and National Grid Gas plc include the investments in subsidiaries recorded on the basis of equity accounting principles for the purposes of presenting condensed consolidating financial information under IFRS. The summary balance sheets present these investments within non-current financial and other investments.

The consolidation adjustments column includes the necessary amounts to eliminate the intercompany balances and transactions between National Grid plc, National Grid Gas plc, British Transco Finance Inc., Niagara Mohawk Power Corporation and other subsidiaries.

37. National Grid Gas plc and Niagara Mohawk Power Corporation additional disclosures continued

Summary income statements for the year ended 31 March 2011 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Revenue	–	2,606	–	2,739	9,174	(176)	14,343
Operating costs							
Depreciation and amortisation	–	(133)	–	(455)	(664)	–	(1,252)
Payroll costs	–	(288)	–	(236)	(972)	–	(1,496)
Purchases of electricity	–	(628)	–	–	(854)	–	(1,482)
Purchases of gas	–	(244)	–	(141)	(1,635)	–	(2,020)
Rates and property taxes	–	(151)	–	(239)	(555)	–	(945)
Balancing Service Incentive Scheme	–	–	–	–	(581)	–	(581)
Payments to Scottish transmission owners	–	–	–	–	(298)	–	(298)
Other operating costs	–	(375)	–	(489)	(1,836)	176	(2,524)
	–	(1,819)	–	(1,560)	(7,395)	176	(10,598)
Operating profit	–	787	–	1,179	1,779	–	3,745
Net finance costs	(261)	(119)	–	(395)	(353)	–	(1,128)
Dividends receivable	–	–	–	–	400	(400)	–
Interest in equity accounted affiliates	2,360	–	–	7	7	(2,367)	7
Profit before tax	2,099	668	–	791	1,833	(2,767)	2,624
Taxation	64	(236)	–	(97)	(192)	–	(461)
Profit for the year from continuing operations	2,163	432	–	694	1,641	(2,767)	2,163
Profit for the year from discontinued operations	–	–	–	–	–	–	–
Profit for the year	**2,163**	**432**	**–**[(i)]	**694**	**1,641**	**(2,767)**	**2,163**
Attributable to:							
Equity shareholders	2,159	432	–	694	1,637	(2,763)	2,159
Non-controlling interests	4	–	–	–	4	(4)	4

(i) Profit for the year for British Transco Finance Inc. is £nil as interest payable to external bond holders is offset by interest receivable on loans to National Grid Gas plc.

Notes to the consolidated financial statements continued

37. National Grid Gas plc and Niagara Mohawk Power Corporation additional disclosures continued

Summary income statements for the year ended 31 March 2010 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Revenue	–	2,409	–	2,787	9,008	(197)	14,007
Operating costs							
Depreciation and amortisation	–	(131)	–	(430)	(633)	–	(1,194)
Payroll costs	–	(274)	–	(224)	(904)	–	(1,402)
Purchases of electricity	–	(575)	–	–	(998)	–	(1,573)
Purchases of gas	–	(253)	–	(155)	(1,834)	–	(2,242)
Rates and property taxes	–	(126)	–	(248)	(533)	–	(907)
Balancing Service Incentive Scheme	–	–	–	–	(691)	–	(691)
Payments to Scottish transmission owners	–	–	–	–	(260)	–	(260)
Other operating costs	4	(435)	–	(633)	(1,578)	197	(2,445)
	4	(1,794)	–	(1,690)	(7,431)	197	(10,714)
Operating profit	4	615	–	1,097	1,577	–	3,293
Net finance costs	(227)	(96)	–	(224)	(561)	–	(1,108)
Dividends receivable	–	–	–	–	300	(300)	–
Interest in equity accounted affiliates	1,558	–	–	12	8	(1,570)	8
Profit before tax	1,335	519	–	885	1,324	(1,870)	2,193
Taxation	54	(225)	–	(285)	(348)	–	(804)
Profit for the year from continuing operations	1,389	294	–	600	976	(1,870)	1,389
Profit for the year from discontinued operations	–	–	–	–	–	–	–
Profit for the year	**1,389**	**294**	**–**[(i)]	**600**	**976**	**(1,870)**	**1,389**
Attributable to:							
Equity shareholders	1,386	294	–	600	973	(1,867)	1,386
Non-controlling interests	3	–	–	–	3	(3)	3
	1,389	**294**	**–**	**600**	**976**	**(1,870)**	**1,389**

(i) Profit for the year for British Transco Finance Inc. is £nil as interest payable to external bond holders is offset by interest receivable on loans to National Grid Gas plc.

37. National Grid Gas plc and Niagara Mohawk Power Corporation additional disclosures continued

Summary income statements for the year ended 31 March 2009 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Revenue	–	2,708	–	2,632	10,585	(238)	15,687
Operating costs							
Depreciation and amortisation	–	(135)	–	(413)	(579)	–	(1,127)
Payroll costs	–	(269)	–	(239)	(941)	–	(1,449)
Purchases of electricity	–	(735)	–	–	(1,492)	–	(2,227)
Purchases of gas	–	(374)	–	(168)	(3,020)	–	(3,562)
Rates and property taxes	–	(132)	–	(236)	(513)	–	(881)
Balancing Service Incentive Scheme	–	–	–	–	(904)	–	(904)
Payments to Scottish transmission owners	–	–	–	–	(243)	–	(243)
Other operating costs	–	(438)	–	(818)	(1,653)	238	(2,671)
	–	(2,083)	–	(1,874)	(9,345)	238	(13,064)
Operating profit	–	625	–	758	1,240	–	2,623
Net finance costs	(213)	(115)	–	(400)	(506)	–	(1,234)
Dividends receivable	592	–	–	–	300	(892)	–
Interest in equity accounted affiliates	551	–	–	(3)	5	(548)	5
Profit before tax	930	510	–	355	1,039	(1,440)	1,394
Taxation	(8)	(185)	–	(307)	28	–	(472)
Profit for the year from continuing operations	922	325	–	48	1,067	(1,440)	922
Profit for the year from discontinued operations	25	–	–	–	25	(25)	25
Profit for the year	**947**	**325**	**–**[(i)]	**48**	**1,092**	**(1,465)**	**947**
Attributable to:							
Equity shareholders	944	325	–	48	1,092	(1,465)	944
Non-controlling interests	3	–	–	–	–	–	3
	947	**325**	**–**	**48**	**1,092**	**(1,465)**	**947**

(i) Profit for the year for British Transco Finance Inc. is £nil as interest payable to external bond holders is offset by interest receivable on loans to National Grid Gas plc.

Notes to the consolidated financial statements continued

37. National Grid Gas plc and Niagara Mohawk Power Corporation additional disclosures continued

Balance sheets as at 31 March 2011 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Non-current assets							
Goodwill	–	697	–	–	4,079	–	4,776
Other intangible assets	–	4	–	185	312	–	501
Property, plant and equipment	–	3,876	–	11,290	16,790	–	31,956
Deferred tax assets	4	–	–	–	–	(4)	–
Other non-current assets	–	64	–	10	61	–	135
Amounts owed by subsidiary undertakings	311	–	–	5,611	–	(5,922)	–
Pension assets	–	154	–	–	402	–	556
Financial and other investments	9,504	20	–	30	9,841	(18,802)	593
Derivative financial assets	576	–	–	535	159	–	1,270
Total non-current assets	10,395	4,815	–	17,661	31,644	(24,728)	39,787
Current assets							
Inventories and current intangible assets	–	24	–	40	256	–	320
Trade and other receivables	3	498	–	217	1,494	–	2,212
Amounts owed by subsidiary undertakings	9,985	16	190	107	9,552	(19,850)	–
Financial and other investments	1,424	12	–	223	1,280	–	2,939
Derivative financial assets	244	–	–	80	198	(54)	468
Cash and cash equivalents	200	2	–	83	99	–	384
Total current assets	11,856	552	190	750	12,879	(19,904)	6,323
Assets of businesses held for sale	–	–	–	–	290	–	290
Total assets	**22,251**	**5,367**	**190**	**18,411**	**44,813**	**(44,632)**	**46,400**
Current liabilities							
Borrowings	(1,125)	(11)	(4)	(410)	(1,402)	–	(2,952)
Derivative financial liabilities	(194)	–	–	(22)	(28)	54	(190)
Trade and other payables	(34)	(259)	–	(654)	(1,881)	–	(2,828)
Amounts owed to subsidiary undertakings	(7,957)	(422)	–	(1,171)	(10,300)	19,850	–
Current tax liabilities	–	(222)	–	(23)	(258)	–	(503)
Provisions	–	(22)	–	(79)	(252)	–	(353)
Total current liabilities	(9,310)	(936)	(4)	(2,359)	(14,121)	19,904	(6,826)
Non-current liabilities							
Borrowings	(3,628)	(1,293)	(186)	(6,535)	(8,604)	–	(20,246)
Derivative financial liabilities	(253)	–	–	(85)	(66)	–	(404)
Other non-current liabilities	–	(291)	–	(1,097)	(556)	–	(1,944)
Amounts owed to subsidiary undertakings	–	–	–	–	(5,922)	5,922	–
Deferred tax liabilities	–	(286)	–	(1,873)	(1,611)	4	(3,766)
Pensions and other post-retirement benefit obligations	–	(967)	–	–	(1,607)	–	(2,574)
Provisions	–	(243)	–	(121)	(1,097)	–	(1,461)
Total non-current liabilities	(3,881)	(3,080)	(186)	(9,711)	(19,463)	5,926	(30,395)
Liabilities of businesses held for sale	–	–	–	–	(110)	–	(110)
Total liabilities	**(13,191)**	**(4,016)**	**(190)**	**(12,070)**	**(33,694)**	**25,830**	**(37,331)**
Net assets	**9,060**	**1,351**	**–**	**6,341**	**11,119**	**(18,802)**	**9,069**
Equity							
Called up share capital	416	116	–	45	183	(344)	416
Share premium account	1,361	1,825	–	204	7,183	(9,212)	1,361
Retained earnings	12,153	(591)	–	4,796	3,962	(8,167)	12,153
Other equity reserves	(4,870)	1	–	1,296	(218)	(1,079)	(4,870)
Shareholders' equity	**9,060**	**1,351**	**–**	**6,341**	**11,110**	**(18,802)**	**9,060**
Non-controlling interests	–	–	–	–	9	–	9
Total equity	**9,060**	**1,351**	**–**	**6,341**	**11,119**	**(18,802)**	**9,069**

37. National Grid Gas plc and Niagara Mohawk Power Corporation additional disclosures continued

Balance sheets as at 31 March 2010 – IFRS

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Non-current assets							
Goodwill	–	738	–	–	4,364	–	5,102
Other intangible assets	–	3	–	126	260	–	389
Property, plant and equipment	–	3,920	–	10,817	16,118	–	30,855
Deferred tax assets	2	–	–	–	–	(2)	–
Other non-current assets	–	–	–	7	155	–	162
Amounts owed by subsidiary undertakings	1,700	–	–	5,611	1,127	(8,438)	–
Pension assets	–	–	–	–	–	–	–
Financial and other investments	6,954	23	–	25	9,731	(16,247)	486
Derivative financial assets	655	51	–	564	224	–	1,494
Total non-current assets	9,311	4,735	–	17,150	31,979	(24,687)	38,488
Current assets							
Inventories and current intangible assets	–	30	–	44	333	–	407
Trade and other receivables	6	503	–	270	1,524	(10)	2,293
Amounts owed by subsidiary undertakings	8,649	–	202	114	7,862	(16,827)	–
Financial and other investments	180	17	–	307	893	–	1,397
Derivative financial assets	218	1	–	72	43	(86)	248
Cash and cash equivalents	198	2	–	–	520	–	720
Total current assets	9,251	553	202	807	11,175	(16,923)	5,065
Assets of businesses held for sale	–	–	–	–	–	–	–
Total assets	**18,562**	**5,288**	**202**	**17,957**	**43,154**	**(41,610)**	**43,553**
Current liabilities							
Borrowings	(1,183)	(27)	(5)	(371)	(1,220)	–	(2,806)
Derivative financial liabilities	(174)	–	–	(30)	(94)	86	(212)
Trade and other payables	(30)	(310)	–	(665)	(1,842)	–	(2,847)
Amounts owed to subsidiary undertakings	(6,701)	(220)	–	(942)	(8,964)	16,827	–
Current tax liabilities	–	(32)	–	–	(369)	10	(391)
Provisions	–	(36)	–	(62)	(205)	–	(303)
Total current liabilities	(8,088)	(625)	(5)	(2,070)	(12,694)	16,923	(6,559)
Non-current liabilities							
Borrowings	(5,307)	(1,358)	(197)	(6,387)	(9,069)	–	(22,318)
Derivative financial liabilities	(431)	–	–	(121)	(110)	–	(662)
Other non-current liabilities	–	(256)	–	(1,100)	(618)	–	(1,974)
Amounts owed to subsidiary undertakings	(537)	(341)	–	(250)	(7,310)	8,438	–
Deferred tax liabilities	–	(131)	–	(1,890)	(1,305)	2	(3,324)
Pensions and other post-retirement benefit obligations	–	(1,102)	–	–	(1,996)	–	(3,098)
Provisions	–	(215)	–	(108)	(1,084)	–	(1,407)
Total non-current liabilities	(6,275)	(3,403)	(197)	(9,856)	(21,492)	8,440	(32,783)
Liabilities of businesses held for sale	–	–	–	–	–	–	–
Total liabilities	**(14,363)**	**(4,028)**	**(202)**	**(11,926)**	**(34,186)**	**25,363**	**(39,342)**
Net assets	**4,199**	**1,260**	**–**	**6,031**	**8,968**	**(16,247)**	**4,211**
Equity							
Called up share capital	298	123	–	45	183	(351)	298
Share premium account	1,366	1,942	–	204	7,183	(9,329)	1,366
Retained earnings	7,316	(808)	–	4,493	1,821	(5,506)	7,316
Other equity reserves	(4,781)	3	–	1,289	(231)	(1,061)	(4,781)
Shareholders' equity	**4,199**	**1,260**	**–**	**6,031**	**8,956**	**(16,247)**	**4,199**
Non-controlling interests	–	–	–	–	12	–	12
Total equity	**4,199**	**1,260**	**–**	**6,031**	**8,968**	**(16,247)**	**4,211**

Notes to the consolidated financial statements continued

37. National Grid Gas plc and Niagara Mohawk Power Corporation additional disclosures continued

Cash flow statements

	Parent guarantor	Issuer of notes		Subsidiary guarantor			
	National Grid plc £m	Niagara Mohawk Power Corporation £m	British Transco Finance Inc. £m	National Grid Gas plc £m	Other subsidiaries £m	Consolidation adjustments £m	National Grid consolidated £m
Year ended 31 March 2011							
Net cash provided by operating activities	55	742	–	1,596	2,465	–	4,858
Net cash provided by/(used in) investing activities	2,127	(377)	–	(909)	(1,850)	(3,765)	(4,774)
Net cash (used in)/provided by financing activities	(2,180)	(365)	–	(621)	(1,029)	3,765	(430)
Net increase/(decrease) in cash and cash equivalents in the year	**2**	**–**	**–**	**66**	**(414)**	**–**	**(346)**
Year ended 31 March 2010							
Net cash provided by operating activities	–	527	–	1,449	2,540	–	4,516
Net cash provided by/(used in) investing activities	600	(307)	–	(367)	(1,451)	(807)	(2,332)
Net cash (used in)/provided by financing activities	(637)	(222)	–	(1,088)	(1,072)	807	(2,212)
Net (decrease)/increase in cash and cash equivalents in the year	(37)	(2)	–	(6)	17	–	(28)
Year ended 31 March 2009							
Net cash provided by operating activities – continuing operations	–	419	–	1,277	1,725	–	3,421
Net cash used in operating activities – discontinued operations	–	–	–	–	(8)	–	(8)
Net cash provided by operating activities	–	419	–	1,277	1,717	–	3,413
Net cash (used in)/provided by investing activities – continuing operations	(2,426)	(265)	–	(1,569)	(4,974)	6,187	(3,047)
Net cash (used in)/provided by investing activities – discontinued operations	–	–	–	(6)	1,055	–	1,049
Net cash (used in)/provided by investing activities	(2,426)	(265)	–	(1,575)	(3,919)	6,187	(1,998)
Net cash provided by/(used in) financing activities	2,663	(157)	–	291	2,513	(6,187)	(877)
Net increase/(decrease) in cash and cash equivalents in the year	237	(3)	–	(7)	311	–	538

Cash dividends were received by National Grid plc from subsidiary undertakings amounting to £150m during the year ended 31 March 2011 (2010: £504m; 2009: £592m).

Company accounting policies

A. Basis of preparation of individual financial statements under UK GAAP

These individual financial statements of the Company have been prepared in accordance with applicable UK accounting and financial reporting standards and the Companies Act 2006. They have been prepared on an historical cost basis, except for the revaluation of financial instruments, and are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates.

The Company has not presented its own profit and loss account as permitted by section 408 of the Companies Act 2006.

In accordance with exemptions under FRS 29 'Financial Instruments: Disclosures', the Company has not presented the financial instruments disclosures required by the standard, as disclosures which comply with the standard are included in the consolidated financial statements.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

B. Fixed asset investments

Investments held as fixed assets are stated at cost less any provisions for impairment. Investments are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairments are calculated such that the carrying value of the fixed asset investment is the lower of its cost or recoverable amount. Recoverable amount is the higher of its net realisable value and its value-in-use.

C. Taxation

Current tax for the current and prior periods is provided at the amount expected to be paid or recovered using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or the right to pay less tax, at a future date, at tax rates expected to apply when the timing differences reverse based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

D. Foreign currencies

Transactions in currencies other than the functional currency of the Company are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at closing exchange rates.

Gains and losses arising on retranslation of monetary assets and liabilities are included in the profit and loss account.

E. Financial instruments

Financial assets, liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities and is recorded at the proceeds received, net of direct issue costs, with an amount equal to the nominal amount of the shares issued included in the share capital account and the balance recorded in the share premium account.

Loans receivable are carried at amortised cost using the effective interest rate method less any allowance for estimated impairments. A provision is established for impairments when there is objective evidence that the Company will not be able to collect all amounts due under the original terms of the loan. Interest income, together with losses when the loans are impaired are recognised using the effective interest rate method in the profit and loss account.

Current asset financial investments are recognised at fair value plus directly related incremental transaction costs and are subsequently carried at fair value on the balance sheet. Changes in the fair value of investments classified as available-for-sale are recognised directly in equity, until the investment is disposed of or is determined to be impaired. At this time, the cumulative gain or loss previously recognised in equity is included in net profit or loss for the period. Investment income on investments classified as available-for-sale is recognised in the profit and loss account as it accrues.

Borrowings, which include interest-bearing loans and overdrafts are recorded at their initial fair value which normally reflects the proceeds received, net of direct issue costs less any repayments. Subsequently, these are stated at amortised cost, using the effective interest rate method.

Any difference between proceeds and the redemption value is recognised over the term of the borrowing in the profit and loss account using the effective interest rate method.

Derivative financial instruments ('derivatives') are recorded at fair value. Where the fair value of a derivative is positive, it is carried as a derivative asset, and where negative as a liability. Assets and liabilities on different transactions are only netted if the transactions are with the same counterparty, a legal right of set off exists and the cash flows are intended to be settled on a net basis. Gains and losses arising from changes in fair value are included in the profit and loss account in the period they arise.

Where derivatives are embedded in other financial instruments that are closely related to those instruments, no adjustment is made with respect to such derivative clauses. Otherwise the derivative is recorded separately at fair value on the balance sheet.

The fair values of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets held and offer prices for issued liabilities. When independent prices are not available, fair values are determined by using valuation techniques which are consistent with techniques commonly used by the relevant market. The techniques use observable market data.

Company accounting policies continued

F. Hedge accounting

The Company enters into derivatives and non-derivative financial instruments in order to manage its interest rate and foreign currency exposures, with a view to managing these risks associated with the Company's underlying business activities and the financing of those activities. The principal derivatives used include interest rate swaps, forward rate agreements, currency swaps, forward foreign currency contracts and interest rate swaptions.

Hedge accounting allows derivatives to be designated as a hedge of another (non-derivative) financial instrument, to mitigate the impact of potential volatility in the profit and loss account. The Company uses two hedge accounting methods.

Firstly, changes in the carrying value of financial instruments that are designated and effective as hedges of future cash flows ('cash flow hedges') are recognised directly in equity and any ineffective portion is recognised immediately in the profit and loss account. Amounts deferred in equity in respect of cash flow hedges are subsequently recognised in the profit and loss account in the same period in which the hedged item affects net profit or loss.

Secondly, changes in the carrying value of financial instruments that are designated as hedges of the changes in the fair value of assets or liabilities ('fair value hedges') are recognised in the profit and loss account. An offsetting amount is recorded as an adjustment to the carrying value of hedged items, with a corresponding entry in the profit and loss account, to the extent that the change is attributable to the risk being hedged and that the fair value hedge is effective.

Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised in the profit and loss account as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gains or losses relating to cash flow hedges recognised in equity are initially retained in equity and subsequently recognised in the profit and loss account in the same periods in which the previously hedged item affects net profit or loss. For fair value hedges the cumulative adjustment recorded to its carrying value at the date hedge accounting is discontinued is amortised to the profit and loss account using the effective interest rate method.

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the profit and loss account immediately.

G. Parent Company guarantees

The Company has guaranteed the repayment of the principal and any associated premium and interest on specific loans due from certain subsidiary undertakings to third parties. In the event of default or non performance by the subsidiary, the Company recognises such guarantees as insurance contracts, at fair value with a corresponding increase in the carrying value of the investment.

H. Share awards to employees of subsidiary undertakings

The Company issues equity-settled, share-based payments to certain employees of subsidiary undertakings, detailed in the Directors' Report, including the Directors' Remuneration Report and in note 35 to the consolidated financial statements.

Equity-settled, share-based payments are measured at fair value at the date of grant. The Company has no employees. Equity-settled, share-based payments that are made available to employees of the Company's subsidiaries are treated as increases in equity over the vesting period of the award, with a corresponding increase in the Company's investments in subsidiaries, based on an estimate of the number of shares that will eventually vest. Where payments are subsequently received from subsidiaries, these are accounted for as a return of a capital contribution and credited against the Company's investments in subsidiaries.

I. Dividends

Interim dividends are recognised when they are paid to the Company's shareholders. Final dividends are recognised when they are approved by shareholders.

Company balance sheet

at 31 March

	Notes	2011 £m	2010 £m
Fixed assets			
Investments	1	**7,890**	7,865
Current assets			
Debtors (amounts falling due within one year)	2	**9,988**	8,655
Debtors (amounts falling due after more than one year)	2	**315**	1,702
Derivative financial instruments (amounts falling due within one year)	4	**244**	218
Derivative financial instruments (amounts falling due after more than one year)	4	**576**	655
Current asset investments	5	**1,624**	377
Cash at bank		**–**	1
		12,747	11,608
Creditors (amounts falling due within one year)	3	**(9,310)**	(8,088)
Net current assets		**3,437**	3,520
Total assets less current liabilities		**11,327**	11,385
Creditors (amounts falling due after more than one year)			
Borrowings	6	**(3,628)**	(5,307)
Derivative financial instruments	4	**(253)**	(431)
Amounts owed to subsidiary undertakings		**–**	(537)
		(3,881)	(6,275)
Net assets		**7,446**	5,110
Capital and reserves			
Called up share capital	7	**416**	298
Share premium account	8	**1,361**	1,366
Cash flow hedge reserve	8	**2**	14
Other equity reserves	8	**196**	171
Profit and loss account	8	**5,471**	3,261
Total shareholders' funds	9	**7,446**	5,110

Commitments and contingencies are shown in note 10 to the Company financial statements on page 183.

The notes on pages 180 to 183 form part of the individual financial statements of the Company, which were approved by the Board of Directors on 18 May 2011 and were signed on its behalf by:

Sir John Parker Chairman
Andrew Bonfield Finance Director

Notes to the Company financial statements

1. Fixed asset investments

	Shares in subsidiary undertakings £m
At 31 March 2009	7,840
Additions	25
At 31 March 2010	7,865
Additions	25
At 31 March 2011	**7,890**

During the year there was a capital contribution which represents the fair value of equity instruments granted to subsidiaries' employees arising from equity-settled employee share schemes.

The names of the principal subsidiary undertakings, joint ventures and associates are included in note 36 in the consolidated financial statements.

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

2. Debtors

	2011 £m	2010 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	**9,985**	8,649
Prepayments and accrued income	**3**	6
	9,988	8,655
Amounts falling due after more than one year:		
Amounts owed by subsidiary undertakings	**311**	1,700
Deferred taxation	**4**	2
	315	1,702

	Deferred taxation £m
At 31 March 2009	3
Charged to the profit and loss account	(1)
At 31 March 2010	2
Charged to the profit and loss account	(2)
Credited to equity	4
At 31 March 2011	**4**

3. Creditors (amounts falling due within one year)

	2011 £m	2010 £m
Borrowings (note 6)	**1,125**	1,183
Derivative financial instruments (note 4)	**194**	174
Amounts owed to subsidiary undertakings	**7,957**	6,701
Other creditors	**34**	30
	9,310	8,088

4. Derivative financial instruments

The fair values of derivative financial instruments are:

	2011			2010		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
Amounts falling due within one year	**244**	**(194)**	**50**	218	(174)	44
Amounts falling due after more than one year	**576**	**(253)**	**323**	655	(431)	224
	820	**(447)**	**373**	873	(605)	268

For each class of derivative the notional contract* amounts are as follows:

	2011 £m	2010 £m
Interest rate swaps	**(9,328)**	(7,337)
Cross-currency interest rate swaps	**(4,886)**	(6,463)
Foreign exchange forward contracts	**(9,334)**	(7,234)
Forward rate agreements	**(10,670)**	(7,784)
Total	**(34,218)**	(28,818)

*The notional contract amounts of derivatives indicate the gross nominal value of transactions outstanding at the balance sheet date

5. Current asset investments

	2011 £m	2010 £m
Investments in short-term money funds	**1,375**	162
Short-term deposits	**200**	197
Restricted cash balances – collateral	**49**	18
	1,624	377

6. Borrowings

The following table analyses the Company's total borrowings:

	2011 £m	2010 £m
Amounts falling due within one year:		
Bank loans	**172**	299
Commercial paper	**–**	121
Bonds	**953**	763
	1,125	1,183
Amounts falling due after more than one year:		
Bank loans	**133**	398
Bonds	**3,495**	4,909
	3,628	5,307
Total borrowings	**4,753**	6,490

	2011 £m	2010 £m
Total borrowings are repayable as follows:		
Less than 1 year	**1,125**	1,183
In 1-2 years	**714**	1,081
In 2-3 years	**381**	900
In 3-4 years	**851**	435
In 4-5 years	**48**	1,180
More than 5 years, other than by instalments	**1,634**	1,711
	4,753	6,490

The notional amount of borrowings outstanding as at 31 March 2011 was £4,608m (2010: £6,338m). For further information on significant borrowings, refer to note 34 in the consolidated financial statements.

Notes to the Company financial statements continued

7. Called up share capital

Ordinary shares	Allotted, called up and fully paid millions	£m
At 31 March 2009	2,582	294
Issued during the year in lieu of dividends (i)	35	4
At 31 March 2010	2,617	298
Rights issue	990	113
Issued during the year in lieu of dividends (i)	41	5
At 31 March 2011	**3,648**	**416**

(i) The issue of shares in lieu of cash dividends is considered to be a bonus issue under the terms of the Companies Act 2006 and the nominal value of the shares is charged to the share premium account.

On 14 June 2010, the Company completed a rights issue. The structure of the rights issue initially gave rise to a merger reserve (included within other equity reserves below) under section 612 of the Companies Act 2006. Following the receipt of the cash proceeds through the structure, the excess of the net proceeds over the nominal value of the share capital issued has been transferred from the merger reserve to the profit and loss account.

For further information on share capital and the rights issue, refer to note 25 in the consolidated financial statements.

8. Reserves

	Share premium account £m	Cash flow hedge reserve £m	Other equity reserves £m	Profit and loss account £m
At 31 March 2009	1,371	12	146	3,603
Transferred from equity in respect of cash flow hedges (net of tax)	–	2	–	–
Shares issued in lieu of dividends	(5)	–	–	–
Purchase of own shares	–	–	–	(7)
Issue of treasury shares	–	–	–	18
Share awards to employees of subsidiary undertakings	–	–	25	–
Loss for the year	–	–	–	(353)
At 31 March 2010	1,366	14	171	3,261
Transferred from equity in respect of cash flow hedges (net of tax)	–	(12)	–	–
Merger reserve created on rights issue	–	–	3,101	–
Transfer to distributable reserves	–	–	(3,101)	3,101
Shares issued in lieu of dividends	(5)	–	–	–
Purchase of own shares	–	–	–	(3)
Issue of treasury shares	–	–	–	18
Share awards to employees of subsidiary undertakings	–	–	25	–
Loss for the year	–	–	–	(906)
At 31 March 2011	**1,361**	**2**	**196**	**5,471**

There were no gains and losses, other than losses for the years stated above; therefore no separate statement of total recognised gains and losses has been presented. At 31 March 2011, £623m (2010: £1,023m) of the profit and loss account reserve relating to gains on intra-group transactions was not distributable to shareholders.

9. Reconciliation of movements in shareholders' funds

	2011 £m	2010 £m
(Loss)/profit for the year after taxation	**(48)**	335
Dividends (i)	**(858)**	(688)
Loss for the financial year	**(906)**	(353)
Expenses charged to share premium account	**–**	(1)
Proceeds of issue of treasury shares	**18**	18
Movement on cash flow hedge reserve (net of tax)	**(12)**	2
Share awards to employees of subsidiary undertakings	**25**	25
Purchase of own shares	**(3)**	(7)
Rights issue	**3,214**	–
Net increase/(decrease) in shareholders' funds	**2,336**	(316)
Opening shareholders' funds	**5,110**	5,426
Closing shareholders' funds	**7,446**	5,110

(i) For further details of dividends paid and payable to shareholders, refer to note 7 in the consolidated financial statements.

10. Commitments and contingencies

The Company has guaranteed the repayment of the principal sum, any associated premium and interest on specific loans due from certain subsidiary undertakings primarily to third parties. At 31 March 2011, the sterling equivalent amounted to £1,874m (2010: £2,141m). The guarantees are for varying terms from less than one year to open-ended.

Definitions and glossary of terms

Our aim is to use plain English in this Annual Report and Accounts. However, where necessary, we do use a number of technical terms and/or abbreviations and we summarise the principal ones below, together with an explanation of their meanings. The descriptions below are not formal legal definitions.

A

American Depositary Shares (ADSs)
Securities of National Grid listed on the New York Stock Exchange, each of which represents five ordinary shares. They are also commonly referred to as American Depositary Receipts or ADRs.

Annual General Meeting (AGM)
Meeting of shareholders of the Company held each year to consider ordinary and special business as provided in the Notice of AGM.

B

bar
A unit of pressure, approximately equivalent to 14.5 pounds per square inch.

Board
The Board of Directors of the Company (for more information see pages 8 and 9).

BritNed
BritNed Development Limited.

C

consolidated financial statements
Financial statements that include the results and financial position of the Company and its subsidiaries together as if they were a single entity.

called up share capital
Shares (common stock) that have been issued and have been fully paid for.

carrying value
The amount at which an asset or a liability is recorded in the balance sheet.

circuit length
See route length.

the Company, National Grid, we, our or us
We use terms 'the Company', 'National Grid', 'we', 'our' or 'us' to refer to either National Grid plc itself or to National Grid plc and its subsidiaries collectively, depending on context.

contingent liabilities
Possible obligations or potential liabilities arising from past events for which no provision has been recorded, but for which disclosure in the financial statements is made.

D

Dth
Decatherm, being an amount of energy equal to 1 million British thermal units (BTUs), equivalent to approximately 293 kWh.

decoupling
See revenue decoupling.

deferred tax
For most assets and liabilities, deferred tax is the amount of tax that will be payable or receivable in respect of that asset or liability in future tax returns as a result of a difference between the carrying value for accounting purposes in the balance sheet and the value for tax purposes of the same asset or liability.

derivative
A financial instrument or other contract where the value is linked to an underlying index, such as exchange rates, interest rates or commodity prices. In most cases, contracts for the sale or purchase of commodities that are used to supply customers or for our own needs are excluded from this definition.

dollars or $
Except as otherwise noted all references to dollars or $ in this Report are to the US currency.

E

employee engagement index
A key performance indicator, based on the percentage of favourable responses to certain indicator questions repeated in each employee survey, which provides a measure of how employees think, feel and act in relation to National Grid. Research shows that a highly engaged workforce leads to increased productivity and staff retention, therefore we use employee engagement as a measure of organisational health in relation to business performance.

equity
In financial statements, the amount of net assets attributable to shareholders.

F

FERC
The US Federal Energy Regulatory Commission.

finance lease
A lease where the asset is treated as if it was owned for the period of the lease and the obligation to pay future rentals is treated as if they were borrowings. Also known as a capital lease.

financial year
For National Grid this is an accounting year ending on 31 March. Also known as a fiscal year.

FRS
A UK Financial Reporting Standard as issued by the UK Accounting Standards Board. These apply to the Company's individual financial statements on pages 177 to 183, which are prepared in accordance with UK GAAP.

G

Grain LNG
National Grid Grain LNG Limited.

Great Britain
England, Wales and Scotland.

GW
Gigawatt, being an amount of power equal to 1 billion watts (10^9 watts).

GWh
Gigawatt hours, being an amount of energy equivalent to delivering 1 billion watts of power for a period of one hour.

H

HSE
Health and Safety Executive, the main safety regulator in the UK.

I

IAS or IFRS
An International Accounting Standard or International Financial Reporting Standard, as issued by the International Accounting Standards Board (IASB). IFRS is also used as the term to describe international generally accepted accounting principles as a whole.

individual financial statements
Financial statements of a company on its own, not including its subsidiaries or joint ventures.

IFRIC
Guidance provided by the IFRS Interpretations Committee on how to apply accounting standards.

J

joint venture
A company or other entity which is controlled jointly with other parties.

K

KeySpan
KeySpan Corporation and its subsidiaries, acquired by National Grid on 24 August 2007.

kV
Kilovolt, being an amount of electric force equal to 1,000 volts.

kWh
Kilowatt hours, being an amount of energy equivalent to delivering 1,000 watts of power for a period of one hour.

L

Lifetime Allowance
The lifetime allowance is an overall ceiling on the amount of UK tax privileged pension savings that any one individual can draw.

LNG
Liquefied natural gas, being natural gas that has been condensed into a liquid form, typically at temperatures at or below -161°C (-258°F).

lost time injury
An incident arising out of National Grid's operations which leads to an injury where the employee or contractor normally has time off the following day or shift following the incident. It relates to one specific (acute) identifiable incident which arises as a result of National Grid's premises, plant or activities, which was reported to the supervisor at the time and was subject to appropriate investigation.

lost time injury frequency rate
The number of lost time injuries per 100,000 hours worked in a 12 month period.

M

MW
Megawatts, being an amount of power equal to 1 million watts.

MWh
Megawatt hours, being an amount of energy equivalent to delivering 1 million watts of power for a period of one hour.

mbar
A unit of pressure equal to 1/1000 bar, or approximately 0.0145 pounds per square inch.

N

National Grid Metering
National Grid Metering Limited, National Grid's UK regulated metering business.

New England
The term refers to a region within the northeastern US that includes the states of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont. National Grid's New England operations are primarily in the states of Massachusetts, New Hampshire and Rhode Island.

northeastern US
The northeastern region of the US, comprising the states of Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Vermont.

O

Ofgem
The UK Office of Gas and Electricity Markets, part of the UK Gas and Electricity Markets Authority (GEMA), which regulates the energy markets in the UK.

OnStream
Utility Metering Services Limited, National Grid's UK unregulated metering business.

ordinary shares
Voting shares entitling the holder to part ownership of a company. Also known as common stock. National Grid's ordinary shares have a nominal value of $11\frac{17}{43}$ pence.

P

Personal Lifetime Allowance
The lifetime allowance applicable to individuals who registered their pre 6 April 2006 UK pension benefits for protection.

price control
The mechanism by which Ofgem sets restrictions on the amounts of revenue we are allowed to collect from customers in our UK businesses. The allowed revenues are intended to cover efficiently incurred operational expenditure, capital expenditure and financing costs, including a return on equity invested.

R

rate base
The base investment on which the utility is authorised to earn a cash return. It includes the original cost of facilities, minus depreciation, an allowance for working capital and other accounts.

Definitions and glossary of terms continued

rate plan
The term given to the mechanism by which a US utility regulator sets terms and conditions for utility service, including in particular tariffs and rate schedules. The term can mean a multi-year plan that is approved for a specified period, or an order approving tariffs and rate schedules that remain in effect until changed as a result of a future regulatory proceeding. Such proceedings can be commenced through a filing by the utility or on the regulator's own initiative.

regulated controllable operating costs
Total operating costs under IFRS less depreciation and certain regulatory costs where, under our regulatory agreements, mechanisms are in place to recover such costs in current or future periods.

regulatory asset value (RAV)
The value ascribed by Ofgem to the capital employed in the relevant licensed business. It is an estimate of the initial market value of the regulated asset base at privatisation, plus subsequent allowed additions at historical cost, less the deduction of annual regulatory depreciation. Deductions are also made to reflect the value realised from the disposal of certain assets that formed part of the regulatory asset base. It is also indexed to the retail price index to allow for the effects of inflation.

revenue decoupling
Revenue decoupling is the term given to the elimination of the dependency of a utility's revenue on the volume of gas or electricity transported. The purpose of decoupling is to eliminate the disincentive a utility otherwise has to encourage energy efficiency programmes.

RIIO
The revised regulatory framework issued by Ofgem which will be implemented in the next round of price controls which will start in April 2013.

route length
The route length of an electricity transmission line is the geographical distance from the start tower to the end tower. In most cases in the UK, and in many cases in the US, the transmission line consists of a double circuit for additional reliability. In such cases, the circuit length is twice the route length.

S

SEC
The US Securities and Exchange Commission, the financial regulator for companies with registered securities in the US, including National Grid and certain of its subsidiaries.

share premium
The difference between the amounts shares are issued for and the nominal value of those shares.

shrinkage
Shrinkage is the difference between the amount of gas entering the system and that which is billed to consumers, due to either transportation consumption or loss. This difference is mainly made up of gas leakage from distribution mains and certain activities and equipment which vent gas. Shrinkage also occurs when gas is stolen or not charged for in error.

standard cubic metre
A quantity of gas which at 15°C and atmospheric pressure (1.013 bar) occupies the volume of $1m^3$.

stranded cost recoveries
The recovery of historical generation-related costs in the US, related to generation assets that are no longer owned by us.

subsidiary
A company or other entity that is controlled by National Grid.

T

treasury shares
Shares that have been repurchased but not cancelled.

tonne
A unit of mass equal to 1,000 kilogrammes, equivalent to approximately 2,205 pounds.

tonnes carbon dioxide equivalent (CO_2e)
A measure of greenhouse gas emissions in terms of the equivalent amount of carbon dioxide.

TWh
Terawatt hours, being an amount of energy equivalent to delivering 1 billion watts of power for a period of 1,000 hours.

U

UK
The United Kingdom, comprising England, Wales, Scotland and Northern Ireland.

UK Corporate Governance Code
Guidance, issued by the Financial Reporting Council, on how companies should be governed, applicable to UK listed companies including National Grid. It replaces the Combined Code.

UK GAAP
Generally accepted accounting principles in the UK. These differ from IFRS and from US GAAP.

Uniform Network Code
The legal and contractual framework for the supply and transport of gas in the UK, comprising a common set of rules for all industry participants which ensure competition can be facilitated on level terms.

US
The United States of America.

US GAAP
Generally accepted accounting principles in the US. These differ from IFRS and from UK GAAP.

V

vanilla return
Metric used by Ofgem to define the allowed rate of return within the price control reviews for our UK regulated businesses. Our calculation uses IFRS business performance operating profit adjusted for various items to reflect the replacement of certain IFRS based accounting treatments with a regulatory based treatment. Primarily these items are depreciation, capital costs, pensions and taxation. The adjusted IFRS operating profit is divided by the regulatory asset value inflated to mid year to generate a percentage rate of return.

Summary consolidated financial information

Financial summary (unaudited)

The financial summary set out below has been derived from the audited consolidated financial statements of National Grid for the five financial years ended 31 March 2011. It should be read in conjunction with the consolidated financial statements and related notes, together with the Operating and Financial Review. The information presented below for the years ended 31 March 2007, 2008, 2009, 2010 and 2011 has been prepared under IFRS issued by the IASB and as adopted by the European Union.

	31 March 2011 £m	31 March 2010 £m	31 March 2009 £m	31 March 2008 £m	31 March 2007 £m
Summary income statement					
Revenue*	**14,343**	14,007	15,687	11,498	8,778
Operating profit					
Before exceptional items, remeasurements and stranded cost recoveries	**3,600**	3,121	2,915	2,595	2,031
Exceptional items, remeasurements and stranded cost recoveries	**145**	172	(292)	369	482
	3,745	3,293	2,623	2,964	2,513
Profit before tax					
Before exceptional items, remeasurements and stranded cost recoveries	**2,473**	1,974	1,770	1,829	1,486
Exceptional items, remeasurements and stranded cost recoveries	**151**	219	(376)	353	265
	2,624	2,193	1,394	2,182	1,751
Profit for the year attributable to equity shareholders					
Before exceptional items, remeasurements and stranded cost recoveries	**1,747**	1,418	1,259	1,275	1,146
Exceptional items, remeasurements and stranded cost recoveries	**412**	(32)	(315)	1,915	248
	2,159	1,386	944	3,190	1,394
Summary statement of net assets					
Non-current assets	**39,787**	38,488	37,712	30,830	21,109
Current assets	**6,323**	5,065	6,755	5,435	5,312
Assets of businesses held for sale	**290**	–	–	1,506	1,968
Total assets	**46,400**	43,553	44,467	37,771	28,389
Current liabilities	**(6,826)**	(6,559)	(7,026)	(7,146)	(3,360)
Non-current liabilities	**(30,395)**	(32,783)	(33,457)	(25,188)	(20,443)
Liabilities of businesses held for sale	**(110)**	–	–	(63)	(450)
Total liabilities	**(37,331)**	(39,342)	(40,483)	(32,397)	(24,253)
Net assets	**9,069**	4,211	3,984	5,374	4,136
Summary cash flow statement					
Cash generated from operations					
Continuing operations	**4,854**	4,372	3,564	3,265	3,090
Discontinued operations	–	–	(8)	10	181
	4,854	4,372	3,556	3,275	3,271
Tax received/(paid)	**4**	144	(143)	(110)	(313)
Net cash inflow from operating activities	**4,858**	4,516	3,413	3,165	2,958
Net cash flows used in investing activities	**(4,774)**	(2,332)	(1,998)	(3,023)	(4,061)
Net cash flows (used in)/from financing activities	**(430)**	(2,212)	(877)	(1,592)	1,278
Net (decrease)/increase in cash and cash equivalents	**(346)**	(28)	538	(1,450)	175

*Items previously reported separately as 'other operating income' have been included within revenue

Useful information

Financial calendar

The following dates have been announced or are indicative of future dates:

1 June 2011	Ordinary shares go ex-dividend for 2010/11
3 June 2011	Record date for 2010/11 final dividend
8 June 2011	Scrip reference price announced
20 July 2011	Scrip election date
25 July 2011	2011 Annual General Meeting and interim management statement
17 August 2011	2010/11 final dividend paid to qualifying ordinary shareholders
17 November 2011	2011/12 half year results
30 November 2011	Ordinary shares go ex-dividend
2 December 2011	Record date for 2011/12 interim dividend
18 January 2012	2011/12 interim dividend paid to qualifying ordinary shareholders
January/February 2012	Interim management statement
May 2012	2011/12 preliminary results

Key milestones

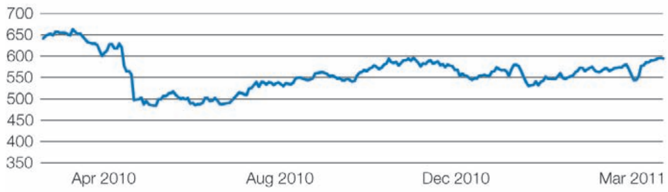
Some of the key dates and actions in the history of National Grid are listed below. The full history goes back much further. For example, the first national gas company in the UK commenced operations in 1812.

1986	British Gas incorporated as a public limited company
1990	Electricity transmission network in England and Wales transferred to National Grid on electricity privatisation
1995	National Grid listed on the London Stock Exchange
1997	Centrica demerged from British Gas (BG)
1997	Energis demerged from National Grid
2000	Lattice Group demerged from BG and listed separately
2000	New England Electric System and Eastern Utilities Associates acquired
2002	Niagara Mohawk Power Corporation merged with National Grid in US
2002	National Grid and Lattice Group merged to form National Grid Transco
2004	UK wireless infrastructure network acquired from Crown Castle International Corp
2005	Four UK regional gas distribution networks sold and National Grid adopted as our name
2006	Rhode Island gas distribution network acquired
2007	UK and US wireless infrastructure operations and the Basslink electricity interconnector in Australia sold
2007	KeySpan Corporation acquired
2008	Ravenswood generation station sold
2010	Rights issue raised £3.2 billion

Share price

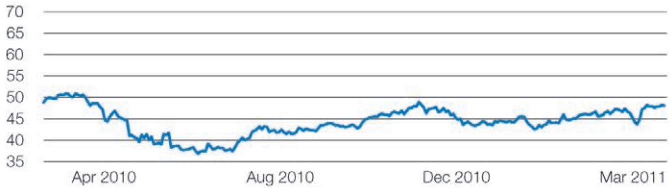
The following graphs represent the movement of National Grid's share price during 2010/11. A graph showing the total shareholder return over the last five years is available on page 102.

Share price
pence



Ordinary share price (pence)

ADS price
US$



ADS price (US$)

Capital Gains Tax (CGT)

CGT information relating to National Grid shares can be found on our website under investors or obtained from Capita Registrars. Share prices on specific dates can also be found on our website at www.nationalgrid.com.

Website and electronic communication

More information about National Grid, and specifically for shareholders, is available on the National Grid website at www.nationalgrid.com. We encourage shareholders to receive documents electronically via the website and suggest registering an email address via www.nationalgridshareholders.com. Shareholders then receive an email alert when shareholder documents become available on the website and a link directly to them.

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Cautionary Statement

This document comprises the Annual Report and Accounts for the year ending 31 March 2011 for National Grid and its subsidiaries. It contains the Directors' Report and Financial Statements, together with the Independent Auditor's Report thereon, as required by the Companies Act 2006. The Directors' Report, comprising pages 10 to 108, has been drawn up in accordance with the requirements of English law, and liability in respect thereof is also governed by English law. In particular, the liability of the Directors for these reports is solely to National Grid.

This document also contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements include information with respect to our financial condition, our results of operations and businesses, strategy, plans and objectives. Words such as 'anticipates', 'expects', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'targets', 'may', 'will', 'continue', 'project' and similar expressions, as well as statements in the future tense, identify forward-looking statements. These forward-looking statements are not guarantees of our future performance and are subject to assumptions, risks and uncertainties that could cause actual future results to differ materially from those expressed in or implied by such forward-looking statements. Many of these assumptions, risks and uncertainties relate to factors that are beyond our ability to control or estimate precisely, such as changes in laws or regulations and decisions by governmental bodies or regulators; breaches of, or changes in, environmental, climate change and health and safety laws or regulations, including breaches arising from the potentially harmful nature of our activities; network failure or interruption, the inability to carry out critical non network operations and damage to infrastructure, owing to adverse weather conditions or otherwise; performance against regulatory targets and standards and against our peers with the aim of delivering stakeholder expectations regarding costs and efficiency savings, including those related to restructuring and internal transformation projects; and; customers and counterparties failing to perform their obligations to us and our arrangements with the Long Island Power Authority not being renewed. Other factors that could cause actual results to differ materially from those described in this document include fluctuations in exchange rates, interest rates and commodity price indices; restrictions in our borrowing and debt arrangements, funding costs and access to financing; our effective rate of tax; National Grid's status as a holding company with no revenue generating operations of its own; inflation; seasonal fluctuations; the future funding requirements of our pension schemes and other post-retirement benefit schemes; the loss of key personnel or the ability to attract, train or retain qualified personnel and any disputes arising with our employees or the breach of laws or regulations by our employees; and incorrect or unforeseen assumptions or conclusions relating to business development activity.

For a more detailed description of some of these assumptions, risks and uncertainties, together with any other risk factors, please see our filings with and submissions to the US Securities and Exchange Commission (the 'SEC') (and in particular the 'Risk factors' and 'Operating and Financial Review' sections in our most recent Annual Report on Form 20-F). The effects of these factors are difficult to predict. New factors emerge from time to time and we cannot assess the potential impact of any such factor on our activities or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. Except as may be required by law or regulation, the Company undertakes no obligation to update any of its forward-looking statements, which speak only as of the date of this document. The content of any website references herein do not form part of this document.

For queries about ordinary shares:

Capita Registrars

0871 402 3344
(from outside UK: +44 20 7098 1198)
(textphone: 18001 0870 242 2379)

Lines are open 8.30am to 5.30pm Monday to Friday.
Calls cost 8p per minute plus network extras

nationalgrid@capitaregistrars.com
www.nationalgridshareholders.com

National Grid Share Register
Capita Registrars, The Registry,
34 Beckenham Road, Beckenham,
Kent BR3 4TU

For queries about American Depositary Shares (ADS or ADR):

The Bank of New York Mellon

1-800-466-7215
(from outside the US: +1-201-680-6825)

shrrelations@bnymellon.com
www.bnymellon.com/shareowner

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Further information on the share price and interactive tools can be found online at **www.nationalgrid.com**