NATIONAL GRID PLC
Form 20-F
June 12, 2012
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended 31 March 2012

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report__________

For the transition period from ________ to ________
Commission file number: 001-14958

NATIONAL GRID PLC

(Exact name of Registrant as specified in its charter)

England and Wales

(Jurisdiction of incorporation or organization)

1-3 Strand, London WC2N 5EH, England

(Address of principal executive offices)

Helen Mahy

011 44 20 7004 3000

Facsimile No. 011 44 20 7004 3004

Company Secretary and General Counsel

National Grid plc

1-3 Strand London WC2N 5EH, England

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class	Name of each exchange on which registered
Ordinary Shares of 11 17/43 pence each	The New York Stock Exchange*
American Depositary Shares, each representing five Ordinary Shares of 11 17/43 pence each	The New York Stock Exchange
6.625% Guaranteed Notes due 2018	The New York Stock Exchange
6.30% Guaranteed Notes due 2016	The New York Stock Exchange
Preferred Stock ($100 par value-cumulative):	
3.90% Series	The New York Stock Exchange
3.60% Series	The New York Stock Exchange

* Not for trading, but only in connection with the registration of American Depositary Shares representing Ordinary Shares pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Securities Exchange Act of 1934: None.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Securities Exchange Act of 1934: None.

The number of outstanding shares of each of the issuer s classes of capital or common stock as of March 31, 2012 was

Ordinary Shares of 11 17/43 pence each	3,700,949,542

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes þ No ¨o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No þ

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files): Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer ¨	Non-accelerated filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ¨ International Financial Reporting Standards as issued by the International Accounting Standards Board þ Other ¨

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ¨ Item 18 ¨

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

This constitutes the annual report on Form 20-F of National Grid Plc (the Company) in accordance with the requirements of the US Securities and Exchange Commission (the SEC) for the year ended 31 March 2012 and is dated 12 June 2012. Details of events occurring subsequent to the approval of the annual report on 16 May 2012 are summarised in the section titled Further Information . The content of the Group s website (www.nationalgrid.com/uk) should not be considered to form part of this annual report on Form 20-F.

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Business Review

Our shareholder proposition

An energy networks business focused on generating shareholder value through both dividends and asset/equity growth by investing in essential assets under predominantly regulated market conditions to service long-term, sustainable, consumer led demands.

Investing in

essential assets

We plan to invest over £40bn in our regulated networks over the period to 2021, primarily in core UK transmission infrastructure.

Regulated and sustainable business

Balance of activities

UK and US
Electricity and gas
Transmission and distribution
Local expertise and global functions

Regulated

income growth

Inflation linked UK revenues
Asset growth leading to increased revenues
Updated rate cases

Macro economic

protection

Bad debt trackers and credit protection
Inflation linked UK assets
Price control reopeners

Commodity and

volume protection

Revenue decoupling
Energy commodity cost pass through

Sustainable consumer led demands

Low carbon economy and long-term growth in demand
Replacing ageing assets
Security of supply and system resilience

Core competencies

Operations and asset management

Maximise the use of our existing asset base
Maintain reliability and security
Plan and deliver the future systems
Balance the ever more complex supply and demand mix
Deliver incentive income
Drive cost savings and efficiency
Focus on customer satisfaction and stakeholder engagement

Regulatory engagement

Secure the right rate plans
for customers and investors
Agree appropriate incentive
schemes

Financial planning

and execution

Maintain an efficient
balance sheet
Fund our growth
Minimise funding costs

More features online

www.nationalgrid.com/

annualreports/2012

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www.nationalgrid.com

Delivering value

£3,495m -3%

Adjusted operating profit 2010/11: £3,600m

+8% excluding the impact of timing and major storms

51.3p +1%

Adjusted earnings per share 2010/11: 50.9p (i)

$14.5bn +1%

US rate base 2010/11: $14.3bn

39.28p +8%

Ordinary dividends 2010/11: 36.37p

£3,539m -6%

Operating profit 2010/11: £3,745m

+5% excluding the impact of timing and major storms

57.1p -9%

Earnings per share 2010/11: 62.9p (i)

£22.2bn +7%

UK regulatory asset value 2010/11: £20.8bn

10.9%

Group return on equity 2010/11: 10.8%

Excludes the impact of exceptional items, remeasurements and stranded cost recoveries. See page 57 for more information about these adjusted profit measures
Prior year restated for consistency. See page 57 for more information

(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 57, was $1.60 to £1 in 2011/12 compared with the average rate of $1.57 to £1 in 2010/11. 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.

Business analysis 2011/12

Geographical analysis 2011/12

Business Review

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National Grid is an international electricity and gas company based in the UK and northeastern US. We play a vital role in connecting millions of people safely, reliably and efficiently to the energy they use.

Directors Report

The Directors Report, prepared in accordance with the requirements of the Companies Act 2006 and the UK Listing Authority s Listing, and Disclosure and Transparency rules, comprising pages 8 to 107 and 184 to 189 was approved by the Board and signed on its behalf by:

Helen Mahy

Company Secretary & General Counsel

16 May 2012

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.

We use a number of technical terms and abbreviations within this document. In the interest of saving paper, we do not define terms or provide explanations every time that they are used; please refer to the glossary on pages 190 to 193 for this information.

Segmental reporting

The performance of our principal businesses is reported by segment, reflecting the management responsibilities and economic characteristics of each activity.

Throughout this report, the following colours are used to indicate references to a particular segment:

UK Transmission

UK Gas Distribution

US Regulated

Activities which do not fall within these segments are reported separately and are identified as:

Other activities

Discussion relating to the Company as a whole is identified as:

Company activities

If you require a full search facility, please go to the pdf of the Annual Report and Accounts 2011/12 in the investor relations section of our website 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 to the risk factors section on pages 41 to 43.

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Business Review

Chairman s statement

Sir Peter Gershon, Chairman

(i) Comparative earnings per share data has been restated for the impact of the scrip dividend issues.

Results

I am pleased to announce a good set of results for 2011/12. Adjusted earnings per share increased by 1% to 51.3 pence per share, compared to 50.9[(i)] pence per share in 2010/11. This increase is particularly pleasing in light of the significant timing differences and major storm costs incurred this year.

Dividend policy

The Board is proposing a final dividend of 25.35 pence per share making a total of 39.28 pence per share for the 2011/12 financial year. This represents an increase of 8% from last year.

Our dividend is an important part of our returns to shareholders along with growth in the value of the asset base attributable to equity holders. This year is the last of our current dividend policy, which has been in place since January 2008. The Board has agreed a new one year dividend policy under which we plan to increase the dividend by 4% in nominal terms over the proposed dividend of 39.28 pence for 2011/12. This policy reflects the outcome from the one year TPCR4 rollover review and forecast inflation of around 3% for the same period. It will apply to the interim dividend to be paid in January 2013 and the final dividend to be paid in August 2013. We expect to announce a longer-term dividend policy after the current regulatory review is complete and its implications are clear.

Safety

This year has seen three fatalities occur. Any fatality associated with our business, whether an employee, contractor or member of the public, is deeply regrettable. Following thorough investigations, we are undertaking a wide range of measures to ensure we learn from these tragic events.

Safety is a top priority and will remain at the forefront of our core objectives. The Board s governance arrangements for the oversight of safety are being strengthened and the Chief Executive is leading a new drive to further improve our safety performance. We will always be exposed to high risk working environments on a daily basis and embedding safety procedures and principles in our people is a key part of improving our performance. We continue to foster the belief across our businesses that all accidents can be avoided.

Operating responsibly

We are mindful of our responsibility to the environments in which we operate and ensuring we continue operating in a socially responsible manner is fundamental to our continued delivery of sustainable profits and creating long-term value for our investors.

This year, we have made significant contributions across a number of areas including new education initiatives, such as the opening of the London tunnels energy education centre, our ongoing partnership with Special Olympics Great Britain and our work in the US on the engineering our future initiative. Our UK and US employees also continue to give up their time to volunteer and support community projects such as City Year. Details of a range of activities we and our employees support are available on our website.

Innovation is a key driver in our business, especially when it comes to connecting new sources of energy. The UK public debate around overhead lines versus underground cables provokes strong opinion and we are mindful of Government guidance when developing new connections and consider carefully the impact of our work on local communities. What is clear is that, at higher voltages, undergrounding is much more expensive. The right balance between landscape and affordability needs to be struck with society deciding whether it is willing to accept the higher cost. We continue to work with those concerned to inform the debate, while also exploring innovative solutions to issues such as the visual impact of pylons (see page 50).

We have established a new energy partnership with the Buffalo Niagara medical campus which engages community stakeholders in innovative energy initiatives and helps support economic development and growth in the region. This partnership aims to set the benchmark for future energy efficient living and offers valuable insight into how people can embrace smart technologies in their everyday lives.

People

I am privileged to have taken over the role as Chairman of National Grid and would like to thank Sir John Parker for his personal contribution to the Company s success during his time as chairman, and for all the guidance and support he offered during my induction. I am delighted to be his successor.

A balance of skills, experience, knowledge and diversity is key to an effective Board and will remain a priority as we continue to refresh the composition of our Board over the next two years, as outlined on page 81. During the year, we welcomed Ruth Kelly and Paul Golby as Non-executive Directors. Both bring with them independence, knowledge and experience which will be invaluable as we address future opportunities and challenges.

Furthermore, Nora Brownell will join our Board as a Non-executive Director from 1 June 2012. Nora brings with her a vast amount of experience of the US energy industry and regulatory environment that will help further strengthen our Board.

Stephen Pettit and Linda Adamany will step down from the Board with effect from 30 July and 31 October 2012 respectively. Both have made an invaluable contribution to the Board, with Stephen chairing our Risk & Responsibility Committee for a number of years. I would like to thank them both for their committed service.

We must continue to develop robust succession planning for our Directors and senior management by actively looking to recruit new and diverse talent into the business, and by ensuring our existing employees are developed and challenged to reach their full potential. Attracting new talent into the business through innovative recruitment drives, the development of new recruits, our apprentice schemes and the maintenance of our graduate programme as one of the industry leading programmes, will continue to form part of our focus.

The Board is aware of the ongoing discussions and opinions being voiced with regard to executive remuneration and the heightened profile of this topic. We acknowledge this is an important area for shareholders. Our new chair of the Remuneration Committee is focused on this matter and we have taken steps to enhance our disclosures as part of the Remuneration Report starting on page 90.

The Chairman s Awards, a global employee recognition scheme, are an excellent initiative introduced by my predecessor and I am delighted to offer these my full support. This year attracted more than 160 submissions and the winners will be announced in June. They provide a perfect illustration of the talent and tireless effort of our employees to make National Grid an improved place to work and to make positive contributions to local communities. We were particularly interested in ideas to improve safety and wellbeing in the workplace and are pleased that a number of the initiatives submitted really strove to go the extra mile and demonstrate innovation.

Governance

We are again committed to setting the tone at the top and look to adopt best practice in corporate governance. Personally, I am dedicated to this approach and will continue to ensure that, as a Board, we remain engaged in exploring ways that can further improve our performance. Further details on Board evaluation and effectiveness are provided on page 82.

Outlook

The Board and I remain committed to delivering increased shareholder value and returns. We are more focused than ever on improving our safety performance, recognising the need for all our employees and contractors to be able to operate safely on a day-to-day basis to enable our business to continue to operate at an optimum level.

I extend my thanks to our US employees, who demonstrated outstanding commitment in responding to the severe storms experienced earlier this year, as well as to all our employees for their hard work and dedication to the success of the Company. This reinforces my belief that we are well positioned to meet the future opportunities and challenges we face.

Sir Peter Gershon

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Business Review

Chief Executive s review

Steve Holliday, Chief Executive

Over the course of 2011/12, we have made good progress on our key priorities: disciplined investment; delivering improved performance and returns in the US; preparing for the new regulatory arrangements in the UK; and focusing on operational excellence across all our principal operations, in particular, through our restructuring of the US business and UK Gas Distribution. We remain at the centre of the challenge to connect future energy solutions in both the UK and northeastern US and continue to progress these through ongoing engagement with our stakeholders.

Financials

Throughout 2011/12, we have delivered good financial performance. Adjusted operating profit is up 8%, excluding the timing differences that benefited 2010/11 and the impact of two major storms in the US. We delivered another significant year of capital expenditure with £3.4 billion reflecting the sustained investment in our regulated activities. The launch of our first UK RPI linked retail bond proved a great success, raising further capital as well as securing a new investor base. We continued to manage our portfolio of businesses in a disciplined manner, releasing value through sales of two of our non-regulated businesses, OnStream in the UK and Seneca-Upshur in the US.

In November, Ofgem published final proposals for the one year (2012/13) transmission price control rollover for our UK Transmission business (TPCR4). These included real increases in revenues for electricity and gas transmission, reflecting the capital investment we have made over the current price control period.

Safety

Safety remains a top priority, as our financial and business performance must always be underpinned by a strong safety record. I must reiterate the message from our Chairman; the three fatalities associated with our business are deeply regrettable.

During 2011/12, our injury frequency rate was unchanged at 0.18. This remains an area where we must increase our efforts and strive to achieve zero injuries. Last year we focused on trends associated with high potential incidents and mitigating actions, our incident review process, and ever increasing engagement across the entire leadership team. These actions will continue to be in place going forward as we accept that more must be done to ensure all employees and contractors operate safely.

Delivering our strategy

We own and manage the networks to which many different energy sources are connected. That puts us at the heart of one of the greatest challenges facing our society: creating new sustainable energy solutions for the future and developing an energy system that can support economic prosperity in the 21st century.

This year, our programme of capital expenditure continued to be largely driven by our UK electricity and gas businesses and improvement of our networks. Highlighted in our business plans, submitted in support of the new regulatory framework RIIO (revenue = incentives + innovation + outputs), the level of investment in this area is planned to reach £31 billion through to 2021. We continue to work with Ofgem to reach an acceptable RIIO outcome for our UK regulated businesses. Details on the new framework can be found on page 25.

Following last year s announcement of the changes in our US business, we have an increased local focus that has helped improve, in particular, our performance and responsiveness when interacting with our customers and regulators. Through the reorganisation, we were also able to achieve the targeted annualised cost saving of $200 million. The increased local engagement has already seen positive results. In December 2011, NYPSC approved our request to recover certain deferred costs and a portion of recent storm costs in our Niagara Mohawk electricity business. In April 2012, we also submitted important new rate filings for our

Niagara Mohawk and Narragansett businesses.

In December, the UK Government published its technical update for the Electricity Market Reform bill, which is expected to be passed into legislation during the current parliamentary session. The changes proposed will be key in shaping investment decisions in new generation capacity and it is envisaged that we will assume responsibility for administration of the new framework for renewable and low carbon generation payments.

Operational

Maintaining a safe and reliable supply is a critical part of our job. Operationally we have performed well, with reliability of the UK electricity and gas transmission network at more than 99%. However, during the severe winter of 2010/11 we failed standards for uncontrolled gas escapes in all four of our networks and for controlled gas escapes in two of them, resulting in a fine of £4.3 million from Ofgem. The lessons we learnt were used to improve plans for the winter of 2011/12 when we met all our targets.

In the US, our reliability was 93%. However, these figures always exclude major storms and 2011/12 was an exceptional year for weather events. Over the summer we faced tropical storm Irene, flooding and tornadoes, while in Massachusetts, an unseasonal snow storm in October affected 92% of the communities we serve. The level of devastation experienced as a result of these storms was huge and the process of rebuilding communities and replacing infrastructure was a challenge. The response, passion and commitment of our teams and the support we received from neighbouring states, were exceptional. The process of restoring power to communities can always be improved, but in such exceptional circumstances I am proud of the efforts of all those involved.

In December 2011, LIPA announced that we had not been selected to continue to manage and operate Long Island s electricity system beyond the term of the current agreement, expiring on 31 December 2013. We are naturally disappointed by this decision, but our substantive assets on Long Island are not affected. We will continue to provide high quality services for the remainder of our contract and support the complex transition.

Customer

We remain determined to improve customer service and further understand customers needs so we can serve them in the most effective and efficient manner. This year has seen the opening of our new UK Gas Distribution customer centres, specifically designed to provide a more responsive and integrated service. The result of this and other initiatives implemented are already showing, with our customer satisfaction increasing by an average of 5.5% this year. Further improvement is important to us and will have even greater significance under the new regulatory framework, with incentives being introduced. Embedding customer focus now should enable us to be ready for this.

In the US, our results have been mixed. However, the success of the new structure and the deeper engagement with our stakeholders is already starting to improve relationships, with positive feedback being received. The elevate 2015 programme aims to design and implement more customer focused processes better aligned to meeting their needs, and by doing so, will enable greater improvement in our customer service performance.

We continue to progress efficiency initiatives across all our businesses. The UK Gas Distribution front office programme has successfully implemented replacement systems and streamlined core business processes that should help us move to upper quartile

customer performance. In addition, our US foundations project, which will integrate multiple information systems and improve control processes, is on target for late 2012 implementation. It aims to deliver a single financial system, a single cost allocation methodology and enhanced jurisdictional and functional reporting.

People

Our people form the foundation of our business. Personally, I remain committed to developing all of them to the best of their abilities. We need to deliver the planned increase in capital expenditure and without the correct people and capabilities we will be unable to meet this challenge.

In the UK, over the next nine years we are looking to recruit in the region of 2,500 engineers a mixture of experienced engineers and development programme trainees to support our investment programme. In the US, we also expect to fill around 800 management roles requiring an engineering background over the next 10 years. Developing talent is vital to our success and we recognise our role in enthusing the next generation of young people to pursue science, technology and mathematics at school and beyond. We are working with schools and partnerships to bring alive the opportunities that exist via the different routes into industry. Over the last year, our UK employees interacted with more than 3,900 students through work experience, Imagineering clubs and open days, and our US employees continue to be active in supporting local schools and communities. Our focus on inspiring the younger generation into engineering and science will continue on both sides of the Atlantic.

This year saw an 84% response rate to the employee survey. I am pleased with this, as the results provide a true reflection of how we are doing. Overall, our results have improved from the last survey, with customer and safety both scoring higher. There is still more work to be done on engagement and, as a leadership team across the Company, we are already starting to address this area.

Looking forward

The scale of the challenges we face over the next decade is significant, as we must deliver the networks to support future needs. Our job remains to connect people safely and reliably to the energy they use; this is a privileged position.

Our priorities for 2012/13 are focused towards:

- driving a marked improvement in our safety performance;
- delivery of our ongoing capital investment programme;
- continuing to work with Ofgem on the final RIIO proposals;
- driving improved performance and returns across our US Regulated business;
- further improving our operational processes, both in the US, following our reorganisation, and in the UK, as we prepare to operate within a RIIO framework; and
- further developing key leadership and business capabilities to support our long-term strategic ambitions.

Steve Holliday

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Business Review

Board of Directors

1. Sir Peter Gershon CBE,

Chairman

Appointment to the Board: 1 August 2011 as Deputy Chairman, Chairman with effect from 1 January 2012

Committee membership: N (ch)

Career experience: Previous appointments include Chairman of Premier Farnell plc, Chief Executive of the Office of Government Commerce and Managing Director of Marconi Electronic Systems.

External appointments: Chairman of Tate & Lyle plc, member of the UK Defence Academy Advisory Board and HM Government Efficiency Board.

2. Steve Holliday,

Chief Executive

Appointment to the Board: October 2002, appointed to National Grid Group plc 2001, Chief Executive with effect from January 2007

Committee membership: E (ch), F

Career experience: Formerly Executive Director of British Borneo Oil and Gas; he also 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, Crisis UK, the Technician Council and a member of the Board of Trustee Directors for Business in the Community and Infrastructure UK Advisory Council.

3. Andrew Bonfield,

Finance Director

Appointment to the Board: November 2010

Committee membership: E, F

Career experience: Chief Financial Officer at Cadbury plc until March 2010; he also 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.

External appointments: Non-executive Director of Kingfisher plc.

4. Tom King,

Executive Director, US

Appointment to the Board: August 2007

Committee membership: E

Career experience: President of PG&E Corporation and Chairman and CEO of Pacific Gas and Electric Company from 2003 to 2007, having held a number of senior positions within the PG&E group since joining in 1998. Senior management positions with Kinder Morgan Energy Partners and Enron Corporation.

5. Nick Winser,

Executive Director, UK

Appointment to the Board: April 2003

Committee membership: E

Career experience: Previously Chief Operating Officer of the US transmission business for National Grid Transco plc having joined The 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.

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

Appointment to the Board: October 2002, appointed to Lattice Group plc board in 2000, Senior Independent Director with effect from October 2004

Committee membership: N, R (ch), R&R

Career experience: Formerly Engineering Director and then Deputy Chairman of London Electricity and Chairman and Chief Executive of NORWEB plc.

External appointments: Chairman of Pennon Group Plc.

7. Linda Adamany,

Non-executive Director

Appointment to the Board: November 2006

Committee membership: A, N, R&R

Career experience: 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 and until April 2008, Group Vice President, BP plc.

8. Philip Aiken,

Non-executive Director

Appointment to the Board: May 2008

Committee membership: A, N, R&R

Career experience: Formerly Group President of BHP Billiton s Energy business, Executive Director of BTR plc, held senior roles in BOC Group plc and was senior advisor to Macquarie Capital (Europe) Limited.

External appointments: Chairman of Robert Walters plc, Deputy Chairman of AVEVA Group plc, Non-executive and Senior Independent Director of Kazakhmys PLC and Non-executive Director of Miclyn Express Offshore Limited and Essar Energy plc.

9. Paul Golby CBE,

Non-executive Director

Appointment to the Board: 1 February 2012

Committee membership: N, R, R&R

Career experience: Formerly Executive Director of Clayhithe plc before joining East Midlands Electricity plc in 1998 as Managing Director. Appointed as Chief Executive of E.ON UK plc in 2002, and later additionally as Chairman, stepping down from the E.ON Board in December 2011.

External appointments: Non-executive Chairman of AEA Technology Group plc, Chairman of Engineering UK, Chair of the Engineering and Physical Sciences Research Council and a member of the Council for Science and Technology.

10. Ruth Kelly,

Non-executive Director

Appointment to the Board: 1 October 2011

Committee membership: A, F, N

Career experience: Various senior roles in Government from 2001 to 2008, including Secretary of State for Transport, Secretary of State for Communities and Local Government, Secretary of State for Education and Skills and Financial Secretary to the Treasury.

External appointments: Managing Director at HSBC and Governor for the National Institute of Economic and Social Research.

11. Stephen Pettit,

Non-executive Director

Appointment to the Board: October 2002, appointed to Lattice Group plc board in 2001

Committee membership: F, N, R, R&R (ch)

Career experience: Formerly Chairman of ROK plc, Executive Director of Cable & Wireless plc and 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.

12. Maria Richter,

Non-executive Director

Appointment to the Board: October 2003

Committee membership: A, F (ch), N

Career experience: With Morgan Stanley from 1993 to 2002, latterly as Managing Director of its Corporate Finance Retail Group; Vice President of Independent Power Group for Salomon Brothers and Vice President of Prudential Capital Corporation and Power Funding Associates.

External appointments: Non-executive Chairman of Pro Mujer UK and Non-executive Director of The Pantry, Inc., The Vitec Group plc and The Bessemer Group Inc.

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13. George Rose,

Non-executive Director

Appointment to the Board: October 2002, appointed to Lattice Group plc board in 2000

Committee membership: A (ch), N, R

Career experience: Formerly a member of the Financial Reporting Review Panel, Non-executive Director of Orange plc and Saab AB and Finance Director of BAE Systems plc.

External appointments: Member of the UK Industrial Development Advisory Board, Non-executive Director of Genel Energy plc and Laing O Rourke plc.

14. Helen Mahy,

Company Secretary

& General Counsel

Appointment as Company Secretary: October 2002

Committee membership: E

Career experience: A barrister and an Associate of the Chartered Insurance Institute. 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 a member of the Opportunity Now Advisory Board.

Key: A = Audit Committee

E = Executive Committee

F = Finance Committee

N = Nominations Committee

R = Remuneration Committee

R&R = Risk & Responsibility Committee

(ch) = chairman of Committee

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Business Review

Board diversity and succession

We believe creating an inclusive and diverse culture supports the attraction and retention of talented people, improves effectiveness, delivers superior performance and enhances the success of the Company. While criteria such as gender or ethnicity are important, we also value diversity of skills, experience, knowledge and expertise, as can be seen below. Our Board brings together people with different experience and backgrounds, and sometimes divergent opinions, but with shared goals.

Nora Brownell Effective 1 June 2012	Sir Peter Gershon Under 1 year s tenure	Paul Golby Under 1 year s tenure	Ruth Kelly Under 1 year s tenure
Committee membership: N, R, R&R	**Committee membership:** N	**Committee membership:** N, R, R&R	**Committee membership:** A, F, N
Experience: US Government and regulatory US utilities energy FERC Various non-executive directorships US	**Experience:** Chairman Engineer, FREng Government Partnering/JV/contract management City High tech industry US International	**Experience:** Chairman and chief executive Engineer, FREng Government/regulatory City Utilities energy	**Experience:** Government/regulatory Partnering/JV/contract management Financial and economic Infrastructure projects

Linda Adamany 5 years tenure	Maria Richter 8 years tenure	Nick Winser 8 years tenure	Stephen Pettit 10 years tenure*
Committee membership: A, N, R&R	**Committee membership:** A, F, N	**Committee membership:** E	**Committee membership:** F, N, R, R&R
Experience: Accountant	**Experience:** City	**Experience:** Engineer, FREng	**Experience:** Chairman

Energy	Financial services	Government/regulatory	Partnering/JV/contract management
Oil and gas	Emerging markets	Partnering/JV/contract management	Construction
US	US	City	Oil and gas
International	International	Utilities energy	
		Customer	
		US	

Davies Review

In relation to gender diversity, as a result of the transition of our Board, see page 81, we expect the number of female Board members to fluctuate in coming months. We aspire to meet the targets set by Lord Davies by 2015 and the Board will be considering a formal diversity policy during the year ahead.

Our executive and leadership population is regularly and rigorously assessed against achievement of individual objectives and key leadership qualities to help build a sustainable development and succession plan. The Board reviews the talent pipeline to the

Executive Committee and the quality and diversity of talent further down the organisation. Individuals who are identified as potential successors to the Executive Committee within a three year timeframe also undergo an external benchmarking and assessment process carried out by an independent third party. At the same time, we have initiated a programme of executive sponsorship and mentoring of high potential female and minority ethnic managers in order to ensure increased diversity throughout the leadership of the Company.

Andrew Bonfield

1 year s tenure

Committee membership:

E, F

Experience:

Finance Director

Accountant

Government/regulatory

Partnering/JV/contract management

City

Philip Aiken

3 years tenure

Committee membership:

A, N, R&R

Experience:

Chairman

Partnering/JV/contract management

Emerging markets

Natural resources

International

Tom King

4 years tenure

Committee membership:

E

Experience:

Government/regulatory

Partnering/JV/contract management

Utilities energy

Customer

FERC

Key: A = Audit Committee

E = Executive Committee

F = Finance Committee

N = Nominations Committee

R = Remuneration Committee

R&R = Risk & Responsibility Committee

(ch) = chairman of Committee

Utilities energy

Customer

US

International

Generation

US

Ken Harvey
11 years tenure*

Committee membership:
N, R, R&R

Experience:

Chairman and chief executive

Engineer

Government/regulatory

City

Utilities power and water

George Rose
11 years tenure*

Committee membership:
A, N, R

Experience:

Finance director

Accountant

Government/regulatory

Partnering/JV/contract management

City

Defence industry

US

International

Steve Holliday
11 years tenure^

Committee membership:
E, F

Experience:

Chief Executive

Engineer, FREng

Government/regulatory

Partnering/JV/contract management

City

Utilities energy

Customer

Oil and gas

US

International

* Including Lattice Group plc

^ Including National Grid Group plc

Tenure as at 31 March 2012

Management structure

The Board s purpose is to create and deliver the long-term success of the Company and returns for shareholders.

There are a number of areas where the Board takes the lead, for example around corporate governance, strategic direction, financial policy including the budget and business plan and the reputation of the Company and its businesses.

The composition of the Board and the diverse skills and experience our Directors bring to the table are vital for ensuring shareholders interests are best represented and that there is sufficient constructive challenge and debate.

Our Non-executive Directors commit sufficient time to perform their duties and to understand the Company, for example through their work on the Committees, site visits, induction programmes for new Directors and meetings with management and employees.

While the Board delegates authority to its Committees to carry out certain tasks on its behalf as set out in each Committee s terms of reference, available on our website it ensures that what has been discussed and any decisions taken are communicated to the other Directors. The chairman of each Committee provides a summary back to the Board at the following meeting.

For more information on the operation of the Board and its Committees refer to pages 80 to 89.

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The Executive Committee has responsibility for making day-to-day management and operational decisions to safeguard the interests of the Company.

The nine members of the Committee have a broad range of skills and expertise which is constantly being updated through training and development, as well as through holding external non-executive directorships. This broadens experience and gives exposure to other companies governance frameworks and board practices. The Committee officially met 11 times this year but interaction among the members occurs much more regularly.

The Committee oversees the safety, operational and financial performance of the Company, taking management action it considers necessary to safeguard the interests of the Company and is responsible for furthering the strategy, business objectives and targets established by the Board. It approves capital and operational expenditure within its authority levels and regularly discusses, formulates and approves proposals to be considered by the Board.

Although the other members of the Committee do not sit on the Board, they all regularly attend Board meetings and other Committees (with Helen Mahy, the Company Secretary & General Counsel, attending all Board and Nominations Committee meetings as secretary) to ensure that every member is fully up to date and knowledge is shared.

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Business Review

Our operating environment

In common with all international companies, we operate in a complex environment with a number of external factors affecting our operations.

Energy policy

UK energy policy

The Climate Change Act 2008 requires the UK to cut greenhouse gas (GHG) emissions by 34% from the 1990 levels by 2020 and 80% by 2050. Continuing the drive toward these goals, in December 2011, DECC published its technical update for the Electricity Market Reform bill, which was confirmed in the Queen s speech on 9 May 2012 and is expected to be passed into legislation during the current parliamentary session. The changes proposed by this legislation will be instrumental in shaping investment in new generation capacity over the coming decade which, in turn, underpins our expected capital investment plans.

DECC remains committed to reducing the costs of renewable generation and published a joint report with Ofgem in March 2012 highlighting that offshore and onshore development must be considered together when looking at network development needs. Our role as system operator includes offshore networks and we will play a key role in ensuring onshore and offshore network development is coordinated.

EU energy policy

With the implementation of the 3rd Energy Package in 2011, the development of the European Infrastructure Package in 2012 and emerging EU thinking on a roadmap to 2050 (ie moving beyond the 2020 CO2 targets), the EU is another factor in the development of energy policy in the UK. The 3rd Energy Package is largely associated with the development of EU level codes, to establish EU wide rules on technical and commercial issues relating to cross border trade. These codes are the responsibility of the European networks for transmission system operators for electricity and the European networks for transmission system operators for gas, and we have been working closely with both of them. In the years to come, we expect policy to develop around greater interconnection in the electricity market and networks in the North Sea.

US energy policy

US energy policy continues to be shaped by debates over the economy, the costs and benefits of regulation, and concerns over energy security. During the year, Congress enacted an extension of the Pipeline Safety Act and debated a variety of other energy related legislation including a clean energy standard, energy efficiency, renewable energy incentives and cyber security. The most significant changes however, came in the form of new US Environmental Protection Agency regulations. These included rules for mandatory reporting of GHG emissions from electricity and gas utility facilities and the promotion of the Mercury and Air Toxics Standards rule and the Cross-State Air Pollution Rule which will help to ensure air and water quality.

Federal agencies continued their investment in energy efficiency as a direct reflection of the Obama administration s priorities. This has manifested itself in large projects at federal facilities in all of the Company s service areas and we are working with a number of Government facilities to assist in this endeavour.

At the state level energy policy continues to be an active arena, particularly in the northeastern US, driven by interest in promoting energy efficiency, maintaining reliability, and deploying renewable technologies that help states meet environmental and energy diversity goals. New York has promoted a broad energy policy agenda, including renewed focus on transmission development, a state energy plan, responsible exploration of shale gas, a mandated utility-based loan programme to increase efficiency installations with recovery through customer bills, and promotion of solar technology. Massachusetts continues to focus on climate and energy initiatives including the recent establishment of a GHG inventory programme. Rhode Island enacted several pieces of legislation in 2011 that will promote renewable technologies at the distribution system level, as well as significantly boost the support for gas energy efficiency programmes.

Economic environment

The economic uncertainty within the eurozone has led to volatility in financial markets during the year, however, we have not experienced any adverse effects. Instead, as the UK is seen as a safe haven, its bond yields have fallen and this has had a positive effect on our cost of debt. We continue to monitor developments as it may affect our ability to access capital markets or the financial strength of our counterparties.

Inflation in the UK has declined from its peak in September 2011 but remains above the long-term trend. Our UK regulated revenues are linked to inflation and this has therefore led to higher revenues (see below for an explanation of the UK regulatory regime). We also have index-linked debt so our financing cost increases with inflation, providing a partial economic offset.

In the US, the economic recovery was sluggish early in the year but accelerated towards year end, leading to recent declines in the unemployment rate. Unlike the position in the UK, we sell gas and electricity directly to consumers in the US and so are exposed to bad debt risk, which is affected by unemployment rates. Some of our rate plans include protection against such risk (see page 28), but in most cases they do not cover the full cost.

Regulatory environment

UK regulation

The Gas Act 1986 and Electricity Act 1989, as amended (the Acts), provide the fundamental legal framework for gas and electricity companies. They establish the licences for electricity generation, transmission, distribution and supply, and for gas transmission, distribution, shipping and supply. The licences established under the Acts require each of our 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. They also give the licensed businesses statutory powers, such as the right to bury our pipes or cables under public highways and the ability to use compulsory powers to purchase land to enable the conduct of our businesses.

Energy networks are regulated by Ofgem which operates under the direction and governance of the Gas and Electricity Markets Authority. Ofgem has established price control mechanisms that set the amount of revenue that can be earned by our regulated businesses.

Price control regulation is designed to ensure our interests, as a monopoly, are balanced with those of our customers. Ofgem allows us to charge reasonable, but not excessive, prices giving us a future level of revenue sufficient to meet our statutory duties and licence obligations, and also to make a reasonable return on our investment.

The price control includes a number of mechanisms to achieve its objectives, including financial incentives designed to encourage us to: continuously improve the cost and effectiveness of our services; manage and operate our networks; provide quality customer service; and invest in the development of the network in a manner that ensures long-term security of supply.

To ensure that our licensed businesses are operating efficiently, and 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.

Current price controls

The current price control mechanisms for our gas distribution business will expire on 31 March 2013. The price controls for our transmission business were extended for one year and will now also expire on 31 March 2013. The extension included real increases in revenues for electricity and gas transmission next year and a base real vanilla return of 4.75%. The revenue increase partly reflects the capital investment we have made over the current price control period which forms part of our total UK RAV, which at 31 March 2012 was over £22 billion.

The current price control mechanism establishes 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. The RPI-X allowance is based on 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. The RPI-X price control takes the RPI as its inflation 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 regulated businesses to raise prices by no more than 1%.

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.

Future price controls

It is estimated that we will need to invest over £31 billion during the RIIO period, partly to facilitate the move to a low carbon economy. This will include the gas and electricity networks developing smarter grids, meeting environmental challenges and securing energy supplies.

In light of the challenges around the evolving energy environment and the significant investments required, Ofgem has introduced a new regulatory price control framework to replace the existing framework which has been in use for over 20 years. This is known as RIIO: revenue = incentives + innovation + outputs.

Under this regime, networks will be encouraged to deliver outputs, such as agreed levels of safety, reliability and environmental performance, while ensuring timely connections for customers, improving on customer satisfaction and (for UK Gas Distribution only) complying with social obligations. The networks will be incentivised to deliver these innovatively and efficiently. During the price control review process, Ofgem will assess what an efficient level of expenditure would be to deliver these outputs and will then set the revenue levels accordingly.

The RIIO price control will last for eight years with a mid-period review at four years.

The fundamentals of how our revenue is derived under RIIO are not that different, but the mechanics of how capex and opex (totex) are treated has changed, as demonstrated below. A fixed proportion of totex goes into the RAV (slow money) with the remainder remunerated within the year (fast money).

We have developed our business plans in conjunction with our stakeholders and have reflected their views and feedback in our updated plans, submitted to Ofgem in March and April 2012 for our UK Transmission and UK Gas Distribution businesses respectively. Full details of these business plans can be found on our website.

Ofgem will issue their initial proposals for the first RIIO price control period in July 2012 and their final proposals in December 2012. We will continue to work with Ofgem as the RIIO price controls are finalised, aiming to secure positive opportunities to invest for long-term profitable growth and reasonable returns.

Our operating environment continued

Managing uncertainty

With an eight year price control period replacing the previous five year controls, there will inevitably be a larger exposure to potential variance against our forecasts; for example, on our electricity transmission business a different mix of generators may look to connect to the system than those we have assumed in our baseline plan. In order to understand the impact that different outcomes might have, we have modelled a range of credible future demand and generation scenarios using the scenarios developed with stakeholders through the UK Future Energy Scenarios process. The impact of these alternative scenarios against our baseline capital investment forecast (which uses the gone green scenario) is illustrated below:

Building on our existing risk management approach, we have developed an innovative risk model to better understand the risks that our business will face, how those risks might best be managed and to evaluate the relationship between uncertainty mechanisms and the required rate of return. We have shared this model with stakeholders, including Ofgem, who have been broadly supportive of it.

Following discussions with stakeholders, we have therefore proposed a number of regulatory mechanisms, which would adjust our allowed investment levels over the period of the price control to ensure there are no inappropriate windfall gains or losses for our networks or consumers as a result of reality diverging from the assumptions we have made in forecasting the next eight years. In doing this, we have maintained the principle that risks should be borne by the party best able to manage them.

Further information on these mechanisms and the risks they seek to reduce is available on our price control stakeholder engagement website: www.talkingnetworkstx.com.

US regulation

Regulators

In the US, public utilities retail transactions are regulated by state utility commissions, including the New York Public Service Commission (NYPSC), the Massachusetts Department of Public Utilities (MADPU), the Rhode Island Public Utilities Commission (RIPUC) and the New Hampshire Public Utilities Commission (NHPUC). 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. 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 our US businesses.

All the states in which we operate have deregulated the commodity or supply component of electricity and gas utility services. Customers in deregulated states have the option to purchase electricity or gas services from competitive suppliers.

Regulatory process

Utilities in the US submit a formal rate filing to the applicable state regulatory body 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. At FERC there is no defined process for adjudicating a rate case. FERC allows rates to be put in place before a final decision is reached, however, a refund may be required if the outcome is unfavourable. 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 certain components of 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 allowed 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 forecast 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, 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 its investments.

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 and for our Long Island generation business 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. We have recovered most of our sunk investments in generation assets and revenue associated with stranded cost recoveries will decline significantly in future years.

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.

Allowed ROE in context

One measure used to monitor the performance of our regulated businesses is a comparison of achieved ROE to allowed ROE, with a target that the achieved should be equal to or above the

allowed. This measure cannot be used in isolation, however, as there are a number of factors that may prevent us from achieving that target in any given year:

- Regulatory lag: in the years following the rate year, costs may increase due to inflation or other factors. If the cost increases cannot be offset by productivity gains, the total cost to deliver will be higher as a proportion of revenue and therefore achieved ROE will be lowered.
- Cost disallowances: a cost disallowance is a decision by the regulator that a certain expense should not be recovered in rates from customers. The regulator may do this for a variety of reasons. We can respond to some disallowances by choosing not to incur those costs; others may be unavoidable. As a result, unless offsetting cost reductions can be found, the achieved ROE will be lowered.
- Market conditions: if a utility files a new rate case, the new allowed ROE may be below the current allowed ROE as financial market conditions may have changed. As such, a utility that appears to be underperforming the allowed ROE and files a new rate case may not succeed in increasing revenues.

We work to increase achieved ROEs through: productivity improvements; positive performance against incentives or earned savings mechanisms such as energy efficiency programmes, where available; and, through filing a new rate case when achieved returns are lower than that which the Company could reasonably expect to attain through a new rate case.

Features of our rate plans

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 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.

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.

Our Long Island generation plants sell capacity to LIPA under a power supply agreement, approved by FERC, which provides a similar economic effect to cost of service rate regulation. The contract expires in 2013 and new contract negotiations are underway.

In addition, in December 2011, LIPA announced that, after a lengthy competitive bid process related to the management services agreement, we had not been selected to continue to manage and operate Long Island s electricity system beyond the term of the current agreement, which expires on 31 December 2013.

Our operating environment continued

Regulatory filings

The objectives of our rate case filings are to ensure we have the right cost of service with the ability to earn a fair and reasonable rate of return, while providing a 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 other post-employment benefit (OPEB) true ups, separately from base rates. These terms are explained below the table on the opposite page.

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 91% for our electricity businesses and 64% for our gas businesses for 2011/12. Transmission and generation revenue is effectively decoupled.

We have ongoing regulatory filings associated with downstate New York deferrals and tax refunds and the disposal of New Hampshire businesses. Progress continues in these areas. Below we summarise significant developments in rate filings during the year.

Upstate New York 2012 rate filing

On 27 April 2012, we filed a one year rate plan filing for our upstate New York electricity and gas businesses, to take effect from 1 April 2013. The filing included a request for an increase in electricity delivery revenue of $131 million. This would be more than offset by approximately $190 million per annum of rate reductions related to the recovery of certain past deferred costs, resulting in an overall net decrease of approximately $59 million to customers. The filing also includes a request for an increase in gas delivery revenue of $40 million, which would be partially offset by a net decrease in deferral recovery of $29 million. The filing is based on an ROE of 10.55% for the one year rate filing, and includes annual reconciliation mechanisms for certain non-controllable costs.

The filing, which is expected to take 11 months to review and to conclude in March 2013, includes investments of $454 million and $82 million in the electricity and gas businesses respectively. The increased electricity service costs also include the creation of a $29 million sustainable storm fund.

Upstate New York deferral filing

On 16 December 2011, NYPSC approved Niagara Mohawk Power Corporation s request to recover $240 million in deferred costs ($211 million related to deferred environmental, capital expenditure, and pension costs included in our July 2011 deferral filing, $25 million related to recent storm response costs, and $4 million related to carrying charges and other adjustments). This amount will be collected over 15 months, effective from 1 January 2012. In addition, NYPSC approved the removal of $573 million from Niagara Mohawk s rates related to stranded cost recoveries.

New York State review

In February 2011, NYPSC instituted a New York State proceeding to review its site investigation and environmental remediation (SIR) expenditure policies. The proceeding directed New York State s utilities to assist in developing the future scope of utility SIR programmes including cost containment, cost allocation and methods for minimising the impact on customers of SIR cost recovery. A Recommended Decision was issued on 3 November 2011 the proceeding is open and ongoing.

Rhode Island 2012 rate filing and appeal of ruling in 2009 rate filing

On 27 April 2012, we filed a new rate plan for our Rhode Island electricity and gas businesses, to take effect from 1 February 2013. The filing requests increases in electricity distribution revenue of $31 million and gas delivery revenue of $20 million, based on an ROE of 10.75% with annual reconciliation mechanisms for certain non-controllable costs such as pensions and OPEB, property taxes and commodity bad debt true up.

In order to ensure the new investments are effectively implemented, the new filing sets out the case for new rates, cost of service allowances and other needs for the businesses. The capital spending programme for these two utilities is addressed annually outside of this filing. The current levels of approved capital investment for the year which commenced on 1 April 2012 are $61.9 million for the gas system and $56.5 million for the electricity system. The filing is expected to take nine months to review and to conclude in January 2013.

On 23 January 2012, the Rhode Island Supreme Court issued its decision on our appeal of RIPUC s decision in its 2009 rate case. The Court reversed RIPUC s decision to impose National Grid s capital structure onto Narragansett but affirmed their decision to disallow 50% of our incentive compensation. On 11 April 2012, RIPUC adopted a settlement resolving the capital structure aspects of the rate order, which we had appealed. The settlement authorises Narragansett a capital structure comprised of 48.78% common equity, an overall rate of return of 7.31%, and an additional $3.2 million electricity rate increase, effective from 23 April 2012.

Overland audit

In February 2011, NYPSC selected Overland Consulting Inc., a management consulting firm, to perform a management audit of our affiliate cost allocations, policies and procedures. The audit of these service company charges seeks to determine if any service company transactions have resulted in unreasonable costs to New York customers for the provision of delivery services. If potentially material levels of misallocated or inappropriate costs are discovered, at the direction of NYPSC, the investigation will be expanded to prior years to determine if they have been charged to the New York utilities. A report of this review to NYPSC is anticipated in 2012.

Summary of US price controls and rate plans

* 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 a utility 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 OPEB 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.

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Business Review

Delivering our strategy

The following chart demonstrates the alignment between the elements of our strategy, the strategic objectives that will enable us to deliver it, the risks we face and what we have delivered this year.

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www.nationalgrid.com

Use this as a road map to the content on pages 32 to 55.

Delivering our strategy

How do we deliver?

Our people are the foundation of what we do. It is through their actions that we will deliver our strategy; ensuring we have a skilled, engaged and dedicated workforce is essential to this. Delivering a safe and reliable network is the number one priority for our people. We also remain committed to being an innovative leader in energy management and to safeguarding our global environment for future generations.

The relationships we hold with our regulators, customers and communities continue to be important; we have made changes to forge even deeper relationships and broaden our engagement with stakeholders.

We continue to invest to create organic growth and evaluate other investment opportunities as they arise. Any investment we make will fit with our strategic goals, deliver a reasonable return and maintain the balance and spread of our businesses.

People

We are committed to developing our employees to the best of their abilities and to ensuring we have access to the widest possible pool of talent to meet the current and future requirements of our business.

Building an engaged workforce

We measure how engaged our people are through our employee engagement index, calculated from certain questions in our employee survey. Our 2012 employee survey included 68 questions and was completed by 84% of our employees. The results allow us to identify specific areas where we are performing well and those areas we need to improve.

We have undergone a significant amount of change within our US business having completed the transition to the new jurisdictional operating model including identifying 1,150 roles that have been removed from our structure. Significant change affects each employee differently and, as expected, this has affected our 2012 global employee engagement index, which has decreased compared to the last results in 2010. We are now embarking on a review of our UK operating model to ensure that it is scalable and structured correctly to deliver the increasing capital investment programme and to be successful under the new RIIO price control framework.

We want to make sure our people are as fully engaged as they can be. To demonstrate our ongoing commitment to this important area, one of our 2012/13 shared priorities is to increase levels of employee engagement across all our teams. We have created a Company wide framework called engaging for performance that explains what we believe contributes to increasing engagement, which in turn results in higher levels of performance.

Survey reports are produced at Company wide, region, business unit, function and team levels and associated action plans are created. The engaging for performance framework provides managers with access to practical and easy to use tools and guidance to support them when developing team action plans.

Communicating for success

Good communication helps employee engagement and we have multiple communication channels to ensure our more than 25,000 employees have access to information that is relevant to them and so that they feel connected to the business. We use our intranet site to make announcements, share our achievements and to communicate what we have learnt and other information useful to our people. We also have various open forums where senior leaders share key topics relevant to our business. These provide our people with the opportunity to ask questions and connect with leadership. We produce a monthly magazine and use various team forums and other traditional communication methods such as email broadcasts and discussion boards.

Aligning individual and corporate goals

The incentive plans for our Executive Directors include financial measures such as earnings, returns and cash flow which align their interests with the success of the Company. See the Remuneration Report section of Corporate Governance on pages 90 to 106 for more information.

Our strategy is cascaded to employees. This ensures that the objectives of each employee align with those of the Company and the actions required to deliver the strategy are allocated to and shared by all our people, connecting them to our corporate goals.

Our performance, talent and reward management process for managers links incentive compensation to an assessment of both what the individual has achieved and how those outcomes have been achieved, with reference to their individual objectives. This provides ongoing incentive for all managers to contribute to the achievement of our strategic goals and ensures that our top performers are recognised for their contributions.

Building capability

We have reviewed the leadership, business and technical capabilities that we will need to ensure we are successful, including: driving process excellence; innovation; and stakeholder management. We are designing tools and processes to help elevate our capabilities in those areas and they will be supported by training programmes and other learning opportunities. We have invested in a range of technologies that will enhance the learning experience and reduce the cost associated with training delivery. We endeavour to continually improve the quality of our new talent development programmes and our focus on this has external recognition, including 2010 Ofsted grade 1 outstanding performance rating and UK Learning and Skills Improvement Service Beacon status.

Our graduate scheme is well regarded and we have continued to be an employer of choice. In 2012, we were ranked 84 in the Times Top 100 graduate employers, an improvement on 2011 when we entered the Top 100 for the first time. Our graduate retention levels are good, standing at 86%.

The foundations of leadership programme, aimed at the next generation of managers, continued to run throughout 2011. For our female employees, we also continued to provide access to the Springboard and Spring Forward development programmes in the UK and Women Empowered in the US. We appeared in the Times Top 50 Employers for Women 2012, appearing in the list since 2006.

Promoting inclusion and diversity

We aim to develop and operate our business with an inclusive and diverse culture, ensuring equal opportunity in recruitment, career development, training and reward for all employees regardless of race, gender, nationality, age, disability, sexual orientation, gender identity, religion and background. Where existing employees become disabled, our policy is to provide continued employment and training wherever practical. A focus for 2011/12 was creating a level playing field in the organisation. These policies support the attraction and retention of the best people, improve effectiveness, deliver superior performance and enhance our success.

Our employee resource groups, which cover areas including gender, ethnicity, disability, faith, sexual orientation, veterans and new employees, continue to have good membership. These groups deliver opportunities for professional development, networking, supporting our community relations activities and increasing the broader understanding of inclusion and diversity through workshops, presentations and other educational events.

Information on our inclusion and diversity policies can be found on the corporate responsibility section of our website.

Attracting the best people

As a result of our extensive capital investment plans in the UK, we need to increase our employee numbers in key parts of our business, particularly engineers and other technical roles. In 2011/12, we have recruited more than 450 engineers and, over the next nine years, we expect to recruit over 2,500 more.

We are establishing medium- and long-term talent pipelines and have launched an engineering entry programme for recent graduates with science, technology, engineering or maths (STEM) degrees. The two year comprehensive and structured training programme will provide a blend of practical experience with traditional training programmes and will help the recruits develop project management and development expertise, as well as

increase their technical knowledge and gain specialist experience of the energy sector. On successful completion, they will be appointed to a permanent role.

With an ageing workforce and declining interest in STEM subjects by young people, pressure on recruitment will continue for many years. Our long-term talent programmes will help to provide us with the expertise we need to be successful well into the future. This year in the UK, we worked with more than 3,900 school students giving them an insight into engineering, the energy sector and National Grid. We delivered 22 open days, ran two residential work experience week courses for nearly 100 15 year olds at our training centre, supported seven engineering education scheme projects, delivered 30 STEM enhancement days and many talks in schools. In the US, we face similar challenges to ensure we have access to top quality, well trained candidates to maintain the number and quality of our workforce over time. Over the next 10 years, we expect to fill around 800 management level roles that require an engineering background and we run a number of initiatives similar to those in the UK. In addition to our work in the US with school aged children to inspire interest in STEM subjects, we work with local community colleges on their energy utility technology programmes designed to give students the technical and practical skills required to work on the construction or maintenance of power lines. We also run our own engineering pipeline programme and have recently completed the second year. This six year development programme is designed to inspire promising students to become engineers and provide them with an opportunity for fast tracked employment with us.

Safety and reliability

Providing safe and reliable services is what our customers expect.

Keeping our people and the public safe

While our employee lost time injury frequency rate was 0.18, the same as 2010/11, this year we have seen accidents leading to the deaths of two members of the public and one contractor. We have investigated thoroughly and learnt from these tragedies.

We recognise the need to reinvigorate and reinforce our safety agenda across the Company. All our senior leadership team are asked to be visible safety leaders actively engaging with employees to drive our safety ambition forward and ensuring lessons learnt from any incidents are acted on as appropriate.

Further development of our safety culture will be critical to navigating the heightened risks that come with our expanding capital investment programme. Key parts of the business have undertaken safety culture surveys to capture what our employees think about how we manage safety and help us identify areas where we need to improve. We are committed to ensuring that everyone has the expertise, and exhibits the right behaviours, to work safely and without harm. We will also leverage our size, and learn from our partners, to identify best practices and ensure these are shared and implemented across our business.

A recent area of focus has been deploying a major accident hazard framework and risk methodology and standards that build greater structure into process safety and risk management. These standards have been developed collaboratively by technical specialists in the UK and US. The requirements are being discussed

Delivering our strategy

How do we deliver? continued

with all of our relevant businesses and teams to ensure they are implemented and applied consistently. A review process has been established using technical specialists and third party independent assessors to aid sharing and consistent application of standards.

Our Executive Committee monitors progress against our safety goals monthly and the Board s governance arrangements for the oversight of safety are being strengthened.

Delivering reliability

Our licences and regulatory agreements set out reliability targets and these are linked to our revenue streams. Excluding the impact of storms in the US, we are pleased to report that we have substantially met all our reliability targets for the year. We failed one target in Massachusetts, however, due to our good performance against other targets for the state, this had no financial impact. After failing to meet some of our emergency standards of service last year and being fined £4.3 million by Ofgem, we are also pleased to report that we met all our standards of service in the UK this year.

Reliability is achieved through four interrelated actions: planning our capital investments to meet changing demand and supply patterns; designing and building robust networks; risk based maintenance and replacement programmes; and detailed and tested incident response plans.

Our UK Future Energy Scenarios publication outlines our forecasts for energy needs in the UK up to 2050. We use this to inform our capital investment plans and ensure our networks will deliver what is required in the future. In the US, we are taking part in the Eastern Interconnection Planning Collaborative, funded by the US Department of Energy, and working with other utilities, regulators and independent system operators to model future energy scenarios and consider their effects on the future of the electricity transmission grid by 2030.

Our construction teams work closely with our engineers to ensure that the networks designed and built will meet internal and external technical specifications and deliver the required levels of reliability once brought into service. Our UK Transmission business, where the majority of our capital investment will be undertaken, is PAS 55 and ISO 9001 certified, and has detailed procedures in place governing a project throughout each phase of scoping, design, commissioning and the transition to normal operations. Key roles on each project are defined and owners assigned, along with appropriate independent checks to ensure quality is maintained.

We collect and analyse a large quantity of data relating to network reliability including faults, failures and defect information. Using this information, asset health indices are assigned to the major equipment groups. These are then considered together with safety, system and environmental criticality to give replacement priorities that feed into our maintenance and replacement programmes.

Planning for a disaster can take a number of forms. In December, our US team worked with the Department of Homeland Security, FBI, local law enforcement and fire departments and other government agencies in a simulated attack on one of our generation plants. The simulation tested our emergency response plans, validating the plans already in place and identifying areas for improvement.

Our commitment to reliability extends to our efforts to restore electricity and gas to customers in a timely manner when an outage occurs. Major flooding of the Mohawk River, in the area of the Amsterdam and Rotterdam Junction in New York, led to significant damage to our gas facilities at several locations and resulted in

approximately 440 customers losing their gas supply. Permanent repairs to the damaged facilities would have taken months, an outcome unacceptable to both us and our customers. We embarked on a plan to bring in LNG, a remedy with little or no precedent in New York. With extensive work by our crews and cooperation of NYPSC, New York State Departments of Transportation and Environmental Protection, the local fire department and others, we were able to successfully restore gas services within a week. Our service territories were in some cases seriously affected by storms this year which resulted in large restoration efforts across our businesses. While we try and learn lessons from these events and improve how we deal with them, our responses to some of them, such as tropical storm Irene and the October snow storm, are subject to investigations by a number of our regulators.

Smart grid

Modernising our networks is an essential part of our continued growth. In the US, we anticipate receiving a regulatory order this summer to carry out a $44 million pilot in Worcester, Massachusetts. We expect to test customer choice with a goal of reducing energy use by 5% as well as implementing new distribution grid equipment that has the potential to make capital investment more efficient, reduce losses, improve reliability, and assist with storm restoration as we modernise the grid. This pilot will serve to show what will be possible across the US business.

Environmental responsibility

As a responsible business, we are committed to protecting the environment for current and future generations.

Investing in and running electricity and gas networks means we use energy and raw materials, and produce waste. Our goal is to reduce any adverse effect we may have and we look for ways to improve the environment. We embrace new technology and methods to use resources more efficiently and sustainably, seek to responsibly refurbish existing assets and reduce waste through recycling and materials efficiency.

Reducing greenhouse gases

We have continued with our climate change and energy efficiency programmes and remain committed to our targets of a 45% reduction in Scope 1 and 2 greenhouse gas (GHG) emissions by 2020 and 80% by 2050. Refer to the glossary on page 193 for a definition of Scope 1 and 2 emissions. We continue to look for new technology or more efficient equipment that will help us achieve these goals and we have outperformed a number of targets for emissions during the year, including some tied to incentive revenues. Our total Scope 1 and 2 emissions for 2011/12 were 8.7 million tonnes carbon dioxide equivalent. This represents a 55% reduction on our 1990 base line. We have refreshed our rolling five year GHG reduction plans and, although our 2011/12 outturn is better than our 2020 target, we have many challenges through the next few years that will require considerable focus in the business.

We have a number of ongoing initiatives that have helped achieve these results. Some of our gas distribution networks in both the UK and US consist of old metallic pipe, which contributes significantly to the gas losses from our system. We have replaced around 2,500 kilometres of this leak prone pipe during the year across our UK and US businesses and have estimated the replacements in the UK will achieve the equivalent of a 3% reduction in gas losses each year.

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In the UK, we also now use computerised pressure management equipment that matches system pressures with demand, improving safety, driving considerable reductions in gas losses and, consequently, reducing the level of our greenhouse gas effects. We also continued our focus on reducing the losses of SF_6, a powerful greenhouse gas, from high voltage switchgear on our system through improved leak detection and repair processes and continue research to identify alternatives.

Supporting the move to a low carbon economy

In the UK, we are already developing networks to facilitate new generation, eg commissioning Cleve Hill substation to enable London Array Limited to connect the world s largest wind farm.

In the US, we are investing in oil to gas conversions in customer premises and installing gas infrastructure and services to support new construction. Over the last three years we have connected over 120,000 new gas heating customers. Demand for new interconnections of green generation in the US is on the rise with a 70% increase in the applications received in New York and New England in 2011. These included combined heat and power, farm waste, fuel cells, hydro, solar and wind projects. In response to this escalating market demand we have created two new groups within our business to process the requests efficiently and ensure they are connected in accordance with the appropriate technical standards and the applicable state tariffs.

We recently installed 32 new electric vehicle charging stations in Massachusetts under the Coulomb Technologies ChargePoint America programme. Through programmes such as these, we offer our customers more sustainable energy options that help to protect the environment.

Stakeholder engagement

Stakeholders views form an integral part of the way we do business and make decisions.

Meeting the needs of stakeholders

Our stakeholder engagement principles include:

- Integrity: We will be open and engaging so we can develop a clear understanding of what our stakeholders want us to deliver.
- Accountability: We will inform stakeholders of how their views have been taken into account and, if they have not, the reasons why.
- Transparency: We will conduct our engagement activities in a transparent manner, ensuring all relevant information is readily available and understandable to all stakeholders.
- Inclusivity: We recognise the need to increase engagement with the broadest possible range of our stakeholders and we will seek their views.

For example, in the course of developing our electricity and gas transmission and gas distribution business plans for RIIO-T1 and RIIO-GD1, we held 26 workshops, talking directly to several hundred stakeholders with a broad range of interests. We produced three written consultations, held numerous forums and focus groups, undertook in-depth telephone interviews and surveyed opinions from over 10,000 customers. We used an independent third party to facilitate our stakeholder engagement so we could be sure we were not unwittingly influencing, misunderstanding or misinterpreting what our stakeholders were saying. For our Worcester smart grid pilot, we held a two day appreciative inquiry summit to engage with the local community including local government, businesses and households. We recognise active participation from a broad

cross section of the community will be important to complete the pilot successfully.

Our regulators remain an important area of focus for our stakeholder engagement activities. Through our new US jurisdictional focus, we are better able to communicate with our regulators, ensuring they have a point of contact that understands their perspective and is committed to meeting their needs. We have also opened an office in Brussels to establish a stronger and more visible presence with EU institutions and policy makers on key strategic issues facing us in the years to come.

Industry engagement

Participation by our employees on other bodies allows us to engage more broadly, and we aim to be supportive of roles on industry boards and other groups. For example, our US vice president, engineering standards and policy, currently sits on the US Department of Transportation s Technical Pipeline Safety Standards Committee. Engagement such as this allows us to participate in and inform debates as they occur and to learn from the best practices of others. In the wake of the San Bruno gas explosion, the US Government passed into law the Pipeline Safety, Regulatory Certainty and Job Creation Act. Some of the new rules and safeguards coming out of the law are a direct result of the issues discussed by the Committee.

Improving customer service

We recognise the importance of good customer and community relationships. Success is evident from the improved results in our key Ofgem customer satisfaction studies in the UK as shown in our KPIs on page 39. We participate in four studies in the J.D. Power and Associates customer satisfaction study in the US. Our target goal was a one quartile improvement in each of the four studies. We achieved this in the Business Gas study. However, in the Business Electric and Residential Electric studies, we remained in the same quartile and in the Residential Gas study we fell one quartile.

In late 2011, we opened our new integrated UK Gas Distribution customer centres in Hinckley and Leicester, which combine cutting edge technology and specialist training to offer a fresh approach to customer service. The new technology provides greater visibility of all the work we are doing, allowing our employees to respond more effectively and resolve more enquiries on the first call, resulting in improved service and customer satisfaction. The centres provide our customers with a single point of contact 24 hours a day, seven days a week to ensure we can always maintain a high level of service and meet our commitments. The importance of this work in the UK will be reinforced by requirements under the new RIIO price control, where customer satisfaction is a specific output measure linked to our potential revenue.

Working with our communities

We believe that helping local businesses is one of the best ways to help the communities we serve. If they are strong and growing we will be too. Through our community investment initiatives, we aim to identify and support local projects that can have a positive effect in the communities in which we operate.

In the US, since 2003, our economic development grants have totalled $53 million and have helped create or retain more than 19,000 jobs. In December 2011, we provided $1 million to Albany, New York for use in their State Street revitalisation. The grant will help build new footpaths, underground conduits, decorative lighting and other amenities. This revitalisation programme is expected to help the city s economic growth by attracting more businesses, residents and visitors to the area.

Delivering our strategy

How do we deliver? continued

We have even extended our outreach to include the communities in which our key suppliers operate. The Global SpirIT initiative raises funds for the education of underprivileged children in India, where we have been working with IT suppliers for over 17 years.

Balance and spread of businesses

We deliver our returns to shareholders through a balance of equity growth and cash returned in the form of a growing dividend. This is supported by the complementary features of the businesses which, together, make up our group.

National Grid today consists of a balanced blend of distinct regulated businesses in the UK and US and some non-regulated businesses, primarily in the UK. This includes a mixture of cash generative developed assets with minimal investment requirements (such as our existing interconnectors and National Grid Metering), businesses with low to medium levels of growth and positive cash generation (such as our UK and US distribution businesses) and businesses with high levels of investment and growth (such as our UK electricity transmission business and potential new non-regulated investments).

We continue to develop our balance and mix of businesses through cycles of investment and cash generation. Our target is to maximise shareholder value while delivering appropriate levels of both cash generation, to support dividends, and investment in assets, to support equity growth and future revenues.

We consider a number of factors when assessing any current or future business contribution to the group. This includes its contribution to cash flows and earnings, its asset base growth and funding requirements and the regulatory or commercial framework applying to that business. On an ongoing basis we review the business balance, considering our strategic objectives and long-term growth opportunities.

Where an individual business is not expected to exhibit the range of characteristics we are looking for within a reasonable timeframe, or where we are offered a higher value for the business than we might place on it, we will consider selling that business. In the last year, we have sold Seneca-Upshur, a gas and oil exploration and production business in the US, and our OnStream non-regulated metering business in the UK and we await the final regulatory approvals for the sale of our Granite State Electric and EnergyNorth businesses in New Hampshire which we announced in December 2010.

Financial outperformance

We aim to maximise our returns within the constraints of our regulatory agreements, while continuing to invest for future growth.

We have seen a good financial performance this year with positive movement in all our financial KPIs excluding the impact of timing differences and major storms, where relevant.

Capital investment programme

A feature of our price controls and rate plans is that we earn a return on our regulated asset base. As a result, as our regulated asset base increases our returns should similarly increase. We continue to invest in our regulated asset base and, in the UK, our RIIO submissions have reflected a need for investment over the eight year price control in excess of £31 billion for our UK Transmission and UK Gas Distribution businesses. This is dependent on the location and number of new connections required and, if achieved, will represent an average cumulative annual growth rate in our regulated asset value of over 8%.

This amount of investment will not be without its challenges: obtaining planning permission for major projects is time consuming and can create delays; finding and developing enough people with the right skills will be difficult; and managing the costs of key inputs that are forecast to increase faster than the rate of inflation due to worldwide demand for these products, will also pose a challenge.

In the US, we will continue to invest in our regulated asset base with a focus on modernising and maintaining our network and, where appropriate, increasing its capacity. For example, work is underway with FERC and other utilities on the construction of the New England East-West Solution. This is a new transmission line in southern New England that will increase capacity in a constrained area of the grid and once completed will represent a significant investment in a new transmission asset.

We continue to look for smart investments in non-regulated businesses and are assessing expansion plans for our Grain LNG business.

Despite the Government withdrawing funding for the proposed carbon capture and storage (CCS) project at Longannet, we believe CCS to be an important element in the Government s strategy to achieve its carbon reduction targets. We are working with several UK emitters to develop CCS projects; these are seeking funding through a Government competition that is scheduled for the second half of 2012.

Work continues on plans for an interconnector between the UK and Belgium, a joint project with the Belgian transmission system operator which will be the first electricity link between the two countries. The 1,000 megawatt undersea cable will run between Zeebrugge and Richborough and is expected to enter commercial operation in 2018.

Remuneration from investment

In the UK, we work closely with Ofgem and the Health and Safety Executive, the main safety regulator in the UK, to balance the needs of all stakeholders for a safe and reliable network with a price control that provides the required return to allow us to operate our businesses effectively. We will only accept a price control settlement if we believe that it achieves this balance. In the US, some of our rate plans do not include capital trackers and therefore spend on capital programmes may be unremunerated until we file a new rate case. We carefully track our capital spending compared to our rate allowances and, when we believe additional spending is required, we may file a new rate case.

For more information on the features of our price controls and rate plans, refer to pages 25 to 29.

Incentives and outperformance

In the UK, achieving output targets to earn incentive revenue is a key element of our ability to provide superior financial returns. Our price control plans have historically included a range of incentive mechanisms and under RIIO the importance of incentive revenue will increase. Examples of our current incentive mechanisms include:

Transmission network reliability: if we achieve our reliability targets we can earn an incentive of up to 1% of revenue, however, if we fail, we can incur a penalty of up to 1.5%.

Day ahead gas demand forecast: if we achieve targets for the accuracy of the forecast published daily on our website, we can receive an incentive payment of up to around £8 million, however penalties can be charged if the forecast is inaccurate.

Greenhouse gas emissions: we can earn incentive payments if certain greenhouse gas emissions are below targets.

Our US rate plans generally do not feature the same variety of incentive mechanisms used in the UK, however, some include earned savings mechanisms that allow us to retain a proportion of the savings we achieve through improving energy efficiency, with the balance benefiting customers. In addition, the electric generation power supply agreement with LIPA contains a performance-based incentive and penalty mechanism. We may earn or lose up to $4 million depending on how well we operate the generation units as measured by reliability, efficiency and capacity metrics.

Under our UK price controls and some of our US rate plans, our revenues include an imputed cost of debt. We manage our interest rate risk using fixed- and floating-rate debt and derivative financial instruments including interest rate swaps, swaptions and forward rate agreements. Where we actively manage our interest rate risk, we seek to minimise total financing costs (being interest costs and changes in the market value of debt), subject to constraints, with the aim of outperforming the imputed cost of debt. The Finance Committee regularly monitors performance by comparing the actual total financing costs with those of a comparable, passively managed, benchmark portfolio.

Increasing productivity

We are undertaking a number of transformation initiatives to improve the efficiency and effectiveness of our operations.

Our global information systems (IS) transformation project will replace ageing IS infrastructure that currently limits our ability to deliver reliable IT systems and inhibits the creation of platforms for growth. Under a partner provided approach, our IS services will offer a more flexible, cost effective, transparent and responsive delivery model. Our UK Gas Distribution front office programme has progressed significantly during the year and is already showing benefits. The final deployment of the system, which will help our repair and construction teams, is on track to complete ahead of the Olympics this summer. More information on these programmes can be found in the case studies on pages 48 and 49.

In the US, we are replacing two legacy information systems along with a range of ancillary systems. This change, in conjunction with various process improvement initiatives within our US finance function, simplifies our cost allocation methodology, allows better jurisdictional reporting and improves controls over our financial reporting processes.

Each of these transformation initiatives contributes to our ability to support our future growth, improve operational performance and efficiency, and respond to the needs of our stakeholders.

Managing costs

As discussed on pages 24 to 29, our allowed revenues are set in reference to an expected cost to deliver our services. We must manage our costs closely within that framework as, without the permission of our regulators, we may not be able to increase our revenues to compensate for cost overruns. We set budgets and assign owners for cost centres within the business who are responsible for delivering set outputs within that budget.

2012/13 priorities

At the beginning of each year, we set ourselves priorities; achieving these will help us deliver our strategy. We separate our priorities between shared priorities that are the responsibility of every employee, and UK and US specific priorities.

Shared priorities

deliver a step change improvement in safety performance across our organisation;
increase levels of employee engagement across all teams;
deliver significant improvements in how we meet our customer commitments; and
achieve our financial targets.

UK priorities

deliver the core UK Transmission and UK Gas Distribution investment programmes;
agree a RIIO price control for both transmission and gas distribution that allows a reasonable return for investors;
develop and implement the right processes and organisational model that will allow us to be successful under RIIO and maintain our credit ratings;
deepen relationships with important European stakeholders and raise our profile within the EU; and
make progress in developing growth opportunities, including non-regulated businesses.

US priorities

focus on process excellence and modernising our networks;
deliver planned regulatory filings;
deepen our relationships with our communities and stakeholders, to help achieve their local economic and environmental goals; and
ensure continuous improvement is embedded in the organisation and our costs have clear transparency to ensure regulated recovery.

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Measuring performance our KPIs

Financial KPIs

Strategic element#	Measuring performance for	KPI	Definition
All:	Financial outperformance	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
		Adjusted earnings per share	Adjusted earnings* divided by the weighted average number of shares
		Group return on equity	Adjusted earnings* with certain regulatory based adjustments divided by equity
		Regulated controllable operating costs	Regulated controllable operating costs, excluding bad debts, as a proportion of regulated assets

We measure the achievement of our objectives, make operational and investment decisions and reward our employees 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.

KPIs are used to measure our progress on strategic priorities, aligning with those activities that combine to deliver our strategy. Non-financial KPIs are often leading indicators of future financial performance as improvements in these measures build our competitive advantage, for example through attractive regulatory arrangements and in competition for future growth opportunities. Financial KPIs are trailing indicators of the success of past initiatives and specific programmes. They also highlight areas for further improvement and allow us to ensure our actions are culminating in sustainable long-term growth in shareholder value.

Commentary on our overall financial results can be found on pages 56 to 63, and information on the performance and financial results of each line of business is set out on pages 64 to 71.

Refers to the four elements of our strategy: operational excellence; innovation & efficiency; engaging externally; and disciplined investment

* 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 effect 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 restated for consistency. See page 57 for more information

– Prior years have been restated on a constant currency basis

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Non-financial KPIs

Strategic element#	Measuring performance for	KPI	Definition
Operational excellence:	Safety and reliability	Employee lost time injury frequency rate	Number of employee lost time injuries per 100,000 hours worked on a 12 month basis
		Network reliability targets	Various definitions appropriate to the relevant line of business
All:	People	Employee engagement index	Employee engagement index calculated using responses to our employee survey
Engaging externally:	Stakeholder engagement	Customer satisfaction	Our position in customer satisfaction surveys
Innovation & efficiency:	Environmental responsibility	Greenhouse gas emissions	Percentage reduction in greenhouse gas emissions against our 1990 baseline

Network reliability targets

	Performance					Measure	Target
	07/08	**08/09**	**09/10**	**10/11**	**11/12**		**11/12**
Electricity transmission UK	99.9999	99.9999	99.9999	99.9999	**99.999999**	%	99.9999
Gas transmission UK	100	100	100	100	**100**	%	100
Gas distribution UK	99.999	99.9999	99.999	99.999	**99.999**	%	99.999
Electricity transmission US	437	266	147	414	**558**	MWh losses	*
Electricity distribution US	110	114	114	123	**121**	Minutes of outage	*

*Targets are set jurisdictionally by operating company

See page 34 for additional details on network reliability

Customer satisfaction

	Performance (quartile)			Measure	Target
	09/10	10/11	11/12		
UK Gas Distribution	4th	4th	**3rd**	Quartile ranking	Improve
Gas distribution US: Residential	3rd	2nd	**3rd**	Quartile ranking	Improve
Gas distribution US: Commercial	2nd	4th	**3rd**	Quartile ranking	Improve
Electricity US: Residential	4th	3rd	**3rd**	Quartile ranking	Improve
Electricity US: Commercial	3rd	2nd	**2nd**	Quartile ranking	Improve

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Business Review

Delivering our strategy

Risks to delivery

The Board is committed to the long-term success of the Company and the protection of our reputation and assets. It ensures we maintain a sound system of internal control in order to safeguard the interests of our shareholders.

Our system of internal control, and in particular our risk management process, 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.

In accordance with the UK Corporate Governance Code and the schedule of matters reserved to the Board, the Board retains overall responsibility for our system of internal control and monitoring of its effectiveness. Our system of internal control 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 internal assurance providers such as corporate audit, corporate risk and ethics and compliance. These reports are provided to the Committees in relation to their specific areas of responsibility and they, in turn, provide reports to the Board.

The Board reviews the effectiveness of our internal control process, including around financial reporting, on an annual basis to ensure it remains robust and to identify any weaknesses. The latest review covered the financial year to 31 March 2012 and included the period to the approval of this Annual Report and Accounts. It included:

- 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 Committees as appropriate, with particular reference to the reports received from the Audit and Risk & Responsibility Committees on reviews undertaken at their meetings; and
- assurances about the certifications required under Sarbanes-Oxley as a result of our US reporting obligations.

Risk management process

Our risk management process is designed to protect value and enhance performance by building vigilance, agility and resilience into our management process. The process ensures that risks are assessed against a uniform set of criteria, continuously managed and regularly reported in a visible and structured manner. The output informs management decisions and provides assurance to management and the Board, helping to safeguard our assets and reputation.

Our risk management process is based on comprehensive bottom-up and top-down assessments of a wide range of risks, which typically include strategic, operational (including safety and reliability), financial and project risks. All businesses and the corporate and global functions that support them, prepare and maintain risk registers to 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, 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.

In the last year, a number of enhancements to the process were initiated. The corporate risk function was reorganised and brought into the strategic planning and corporate development function to provide appropriate regional focus in line with the new operating model and to forge stronger links with strategic planning activities. The Board considered the characteristics of our corporate risk appetite and the outcome will determine the appropriate risk appetite for us in the pursuit and delivery of our corporate strategy. New reporting formats, including dashboards incorporating risk timings and mitigation objectives, were developed and rolled out to focus the risk management debate toward future actions. Also, the implementation of a governance, risk and compliance system that will improve our ability to link risks, automate risk metrics and capture associated assurance data has commenced.

Compliance management process

Our enterprise wide compliance management process is consistent with, and complementary to, our risk management process and 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. External obligations are driven primarily by key legal and regulatory requirements, while internal obligations focus on compliance with our 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. 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 specialists.

The Executive, Risk & Responsibility and Audit Committees each receive a report twice a year setting out our key internal and external compliance obligations and any significant non compliance with those obligations, together with compliance opinions and action plans to improve controls where necessary.

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. 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.

Harmful activities

Aspects of our activities are potentially hazardous or could damage the environment.

Potentially hazardous activities that arise in connection with our business include the operation and maintenance of electricity generation facilities, electricity lines and substations and the storage, transmission and distribution of gas. We are subject to laws and regulations in the UK and US governing health and safety matters to protect the public and our employees, who could potentially be harmed by these activities. Electricity and gas utilities also typically use and generate 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 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 to complying with these laws and regulations and to meeting our obligations under negotiated settlements. If more onerous requirements are imposed or our ability to recover these costs under regulatory frameworks changes, this could have a material adverse impact on our businesses, reputation, 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 more information about environmental, climate change and health and safety matters relating to our businesses, see the corporate responsibility section of our website.

Infrastructure and IT systems

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

Malicious 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 business, results of operations and financial condition. Unauthorised access to, or deliberate breaches of, our IT systems may also seek to access and manipulate our proprietary business data or customer information. Unauthorised access to private customer information may make us liable for a violation of data standards of service, 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 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.

privacy regulations.

Even where we establish business continuity controls and security against threats against our systems these may not be sufficient.

Business Review

Delivering our strategy

Risks to delivery continued

Law and regulation

Changes in law or regulation or decisions by governmental bodies or regulators could materially adversely affect us.

Many of our businesses are utilities or networks 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:

(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; and

(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, 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 pages 24 to 29 which explain our regulatory environment in detail.

Business development activity

New businesses or activities that we undertake alone or with partners may not be earnings positive and may expose us to additional operational and financial risk.

Business development activities, including acquisitions, disposals and joint ventures, entail a number of risks, including that they may be based on incorrect assumptions or conclusions, failure to realise planned levels of synergy and efficiency savings, the inability to integrate acquired businesses effectively and we may suffer unanticipated costs and liabilities 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. In the case of joint ventures, we may have limited control over operations and our joint venture partners may have interests that diverge from our own. 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.

Business performance

Future business performance may not meet expectations.

Earnings maintenance and growth from our regulated gas and electricity businesses will be affected by our ability to meet or exceed efficiency 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 do not meet these targets and standards, or if we do not deliver the capital investment in our business plan or implement the transformation projects we are carrying out as envisaged, or are not able to shape our operating model to deliver success under RIIO, 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.

Cost escalation

Changes in foreign currency rates, interest rates or commodity prices could materially impact earnings or our financial condition.

We have significant operations in the US and so are subject to the exchange rate risks normally associated with non UK 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 interest rates, commodity price indices and exchange rates, 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, interest rate and commodity price exposure, or by cash collateral movements relating to derivative market values, which also depend on the sterling exchange rate into euro and other currencies.

Operating costs may increase faster than revenues.

Income under our price controls in the UK is linked to the RPI.

Our operating costs may increase without a corresponding increase in the RPI and therefore without a corresponding increase in UK revenues. Our income under our 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.

Cost escalation continued

We may be required to make significant contributions to fund pension 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 the UK and US 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.

Actual performance of scheme assets may be affected by volatility in debt and equity markets, exacerbated by the eurozone crisis. Changes in these assumptions or 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.

Financing and liquidity

Maintenance and growth of our business requires access to capital markets at commercially acceptable interest rates.

Our business is financed through cash generated from our 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 borrowing costs. In addition, restrictions imposed by regulators may also limit how we service the financial requirements of our current businesses or the financing of newly acquired or developing businesses.

Financial markets can be subject to periods of volatility and shortages of liquidity, which may be exacerbated by the eurozone crisis. 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 discretionary and uncommitted 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.

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. One of the key limits requires National Grid plc to hold an investment grade long-term senior unsecured debt credit rating. In addition, some of our regulatory arrangements impose restrictions on the way we can operate. These include regulatory requirements for us to maintain adequate financial resources within certain parts of our operating businesses and may restrict the ability of National Grid plc and some of our subsidiaries to engage in certain transactions, including paying dividends, lending cash and levying charges. The inability to meet such requirements or the occurrence of any such restrictions may have a material adverse impact on our business and financial condition.

Customers and counterparties

Customers and counterparties may not perform their obligations.

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

Our operations are exposed to the risk that customers, suppliers, financial institutions and others with whom we do business will not satisfy their obligations, which could materially adversely affect our financial position. customers are unable to pay us as a result of increasing commodity prices or adverse economic conditions.

Employees and others

We need to attract and retain employees with the skills and experience required to deliver our strategy and ensure they are engaged to act in our best interests.

Our ability to implement our strategy depends on the capabilities and performance of our employees. Our ability to implement our strategy may be negatively affected by the 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 and, as a result, 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 may breach our internal controls or internal governance framework or may contravene applicable laws and regulations. This could have an impact on our results of operations, our reputation and our relationship with our regulators and other stakeholders.

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Delivering our strategy

Risks to delivery continued

Responding to our risks

When appropriate, management implements processes, procedures and controls to minimise the likelihood of a risk occurring or the potential impact if it does occur. Below are examples of the actions implemented to address the risks discussed above. It is not possible to eliminate a risk and even where a response is in place and effective, a risk may still occur.

Harmful activities

We have implemented safety and occupational health plans, programmes and procedures that are aimed at continuous improvements in safety performance. We continue to focus on process safety, which ensures that at all stages of the asset life cycle key safety considerations are taken into account. This includes the process and procedures that govern the development and design of the assets, the competence of the staff who will build, operate and maintain the assets and the quality of the materials used to construct them. Group wide initiatives are supplemented with regional specific safety programmes aimed at addressing specific areas to ensure safety is at the forefront of every employee s mind.

During the life cycle of our assets, we develop risk assessments and method statements to ensure the safety of those working on equipment, the safety of the public and the operational performance of the system are not compromised. More information on our safety initiatives can be found on page 33.

We are working to reduce our greenhouse gas (GHG) emissions and promote their global reduction through support of mandatory reporting legislation. Our approach to GHG emission reductions is discussed on page 34 and more information can also be found in our annual online corporate responsibility report.

We maintain robust investigation and remediation programmes to clean up wastes. We have engineered controls in place to minimise or mitigate releases to the environment during remediation activities, including containment, alarms, spill response contracts and equipment.

Infrastructure and IT systems

Routine maintenance is supported by a risk-based asset replacement strategy. A global safety management process was initiated last year to reduce the likelihood of a major accident hazard. It focuses on industry best practice risk assessment techniques, which may proactively identify opportunities to improve asset integrity.

mutual aid agreements with other utilities; communication with regulators on restoration progress and costs; formalised annual business continuity plans and tactical drills; and cross training of personnel on various aspects of emergency response.

In the UK, we have developed increasingly robust demand forecasting processes and scenario analysis in place informed by broad consultation. We use this information to plan our future development activity to ensure our network has the capacity to meet customer demands and also make this analysis available to stakeholders to inform their actions. *UK Future Energy Scenarios*, available on our website, gives more information.	To maintain security of supply for our US gas businesses, where we are responsible for procuring and distributing the gas commodity, we maintain a diverse supply portfolio with long- and short-haul transportation agreements. Multiple interstate pipeline connections to our jurisdictions provide access to diverse production basins (US Gulf Coast, Western Rockies, Alberta, midcontinent and eastern shale supplies, Nova Scotia and imported LNG). We also have storage assets and peak shaving facilities.
In the US, where our networks are more susceptible to damage from storms, measures in place to address any interruption include: robust emergency response plans with training and annual drills;	We use industry best practices as part of our cyber security policies, processes and technologies, and continually invest in cyber strategies that are commensurate with the changing nature of the security landscape.

Law and regulation	
We actively participate in regulatory development and implementation to help shape favourable outcomes for our shareholders and the industry.	We will inform the evolving discussion around: European Network Codes; CO_2 reduction targets beyond 2020; the establishment of a North Sea grid; and other areas.
In the UK, we are proactively working with DECC on their proposals related to Electricity Market Reform. We are also working closely with Ofgem as they review our business plan submissions for RIIO-T1 and RIIO-GD1. Initial feedback has been favourable but final decisions are not due until later in the year and our engagement in this process will continue.	In the US, we have completed the reorganisation of our business, moving to a jurisdictional model that will allow us to provide a local face to our global business and to more effectively engage with our regulators and the communities we serve. In addition, we will continue to file new rate cases to enable our businesses to earn a fair and reasonable rate of return. Our rate filings include structural changes where appropriate, such as revenue decoupling mechanisms, capital trackers, commodity related bad debt true ups and pension and other post-employment benefit true ups.
We recently opened an office in Brussels to establish a stronger and more visible presence with EU institutions and policy makers.	

Business development activity

Our investment and disposal guidelines explain the review and approval procedure for investments in and acquisitions of new companies and businesses, disposals of existing ones and organic growth investment opportunities.

They establish our search and selection criteria, the process followed, responsibilities of the parties involved and the minimum standards for transaction due diligence, including an economic evaluation. They operate in conjunction with our delegation of authority policy to ensure that no transaction is entered into without appropriate approval.

Business performance

To meet efficiency and service quality standards, perform well against our peers, meet the expectations of our stakeholders and deliver our business plan, we will continue to improve operational performance, service reliability and customer service and invest in our infrastructure and the development of our IT. We are also carrying out other major internal transformation projects. Steering groups oversee progress on these projects and regular reports on progress, status and risks are presented to the Executive Committee. External advisors and specialist expertise are sought and post implementation assessments undertaken, where appropriate, and findings used to inform future programmes.

Cost escalation

Our treasury function manages financial risks, including foreign currency and interest rate, to within acceptable boundaries and under policies and guidelines approved 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 with all transactions in financial instruments or products matched to an underlying current or anticipated business requirement.

Foreign currency risk: Translation risk is managed by maintaining a ratio of dollar denominated financial liabilities to dollar denominated gross assets of between 85% and 95%. Debt and foreign exchange derivatives are used to provide an economic offset of our dollar cash flows against the servicing of those liabilities.

Transaction risk is managed by hedging contractually committed foreign exchange transactions over a prescribed minimum size. Where foreign currency cash flow forecasts are uncertain and a judgement has to be made, we hedge a proportion based on the likelihood of them occurring, aiming to hedge

Commodity price risk: We manage market price volatility associated with our gas and electricity delivery operations in the US by using forward purchase contracts for electricity, gas and electricity capacity as well as derivative instruments linked to those commodities.

We only participate in the physical and financial markets for which we or our customers have a 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 by the Finance Committee and Executive Committee.

Inflation: Actions to minimise the impact of inflation include: transformation initiatives designed to improve productivity or reduce the cost of delivering outputs; contracting for future needs where appropriate; and a multi supplier tendering process to ensure costs are minimised.

substantially all such cash flows without over hedging. A hedge may be put in place where a foreign currency exposure is likely to occur but where contracts have yet to be signed. Cover usually involves the forward sale or purchase of foreign currencies and must always relate to forecast underlying operational cash flows.

Interest rate risk: Interest rate risk is managed by seeking to minimise total financing costs (interest costs and changes in the market value of debt) subject to constraints. We do this by using fixed- and floating-rate debt and derivative financial instruments, including interest rate swaps, swaptions and forward rate agreements. We maintain a portion of our debt portfolio as inflation linked bonds. This provides a partial economic offset to the inflation risk associated with our UK inflation linked revenues.

We measure the effectiveness of our interest rate risk management by comparing the actual total financing costs with those of a passively managed benchmark portfolio. This is regularly monitored by the Finance Committee.

For our US based regulated businesses, if costs have increased significantly since the base year of our last rate case, we may choose to file a new rate case with the relevant regulator.

Pension and other post-retirement benefits: We negotiate recovery of pension costs from our regulators. Working with the pension schemes trustees, we also manage the risks associated with our defined benefit pension schemes in two ways:

- investing in assets that match the financial characteristics of the liabilities of the schemes; and
- ensuring that contributions required to repair any deficits are spread over extended periods of time, to smooth the effects of market fluctuations.

Delivering our strategy

Risks to delivery continued

Financing and liquidity

We identify short-term liquidity and long-term funding requirements by regularly producing short- and long-term cash flow forecasts, along with undertaking financial headroom analysis. The assessment of our liquidity takes into account the regulatory requirements that restrict our ability to pay dividends from some of our operating businesses.

To facilitate short- and long-term debt issuance, we maintain a number of commercial paper and medium-term note programmes in both the UK and US. We also have an SEC registered debt shelf to facilitate long-term debt issuance into the US capital markets. We manage refinancing risk by limiting the amount of debt maturities on borrowings in any one financial year. Details of our long-term borrowings maturity profile is on page 75.

We also have both committed and uncommitted bank borrowing facilities that are available for general corporate purposes to support our liquidity requirements. The 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 no current intention to draw them in the future.

We consider restrictions imposed by regulatory agreements in preparing cash flow forecasts and determining our future funding requirements.

Details of the programmes and facilities we maintain can be found in the debt investors section of our website.

Customers and counterparties

Security deposits or other forms of collateral may be obtained from commercial and industrial customers to reduce the risk from customer default. In the US, we have processes to minimise bad debt from retail customers. We actively monitor arrears accounts and require security deposits on high risk accounts, as allowed by regulation. We offer a variety of programmes to help retail customers make their payments, including deferred payment plans for low income customers.

A diversity of commodity suppliers is maintained to reduce the credit or non performance risk from the failure of any one supplier.

agencies. Limits are monitored daily and amended as credit ratings change and are set on a portfolio basis to ensure that our total exposure is acceptable. Given the economic uncertainties in the eurozone, we consider other leading indicators of counterparty distress and reduce exposure below the approved limits, if appropriate.

Where multiple financial transactions are entered into with a single counterparty, a netting arrangement is usually put in place to reduce our exposure to the credit risk arising.

More information about managing counterparty risk is given in note 32(c) to the consolidated financial statements.

The Finance Committee has agreed a policy for managing counterparty risk that sets limits to the exposure we can have based on an individual counterparty s credit rating from independent rating

Employees and others

We maintain a strong commitment to ethical business conduct.

Our ethics and compliance office was established specifically to answer questions and address concerns about unethical behaviour affecting us.

The significant changes to our business, particularly in the US, have led to our employee engagement index, as shown in our KPIs on page 39, showing there is room for improvement. To demonstrate our commitment to this important area, one of our 2012/13 shared priorities is to increase levels of employee engagement across all of our teams. We will use our engaging for performance framework, see page 32, to deliver this priority.

In the UK, we are confident that we understand our resource and skills gaps in our electricity transmission business and plans are in place to respond to these risks. Plans are not just aimed at recruiting qualified engineers with experience in our industry, but

recognise that we must look more widely, identifying capable individuals we can train and develop to create a talent pipeline that will support our growth over time. In our UK Gas Distribution business, plans are being developed to ensure this is also the case and, in the US, we will create the same levels of assurance as workforce planning, already in place in the UK, is rolled out.

We also continue to work closely with existing partners, and when appropriate, will seek to create new partnerships. Through our partnerships we can leverage external resources, expertise and best practices to supplement our internal knowledge and experience and ensure that we can deliver our planned capital investment programme.

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Information assurance

The Board considers that it is imperative to have accurate and reliable information to enable informed and timely decisions to be taken that further our 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 doing the right thing, make it clear that the accurate and honest reporting of data and other information must never be compromised. These initiatives are supported by the letter of assurance process in which managers affirm, among other things, they have control frameworks in place to ensure data and other information is reported accurately. In line with ongoing transformation initiatives, we continue to monitor and evolve our control processes.

Internal control over financial reporting

Our process

In addition to the risk management process set out on the previous pages, we have specific internal mechanisms to govern the financial reporting process and the preparation of the Annual Report and Accounts. Our financial controls guidance sets out the fundamentals of internal control over financial reporting which are applied across the group and the group accounting guides provide guidance on our accounting policies. Teams of controls specialists are embedded within the business to provide support in developing, implementing and operating effective internal controls and ongoing assurance to management that financial controls are both designed and operating effectively.

Within our processes we have system, transaction and oversight controls. In addition, our businesses prepare detailed monthly management reports which include analysis of their results along with comparisons to relevant budgets, forecasts and prior year results. These are presented to and challenged by senior management within Finance, including the Finance Director, the group financial controller and the global tax and treasury director. The Finance Director, in turn, presents a consolidated management report to the Board.

These reviews are supplemented by quarterly performance reviews, chaired by the Chief Executive. They discuss historical results and expected future performance and involve senior management from both operational and financial areas of the business.

Our opinion

Working with management, including the Chief Executive and Finance Director, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as at 31 March 2012. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives, however the effectiveness of any system of disclosure controls and procedures has limitations including the possibility of human error and the circumvention or overriding of the controls and procedures. Even effective disclosure controls and procedures provide only reasonable assurance of achieving their objectives. Based on the evaluation, the Chief Executive and Finance Director concluded that the disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed in the reports that we file and submit under the Exchange Act is recorded, processed, summarised and reported as and when required and that such information is accumulated and

communicated to our management, including the Chief Executive and Finance Director, as appropriate, to allow timely decisions regarding disclosure.

Our management, including the Chief Executive and Finance Director, has carried out an evaluation of our internal control over financial reporting pursuant to the Disclosure and Transparency Rules and Section 404 of Sarbanes-Oxley. As required by Section 404, management is responsible for establishing and maintaining an adequate system of internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management evaluation of the effectiveness of the Company s internal control over financial reporting was based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as at 31 March 2012.

PricewaterhouseCoopers LLP, which has audited our consolidated financial statements for the year ended 31 March 2012, has also audited the effectiveness of our internal control over financial reporting. Their attestation report can be found on page 111.

During the year, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, it.

Business Review

Delivering our strategy

What we delivered this year

Some of the priorities set for 2011/12 that underpinned our operational excellence strategic goals were to:

Implement the new operating model and deliver cost reductions in the US.

Deliver common key processes and execute on best practice initiatives.

Deliver the UK Gas Distribution transformation programme.

We have successfully implemented the new operating model and have achieved our target of $200 million annualised cost savings in our US businesses compared to 2009/10 real achieved costs. This was not an easy process and in our case study, A new way of doing business, we explore some of the difficult decisions we had to make.

We have made significant progress on a number of our transformation initiatives, as well as driving continuous improvements across the business, but there is more to do and process improvement underpins a number of our priorities for 2012/13.

Our UK Gas Distribution transformation, underpinned by the Gas Distribution front office (GDFO) programme, is already reaping rewards. This year we have met all our standards of service and improved our customer satisfaction scores.

The programme has successfully implemented the new technology and process improvements for our emergency and maintenance, and customer service operations. The final GDFO deployment to our repair teams, which was delayed, is now on track to complete ahead of the Olympics this summer.

We have replaced all telephony hardware and introduced a new customer service solution for the national gas emergency service. The new system provides information on job progress and previous work at our customers premises enabling us to rapidly communicate with engineers about any issue, in response to customers needs. We have already seen an improvement in service levels and this will support further enhancement of our customer satisfaction scores.

System investment was key to the improved operational performance forecast we gave to Ofgem as part of our RIIO-GD1 submission, where we committed to delivering significant efficiencies in our delivery of outputs.

We have replaced our legacy asset databases so, for the first time, all our gas distribution asset records are in one place; all 95 million have been loaded into the systems.

Network extensions and replacements are now designed directly onto online maps and work orders are produced automatically instead of designs being created on paper with manually produced work orders.

The integrated systems are helping to improve the efficiency of our end-to-end processes through better designs, eliminating data duplication, streamlining capital planning and providing

Streamlining processes

As part of our UK Gas Distribution transformation programme, we have redesigned many critical business processes so we can improve the service we deliver to customers and, at the same time, achieve cost efficiencies and improve employee productivity. We have reduced the number of core business systems from 40 to four and created an integrated solution, with geospatial planning, scheduling and mobile applications. This will enhance our asset and work management capabilities and should ensure our field staff are able to respond to customers quickly and effectively.

improved management information to enable better decision-making.

The system delivers real time geographical visibility of all work and vehicles which, along with auto scheduling and the ability to bulk issue and drip feed work, will help to optimise the efficiency of our field staff.

Our maintenance process, after early challenges when the system was introduced in 2010, is now seeing significant operational improvements. Maintenance productivity has improved by 16% and our on time response to faults has also improved significantly.

16%

improvement in maintenance productivity

5,500

field staff using the new system once fully rolled out www.nationalgrid.com

As we enter each new year, we assess our strategy and set priorities for the coming period. These priorities cover a broad array of actions that will collectively, over time, deliver our strategy. Some examples of the actions taken this year can be found in the How do we deliver? section on pages 32 to 37. In this section, we provide a closer look at some of our priorities and how we have performed against them during the year.

A step change in IS

Our business is evolving to meet the demands of our customers and regulators; we have revised our organisational structure and sourcing strategies; and are working to ensure that our IS are also positioned to support us. We are taking a new approach to system design and delivery, infrastructure and service delivery across our IS landscape with the following objectives:

removing the reliance on an ageing infrastructure and complex application portfolio that limit our ability to deliver a reliable service and respond to growth opportunities;

meeting the challenge of our customers and regulators to operate more efficiently and continue to deliver quality services at better value; and

developing the capability and capacity to deliver more and better IS solutions and services to the business in response to our customers needs.

Our new IS operating model includes six strategic partners, to help the delivery of our investment plan, and levels of investment that would be unachievable if we did not significantly change our ways of working. Under this partner leveraged approach, IS should be able to offer a more flexible, agile, cost effective, transparent and responsive delivery model for its services. The expected benefits of the new model are:

operating through one common global infrastructure, standard processes and tools, which makes managing our systems simpler and more efficient;

delivering higher quality at better value which is being demanded by our customers and regulators;

partnering with businesses across the Company to better serve our customers;

providing real cost transparency helping the businesses to make more informed decisions around service levels and investments; and

The new US model provides focus, clarity and transparency to help us better meet the needs, and expectations, of our local communities, customers and regulators.

Tom King Executive Director US

A new way of doing business

In 2011, we changed from a global line of business model to a regional model with Tom King, Executive Director US, leading our US business. The change was made because our customers and regulators were looking for something more closely aligned to their local needs. We also recognised the need to balance local needs with our objective of achieving greater efficiency and, where we could achieve cost savings through centralising activities, we continued to pursue these opportunities.

The primary focus was to improve our US performance. A more locally focused organisation led by regional presidents responsible for understanding and meeting the needs of customers, communities and regulators in each state or jurisdiction where we operate was created. The restructuring included a significant reduction in cost with the elimination of 1,150 management roles. While this was a difficult time for all those involved, it was essential to take this action to reduce costs, as payroll represented our most significant ongoing expense. The key concerns were to ensure that: we were fair to our people; retained the right balance of skills and expertise to grow the business for the future; maintained service levels to our customers; and designed an organisational model that was sustainable while still keeping the goal of reducing costs by $200 million firmly in mind.

significantly more secure and resilient IS environment protecting our assets and information.

Modernising our infrastructure and implementing best practice methods for solution design, delivery and operation will allow IS to deliver solutions to employees and customers faster, with an enhanced user experience, greater reliability and accessibility to help people achieve their goals.

David Lister chief information officer

During the restructuring, we reviewed the activities of every function in the US. A significant, and vitally important, part position, assess all potential candidates for each job in the new organisation, and fill each role with the best candidate. Employees were evaluated based on past performance, leadership qualities and fit for potential future roles. In some cases, suitably qualified or experienced internal candidates were not available to fill the vacancy and a limited number of external appointments had to be made.

The reorganisation of the US business was completed in September 2011, marking an important milestone in our evolution towards a lean organisation that makes good, swift decisions, with knowledgeable people empowered to do the right thing. The reorganisation means that we are well positioned to operate within the financial means established by our rate structures, and to achieve our goal of building closer relationships with our communities, providing the electricity and gas that are essential in peoples everyday lives.

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Delivering our strategy

What we delivered this year

Some of the priorities set for 2011/12 that underpinned our innovation & efficiency strategic goals were to:

Deliver cost reductions by further leveraging support activity efficiencies, improve the buying experience and increase transparency of procurement savings.

Implement common systems platform to enable an integrated process led US business.

Develop a longer-term financing strategy to support our plans for growth.

On a day-to-day basis our priorities must be flexible.

An issue that has sparked much debate is the visual impact of connecting our electricity transmission assets to new sources of supply our innovative approach to the potential future of pylon design is discussed in our case study New designs on the horizon.

We continue to explore new ways of creating procurement efficiencies, including evaluating new suppliers and expanding our sources of supply.

New designs on the horizon

Innovation is a key driver of our business. The issues around connecting energy sources to customers is an area where creative thinking is particularly important.

The use of overhead lines versus underground cables is one that can excite strong opinion and is a matter for public debate. In January 2012, the Institute of Engineering and Technology published the Electricity Transmission Costing Study. It has been widely welcomed and we expect it to become an authoritative reference document. We believe this study supports our view; at very high voltages, it is much more expensive to underground, but the right balance between landscape and affordability needs to be achieved. Society needs to decide whether the extra cost of undergrounding, which passes through to us all in our electricity bills, is justifiable to protect our landscape.

The UK Government provides guidance on this through National Policy Statements and we are mindful of these when developing new connections. We look at every project individually, carefully considering all the options available which in some instances can include subsea alternatives as well as underground cables and overhead lines. We also consult at an early stage with a wide range of stakeholders and the local community so that their views and opinions can help shape and influence the design of the project.

We are particularly keen to look at alternative designs for electricity transmission pylons and were delighted to work with the Royal Institute of British Architects and the DECC, to launch a competition to come up with a new pylon design that potentially better balances structural needs and visual impact.

Our enterprise resource planning system development in the US continues with expected go live late in 2012.

The review of our financing strategy continues as we work through the RIIO outcomes. We have announced a one year dividend policy and continue to explore ways of broadening our sources of finance.sources of supply.

In February 2012, the Risk & Responsibility Committee visited the London power tunnels project in North London. The tunnels, which are approximately 30 metres underground, are designed to allow us to install, maintain and, in the future, replace power cables without closing the city s roads.

Danish company Bystrup's winning T' pylon is much shorter and visually very different from the existing 1920s design we are all familiar with. There is still significant work to be done with Bystrup's team of architects and engineers as well as designers and manufacturers of the innovative electrical components before we can be sure it is a fully workable concept.

But we are excited by the possibilities and, if the T pylon proves successful, we will add it to our portfolio of alternative pylon designs and plan to offer local communities the choice of design that best fits their landscape where appropriate. We want to make the right decisions ones that meet society's energy demands and provide options to help create a sustainable future that we can all accept.

21,882

the number of National Grid s overhead line towers in England and Wales

Robot technology enhances our operations

Enhancing our networks without affecting supply to customers is part of what we do and we continue to look for innovative ways to do it. With the latest developments, particularly in robot technology, we are now trialling a number of solutions across our business.

In the US, through collaboration with Con Edison and ULC Robotics we have created a cast iron sealing bot (CISBOT) that can internally seal cast iron main pipe in live gas conditions. The CISBOT allows work to take place without interruption to supply and has been successfully tested on over 610 metres (2,000 feet) of gas main in Massachusetts. This level of innovation not only benefits our customers, but should also enable us to complete future infrastructure work at a more competitive cost as well as reduce safety risks.

Robotic technologies are now also being developed for use in our UK business. LineScout, developed originally in Canada, is a remotely operated overhead line inspection robot that, similar to the CISBOT, is capable of working on live electricity lines up to 735 kV. The LineScout robot can inspect overhead line conductors and fittings, using onboard high definition cameras. In addition, it is able to perform routine maintenance, such as recovery and relocation of

The cast iron sealing bot or CISBOT

bolted damper assemblies, temporary conductor strand repairs and the electrical resistance measurement of conductor joints. At all times LineScout is operating on live lines, controlled via our ground teams to provide a safe mode of operation, and, equally importantly, enables customer supply to remain uninterrupted.

Such is the potential of both pieces of technology that we are continuing to work with our partners to explore further ways in which we can benefit from other technological developments.

Expanding our sources of capital

Innovation also extends to the way we finance our operations. September 2011 saw the launch of our first RPI linked retail bond. The 10 year bond attracted huge demand and was reopened twice to meet further demand, eventually totalling £283 million in capital raised. Open to retail investors for a minimum investment of just £2,000, this bond reached a new investor base attracting around 10,000 private investors and increased the diversity of our funding sources without a

Energising the future

Our innovative energy partnership with Buffalo Niagara medical campus in upstate New York was recognised at the 2012 Energy Efficiency Global Forum in March 2012, when the project won the Energy Efficiency Global Visionary Award for the Americas.

significant premium to our existing bonds. Externally recognised for its innovation, it won two awards including Deal of the Year' from the Association of Corporate Treasurers and is seen as a benchmark for other corporations to follow. The bond proved that even in difficult economic times we retain the ability to attract investors.

This has clearly exceeded our expectations and we are extremely pleased about the total amount raised. It shows that there is demand for inflation linked products from a business such as National Grid.

Malcolm Cooper global tax and treasury director comments on the success of the retail bond

The award was granted to Buffalo Niagara for creating a five year energy innovation and economic development plan for the campus and surrounding residential community that integrates energy efficiency, modernisation, alternative transportation and renewable energy. Campus officials worked with nearby residents, National Grid and campus institutions to create an impressive path towards energy efficiency.

Our partnership with Buffalo Niagara forms part of our community engagement through the promotion of energy efficiency and innovation. Part of our contribution to this programme will be a model energy efficient home. Originally constructed in 1915, the home will be an illustration of how the latest technologies can be integrated within existing properties and will use various innovative energy solutions, interactive learning tools and will offer further information on residential energy programmes. In addition, we commissioned 21 vehicle charging stations in December 2011 and over the coming years will complete work to increase the capacity of our network to ensure we can meet the growing energy demands of the local community.

Four cities on four continents were honoured as exemplars of energy efficiency leadership by the Alliance to Save Energy and the Southeast Energy Efficiency Alliance. The awards celebrate cutting edge energy efficiency achievements. Selections are made by the 50+ member Energy Efficiency Global International Steering Committee, chaired by US Senator Mark Warner and Schneider Electric US President Jeff Drees.

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Delivering our strategy

What we delivered this year

Some of the priorities set for 2011/12 that underpinned our engaging externally strategy were to:

Improve our customer experience and advance performance by at least one quartile in all areas.

In the UK, work with Ofgem and other stakeholders to implement a successful rollover for TPCR4 and submit final proposals for RIIO-T1 and RIIO-GD1 plans.

In the US, establish rate case filings that deliver the expectations of our customers and shareholders.

The 2011 Electricity Market Reform White Paper set out a significant reform programme for the UK electricity market. Our unique role in that market has now been recognised and, in our role as system operator, we have been appointed to run the new processes, see the case study for more details.

In the US, our efforts to improve external engagement have been dominated by a series of extreme weather events. The new operating structure has already improved our ability to respond to local requirements and this was demonstrated in the aftermath of tropical storm Irene. We still have lessons to learn and improvements to make. Our case study, Storms response, discusses the challenges we faced.

In anticipation of Irene, the storm emergency plan was activated with extra crews brought in from as far away as Texas and Colorado, and thousands of additional employees prepared to support the restoration effort in areas such as engineering, damage assessment, materials, wires down and more. Our plans also cover three critical elements:

System operations which ensures the reliability and security of electricity supply to customers. We assess and monitor our system in order to restore power safely and reliably when outages occur.

Logistics pre staging of crews and material to areas anticipated to be most severely affected is a key component. Providing food and lodging to those crews and managing the fleet comprises another area. Logistics touches many functions and in a storm of this scale it s all hands on deck.

Communications community outreach begins with contacting life support customers and engaging local emergency response officials in order to understand their priorities and ensure critical facilities are restored in a prioritised manner.

Irene s path of destruction spanned 11 states along the eastern seaboard, caused severe flooding and downed trees, wires and poles. In total, more than six million people were without power including more than one million National Grid and LIPA customers.

The sheer scale of this storm pushed response crews to the limit and provided challenges new to us all, due to the significant damage to our infrastructure. We know that it didn t all go smoothly and the after action reviews with local communities

As noted on page 28, we filed rate cases in New York and Rhode Island on 27 April 2012 and achieved a positive outcome in our New York deferral filing in December 2011.

Storms response

We experienced unprecedented weather conditions across our US service territories this year: a rare tornado and unseasonably heavy snow in Massachusetts; flooding in upstate New York; and tropical storm Irene, which caused widespread damage throughout them all.

Storm response preparations undertaken by employees include training and exercises as well as the day-to-day operations and maintenance of the system throughout the year. From the way we design and target capital investment programmes that build redundancy into the network, to the tree trimming work that helps prevent damage to electrical lines during a storm, these activities provide a structured approach to help prepare for, and respond to, customer power outages.

provided invaluable feedback. Other external investigations that we are cooperating with will supply more. Many lessons have been learnt. In particular, we need to find better ways to communicate more accurate and timely restoration information. Other improvements identified have already been embedded into our plans. Our response to the unseasonal October snow storm in Massachusetts, just nine weeks after Irene, benefited from these improvements with, for example, the early activation of community liaison officers who provided information and were a visible point of contact within our local communities. Work is ongoing, recognising that we can never stop improving the way we restore power and serve our customers.

1m+

National Grid and LIPA customers without power at one time

£116m

Cost of Irene and the October snow storm

Electricity market reform

In July 2011, DECC published its Electricity Market Reform White Paper Planning our Electric Future which set out the Government s proposals for reforming the existing electricity market in the UK.

The UK Government has committed to a reduction in GHG emissions of 80% by 2050, largely through decarbonisation of electricity generation. While doing this there is a need to ensure continued security of supply.

The ongoing decommissioning of ageing nuclear plant and the closure of old coal fired power stations under European legislation amounts to the loss of 25% of our existing generation fleet, on a base year of 2008. These generation closures, coupled with an increase in the amount of renewable generation which is both intermittent and less flexible than conventional generation plant, will bring security of supply challenges. The expected increase in the number of electric vehicles, ground source heat pumps and other technologies that will change the way consumers use electricity will inevitably lead to increased demand. As a result, DECC has estimated that required investment in UK generation and transmission will be around £110 billion between now and 2020, double the rate of the past decade.

The reform measures introduced by the Government:

provide details of a carbon price floor to put a fair price on carbon and provide a stronger incentive to invest in low carbon generation;

set an emissions performance standard of 450 g CO_2/KWh;

introduce new long-term arrangements in the form of a feed in tariff with contracts for difference to provide stable financial incentives to invest in all forms of low carbon electricity generation; and

Talking networks

Our RIIO business plan submissions for UK Transmission and UK Gas Distribution were very different to anything we had previously submitted to Ofgem, with (among other things) a much greater emphasis on demonstrating how stakeholders have influenced the development of our business plans.

In developing the business plans, we drew together the views and opinions of our broad range of stakeholders using all the methods of engagement at our disposal, including some new and innovative engagement activities which have focused on informing and shaping our plans.

At the very beginning of our RIIO engagement, we developed talking networks , a comprehensive and coordinated programme of stakeholder engagement covering both UK Transmission and UK Gas Distribution. Through this, we built on our existing engagement activities to proactively engage with, and listen to, our stakeholders on topics related to the first RIIO price control period. We promised our stakeholders we would listen to what they have to say, discuss our future challenges and plans with them, and then act on what they told us.

Response to our engagement has been very positive. We are seen as industry leading in our engagement activities and the fact that we have been so proactive in discussing our ideas with our stakeholders and incorporating their views into our plans has been very well received.

We gathered a great deal of detail about what our stakeholders think of the services we provide and what they see as being our priorities going forward. For example, UK Transmission stakeholders have told us that reliability of supply is paramount. They trust our record on safety, and expect that to continue, and see us as having an important role to play in facilitating the move towards meeting the country s environmental targets by connecting new low carbon generation. Stakeholders also told us that our level of customer service had improved but could still be better and that they would like to see further improvements in our connections services. They believe that innovation will play a crucial role in enabling us to continue to manage our networks going forward.

a capacity mechanism to ensure future security of supply.

Following engagement with industry stakeholders, DECC decided that, through our existing role as system operator, we are best placed to operate the capacity mechanism and administer a feed in tariff with contracts for difference. A project team has been established to advise DECC as it develops the market reforms. Government will be responsible for setting the policy approach and objectives and for taking final decisions on key rules and parameters. We will provide independent advice on those key rules and parameters. Ofgem will continue its independent regulation of the market, incorporating the new instruments.

This new activity will be an enhancement of our current system operator role and, in asking National Grid to take on this responsibility, the Government has entrusted us with the management of a vitally important and substantial change to the electricity industry.

Nick Winser Executive Director UK

All of this has shaped our RIIO business plan submissions, but it is important that our engagement does not end once the first RIIO period begins. Our intention is to make talking networks an enduring process and to put stakeholder engagement at the heart of our business activities.

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Delivering our strategy

What we delivered this year

Some of the priorities set for 2011/12 that underpinned our disciplined investment strategic goals were to:

Ensure successful delivery of the core UK capital investment programme.

Deliver on new growth areas eg carbon capture and storage (CCS), interconnectors and offshore networks.

Develop options to ensure US contribution to the continued growth of the Company.

Our future organic growth is dependent on the successful delivery of our capital investment plans which in 2011/12 amounted to £3.4 billion. The London tunnels project, as discussed in the case study, is a great example of how the money we are investing is helping to ensure that our customers have a secure energy supply for the future.

We continue to look for new non-regulated investment opportunities where they make sense and sit within our broader strategy and portfolio. It has been a mixed year for development in CCS with the announcement by the UK Government in October 2011 that it was terminating funding of the Longannet CCS project. Our commitment to this area continues and we have made material progress on research and development relating to the safe transportation of carbon dioxide and in maturing transport options for the Humber region and elsewhere. The Grain LNG heat pipe discussed in our case study Partnering for mutual benefit shows that lateral thinking can bring benefits in unexpected ways.

Partnering for mutual benefit

Collaborating with others often leads to innovative solutions to our needs. The Grain heat pipe, a joint project between National Grid and E.ON s Grain power station, has now been built and is expected to come in to operation later in 2012. The 4.5 kilometre hot water pipeline is capable of transporting up to 340 MW of surplus heat from the power station to Grain LNG, where it is used to convert natural gas from liquid stored at -161°C to vapour and sent into the national transmission system. This cooled water is then returned to the power station where it is used to cool the generators. This will be one of the largest combined heat and power schemes in the UK and, at full capacity, has the potential to save up to 300,000 tonnes of CO_2 per annum and further contribute towards achieving carbon reduction targets.

We are exploring with customers whether there is interest in a further expansion to our Grain LNG site which could take the peak capacity to 27% of the current annual UK gas demand and be completed for winter 2016/17. We are also evaluating other innovative investment options.

As discussed in the case study, the capital investment of over $1.5 billion during the last five years in New York has helped to significantly improve reliability. By delivering the works we have helped to build a better relationship with regulators and customers as well as increasing potential future returns under our rate case filings.

Investing in our people

We are committed to investing in our people, providing the training and other support necessary for them to build, maintain and operate our networks safely and reliably, and this year we provided over one million learner hours of training across our UK and US businesses. Delivering a training programme of this magnitude requires state of the art facilities and equipment.

In the US, major renovations were completed at the Millbury learning centre in Massachusetts. The facility has become a centralised cutting edge learning centre for all New England technical training and enabled us to eliminate two smaller regional training facilities.

In the UK, we completed work on our new electricity transmission switchgear training centre and accommodation facilities at Eakring and work on a similar gas transmission training centre has been sanctioned. In total, this will represent an investment of over £12 million.

These centres will use innovative and engaging eLearning, 3D virtual reality, SMART board technology, learner response technology and virtual classrooms to enhance the learning experience and reduce the costs associated with off-the-job training delivery.

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www.nationalgrid.com

London power tunnels

The flagship London power tunnels project, started in 2010, will create 10 new 400 kV circuits at the heart of the capital s transmission system. Investment could reach nearly £0.9 billion once completed in 2018. London generates the largest electricity demand on our network around 9 GW at peak and demand is continuing to grow.

To ensure we can deliver the reliability demanded by our customers in the future, we need to increase the capacity of our transmission system in and around London and so the new cables that we are installing will operate at significantly higher voltages; providing significantly more capacity than the cables they are reinforcing and replacing.

The tunnel network will surface at eight points across London to transmit electricity across local areas from new substations and will provide power to the new Crossrail transport hub. The project is also connected to the national network as part of an integrated plan to upgrade and modernise the grid nationwide rewiring Britain for the 21st century.

Upgrading an ageing network

Five years ago, we committed to an unprecedented level of investment in our upstate New York electricity transmission and distribution system. The goals were to: upgrade an ageing network; allow us to continue providing safe, reliable power to more than 1.6 million customers in the region; and to set the stage for continued investment.

Work has ranged from upgrading transmission lines and large tower structures that move bulk power to many communities, to smaller projects that improve service to individual homes and businesses across upstate New York.

Examples of some of the individual projects completed since 2007 are:

$16 million for replacement transformers for Packard and New Gardenville substations.

$36 million project to rebuild Clay 345 kV substation.

$35 million to replace 139 towers on the New Scotland 345 kV line.

$11 million to refurbish 69 kV line in Rotterdam-Schoharie, replacing 166 deteriorated wood pole structures and addressing reliability issues.

Despite the difficult economic times, we have invested over $1.5 billion more than double the rate allowance set in 2001 and we have done it six months ahead of schedule.

The results so far have been excellent we have met or exceeded our reliability targets every year since 2008.

300,000

tonnes of CO_2 per annum potential saving through LNG heat pipe

1m

learner hours of training delivered

£0.9bn

planned investment in the London tunnels project

$1.5bn

investment in upstate New York

Business Review

Financial performance

Contents

Andrew Bonfield

Finance Director

Introduction

This year has seen good financial performance across our business. Excluding the impact of the timing differences that benefited last year s results and the impact of the two major storms which severely affected our US business, our adjusted operating profit increased by 8%. On this basis, we saw increases in all of our business segments.

Our cost savings programme in the US has delivered the targeted run rate of $200 million as at the end of the year, which has contributed toward a £30 million reduction in controllable operating costs in the US Regulated segment. These savings were offset by increases in controllable costs in the UK due to inflationary pressures and additional staffing costs to support both the GDFO system implementation in our UK Gas Distribution business and the ongoing increase in our capital investment programme in UK Transmission.

Our interest expense and other finance costs were significantly lower in 2011/12 due to the benefit of lower average net debt and lower debt buy back costs. This led to an effective interest rate on treasury managed debt of 5.4% compared with 5.8% in 2010/11. The total tax charge this year was higher even though we saw the benefit of the lower tax rates in the UK, although our effective tax rate, excluding exceptional items, remeasurements and stranded cost recoveries, remained unchanged from the prior year at 29.2%.

Capital investment for the year was £3.4 billion. Taken together with the impact of depreciation and inflation, growth in our combined US and UK regulated asset base in 2011/12 has again been significant at over £1.5 billion.

Following strong cash flow from operations and the disposal of two small subsidiaries, we saw only a small increase in our net debt of £866 million. We expect net debt to continue to increase in line with our capital investment programme.

With the anticipated inflationary revenue growth from our regulatory arrangements in the UK and the benefit of new rates from the deferral filing in our upstate New York electricity business, we look forward to another year of good financial results in 2012/13.

Andrew Bonfield

Measurement of financial performance

We report our financial results and position in accordance with 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.

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 more comparable having removed the distorting effect of the excluded items. 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. We separately monitor and disclose the excluded items as a component of our overall financial performance.

Reconciliations of adjusted profit measures to the total profit measure, that includes both components can be found on page 120.

Timing

As discussed on pages 24 to 29, our allowed revenues are set in accordance with our regulatory price controls or rate plans. We calculate the billing rates we charge our customers based on the estimated volume of energy we believe will be sold during the coming period. The actual volumes sold will differ from this estimate and therefore our total actual revenue will be different from our total allowed revenue. These differences are commonly referred to as timing differences. If we collect more than the allowed level of revenue, the balance must be returned to customers in subsequent periods, and if we collect less than the allowed level of revenue we may recover the balance from customers in subsequent periods. The amounts calculated as timing differences are estimates and subject to change until the variables that determine allowed revenue are final.

Our operating profit for the year includes an estimated in year over collection of £18 million (2010/11: £274 million over collection; 2009/10: £163 million under collection) and our closing balance

of over-recovery at 31 March 2012 was £90 million. All other things being equal, the majority of that balance would normally be returned to customers in the following year. The table below shows adjusted operating profit and operating profit, adjusted for timing differences.

	Years ended 31 March		
	2012	2011	2010
Excluding the impact of timing differences	**£m**	**£m**	**£m**
Adjusted operating profit	**3,477**	3,326	3,284
Operating profit	**3,521**	3,471	3,456

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 $1.60:£1 in 2011/12 was weaker than the average rate of $1.57:£1 in 2010/11, the same amount of revenue, adjusted operating profit and operating profit in dollars earned in 2010/11 would have been reported as £135 million, £21 million and £26 million lower respectively if earned in 2011/12. In 2009/10, the average rate was $1.58:£1; if the revenue, adjusted operating profit and operating profit in dollars recognised in 2009/10 was earned in 2010/11 it would have been reported as £29 million, £3 million and £4 million higher respectively.

The balance sheet has been translated at an exchange rate of $1.60:£1 at 31 March 2012 ($1.61:£1 at 31 March 2011).

Key performance indicators (KPIs)

Our financial KPIs are set out on pages 38 and 39.

Total shareholder return (TSR)

We measure TSR 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 TSR for the period from 1 April 2009 to 31 March 2012 was 51% (1 April 2008 to 31 March 2011: 4%; 1 April 2007 to 31 March 2010: -3%). This reflects the fact that, following a sharp fall in equity prices amid the turbulence in the financial markets during 2008/09, the subsequent recovery in the following three years has reversed these losses and resulted in further growth in TSR.

Group return on equity

We measure our performance in generating value for our shareholders by dividing our annual return by our equity base. We have changed the calculation methodology for group return on equity to better align with the methodology used for our new return on capital employed (RoCE) metric discussed on page 59.

Our annual return consists of the group s adjusted earnings, amended for regulatory and accounting differences including, where applicable, timing differences, the impact of inflation on our UK RAV, pension and other post-employment benefits, certain capital related operating costs, the exclusion of non debt related interest, and changes to the tax expense resulting from the tax impact of these adjustments. Our equity base consists of opening capital employed less opening net debt. Opening capital employed consists of opening UK RAV, plus opening US rate base, plus the opening net book value of assets and liabilities of our non-regulated businesses and joint ventures, plus opening goodwill. Opening net debt is adjusted for significant individual transactions during the year such as rights issues and significant acquisition or disposal activities.

Business Review

Financial performance continued

Using the revised methodology, we monitor our performance using the annual return each year. For 2011/12, our group ROE was 10.9%, compared with 10.8% in 2010/11 and 12.6% in 2009/10. The return in 2011/12 was in line with the prior year but was restrained by the significantly higher US storm costs. Excluding the higher major storm costs, the 2011/12 return was 11.3%, the increase driven by growth in the Company s pre timing earnings. The high return in 2009/10 was primarily driven by inflation fluctuations in the UK affecting our allowed revenues and interest expense associated with our RPI linked bonds.

Regulated controllable operating costs

We measure regulated controllable operating costs as a proportion of our regulated assets, as measured by our UK RAV and our US rate base.

This ratio decreased to 6.7% in 2011/12, compared with 7.2% in 2010/11 and 7.5% in 2009/10 on a constant currency basis, reflecting cost savings in our US business following the restructure and the efficient growth of our regulated asset base.

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 2011/12 amounts to £1,401 million or 39.28 pence per ordinary share. This represents an increase of 8% over the previous year s ordinary dividend per share of 36.37 pence.

The table below shows the ordinary dividends paid or payable by National Grid for the past five financial years.

			Years ended 31 March		
	2012	**2011**	**2010**	**2009**	**2008**
Dividends	**pence**	**pence**	**pence**	**pence**	**pence**
Interim	**13.93**	12.90	13.65	12.64	11.70
Final	**25.35**	23.47	24.84	23.00	21.30
Total	**39.28**	36.37	38.49	35.64	33.00

Dividends per ADS	**$**	**$**	**$**	**$**	**$**
Interim	**1.10**	1.02	1.15	0.95	1.21
Final	**2.02**	1.90	1.77	1.74	2.05
Total	**3.12**	2.92	2.92	2.69	3.26

Dividends expressed in dollars per ADS in the table above reflect the amounts paid or payable to ADS holders, rounded to two decimal places.

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 2011/12 of 25.35 pence per share, amounting to approximately £905 million (assuming all dividends are settled in cash), will be reported in the financial statements for the year ending 31 March 2013.

Dividend cover

			Years ended 31 March
	2012	**2011**	**2010**
Total ordinary dividends covered by:	**times**	**times**	**times**
Adjusted earnings	**1.3**	1.4	1.5
Earnings	**1.5**	1.8	1.5

Scrip take up

Dividend	**Proportion taking up scrip**
2009/10 final	23%
2010/11 interim	14%
2010/11 final	34%
2011/12 interim	7%

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. The table below shows our interest cover for the last three years:

	Years ended 31 March		
	2012	**2011**	**2010**
	times	**times**	**times**
Interest cover	**3.9**	3.8	3.9

The primary reasons for the increase in 2011/12 were a fall in finance costs driven by interest rates on short-term instruments combined with benefits from our 2010/11 debt buy back programme partially offset by a small decrease in our operational cash inflows for the year.

Return on capital employed

RoCE is designed to provide a performance comparison between our regulated UK and US businesses and is one of the measures that we use to make strategic and investment decisions around our portfolio of businesses. Our RoCE calculation is a post-tax return on assets measure based on an IFRS operating profit adjusted, where applicable, for timing differences, the impact of inflation on our UK RAV and differences between the treatment of certain costs by regulators and their treatment in the financial statements, including taxation, pension and other post-employment benefits, and certain capital related operating costs. We also deduct taxation at the statutory rate. The capital employed is the opening UK RAV and opening US rate base.

The table below shows the RoCE for our businesses over the last three years:

	Years ended 31 March		
	2012	**2011**	**2010**
RoCE	**%**	**%**	**%**
UK regulated	**8.6**	8.5	9.6
US regulated	**6.8**	7.1	5.5

The increase in UK RoCE is due to higher operating profit following the benefits of inflation on our RPI-X price controls partially offset by growth in our asset base. The fall in the US RoCE is due to higher storm costs, partially offset by savings driven by our restructuring. Excluding the impact of higher major storm costs, the US RoCE would have been 7.6%, an increase of 0.5% compared with 2011.

Earnings

The following chart shows the five year trend in adjusted profit attributable to equity shareholders of the parent (adjusted earnings) and adjusted earnings per share.

The following chart shows the five year trend in profit attributable to equity shareholders (earnings) and earnings per share.

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.

Diluted adjusted earnings per share and diluted earnings per share are shown in the table below:

	Years ended 31 March		
	2012	**2011**	**2010**
	pence	**pence**	**pence**
Adjusted diluted earnings per share	**51.0**	50.6	48.3
Diluted earnings per share	**56.8**	62.5	47.3

The principal reason for the dilution in each year relates to employee share plans.

Business Review

Financial performance continued

Adjusted operating profit

The £105 million decrease in adjusted operating profit in 2011/12 to £3,495 million is primarily due to:

- Adverse timing differences of £256 million, as noted on page 57.
- Higher storm costs in the US of £116 million due to hurricane Irene and the October snow storm in Massachusetts.

Partially offset by:

- An increase in UK regulated revenues of £220 million reflecting the impact of inflation on our RPI-X price controls.
- Improved results from other activities as described on page 71.

Other operating costs were relatively flat year on year, reflecting reduced costs in our US Regulated segment as a result of the restructuring, offset by higher costs within the UK due to inflation and additional staffing costs to support both the GDFO system implementation in our UK Gas Distribution business and the ongoing increase in our capital investment programme in UK Transmission.

The £479 million increase in 2010/11 to £3,600 million was primarily due to the favourable timing differences that adversely affected the current year and increased revenues in our US Regulated segment following the introduction of new rates in several of our utilities.

More information can be found in the discussion of our segments on pages 62 to 71.

Adjusted net finance costs

	Years ended 31 March		
	2012	**2011**	**2010**
	£m	**£m**	**£m**
Adjusted net finance costs	**917**	1,134	1,155

The £217 million decrease in adjusted net finance costs in 2011/12 to £917 million is primarily due to lower interest rates on short-term instruments; lower debt repurchase costs that had peaked in the prior year due to the use of surplus funds from the rights issue; the benefit of lower average net debt as a result of those buy backs; and a favourable variance in pension interest primarily due to a higher than expected rate of return on US pension assets. The slight increase 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.

Adjusted taxation

Adjusted tax for 2011/12 was a charge of £755 million (2010/11: £722 million; 2009/10: £553 million). This represents an effective tax rate of 29.2% (2010/11: 29.2%; 2009/10: 28.0%). The 2011/12 effective tax rate before exceptional items, remeasurements and stranded cost recoveries did not change from 2010/11 because a fall in prior period tax credits was offset, primarily by a 2% reduction in the UK corporation tax rate and a change in the UK/US profit mix where higher UK profits were taxed at UK tax rates, which are lower than those in the US. The increase in the rate from 2009/10 to 2010/11 mainly arose from a change in the UK/US profit mix where higher US profits were taxed at US tax rates that are higher than those in the UK. More information on taxation can be found in note 5 to the consolidated financial statements.

Exceptional items, remeasurements and stranded cost recoveries

Exceptional charges of £122 million in 2011/12 consisted of restructuring charges of £101 million, environmental charges of £55 million and impairment charges of £64 million, offset by net gains on the disposals of two subsidiaries of £97 million and other net gains of £1 million.

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 finance costs and remeasurements

There were no exceptional finance costs in 2011/12. 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. Financial remeasurements relate to net gains and losses on derivative financial instruments, 2011/12 included a loss of £70 million (2010/11: £36 million gain; 2009/10: £81 million gain). The financial element of commodity contract revaluations was nil in 2011/12 (2010/11: nil; 2009/10: £1 million loss).

Stranded cost recoveries

Stranded cost recoveries decreased by £88 million to £260 million as the costs were substantially recovered during the year. (2010/11: £348 million; 2009/10: £369 million).

Exceptional taxation

Taxation related to exceptional items, remeasurements and stranded cost recoveries changes each year in line with the nature and amount of transactions recorded.

In addition, exceptional tax from 2011/12 included an exceptional deferred tax credit of £242 million arising from a reduction in the UK corporation tax rate from 26% to 24% applicable from 1 April 2012. A similar reduction in the UK corporation tax rate in 2010/11 from 28% to 26% resulted in a £226 million deferred tax credit in that year.

An additional exceptional tax credit of £59 million arose in 2010/11 from settling a number of KeySpan pre acquisition items with the US tax authorities. In 2009/10 a £41 million exceptional tax charge arose due to a change in US tax legislation under the Patient Protection and Affordable Care Act.

More information on exceptional items, remeasurements and stranded cost recoveries can be found in note 3 to the consolidated financial statements.

Reconciliations of adjusted profit measures

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.

	Years ended 31 March		
	2012	**2011**	**2010**
	£m	**£m**	**£m**
Adjusted operating profit	**3,495**	3,600	3,121
Exceptional items	**(122)**	(350)	(268)
Remeasurements	**(94)**	147	71
Stranded cost recoveries	**260**	348	369
Total operating profit	**3,539**	3,745	3,293

Reconciliation of adjusted operating profit to adjusted earnings and earnings

Adjusted earnings is presented in note 6 to the consolidated financial statements, under the heading adjusted earnings.

	Years ended 31 March		
	2012	**2011**	**2010**
	£m	**£m**	**£m**
Adjusted operating profit	**3,495**	3,600	3,121
Adjusted net finance costs	**(917)**	(1,134)	(1,155)
Share of post-tax results of joint ventures	**7**	7	8
Adjusted profit before tax	**2,585**	2,473	1,974
Adjusted taxation	**(755)**	(722)	(553)
Adjusted profit	**1,830**	1,751	1,421
Attributable to non-controlling interests	**(2)**	(4)	(3)
Adjusted earnings	**1,828**	1,747	1,418
Exceptional items	**174**	(16)	(270)
Remeasurements	**(122)**	219	17
Stranded cost recoveries	**156**	209	221
Earnings	**2,036**	2,159	1,386

Reconciliation of adjusted earnings per share to earnings per share

Adjusted earnings per share is presented in note 6 to the consolidated financial statements.

	Years ended 31 March		
	2012	**2011**	**2010**
	pence	**pence**	**pence**
Adjusted earnings per share	**51.3**	50.9	48.6
Exceptional items	**4.9**	(0.5)	(9.3)
Remeasurements	**(3.4)**	6.4	0.6
Stranded cost recoveries	**4.3**	6.1	7.6
Earnings per share	**57.1**	62.9	47.5

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.

	Years ended 31 March		
	2012	**2011**	**2010**
	£m	**£m**	**£m**
Adjusted profit before tax	**2,585**	2,473	1,974
Exceptional items	**(122)**	(380)	(301)
Remeasurements	**(164)**	183	151
Stranded cost recoveries	**260**	348	369
Total profit before tax	**2,559**	2,624	2,193

Reconciliation of adjusted operating profit excluding timing differences and major storms to total operating profit

Adjusted operating profit excluding timing differences and major storms is discussed in the Business Review.

	Years ended 31 March		
	2012	**2011**	**2010**
	£m	**£m**	**£m**
Adjusted operating profit excluding timing differences and major storms	**3,593**	3,326	3,284
Major storms	**(116)**		
Adjusted operating profit excluding timing differences	**3,477**	3,326	3,284
Timing differences	**18**	274	(163)
Adjusted operating profit	**3,495**	3,600	3,121
Exceptional items, remeasurements and stranded cost recoveries	**44**	145	172
Total operating profit	**3,539**	3,745	3,293

Reconciliation of adjusted operating profit excluding timing differences to total operating profit

Adjusted operating profit excluding timing differences and total operating profit excluding timing differences are discussed in the Business Review.

	Years ended 31 March		
	2012	**2011**	**2010**
	£m	**£m**	**£m**
Adjusted operating profit excluding timing differences	**3,477**	3,326	3,284
Exceptional items, remeasurements and stranded cost recoveries	**44**	145	172
Total operating profit excluding timing differences	**3,521**	3,471	3,456
Timing differences	**18**	274	(163)
Total operating profit	**3,539**	3,745	3,293

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Financial performance continued

Segments

Revenue by operating segment

	Years ended 31 March 2012	2011	2010
	£m	£m	£m
UK Transmission	**3,804**	3,484	3,475
UK Gas Distribution	**1,605**	1,524	1,518
US Regulated	**7,795**	8,746	8,372
Other activities	**715**	678	741
Total segmental revenues	**13,919**	14,432	14,106
Less: sales between operating segments	**(87)**	(89)	(99)
Total	**13,832**	14,343	14,007

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Analysis of adjusted operating profit

The chart on this page analyses the movements in adjusted operating profit by segment, comparing 2011/12 with 2010/11 and comparing 2010/11 with 2009/10. The charts on pages 65, 67, 69 and 71 show the principal movements in each segment over the same periods.

Business Review

Principal operations

UK Transmission

We own the electricity transmission system in England and Wales and are the national electricity transmission system operator, responsible for both the England and Wales transmission system, 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. We are also designated as system operator for the new offshore electricity transmission regime.

We own and operate the gas national transmission system in Great Britain, with day-to-day responsibility for balancing demand.

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.

For more details on how our UK Transmission business operates see pages 16 to 17 and 20 to 21.

Key achievements

- delivered our capital investment programme totalling £1.4 billion;
- achieved our best year for reliability on record with transmission system availability of 99.999999%;
- opened an office in Brussels to engage at a European level;
- outperformed both our transmission carbon budgets (by over 25%) and our regulatory SF_6 leakage target; and
- in February 2012, in a joint venture partnership with ScottishPower, we awarded a £1 billion contract to build the first ever subsea electricity link between England and Scotland the western high voltage direct current link.

Strategy

As part of the group s strategic objectives, UK Transmission s strategy includes:

- delivering the increased capital investment programme. This adds to our regulated asset value and supports future equity growth;
- working with Ofgem to achieve an acceptable outcome to RIIO-T1. This will include reviewing the output measures and incentives and considering how best to maximise our returns under these new mechanisms. This will contribute to future earnings and cash flows;
- continuing work to increase our influence in Europe and create a long-term EU strategy, intended to help contribute to the evolution of the laws and regulations that affect our business and our consumers; and
- increasing innovation, commercially, technically and financially. This can help us meet the output measures of our RIIO regulatory agreement and assist in finding new ways to generate growth.

Principal risks

- the assets associated with our major project developments will require significant stakeholder engagement in order to secure the necessary permissions to be built;
- the increased capital expenditure programme drives a need to ensure we have the appropriate core organisational and leadership capabilities; and
- the outcome of Ofgem s review of our business plans is uncertain.

Outlook

We believe the outlook for our UK Transmission business over the coming year is positive. While there are challenges ahead, we believe we have the right skills and approach to overcome them.

In the next 12 months we aim to deliver over £1.5 billion of capital investment and over the RIIO price control period we estimate this will be £25 billion.

Our safety and reliability performance has remained strong during the year and we believe this can continue. Our customer satisfaction scores have improved and work is underway to help deliver further improvement in this area.

We are working with stakeholders to try to develop the network of the future, designed to have appropriate flexibility to cope with the transition to a low carbon economy.

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More information at

nationalgrid.com

UK Transmission

The results of the UK Transmission segment for the years ended 31 March 2012, 2011 and 2010 were as follows:

	Years ended 31 March		
	2012	**2011**	**2010**
	£m	**£m**	**£m**
Revenue	**3,804**	3,484	3,475
Operating costs excluding exceptional items	**(2,450)**	(2,121)	(2,164)
Adjusted operating profit	**1,354**	1,363	1,311
Exceptional items		(70)	(59)
Operating profit	**1,354**	1,293	1,252

Principal movements (2009/10   2011/12)

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Business Review

Principal operations

UK Gas Distribution

We own and operate four of the eight regional gas distribution networks in Great Britain. Our networks comprise approximately 132,000 kilometres (82,000 miles) of gas distribution pipeline and we transport gas from the gas national transmission system to around 10.8 million consumers on behalf of 26 active gas shippers. Gas consumption in our UK networks was 259 TWh in 2011/12 compared with 304 TWh in 2010/11.

We manage the national gas emergency number (0800 111 999). This service, along with the enquiries lines, appliance repair helpline and meter enquiry service, handled 2,498,804 calls during 2011/12.

For more details on how our UK Gas Distribution business operates see pages 20 and 21.

Key achievements

- achieved all our overall standards of service, including our emergency standards;
- delivered £645 million of capital investment, including £474 million replacement expenditure to deliver 1,979 kilometres of decommissioned mains;
- significantly improved customer satisfaction, increasing scores by an average of 5.5% this year and closing the gap on the independent distribution networks (IDNs);
- submitted our RIIO business plans, prompting a favourable reaction from Ofgem and subsequently submitted revised plans; and
- completed the exit of all IDNs from the system operator managed services agreement, including delivery of all systems.

Strategy

As part of the group s strategic objectives, UK Gas Distribution s strategy includes:

- improving our safety performance. This discipline is important for our people, our contractors and the public and is an output measure under RIIO;
- further improving our service to customers. This aids our relationships with stakeholders and is an output measure under RIIO;
- embedding process excellence, along with systems improvements and training to make us more efficient and productive. Efficient processes should help us to meet output targets at reasonable cost, contributing to superior financial returns; and
- developing a high performance culture to help inspire our people to do their best. Our people are the foundation of what we do.

Principal risks

- the potentially dangerous nature of our activities, for our employees, contractors and the public, drives us to stay focused on process and personal safety;
- operational performance and our ability to meet standards of service could be materially adversely affected by extreme weather conditions or other events. We therefore actively drive performance throughout the year; and
- the outcome of Ofgem s review of our business plan is uncertain.

Outlook

We expect to complete the roll out of the GDFO system across our networks over the summer of 2012. Once completed, this will be an enabling tool for our process improvements and should assist in improving productivity.

Our mains replacement programme will continue and is estimated at around £5 billion over the eight years of the first RIIO price control. In addition, we estimate around £1.3 billion in other capital expenditure.

We plan to introduce process and system improvements which are designed to help achieve output measures and earn incentive revenues under RIIO.

More information at nationalgrid.com

UK Gas Distribution

The results of the UK Gas Distribution segment for the years ended 31 March 2012, 2011 and 2010 were as follows:

	Years ended 31 March		
	2012	**2011**	**2010**
	£m	**£m**	**£m**
Revenue	**1,605**	1,524	1,518
Operating costs excluding exceptional items	**(842)**	(813)	(795)
Adjusted operating profit	**763**	711	723
Exceptional items	**(24)**	(40)	(41)
Operating profit	**739**	671	682

Principal movements (2009/10 2011/12)

Principal operations

US Regulated

We own and operate electricity distribution networks in upstate New York, Massachusetts, Rhode Island and New Hampshire. Through these networks we serve approximately 3.5 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 LIPA. The LIPA service territory covers approximately 3,185 square kilometres (1,230 square miles).

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.

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. We added 35,000 new gas heating customers in these areas in 2011/12.

We are responsible for billing, customer service and supply services. We forecast, plan for and procure approximately 14 billion standard cubic metres of gas and 33 TWh of electricity annually across four states.

For more details on how our US Regulated business operates see pages 18 to 19 and 22 to 23.

Key achievements

- in April 2012, filed new rate cases for our upstate New York and Rhode Island gas and electricity businesses;
- completed the US reorganisation to a local facing jurisdictional model;
- achieved $200 million annualised cost savings compared to 2009/10 real achieved costs;
- achieved significant milestones on the New England East-West Solution project, a multistate transmission project, working with the NE ISO and other utilities; and
- successful continued development of the Cape Wind project.

Strategy

As part of the group s strategic objectives, US Regulated s strategy includes:

- aligning our end-to-end processes to the needs of our customers and working to strengthen our relationships with the communities we serve;

improving our financial performance through new rate filings and actions to increase the efficiency of our operations. New tools such as integrated information systems can help enable these improvements. By achieving this we will be better placed to achieve or exceed our allowed returns;
increasing our safety and reliability. Work to improve our response to major weather events will continue and can help enhance our reputation; and
re-engaging our people and taking action to improve our employee engagement index.

Principal risks

due to storms or other events our network may fail;
the outcome of our rate case filings is uncertain;
adverse findings in the audit by Overland Consulting Inc on behalf of NYPSC may damage our relationships with our regulators; and
new environmental or other regulations may increase our costs and may not be remunerated under our rate plans.

Outlook

We believe the US Regulated business has opportunities to improve performance and we have a plan in place to realise these opportunities over the next few years.

The next 12 months will see significant changes to our information systems with the implementation of a new enterprise resource planning system. This will be supplemented by process improvements aimed at delivering efficiency gains while also improving operational performance.

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More information at nationalgrid.com

US Regulated

The results of the US Regulated segment for the years ended 31 March 2012, 2011 and 2010 were as follows:

	Years ended 31 March		
	2012	**2011**	**2010**
	£m	**£m**	**£m**
Revenue excluding stranded cost recoveries	**7,516**	8,391	7,996
Operating costs excluding exceptional items, remeasurements and stranded cost recoveries	**(6,326)**	(6,984)	(7,055)
Adjusted operating profit	**1,190**	1,407	941
Exceptional items and remeasurements	**(296)**	(51)	(10)
Stranded cost recoveries	**260**	348	369
Operating profit	**1,154**	1,704	1,300

Principal movements (2009/10 2011/12)

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Business Review

Principal operations

Other activities

Grain LNG

Grain LNG is one of three LNG importation facilities in the UK. It was constructed in three phases, phases I, II and III becoming operational in 2005, 2008 and 2010 respectively. It operates under long-term contracts with customers and provides importation services, storage and send out capacity on to the national transmission system.

We are exploring with customers whether there is interest in a further expansion of the Grain LNG site that could take peak capacity up to 27% of the current annual UK gas demand when completed, which may be as early as winter 2016/17 subject to market interest.

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 (162 mile) subsea electricity link between the UK and the Netherlands. BritNed was fully commissioned and went live on 1 April 2011.

The first capacity auction was held in October 2011 and intraday auctions are expected to commence in May 2012. In its first year of operation 80% of power flows, around 3.9 TWh, were from the Netherlands to the UK and availability was above 95%.

Metering

National Grid Metering provides installation and maintenance services to energy suppliers in the regulated market in Great Britain. It maintains an asset base of around 15 million domestic, industrial and commercial meters. During 2011/12, it significantly improved its approach to measuring process safety performance and reported no lost time injuries as well as improving customer satisfaction as measured under a biannual customer survey.

During 2012, we successfully completed the sale of OnStream which provides installation and maintenance services in the unregulated market.

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.

During the year, we reviewed our commercial property operating model and in April 2012 signed an outsourcing contract with Capita Symonds. This arrangement will provide a range of services to further progress the efficient disposal and management of our surplus estate.

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

These include interests in LNG storage, LNG road transportation and transmission pipelines. During the year, we successfully completed the sale of Seneca-Upshur, our oil and gas exploration and production business in West Virginia and Pennsylvania.

Corporate activities and shared services functions

Corporate activities comprise central overheads, insurance and expenditure incurred on business development.

More information at

nationalgrid.com

Other activities

The results of our other activities for the years ended 31 March 2012, 2011 and 2010 were as follows:

	Years ended 31 March		
	2012	2011	2010
	£m	£m	£m
Revenue	**715**	678	741
Operating costs excluding exceptional items	**(527)**	(559)	(595)
Adjusted operating profit	**188**	119	146
Exceptional items	**104**	(42)	(87)
Operating profit	**292**	77	59

Principal movements (2009/10 2011/12)

Financial position and resources

Contents

The following is a summarised analysis of our financial position and resources and should be read in conjunction with our consolidated financial statements.

You may also be interested in our risks and response to risk, particularly:

cost escalation on pages 42, 43 and 45

financing and liquidity on pages 43 and 46

customers and counterparties on pages 43 and 46

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 risk factors discussion on page 43 and in note 32(d) to the consolidated financial statements.

Summarised balance sheet

	As at 31 March 2012	2011
	£m	**£m**
Goodwill and intangibles	**5,322**	5,277
Property, plant and equipment	**33,701**	31,956
Investments and other non-current assets	**687**	728
Pension assets	**155**	556
Current assets*	**2,611**	2,822
Current liabilities*	**(3,155)**	(3,441)
Deferred tax liabilities	**(3,738)**	(3,766)
Provisions and other non-current liabilities	**(3,652)**	(3,758)
Pensions and other post-retirement obligations	**(3,088)**	(2,574)
Net debt	**(19,597)**	(18,731)
Net assets	**9,246**	9,069

*Excludes amounts related to net debt and provisions reported in other lines

Goodwill and intangibles

Goodwill and intangibles increased by £45 million during 2011/12 to £5,322 million. This increase primarily relates to software additions of £203 million offset by amortisation of £79 million and the impairment of the acquisition related intangible asset of £64 million following the announcement that, after the end of the current contract in 2013, we will no longer operate and maintain the electricity distribution network on behalf of LIPA.

Property, plant and equipment

Property, plant and equipment increased by £1,745 million to £33,701 million. This was principally due to capital expenditure of £3,172 million, predominantly in the extension of our regulated networks, partially offset by £1,212 million of depreciation and net disposals of £279 million, primarily the disposal of OnStream in October 2011.

The graph below shows our capital expenditure over the last five years, by segment. The largest area of organic growth is in the UK Transmission segment, and we expect that to be the case for the next few years.

Capital expenditure decreased marginally in each of the three regulated businesses. This was primarily due to timing of work being undertaken.

As a result of capital expenditure in 2011/12, and after allowing for depreciation and, in the UK, inflation, we estimate that our regulated asset base will increase by approximately £1.5 billion.

Investments and other non-current assets

Investments and other non-current assets have decreased by £41 million to £687 million. This is principally due to a £58 million decrease in the fair value of our US commodity contract assets driven by a fall in electricity prices partially offset by an increase in other receivables.

Current assets

Current assets have decreased by £211 million to £2,611 million. This was due to a fall in trade receivables of £230 million, primarily reflecting the impact of warmer than normal weather in March 2012 on our US Regulated segment revenues. The warmer weather also led to an offsetting increase in inventories in the US, which were £56 million higher.

Current liabilities

Current liabilities have decreased by £286 million to £3,155 million. Trade payables were £190 million lower, reflecting the impact of lower commodity prices in our US Regulated segment. Current tax liabilities were £120 million lower primarily due to tax payments made in 2011/12.

Provisions and other non-current liabilities

Provisions and other non-current liabilities decreased by £106 million to £3,652 million. Additions to environmental provisions were £58 million primarily due to revisions to our cost estimates. This was offset by payments in relation to provisions totalling £228 million, including £101 million relating to environmental provisions and £74 million relating to restructuring provisions. Further information on provisions is provided in note 24.

Net pension and other post-retirement obligations

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 Electricity Group of the 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. Benefits include health care and life insurance coverage to eligible retired employees.

Pension 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.

A summary of movements in the IAS 19 accounting deficit is set out below:

Deferred tax liabilities

The net deferred tax liability decreased by £28 million to £3,738 million. This decrease mainly arose from the deferred tax charge for the year of £381 million being more than offset by the £403 million deferred tax credit arising on actuarial losses relating to pension and other post-retirement obligations. Refer to notes 5 and 22 to the consolidated financial statements for further information.

	UK	US	Total
Net plan liability	**£m**	**£m**	**£m**
As at 1 April 2011	(90)	(1,928)	(2,018)
Exchange movements		(8)	(8)
Current service cost	(84)	(112)	(196)
Expected return less interest	85	(15)	70
Curtailments, settlements and other	(9)	(60)	(69)
Actuarial gains/(losses)			
on plan assets	406	25	431
on plan liabilities	(1,174)	(582)	(1,756)
Employer contributions	198	415	613
As at 31 March 2012	**(668)**	**(2,265)**	**(2,933)**
Represented by:			
Plan assets	16,107	5,042	21,149
Plan liabilities	(16,775)	(7,307)	(24,082)
Net plan liability	(668)	(2,265)	(2,933)

The principal movements in net obligations during the year arose as a consequence of a decrease in the discount rate following declines in corporate bond interest rates. Actuarial gains on plan assets reflected improvements in financial markets, particularly corporate bond yields. The curtailment loss recognised in the US is an adjustment to the gain recorded in the prior year as a result of the US restructuring.

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Business Review

Financial position and resources continued

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.

The investment profile of our pension plan assets is illustrated below:

Further information on our pension and other post-retirement obligations can be found in note 30 of the consolidated financial statements.

Net debt

Funding and liquidity risk management

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 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 on the management of funding and liquidity and the main risks arising from our financing and commodity hedging activities can be found in the risk factors discussion starting on page 41 and in notes 32 and 33 of the consolidated financial statements.

Surplus funds

Investment of surplus funds, usually in short-term fixed deposits or placements with money market funds that invest in highly liquid instruments of high credit quality, is subject to our counterparty risk management policy.

Net debt trend

The trend in our net debt as shown in the chart above highlights two significant events. The acquisition of KeySpan in August 2007 and our rights issue in June 2010.

Composition of net debt

Net debt is made up as follows:

	2012	2011
	£m	£m
Cash, cash equivalents & financial investments	**2,723**	3,323
Borrowings and bank overdrafts	**(23,025)**	(23,198)
Derivatives	**705**	1,144
Total net debt	**(19,597)**	(18,731)

The increase in net debt of £866 million to £19,597 million is explained by our chart below:

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Factors decreasing net debt

Our primary source of cash relates to operating cash flows as detailed separately below. In 2011/12 this was supplemented by proceeds from the rights issue. Non cash movements related to foreign exchange gains caused by movements in the sterling to dollar exchange rate which was offset by increases in the value of inflation linked debt.

Factors increasing net debt

Our primary use of cash is for capital expenditure and other investing activities. This has increased by £258 million primarily due to increased investment in our UK Transmission business. We also utilised cash for dividends which increased by £148 million representing the 8% growth in the dividend and the increase in the number of qualifying shares following the rights issue and scrip dividend uptakes. Net interest paid was £287 million lower than prior year, reflecting lower interest rates, lower average net debt during the year and reduced debt repurchase costs. Tax paid was £259 million, £263 million higher than prior year due to a refund received in March 2011. Non cash movements related to increases in the value of inflation linked debt and remeasurements.

Operating cash flows

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 significant cash flow swings from year to year. 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.

Cash flow from operations decreased by £367 million in 2011/12 to £4,487 million due to lower operating profits, unfavourable working capital movements, higher pension payments and lower stranded costs recoveries.

The increase of £482 million in 2010/11 to £4,854 million was due to higher operating profits and lower pension payments.

Borrowings

The Finance Committee controls refinancing risk by limiting the amount of our debt maturities arising from borrowings in any one year which is demonstrated by our maturity profile.

The maturity profile of gross borrowings by our major financial entities is illustrated below:

During the year we continued to refinance where attractive opportunities arose. We received £1,809 million of proceeds from new loans and debt issuance, including a 500 million note in NGUSA in May 2011, £283 million from our RPI linked retail bond in National Grid plc in October 2011 and a $500 million note in Boston Gas in February 2012; and repaid £1,914 million of borrowings during the year.

As at 31 March 2012 total borrowings of £23,025 million including bonds, bank loans, finance leases and other debt was broadly consistent with 2010/11. We expect to repay £2,492 million of our maturing debt in the next 12 months and that we will be able to refinance this debt through the capital and money markets.

Further information on borrowings can be found on the debt investors section of our website and in note 19 of the consolidated financial statements.

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Business Review

Financial position and resources continued

Derivatives

	2012	2011
	£m	**£m**
Interest rate swaps	**187**	161
Cross-currency interest rate swaps	**740**	970
Foreign exchange forward contracts	**59**	38
Forward rate agreements	**(5)**	(20)
Inflation linked swaps	**(276)**	(5)
Total as at 31 March	**705**	1,144

We use derivative financial instruments to manage our exposure to risks arising from fluctuations in interest rates and exchange rates. We value our derivatives by discounting all future cash flows by externally sourced market yield curves at the balance sheet date, taking into account the credit quality of both parties. The decrease in our derivatives of £439 million therefore represents movements as a result of underlying market variables and composition of the derivative portfolio.

The currency exposure on our borrowings is managed through the use of cross-currency swaps and results in a net debt profile post derivatives that is almost entirely sterling/dollar.

The impact on net debt from our use of derivatives can be seen in the currency and interest rate profiles shown below:

The interest rate profile of net debt is actively managed under the constraints of our interest rate risk management policy as approved by the Finance Committee. Our interest rate exposure, and therefore profile, will change over time. The chart below shows the interest rate profile of our net debt before derivatives.

The charts below show the impact, as at 31 March 2012, of derivatives on our net debt for 2012/13 and future years. The 2012/13 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.

Further details on our foreign currency and interest rate risk management can be found in the risk factors discussion on page 45 and in note 32(a) of the consolidated financial statements.

Off-balance sheet items

There were no significant off-balance sheet arrangements other than the contractual obligations shown in note 32(d) of the consolidated financial statements, and the commitments and contingencies discussed below.

Commitments and contingencies

The following table summarises the commitments and contingencies outstanding at 31 March 2012 and 2011

	2012	**2011**
	£m	**£m**
Future capital expenditure contracted but not provided for	**2,728**	1,614
Total operating lease commitments	**706**	795
Energy commitments	**4,174**	3,543
Guarantees and letters of credit	**1,344**	762

The increase in capital expenditure contracted but not provided for is a result of the continued ramp up in our capital investment programme.

The energy commitments 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. Substantially all our costs of purchasing electricity and gas supply for our customers are recoverable at an amount equal to cost. The timing of recovery can vary between financial periods leading to an under- or over-recovery within any particular financial period (see timing differences as discussed on page 57).

The increase in guarantees and letters of credit relates to a guarantee provided in relation to our portion of the construction of the HVDC west coast link between Scotland and England, which is expected to expire in 2016.

We propose to meet all our commitments, as well as working capital requirements, 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.

Further information on commitments and contingencies can be found in note 28 to the consolidated financial statements, together with information on litigation and claims.

Capital structure

The principal measure of our balance sheet efficiency is our interest cover ratio as described on page 59. 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).

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 our aim of maintaining single A range long-term senior unsecured debt credit ratings within our main UK operating companies is consistent with this. Further details on credit ratings can be found on the debt investors section of our website.

Gearing at 31 March 2012 and 31 March 2011, calculated as net debt expressed as a percentage of net debt plus net assets, amounted to 68% and 67% 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 our regulated assets in our UK and US businesses.

Therefore, we monitor the regulatory asset value (RAV) gearing within 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 to 60% which is the level of RAV gearing indicated by Ofgem as being appropriate for these businesses. 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 2012 and 31 March 2011. 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	**2012 %**	**2011 %**
Regulated transmission and distribution businesses within National Grid Gas plc	**51**	54
National Grid Electricity Transmission plc	**49**	54

Actuarial valuation of UK pensions

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 last completed full actuarial valuation of the National Grid UK Pension Scheme was as at 31 March 2010. This concluded that the pre-tax funding deficit was £599 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% of pensionable payroll.

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

We agreed with both sets of Trustees that the deficits should be repaired over 17 years and that we would deposit additional cash in restricted accounts over which the respective Trustee has a charge and that would be paid to the Trustee, primarily in the event of insolvency or loss of licence of the relevant employer. The money is returned back to the company if the respective scheme moves into surplus.

In addition, we agreed with the Trustees of the National Grid Electricity Group of the Electricity Supply Pension Scheme to make a payment in respect of the deficit up to a maximum of £220 million should certain triggers be breached, primarily relating to loss of licence by NGET plc or its credit rating falling below agreed limits.

More information on the actuarial valuations can be found in note 30 to the consolidated financial statements.

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Business Review

Accounting policies

Basis of accounting

The consolidated financial statements present our results for the years ended 31 March 2012, 2011 and 2010 and our financial position as at 31 March 2012 and 2011. 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 2012 are estimated at £368 million in the UK and £360 million in the US compared with £303 million and £445 million respectively at 31 March 2011.

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.

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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 benefits

Obligations for pensions and other post-retirement benefits 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 2012 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 £70 million (pre-tax) and our annual amortisation charge on intangible assets by £11 million (pre-tax).

Hedge accounting

If using our derivative financial instruments, hedge accounting had not been achieved during the year ended 31 March 2012, then the profit after tax for the year would have been £165 million higher than that reported net of tax, and net assets would have been £163 million higher.

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 £173 million.

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 £71 million and £19 million respectively.

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 £346 million, £158 million and £686 million and a change in the annual pension cost of £7 million, £8 million and £6 million respectively. The effect of a change in the discount rate, driven by changes in corporate bond interest rates, would be expected to have a partial offset due to the related effects on asset values.

Accounting developments

Accounting standards, amendments to standards and interpretations adopted in 2011/12

In preparing our consolidated financial statements we have complied with IFRS, IAS and interpretations applicable for 2011/12. None of the standards, amendments to standards and interpretations adopted during 2011/12 resulted in a material change to our consolidated financial statements for the year, or the comparative years presented.

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.

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Corporate Governance

Corporate Governance

Chairman s foreword

I am fully committed to strong corporate governance practices and firmly believe in the benefits an effective board can bring to an organisation. It is evident to me that the Board, under the leadership of Sir John, made great progress in enhancing its effectiveness. However, we must not rest on our laurels, and I have been looking at ways to further improve it. As well as my own observations, I have discussed the Board s operation and processes with each Director individually. For more information, see Board evaluation and effectiveness on page 82.

We have made changes to Board meeting agendas to ensure our Non-executive Directors have greater opportunity to support, challenge and add value, particularly on strategic issues. Further, our Non-executive Directors have committed to individually visit different sites to continuously broaden their understanding of the Company and meet our employees and contractors. We have also undertaken a comprehensive review of our risk appetite with a corresponding increase in our understanding of this important area.

As a priority following my appointment, I have worked with the Nominations Committee to review the evolution of the Board and Committee composition, in light of the longevity of service of several of our Non-executive Directors and noting in particular the strategic challenges and opportunities our Company faces. We have identified the balance of skills, experience, capabilities, independence, diversity and knowledge of the Company required on the Board and its Committees against which future appointments will be made, see page 81 for more details on Board transition.

As part of this succession planning process, which should complete in July 2014, we are delighted to welcome Ruth Kelly, Paul Golby and, with effect from 1 June 2012, Nora Brownell to our Board. During 2012, we will be saying goodbye to Stephen Pettit and Linda Adamany and thank them for their committed service to the Board. The phased recruitment and induction of new Non-executive Directors facilitates a structured handover and allows us to retain essential experience and knowledge to ensure continuity during a period of change. I am confident our Non-executive Directors retain independent character and judgement and continue to play an essential role in the composition of our Board due to the skills and expertise they bring. For more information on the diversity of our Board see pages 10 and 11.

I look forward to leading the Board through this period of transition and overseeing the changes ahead to further strengthen our corporate governance.

Sir Peter Gershon

Chairman

Governance contents

Governance framework

We are 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.

Compliance statement

The Board considers that it complied in full with the provisions of the UK Corporate Governance Code (the Code) during the financial year being reported, with the exception of the recruitment process for one of the Non-executive Directors, see page 87 for further details.

This report explains key features of the Company s governance structure to provide a greater understanding of how the main principles of the Code have been applied and to highlight areas of focus during the year. The report also includes items 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. Our business model is explained on page 14 as required by the Code.

A full description of the matters reserved to the Board, together with other documentation relating to the Company s governance, is available on our website.

Examples of changes during the year

The role of the Senior Independent Director has been updated during the year, and the Board has increased its focus on risk matters, see pages 40 to 47.

Additionally, a project was undertaken to formulate revised global delegations of authority which set out the processes for decision- making within the Company. Over time, the existing delegations had become complex, making it difficult to interpret quickly the correct delegation of authority requirement for decision-making. The principles of the simplified processes and guidance, which also incorporated consideration of risk, were approved by the Executive Committee and then the Board in January 2012. The revised framework came into effect from 1 April 2012 following a period of training and communication and applies equally to the UK and US.

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Directors Report statutory and other disclosures (starting on page indicated)

The Board

The Board reserves a number of matters for its sole consideration where these matters impact the strategic direction, effective oversight and reputation of the Company and its businesses.

Board focus during the year

- monthly Chief Executive s report on safety, business development and scorecard showing performance against KPIs;
- strategic review to 2020;
- UK and US regulatory issues and updates;
- UK business deep dives on operating model, energy futures and carbon capture and storage;
- US business deep dives on restructuring progress, customer focus and initiatives and review of external audits;
- dividend policy;
- risk appetite;
- budget and business plan;
- London Olympics; and
- corporate governance best practice.

Expected Board focus for next year

- safety performance and initiatives;
- UK price control review submissions, outcomes and updates and US regulatory relationships and rate filings;
- results of 2012 employee opinion survey and proposed high level actions;
- ageing workforce regeneration;
- talent management, retention and recruitment;
- clarifying future sources of growth;
- UK capital expenditure programme delivery;
- financing the business, including dividend policy; and
- implementing and monitoring actions to improve its own performance, see page 82.

Board composition

Sir Peter joined the Board on 1 August 2011 as Deputy Chairman and assumed the role of Chairman on 1 January 2012 when Sir John Parker stepped down. Additionally during the year, Ruth Kelly and Paul Golby joined the Board as Non-executive Directors and John Allan stepped down. The Directors during the year are set out on page 85.

In their deliberations, the Nominations Committee and the Board consider balance as a key requirement for the composition of the Board, not only in terms of the number of Executives and Non-executives, but also with regard to the mix of skills, experience, knowledge, independence and diversity. The skills and diversity of the Board are set out on pages 10 and 11.

The Board considers the Directors offering themselves for election or re-election continue to be effective, committed to their roles and have sufficient time available to perform their duties. The Chairman has established processes to enable him to fulfil his role as chairman of two FTSE 100 companies effectively. In accordance with the Code, all Directors, with the exception of Stephen Pettit, will seek election or re-election as set out in the Notice of the 2012 AGM. Biographical details for current Directors can be found on pages 8 and 9, together with details of Committee memberships.

For further details regarding the Directors service contracts and letters of appointment, see pages 99 and 100 in the Remuneration Report.

Board transition

Stephen Pettit and Linda Adamany will step down from the Board with effect from 30 July and 31 October 2012 respectively. Ken Harvey, Senior Independent Director and Remuneration Committee chairman, and George Rose, Audit Committee chairman, are expected to stay on the Board until July 2013, allowing time for suitably qualified and experienced external candidates to be appointed. Maria Richter, Finance Committee chairman, who also has significant financial expertise, is expected to step down in July 2014 to allow a phased recruitment and induction of new non-executive directors. While we recognise the length of service of Ken, George and Maria we strongly believe that as a result of their skills, experience and independence they remain key to the phased and orderly transition of the Board.

It is anticipated up to four new non-executive directors will be appointed over the period until July 2014. In this respect, on 1 June 2012 Nora Brownell will join the Board, bringing US regulatory and utilities experience. She will join the Nominations, Remuneration and Risk & Responsibility Committees. Future non-executive director appointments will be made against candidate profiles to bring additional finance, City, CEO/CFO and executive remuneration experience, as appropriate, to the Board.

On Stephen Pettit s departure, the Risk & Responsibility Committee which he has chaired will be replaced by a new committee, to be chaired by Philip Aiken, which will focus on safety, environmental and health matters.

The Board and its Committees

The Board delegates 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. The Committee structure is set out in summary on page 12 and in more detail on pages 84 and 85.

In relation to the day-to-day management of the Company, the Executive Committee has responsibility for making management and operational decisions. Included this year, on page 13, is further information on the membership and operation of the Executive Committee.

Non-executive Director independence

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. On appointment as Chairman, Sir Peter was considered to be independent by the Board.

The length of service of several of our Non-executive Directors was a key consideration for the Chairman on his appointment. As set out in the Chairman s foreword to this report, Sir Peter and the Nominations Committee have reviewed the composition and balance of the Board and its ability to meet future challenges. The orderly transition of the Board is underway in a phased manner as set out above. Following the annual evaluation of independence, with a particularly rigorous review for those Directors who have served greater than six years, each of the Non-executive Directors at year end has been determined by the Board to be independent notwithstanding that Ken Harvey, Stephen Pettit and George Rose have served on the Board for more than nine years.

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Corporate Governance

Corporate Governance continued

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 ongoing development of all Directors.

Non-executive Directors induction programme

On appointment to the Board, new Non-executive Directors receive an induction programme including:

- one-to-one meetings with other Directors and senior management in the UK and US;
- Directors information pack to provide background information on the Company s businesses and operations including matters relating to corporate governance and corporate responsibility;
- meetings with the external auditors and advisors; and
- operational site visits.

Programmes are tailored depending on the experience and background of each individual and the Committees on which they serve. Ruth Kelly s induction provided information on the Company s operations and industry together with legal duties associated with being a Director of a listed company. Recognising that Paul Golby has recent and relevant industry experience in the UK, and has also served as a director of a UK listed company, his induction is being tailored accordingly, including opportunities to find out more about our US businesses.

Chairman s induction programme

The Chairman s induction programme included the items listed in the above bullets and was further tailored as follows:

- an extensive site visit programme including, in the UK and US, control centres and substations, and in the UK Isle of Grain and Eakring learning centre, together with the Brooklyn/Queens Interconnector in the US;
- extensive time spent with the Chief Executive;
- meetings with senior management from a wide variety of functions, such as procurement, human resources, network operations, asset management, maintenance and construction, together with jurisdictional presidents; and
- meetings with the UK regulator and major shareholders.

At the one-to-one meetings held with the Chairman as part of the Board performance evaluation process, a discussion is held to identify any personal development and training needs. As the internal and external business environment changes, it is important to ensure the Directors skills and knowledge are refreshed and updated regularly.

Board meetings are regularly held at operational sites to enhance familiarity with the Company. At each Board meeting, all Directors receive updates on legal, economic, corporate governance and best practice matters as appropriate, and details of the latest training courses available. Executive Directors use external coaching in accordance with their personal development plans.

With the agreement of the Board, Executive Directors gain experience of other companies operations, governance frameworks and boardroom dynamics through non-executive appointments as set out in the Board biographies on pages 8 and 9. The fees for these positions are retained by the individual as detailed on page 99.

Board evaluation and effectiveness

The annual performance evaluation process allows the Board to formally record, monitor and look to improve its performance in order to maintain high standards of governance.

After due consideration by Sir John, Sir Peter and the Nominations Committee of the requirement periodically to conduct an externally facilitated performance evaluation, it was agreed that, in this first year of Board transition including change of Chairman, an internally facilitated approach would be the most appropriate method of evaluation.

The performance evaluation process was led jointly by Sir John and Sir Peter until Sir John s departure and assisted by the Company Secretary & General Counsel. The process consisted of surveys for the Board and each Committee, and one-to-one meetings between each of the Directors and Sir Peter. A summary of the timeline and process is set out in the diagram below.

The Board and Committee surveys were structured around the provisions of the Code and topics included composition, role and structure of the Board and Committees, meeting scheduling and operation, information and support, and training and development opportunities for Directors. This year all surveys were updated to reflect evolving best practice on diversity. For each question, a choice of four answers was provided and all Committee surveys included open questions to prompt comments and suggestions on how the Committee could enhance its performance, and influence and impact on the business.

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The results of this year's performance evaluation show the Board and its Committees continue to operate effectively and actions for further enhancements have been identified, examples of which are set out in the table below.

Area	Actions for 2012/13
Membership and attendees	During this period of Board transition, membership of all Committees is to be reviewed to ensure appropriate alignment of skills and knowledge. Responsibility: Nominations Committee
Training and development	Training and development is key for all members of the Board. Formal training plans will be agreed between each Director and the Chairman (and in the case of the Chairman with the Senior Independent Director). Responsibility: Board members
Role and structure	To review the terms of reference and remit of the Risk & Responsibility Committee, including the advice sought from external advisors (Note this action is being taken forward as part of the proposal to replace the Committee with a new committee which will focus on safety, environmental and health matters). Responsibility: Chairman, Chief Executive and Company Secretary & General Counsel

Having joined during the year, to enhance his familiarisation with the operation and processes of the Board, in addition to meeting each Director to discuss the results of the Board performance evaluation survey, Sir Peter also met with all Directors on a one-to-one basis. This was part of a separate and complementary review, which was run in parallel with the formal Board evaluation process. Following consultation with the Chief Executive, Sir Peter presented his initial findings on the Board's effectiveness to the Nominations Committee and Board in January, with the Board in February agreeing detailed actions under the following broad areas:

- enabling the Board and its Committees to focus appropriately on addressing the key challenges and opportunities;
- facilitating an appropriate level of input and constructive challenge from the Non-executive Directors;
- establishing more clarity about the levels of assurance the Board needs in areas outside the remit of the Audit Committee;
- increasing Non-executive Director engagement with the operations; and
- increasing the effectiveness of scrutiny of operations and business processes.

In relation to the above, membership of the Nominations Committee has been extended to include all Non-executive Directors so as to provide a wider forum to consider Executive succession and performance matters. Additionally, short meetings between the Chairman and the Non-executive Directors have been introduced immediately before each Board meeting to help the Chairman identify any particular issues to enable him to focus the relevant discussions, and after each Board meeting to capture feedback on performance and any residual issues. Following the performance evaluation and the Chairman's review, a combined action plan has been produced and progress with actions will be continually monitored throughout the year by the Company Secretary & General Counsel, as noted in the diagram opposite.

Examples of actions undertaken following last year's performance evaluation process are set out in the table below.

Area	Actions completed 2011/12	Commentary
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	Throughout the year, at Board level, there has been a variety of training undertaken, examples include carbon capture and storage updates and discussions relating to the undergrounding of electric cables led by internal experts at Board meetings. External parties have presented on Basel III and debt capital markets to the Finance Committee. Updates on new legislation and evolving best practice have also been provided by external advisors to the Committees.
Board composition	Review and agree clarity of succession planning focus between the Nominations Committee and the Board. Responsibility: Board and Nominations Committee	It was determined the Nominations Committee with the Board would focus on succession plans for the Board and Executive Committee. The Board would also focus on the wider Company talent pipeline.
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	The effectiveness of advisors is continually monitored to ensure the Company receives sound and timely advice. Recent changes in operation of the Remuneration Committee will enable more opportunities for updates, views and comments from the advisors. The Risk & Responsibility Committee has reviewed the provision of advisors during the year and, as a result, a new safety advisor has been appointed.

At a private meeting of the Non-executive Directors, Ken Harvey led the review of Sir John's performance. Sir John's performance and leadership of the Board was considered to have been of a high standard. Following Sir Peter's appointment as Chairman, it has been determined that a review of his performance to date would be premature, however, in line with previous years, this review will be led by Ken Harvey in November 2012. In their deliberations, the Non-executive Directors, with input from the Executive Directors, will include an assessment of his ability to fulfil his role as Chairman given he is also chairman of another FTSE 100 company.

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Corporate Governance

Corporate Governance continued

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 to ensure the long-term success 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. The Board and Committees are supplied in a timely manner with information in a form and of a quality appropriate to enable them to discharge their duties.

Listed below are 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.

Instances of non attendance during the year were considered and determined as being reasonable in each case due to the individual circumstances. 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.

Executive Committee	Finance Committee	Risk & Responsibility Committee
Role and focus	**Role and focus**	**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 (i)
Committee chairman	
Steve Holliday	11 of 11
Executive Directors	
Andrew Bonfield	10 of 11
Tom King	11 of 11
Nick Winser	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	10 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.

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 (i)
Committee chairman	
Maria Richter	4 of 4
Executive Directors	
Steve Holliday	4 of 4
Andrew Bonfield	4 of 4
Non-executive Directors	
Ruth Kelly (v)	2 of 2
Stephen Pettit	4 of 4
John Allan (vi)	1 of 1

Other attendees:

global director of tax and treasury;

head of group tax;

head of risk and insurance, global head of pensions, vice president US treasury and external advisors as appropriate; and

the Chairman and management, as appropriate.

The Committee monitors and reviews the Company s non-financial risks and interfaces with the Audit Committee. The Committee, in relation to non-financial risks only, is responsible for reviewing the strategies, policies, targets and performance of the Company.

Membership and attendance

Name	Attendance (i)
Committee chairman	
Stephen Pettit	4 of 4
Non-executive Directors	
Linda Adamany	4 of 4
Philip Aiken	4 of 4
Paul Golby (iv)	1 of 1
Ken Harvey	4 of 4

Other attendees:

Chief Executive;

Company Secretary & General Counsel;

director of UK safety, sustainability and resilience;

US senior vice president safety, health, environmental services;

director of corporate audit; and

the Chairman, other Executive Directors and corporate affairs director, as appropriate.

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Board composition, attendance and independence

Non independent		Independent	
Name	**Attendance (i)**	**Name**	**Attendance (i)**
Non-executive Chairman		**Non-executive Directors**	
Sir Peter Gershon (ii)	6 of 6	Ken Harvey	
Sir John Parker (iii)	7 of 7	(Senior Independent Director)	10 of 10
Chief Executive		Linda Adamany	10 of 10
Steve Holliday	10 of 10	Philip Aiken	10 of 10
Executive Directors		Paul Golby (iv)	2 of 2
Andrew Bonfield	10 of 10	Ruth Kelly (v)	5 of 5
Tom King	10 of 10	Stephen Pettit	10 of 10
Nick Winser	10 of 10	Maria Richter	10 of 10
		George Rose	10 of 10
		John Allan (vi)	1 of 3

(i) Attendance is expressed as number of meetings attended out of number possible or applicable for the individual Director.

(ii) Sir Peter Gershon was appointed to the Board on 1 August 2011 as Deputy Chairman and assumed the role of Chairman from 1 January 2012.

(iii) Sir John Parker stepped down from the Board on 31 December 2011.

(iv) Paul Golby was appointed on 1 February 2012.

(v) Ruth Kelly was appointed on 1 October 2011.

(vi) John Allan stepped down from the Board at the AGM on 25 July 2011.

Nominations Committee

Audit Committee

Remuneration 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 executive management reporting directly to the Chief Executive, together with establishing the criteria for any new position.

Membership and attendance

Name	Attendance (i)
Committee chairman	
Sir Peter Gershon (ii)	5 of 5
Sir John Parker (iii)	2 of 3
Non-executive Directors	
Linda Adamany	1 of 1
Philip Aiken	1 of 1
Paul Golby (iv)	1 of 1
Ken Harvey	6 of 6
Ruth Kelly (v)	1 of 1
Maria Richter	6 of 6
George Rose	6 of 6
Stephen Pettit	1 of 1

As indicated in the above table, the membership of this Committee was extended to include all Non-executive Directors, with effect from 21 March 2012.

Other attendees:

Chief Executive;

global human resources director; and

external advisors, as required.

Role and focus

The Committee has oversight of the Company s financial reporting, and internal controls and their effectiveness, together with 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 (i)
Committee chairman	
George Rose	6 of 6
Non-executive Directors	
Linda Adamany	6 of 6
Philip Aiken	6 of 6
Ruth Kelly (v)	3 of 3
Maria Richter	6 of 6

Other attendees:

external auditors;

Chairman;

Chief Executive;

Finance Director;

Company Secretary & General Counsel, director of corporate audit, group financial controller; and

other Executive Directors, head of corporate strategy, planning and risk and global head of business conduct & ethics, as appropriate.

Role and focus

The Committee determines remuneration policy and practices, aligned to the Company s strategy 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.

Membership and attendance

Name	Attendance (i)
Committee chairman	
Ken Harvey	6 of 6
John Allan (vi)	1 of 3
Non-executive Directors	
Paul Golby (iv)	2 of 2
Stephen Pettit	6 of 6
George Rose	6 of 6

Other attendees:

Chairman;

Chief Executive;

global human resources director and global head of compensation & benefits; and

independent external advisors.

During the year, due to changes in Board composition, the membership of the Committee temporarily reduced to three, until Paul Golby joined.

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Corporate Governance

Corporate Governance continued

Steve Holliday

Committee chairman

The safety of our employees, contractors and members of the public is a top priority. Monitoring any trends and learning from incidents is essential and, in the past year, Committee members have taken part in a safety leadership day and senior management safety workshops to ensure the momentum on improving safety performance is maintained.

We have continued to focus on delivery of our strategy, including monitoring the development of our new US organisational structure and the delivery of our planned efficiency savings, positioning the Company for new UK regulatory arrangements, and improving customer relationships.

We have also focused on the key capabilities of our employees in order to deliver our strategy, as well as talent and leadership development.

Steve Holliday

Review of the year

Examples of matters the Committee considered during the year include:

safety and initiatives to promote shared learning and incident management;

the financial, operational and environmental performance of the Company and its businesses;

global regulatory matters, including the RIIO UK price controls and US audits and rate filings;

inclusion and diversity, employee engagement and recognition; and

global information systems strategic issues and monitoring external developments in social media.

Maria Richter

Committee chairman

During the year the Committee continued to focus on the Company s debt management policy including the issue of our first RPI linked retail bond to take advantage of market conditions. We also considered the risk management procedures in relation to hedging and trading activities.

There was a renewed focus on continual development for Committee members including updates from external advisors in relation to Basel lll, the eurozone crisis and tax matters.

The update on Basel lll highlighted the impact of the increase in minimum capital requirements for banks plus the consequences for both customers and markets. The presentation on the implications of the eurozone crisis in January 2012 proved timely in view of evolving economic conditions.

Maria Richter

Review of the year

Examples of matters the Committee considered during the year include:

long-term funding requirements;

setting and reviewing treasury management guidelines and policy;

treasury performance updates;

UK and US tax strategy;

activities of the energy procurement risk management committee in the US;

pensions, including a valuation update; and

insurance renewal strategy.

Stephen Pettit

Committee chairman

The Committee has spent considerable time this year reviewing the circumstances relating to the two fatalities to members of the public in the US and the contractor fatality in the UK, including root causes, learning points and actions taken.

We considered and supported the Company s focus on understanding and mitigating process safety risks. We also undertook site visits to enhance our knowledge of operational risk. Such visits give us the opportunity to observe work on the front line, to speak with the employees and contractors involved and, through this, to see the Company s safety policies and processes in practice.

Stephen Pettit

Review of the year

Examples of matters the Committee considered during the year include:

- the major accident hazard project undertaken across the Company to define the framework and implement risk control standards;
- high potential incidents and any associated trends;
- climate change strategy, including performance against emissions targets;
- health, safety and environment audits, their findings and any corrective actions;
- changes in the non-financial risk profile of the Company; and
- findings from the Company s external safety and environmental advisors.

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Sir Peter Gershon

Committee chairman

I took over as chairman of the Nominations Committee on 28 September 2011 and as expected we have considered as a priority Board and Committee size, structure and composition.

As part of our review of Board evolution, we have put in place formal succession plans and agreed candidate profiles, having reviewed the skills, experience, knowledge and expertise of our existing Non-executive Directors including those who, due to longevity of service, will leave the Board over the next two years. In formulating these plans we took into consideration the likely challenges and opportunities the Company will face over coming years.

This planned and structured refreshing of the Board will ensure an orderly succession to maintain an appropriate balance of skills and experience during what will be a period of significant change.

We also considered the Company s position in relation to the Davies Review Women on boards . During this period of Board transition, the percentage of women on our Board will go up and down until we reach a period of stability. I am pleased to confirm that the executive search firms engaged during the year for Board appointments have signed up to the voluntary Code of Conduct in response to the Davies Review. The Committee also noted importantly that gender is only one criterion for diversity; there are other qualities and experience which can improve the Board s ability to operate effectively. Further information on Board diversity, including our aspirations and progress in determining a diversity policy, is set out on pages 10 and 11.

Sir Peter Gershon

Review of the year

Examples of matters the Committee considered during the year include:

the appointment of the Chairman;

the Board and Committee performance evaluation process, results and action plans, see page 82;

recruitment and appointment of new Non-executive Directors;

ongoing succession planning for Board members and senior management; and

the future experience, skills and capabilities required on the Board.

Recruitment processes

Chairman

Ken Harvey, as Senior Independent Director, led the recruitment process to identify a new Chairman. A sub-group of the Nominations Committee was established to deliver the process comprising Ken, Stephen Pettit, Maria Richter and Linda Adamany, with input from Steve Holliday and Mike Westcott, the global human resources director. In accordance with best practice, Sir John was not involved in the process to recruit his successor.

November 2010 January 2011

11 executive search consultants invited to submit information.

Shortlist of four consultants invited to present to the sub-group.

Search consultant selected and terms of appointment agreed.

February July 2011

Candidate profile and position specification prepared including:

time commitment expected;

ability to lead the Board;

ability to be the public face of the Company for government, regulators and investors;

advise and support the Chief Executive and Executive team;

overall responsibility for corporate governance; and

ensure that matters of safety, strategy, performance and finance are effectively implemented by the Executive team.

Four external candidates shortlisted from a wider pool were seen by Ken Harvey and Steve Holliday.

Two preferred candidates met with each member of the sub-group.

Initially three internal candidates also considered and met with the members of the sub-group.

Sub-group unanimously recommended the appointment of Sir Peter, which the Board approved.

Announced 1 July 2011.

Non-executive Directors

Following an introduction by a member of the Board, Ruth Kelly met with each member of the Committee. The Committee unanimously agreed it was not necessary to look further for a suitable Non-executive Director as Ruth brought the skills, experience, independence and expertise required. In particular, the Committee noted Ruth s wealth of financial, economic and political experience, knowledge of large infrastructure projects and proven track record with regulatory interfaces. Therefore, while neither an external search consultancy nor open advertising were used, the appointment was made on merit with due regard for the benefits of diversity on the Board. A description of the role and capabilities required was not prepared and, therefore, the Company was not compliant with provision B.2.2 of the Code.

An executive search consultancy was appointed to benchmark Paul Golby s candidacy against other potential candidates in the market. A role and person specification was prepared against which the candidates were reviewed. Paul met separately with each of the Committee members. The Committee agreed that Paul was the best candidate noting in particular his skills, engineering background with utilities and experience of interfacing with the regulator.

We plan to ensure the recruitment processes for future non-executive director appointments will be formal, rigorous and transparent, as was the case with the recent appointment of Nora Brownell.

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Corporate Governance

Corporate Governance continued

George Rose

Committee chairman

A significant amount of time this year has been spent reviewing the effectiveness of internal controls. In support of management s commitment to continuous improvement, a two year US finance controls programme has commenced to deliver a number of interrelated actions, including the implementation of a single platform financial system, a single cost allocation method and, following the change in organisational structure in the US, enhanced jurisdictional and functional reporting. The Committee receives regular updates, providing us with the opportunity to support and challenge management as the programme develops.

The Committee is highly aware of the need to maintain external auditor independence and objectivity so the decision to engage PwC on the US finance controls improvement programme in a non-audit capacity was not taken lightly. It was considered by management and the Committee to be the most suitable option given PwC s knowledge of our processes and the related efficiency benefits.

During the year, we welcomed Ruth Kelly to the Committee.

Ruth brings with her a wealth of financial and economic experience. As part of her induction she met separately with all regular attendees of our Committee meetings including the lead partner from PwC.

It has been a year of sound progress and our forward business schedule suggests another busy year ahead. Given the competencies, knowledge and experience of the Committee members, we are well placed to meet the challenges and opportunities we face.

George Rose

Review of the year

Examples of matters the Committee reviewed during the year include:

- work undertaken to strengthen controls within the UK construction business;
- the new approach to risk reporting;
- Bribery Act and effectiveness of the procedures in place; and
- an update on the actions undertaken globally on regulatory reporting and compliance.

Experience

The Board has determined that George Rose has recent and relevant financial experience and is a suitably qualified audit committee financial expert, within the meaning of the SEC audit committee financial expert requirements. The Board also considers George to be independent within the meaning of the New York Stock Exchange listing rules.

The composition of the Committee during the year is set out on page 85, with biographical details and experience of members on pages 8 and 9 respectively.

Financial reporting

The Committee is responsible for ensuring the integrity of the Company s financial information and other formal documents relating to its financial performance and for making appropriate recommendations to the Board before publication. In addition, it also reviews reports of, and discusses any issues raised by, the disclosure committee (see below for more information).

A key factor in ensuring the integrity of the financial statements is compliance with accounting standards and consistency of accounting policies on a year-on-year basis and across the Company. Accounting for unusual transactions, significant reporting issues and judgements made by management, in particular the classification and treatment of exceptional items, are discussed and the views of the external auditors are taken into account. During the year, this has included discussions on the accounting matters arising from the change in organisational structure in the US and more recently the accounting consequences of the loss of the LIPA management services agreement from 31 December 2013, including the impairment of an intangible asset related to the contract.

Disclosure committee

The role of the 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 whether in connection with our presentations to analysts, financial reporting obligations or other material stock exchange announcements, for example, the announcement of the new dividend policy. Additionally this year, the committee considered the progress made in the US organisational restructure. The committee is chaired by the Finance Director and its members are the Company Secretary & General Counsel, the global director of tax and treasury, the group 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.

Confidential reporting procedures and whistleblowing

The integrity of the financial statements is further supported by the confidential reporting and whistleblowing procedures in place. The Committee reviews these once a year to ensure all complaints received are treated confidentially and there is proportionate and independent investigation and follow up action.

Internal (corporate) audit

The Committee is also responsible for monitoring and reviewing the effectiveness of internal audit activities and their resourcing. The Committee approved the audit plan which was primarily risk led, with key areas of focus being regulatory matters, financial processes, major system changes, and security and business resilience. Throughout the year, we receive reports from the director of corporate audit on significant findings and key control issues together with management s responsiveness to such matters.

External audit

The Committee is responsible for overseeing relations with the external auditors and makes recommendations to the Board on their appointment, reappointment and fees.

Details of total remuneration for auditors for the year, including audit services, audit related services and other non-audit services, can be found in note 2(e) of the consolidated financial statements on page 128.

Auditor independence and objectivity

Auditor independence is maintained by limiting the nature and value of non-audit services performed by the external auditors, ensuring that employees of the external auditor who have worked on the audit in the past two years are not appointed to senior financial positions within the Company, and the rotation of the lead engagement partner at least every five years. The current lead engagement partner has held the position for two years.

Non-audit services provided by the external auditors

Non-audit services provided by the external auditors are approved by the Committee prior to commencement. Approval is given on the basis that the service will not compromise independence and is a natural extension of the audit or if there are overriding business or efficiency reasons making the external auditors most suited to provide the service. Certain services are prohibited from being performed by the external auditors, as required under the Sarbanes-Oxley Act 2002.

Total non-audit services provided by PwC during the year ended 31 March 2012 were £3.8 million (2011: £2.7 million) which comprised 44% (2011: 34%) of total audit fees. Total audit fees include the statutory fee and fees paid to PwC for other services which the external auditors are legally required to perform pursuant to legislation, for example regulatory audits and Sarbanes-Oxley Act attestation. Non-audit fees represent all other services provided by PwC not included in the above.

Significant non-audit services provided by PwC in the year included quality assurance provided on the US finance controls improvement programme (£2.3 million) and UK tax compliance services (£0.5 million).

PwC were engaged on the US finance controls improvement programme, as noted in the introduction, as they were best placed to provide valuable insight on the programme, given their in depth knowledge of our control environment and relevant utilities experience. They were appointed in an advisory capacity only and were not involved in designing or implementing new controls and processes, thereby helping to safeguard independence and objectivity.

The Committee considered that tax compliance services were most efficiently provided by the external auditors as much of the information used in preparing computations and returns is derived from audited financial information. In order to maintain the external auditors independence and objectivity, management took responsibility for judgements and submissions including a review of tax returns and related correspondence.

Audit quality

To maintain audit quality and provide comfort on the integrity of financial reporting, the Committee reviews and challenges the proposed external audit plan to ensure that PwC have identified all key risks and developed robust audit procedures. The Committee also considers PwC s response to accounting, financial control and audit issues as they arise, and meets with them at least annually

without management present providing the external auditors with the opportunity to raise any matters in confidence.

Auditor appointment

An annual review is conducted by the Committee of the level and constitution of the external audit and non-audit fees and the independence and objectivity of the external auditors.

The annual review includes consideration of:

- the external audit process globally;
- the auditors performance against the audit plan;
- the expertise of the firm and our relationship with them;
- the results of online questionnaires completed by certain National Grid finance employees engaged with the audit; and
- this year, complemented by results and feedback from interviews with selected senior Company representatives conducted by the PwC client perspectives team, which is independent of the audit team.

Following this year s annual review, the Committee is satisfied with the effectiveness, independence and objectivity of the external auditors, who have been engaged since the merger with Lattice Group plc in 2002, and recommend to the Board their reappointment for a further year. A resolution to reappoint PwC and giving authority to the Directors to determine their remuneration will be submitted to shareholders at the 2012 AGM.

The Committee considers formally at least every three years whether the audit might be provided more efficiently or effectively by an alternative audit firm. We may, however, put the audit out to tender at any time. There are no contractual obligations restricting our choice of external auditors and no auditor liability agreement has been entered into.

Audit information

Having made the requisite enquiries, so far as the Directors in office at the date of the approval 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

We consider regularly the effectiveness of financial reporting, internal controls and compliance with applicable legal and internal requirements. We also review the procedures for the identification, assessment, mitigation and reporting of risks, particularly financial risks. During the year this included noting a new approach to the risk reporting process following the change in US organisational structure and the transfer of ownership of the risk process to corporate strategy. Risks are now more closely aligned to strategic plans. Executive Directors and their teams are invited to attend and discuss risk management activities and mitigation plans within their areas. Details of our internal control and risk management systems, including over the financial reporting process, and risk factors can be found on pages 40 to 47.

The compliance management process has been updated to align with the new US organisational structure and contributes toward elements of the entity level work performed under the Sarbanes- Oxley Act, as well as other internal assurance activities. Prior to implementation of the Bribery Act 2010, the Board considered proposals for monitoring and reviewing procedures for the prevention and detection of bribery. At year end the Committee noted that no material instances of non compliance had been identified and reviewed the adequacy of procedures, with minor improvements recommended to the Board.

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Corporate Governance

Remuneration Report

Ken Harvey

Committee chairman

I am pleased to present the Remuneration Report for 2011/12. I became the Remuneration Committee chairman on 1 August 2011, following the departure of John Allan. At the beginning of the performance year we introduced a revised long-term incentive plan, the Long Term Performance Plan (LTPP), which was approved for operation at last year s Annual General Meeting (AGM). No other changes have been made to our remuneration arrangements.

I am acutely aware of the increased focus on executive pay and over the last few months I have taken the opportunity to meet with a number of our institutional investors to discuss our remuneration policy and seek their views on the future direction of executive remuneration. In addition, we have contributed to the Department of Business, Innovation and Skills (BIS) consultation on executive remuneration, narrative reporting and shareholder voting rights. Following both these processes, a number of changes have been made to the format of this report to improve transparency.

Our policy of relating pay to the Company s business priorities and its performance continues to be the strong principle underlying the Remuneration Committee s consideration of executive remuneration. The introduction of a return on equity (ROE) measure in the LTPP (as an established key performance indicator for our shareholders and regulators) further emphasises the alignment between the Company s strategy and performance measures contained in our incentive plans.

2011/12 was another year of good financial and operational performance. This included strong underlying earnings growth, delivery of key restructuring activities across the business and successful investment in our asset base that will drive our long-term shareholder value. These things are taken into consideration when remuneration decisions are made.

The remuneration framework for Executive Directors remains relatively straightforward. Our incentive plans comprise an annual incentive with a compulsory share deferral element and the LTPP. We have formal clawback provisions to both those plans for financial misstatement. We have meaningful share ownership requirements for Executive Directors which are generally exceeded and the dilution levels for our share plans remain well below prescribed limits. We operate a mitigation policy in the event of early termination by the Company of an Executive Director s employment.

Overall, 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 are reviewed annually to ensure they remain closely 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.

Ken Harvey

Remuneration Committee

The Remuneration Committee members are Ken Harvey, Stephen Pettit, George Rose and Paul Golby. Each of these Non-executive Directors served throughout the year, except Paul Golby who joined the Board on 1 February 2012.

No Director or other attendee (see page 85 for more details) is present during any discussion regarding his or her own remuneration.

As well as having regular meetings during the year, we have an annual review and strategy meeting where we review our remuneration practices and incentive plans to ensure they remain aligned to the Company s strategic goals. We also take the opportunity to assess external trends and best practice, and undertake an indepth review of a particular remuneration element each year.

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 together with approval of the basis of their fees and other terms.

In the year to 31 March 2012, 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. Towers Watson is a member of the Remuneration Consultants Group and 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 (TSR) calculations for the Performance Share Plan (PSP) and LTPP;
- 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.

Review of the year

During the year, the following regular agenda items have been discussed:

- review and approval of salary increases for Executive Directors and direct reports to the Chief Executive, and the salary budget for all non-unionised employees in the Company;
- approval of the Remuneration Report and analysis of associated AGM voting levels;
- review of achievement for financial and individual objectives under the outgoing year s Annual Performance Plan (APP);
- approval of the forthcoming year s APP financial and individual objectives;
- review and approval of awards made under the LTPP;
- review of all share plan performance measures including the annual vesting of the PSP awards;
- review of Executive Director and senior management shareholding guidelines including achievement against them;
- review of risk matters in incentive plans;
- review of dilution levels; and
- review of the code of conduct for the advisors to the Committee.

Annual review and strategy meeting (to ensure remuneration practices are reviewed and align to Company strategy)

- consideration of current guidelines by advisory bodies and institutional investors regarding executive remuneration, including approval of responses to the BIS consultations;
- review of external market data for all areas of remuneration including performance measures used in incentive plans and plan design;
- analysis of performance outturns under the APP and PSP for the Executive Directors and other direct reports to the Chief Executive for the last five years in comparison to business financial performance over the same period; and
- analysis of the value of the Chief Executive s remuneration package compared to that of employees generally including a review of salary increases made to the Chief Executive compared to the wider employee population over the last five years.

Additional items during the year

- review of feedback from institutional shareholders and shareholding representative bodies regarding the design of the LTPP and the subsequent voting outcome;
- approval of the Chairman s terms and appointment letter;
- review of all employee share plan rules for adoption after the 2011 AGM including Sharesave, Share Incentive Plan (SIP) and Employee Stock Purchase Plan (ESPP); and
- review of UK pension arrangements for Executive Directors and senior management in response to changes to income tax relief and future pension strategy.

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 the Company s strategy and 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 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;

- 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.

The Remuneration Committee is briefed on any key policy changes affecting employees generally and depending on the scope of that change its approval is sought. Having this wider insight into remuneration practices across the Company means the Remuneration Committee can take this information into consideration when making decisions about the Executive Directors remuneration.

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Remuneration Report continued

Alignment of the remuneration policy with the Company strategy

The Remuneration Committee aims to align the remuneration policy to our Company strategy and key business objectives. Therefore, the performance criteria in our incentive plans, both short- and long-term, are designed to underpin the Company vision and strategy (for ease replicated below).

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 service and financial returns through:

- our drive for **operational excellence**;
- embedding **innovation and efficiency** in our corporate culture;
- understanding the needs of our stakeholders and shaping energy policy through **external engagement**; and
- maintaining a **disciplined investment** programme to grow our regulated asset base and non-regulated investments.

While aligning the remuneration policy to our strategic objectives, the Committee aims to ensure the policy reflects shareholders and our customers interests, taking account of risk related factors, and that it contributes to driving the highest possible ethical standards.

Executive Directors remuneration

The remuneration package for Executive Directors consists of the following elements, which are generally aligned to market median within our comparator groups:

Element	Key facts	Level
Salary	Salaries are reviewed annually with changes effective from 1 June. Individual performance, skills, the scope of the role and the individual s time in the role are taken into account when assessing salaries, as is market data for similar roles in the relevant comparator group.	Annual increases awarded are aligned fully with salary increases applied across the Company.

APP including Deferred Share Plan (DSP)	The APP is designed to drive short-term performance against annual performance measures which are cascaded down the organisation to all employees in the plan. It aligns short-term strategic objectives with shareholder interests. For Executive Directors, 70% of the APP is based on performance against financial measures and 30% on individual objectives. Achievement of target performance results in payment of 40% of the maximum possible. 50% of any award under the APP is deferred compulsorily into shares and held for three years before release, subject to forfeiture on leaving in certain circumstances.	Maximum of 150% of salary.
LTPP	The LTPP measures performance over three or four year periods and is designed to drive medium- to long-term performance, aligning key strategic objectives to shareholder interests. The measures include EPS (50% of the award) and TSR (25% of the award), which are measured over a three year performance period, and UK and US ROE (25% of the award) measured over a four year period.	225% of salary for the Chief Executive and 200% of salary for the other Executive Directors. The maximum permitted under the rules of the LTPP is 250% of salary.
Benefits	Includes healthcare provision, a company car and use of a driver when required (or cash in lieu of a car) and life assurance. Executive Directors may participate in all-employee share plans eg Sharesave, SIP or the ESPP.	In line with relevant market practice.
Pension	In the UK, provisions are either through the Defined Benefit (DB) or Defined Contribution (DC) sections of our pension schemes. In the US, the provision is through a qualified pension plan and an executive supplemental retirement plan.	Legacy arrangements exist in relation to the DB sections of our pension schemes. The UK DC section and US pension arrangements are in line with market practice.

Salary

When reviewing 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 in order to ensure any increases are in line with those for employees generally.

Salaries are 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 (as detailed in the remuneration policy on page 91).

Salary increases for Executive Directors effective from 1 June 2012 are at or below 3%, which is consistent with a salary increase budget of 3% for employees generally across the business, UK and US. See Table 1A on page 101, footnote (i) for further details.

Annual Performance Plan (APP) including the Deferred Share Plan (DSP)

The APP is based on the achievement of a combination of demanding Company, individual and, where applicable, divisional targets. The APP is cascaded through the management population, which provides a line of sight for employees to connect day-to-day activities with our vision, strategy and key financial and service provision metrics. The principal financial measures of Company performance in 2011/12 were adjusted EPS, see page 59 for further details, and consolidated cash flow. The main divisional measures were operating profit, and UK and US ROE targets, with some employees having slightly different targets dependent upon their role and area of the business. For more details regarding the returns measures see pages 25 (UK ROE) and 29 (US ROE).

Financial targets for Executive Directors represent 70% of the APP. Individual objectives represent 30% of the APP and normally up to five objectives are set in relation to key operating and strategic objectives. These objectives are defined in terms of target and stretch performance requirements, and change each year depending on the business priorities.

The Remuneration Committee sets financial targets and Executive Directors individual objectives at the start of the performance year.

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.

As part of a balanced scorecard approach, the Remuneration Committee may use its discretion to reduce payments to take account of significant safety or service standard incidents. 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.

In 2011/12, the maximum opportunity under the APP for Executive Directors was 150% of base salary, with 40% of the APP (60% of salary) being paid for target performance. One half of any award earned is deferred automatically 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 APP award in National Grid shares increases the proportion of rewards linked to both short-term performance and longer term 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.

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APP performance for 2011/12

The following table details the financial targets for 2011/12 and performance achieved against them as well as examples of achievements against individual objectives.

		Steve Holliday & Andrew Bonfield	Nick Winser	Tom King
Financial measures for 2011/12		Adjusted EPS	Adjusted EPS	Adjusted EPS
n Stretch	**Performance achieved**	n	n	n
n Between target and stretch		Consolidated cash flow	Consolidated cash flow	Consolidated cash flow
	Performance achieved	n	n	n

		UK ROE	UK operating profit	US operating profit (US GAAP basis)
	Performance achieved	n	n	n
		US ROE	UK Transmission ROE	US cash flow
	Performance achieved	n	n	n
			UK Gas Distribution ROE	US ROE
	Performance achieved		n	n

Examples of achievements against individual objectives for 2011/12

Steve Holliday **s** achievements included ensuring National Grid is appropriately positioned in the public debate regarding building a long-term energy infrastructure. Steve has also been instrumental in the long-term talent development planning for the Company and pivotal in the focus on the engineering skills gap analysis for the Company, as well as working with a number of external bodies as a thought leader and spokesman on this issue which affects the UK economy generally.

Andrew Bonfield **s** achievements included the delivery of a programme to enhance the capability of the US finance organisation to meet the Liberty Audit recommendations and to implement new financial systems. In addition, Andrew has commenced preparation of a long-term financing strategy, ahead of the finalisation of the UK regulatory process, to enable the Company to finance its capital expenditure programme.

Nick Winser s achievements included the successful implementation of a UK industry process for managing the impact of European Grid codes which included European stakeholder mapping of associated issues. In addition, Nick led National Grid s response to the UK regulatory process, in particular, the agreement of the 2012/13 Gas and Electricity Transmission Price Control Review roll-over principles with Ofgem and the submission of our RIIO business plan.

Tom King s achievements included delivery of the new US organisational structure, including achieving specific financial and FTE reduction metrics. Tom also led the implementation of the new finance/business system in the US which will meet one of our key regulatory requirements.

The Remuneration Committee has determined that performance based on our operational and safety balanced scorecards, whilst high, has not met our exacting expectations in certain areas. The Remuneration Committee, therefore, decided to use its discretion to reduce APP awards. This downward adjustment is reflected in the range of APP awards for Executive Directors this year of 67% to 70% (as a percentage of maximum potential).

Long-term incentive Long Term Performance Plan (LTPP)

The first awards under this plan were granted in 2011, following approval by shareholders at the 2011 AGM. 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 (225% of salary for the Chief Executive, 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 to provide a degree of flexibility for the future. The performance measures are cascaded to all participants in the LTPP.

The performance measures are as follows:

- 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
- ROE, 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).

One quarter of the shares awarded subject to each measure will vest for threshold performance. Shares will vest (over three and four years depending on the performance measure) conditional upon the satisfaction of the relevant performance criteria. The TSR and EPS targets are measured over a three year performance period and ROE is measured over four years which more readily reflects the nature of that metric. 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 took the opportunity to introduce ROE into the LTPP as return measures are established key performance indicators for our shareholders and regulators. The Committee believes the inclusion of ROE in the LTPP focuses participants further on increasing efficiency for both customers and shareholders, and enhancing returns for shareholders over the longer term.

It is believed the level of challenge for the ROE performance ranges in the UK and 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.

Details regarding the performance measures and vesting requirements are provided in the table below:

Performance measure	Definitions and measurement	Vesting requirements
EPS	The EPS measure is calculated by reference to National Grid s real EPS growth see page 59 for further details. The measure is defined as annualised growth in adjusted EPS (on a continuing basis and excluding exceptional items, remeasurements and stranded costs) over the three year performance period.	**Threshold performance** 25% of the shares subject to this measure will vest where EPS growth exceeds RPI growth by 3%. **Upper target performance** all the shares subject to this measure will vest where EPS growth exceeds RPI growth by 8%.
TSR	In calculating TSR (on an annualised compound basis) 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.	**Threshold performance** for TSR at the median 25% of the shares subject to this measure will vest. **Upper target performance** 100% of the shares subject to this measure will vest where National Grid s TSR performance is 7.5% above that of the median company in the FTSE 100.
ROE	The ROE measure is derived from returns on pages 25 and 29. In the UK, this is based on the UK Transmission and UK Gas Distribution ROEs. For the US, it is based on US regulated returns by jurisdiction. The Chief Executive and Finance Director are targeted on both the UK and US ROEs. For the UK and US-based operational Directors, they are targeted on their respective UK or US ROEs.	**Threshold performance** 25% of the shares subject to this measure will vest where the allowed regulatory returns in the UK are achieved and -1% of the allowed regulatory returns in the US. **Upper target performance** 100% of the shares subject to this measure will vest for out-performance of regulatory returns by 2% UK and 1% US.

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 are 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 ROE) over which the Executive Directors have direct influence. All these measures are key financial performance indicators for the Company.

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 the performance criteria are achieved.

Long-term incentive Performance Share Plan (PSP) operated for awards between 2003 and 2010 inclusive

The general operation of the PSP is similar to that detailed above under the LTPP, as is the population who may participate in the plan. The value of shares (ADSs for US-based Executive Directors and relevant employees) constituting an award (as a percentage of salary) varied by grade and seniority subject to a maximum, for all Executive Directors, of 200% of salary. The provisions in the PSP rules allowed awards up to a maximum value of 250% of salary, although no awards were made above 200%.

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). The same performance criteria are cascaded to all participants in the plan.

Details regarding the performance measures and vesting requirements are provided in the table below:

Performance measure	Definitions and measurement	Vesting requirements
EPS	The EPS measure is calculated by reference to National Grid s real EPS growth see page 59 for further details. The measure is defined as annualised growth in adjusted EPS (on a continuing basis and excluding exceptional items, remeasurements and stranded costs) over the three year performance period.	**Threshold performance** 30% of the shares subject to this measure will vest where EPS growth exceeds RPI growth by 3%. **Upper target performance** all the shares subject to this measure will vest where EPS growth exceeds RPI growth by 8%.
TSR	In calculating TSR (on an annualised compound basis) 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.	**Threshold performance** for TSR at the median 30% of the shares subject to this measure will vest. **Upper target performance** 100% of the shares subject to this measure will vest where National Grid s TSR performance is 7.5% above that of the median company in the FTSE 100.

Corporate Governance

Remuneration Report continued

Vested 2008 PSP award

The upper target for the EPS performance criteria was met almost in full (99% of the shares subject to that performance measure vested) but threshold performance against the TSR element of the award was not achieved resulting in shares subject to that measure lapsing. This resulted in vesting at 49.5% 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 2011 and February 2012, to align broadly with dividend payments to our shareholders (see Table 4 on page 105, footnote (ii)).

Vesting history of the PSP

The following table details the vesting of the PSP over the years it has been in operation, shown as a percentage of the award.

2003 award (vested 2006)	2004 award (vested 2007)	2005 award (vested 2008)	2006 award (vested 2009)	2007 award (vested 2010)	2008 award (vested 2011)	Vesting average
0%	0%	100%	100%	65.15%	49.5%	52.4%

Note: All awards subject to a retention period before release.

Common elements of the LTPP and PSP

The Remuneration Committee believes the mix of measures used in both plans to be appropriate and in alignment 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 LTPP and 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.

Performance elements in the Executive Directors remuneration package

Illustrated below is the current remuneration package for the Chief Executive and other Executive Directors (excluding pensions, all-employee share plans and non-cash benefits) for assuming on target performance and maximum stretch performance for the incentive plans (APP and LTPP). The assumptions used for target performance are based on 40% (60% of salary) for the APP, and 50% (100% of salary) for LTPP awards. For the Chief Executive, due to the higher LTPP award level, the target assumption is 112.5% of salary.

Executive Directors remuneration package (key elements expressed as a percentage of the package)

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.

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 post-tax contributions, up to 15% of salary limited to the lesser of 100% of compensation or $49,000 for calendar year 2011. For calendar year 2012, participants may invest up to the applicable Federal salary limits ie for pre-tax contributions a maximum of 50% of salary limited to $17,000 for those under the age of 50 and $22,500 for those over 50; for post-tax contributions up to 15% of salary limited to the lesser of 100% of compensation or $50,000. Employees may invest their own and Company contributions in National Grid shares or various mutual fund options. The Company matches 50% of the first 8% of salary contributed.

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 15% 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.

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 more recently appointed).

Senior managers in the Company are encouraged to build up and retain a shareholding representing at least 100% of annual salary.

Shareholding for Executive Directors

Executive Directors	Ordinary shares at 31 March 2012	% of salary held in ordinary shares (i) (ii)	Shares in Trust at 31 March 2012 (iii) (iv)	% of salary held in shares in Trust (i) (ii)	Total ordinary shares and shares in Trust at 31 March 2012	% of salary held in ordinary shares and shares

					(iii) (iv)	**in Trust**
						(i) (ii)
Steve Holliday	484,560	315	491,083	319	975,643	634
Andrew Bonfield	287	0.26	29,184	27	29,471	27
Nick Winser	224,473	271	224,820	271	449,293	542
Tom King (v)	209,285	189	323,370	292	532,655	481

(i) The salary used for calculating the value of shareholding is the salary earned in the year (see Table 1A on page 101).

(ii) The share price used for calculating the value of shareholding is 630.5p, which was the closing share price on 30 March 2012.

(iii) Shares held in Trust include vested but unexercised options for the Share Matching Plan (where applicable, see Table 3 on page 103), shares awarded under the DSP and vested shares under the PSP (see Table 4 on page 104). Unvested shares in the PSP and LTPP, and unexercised options held under Sharesave, are not included.

(iv) Shares in Trust are shown on a gross basis, ie before deductions for income tax and other withholdings.

(v) Shares held in Trust converted from awards over ADSs where each ADS represents five ordinary shares.

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 3.96% and 7.24% respectively.

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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. This option is 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 DC section. He has chosen to participate in FPS, the Company s salary sacrifice arrangement. Under this arrangement, if the Executive Director chooses to pay 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 consecutive years. In line with many US plans, the calculation of benefits under the arrangements takes into account salary, APP awards and incentive share awards (DSP) but not share options or LTPP/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 all 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. Andrew Bonfield participates in this Plan and the impact on his salary is shown in Table 1A on page 101.

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 UK Corporate Governance Code, and other requirements of legislation, regulation and good governance. Service contracts for all Executive Directors provide for one year s notice by either party, which aligns to best practice.

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.

Executive Directors	Date of contract	Notice period
Steve Holliday	1 April 2006	12 months
Andrew Bonfield	1 November 2010	12 months
Nick Winser	28 April 2003	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 one 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 2012.

Executive Directors	Company	Retained fees (£)
Steve Holliday	Marks and Spencer Group plc	85,000
Andrew Bonfield	Kingfisher plc	75,000
Nick Winser	Kier Group plc	43,000

Non-executive Directors remuneration

Non-executive Directors remuneration 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 receives a fee of £15,000 pa to recognise the additional responsibilities commensurate with that role and the Senior Independent Director receives a fee of £20,000 pa.

Non-executive Directors do not participate in the APP or LTPP, nor do they receive any pension benefits from the Company.

The Chairman is covered by the Company s personal accident and private medical insurance schemes. In addition, he may have a fully expensed car or cash in lieu of a car (with the use of a driver when required).

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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.

Non-executive Directors	Date of appointment to the Board	Date of next election
Sir Peter Gershon (i)	1 August 2011	2012 AGM
Ken Harvey	21 October 2002	2012 AGM
Linda Adamany	1 November 2006	2012 AGM
Philip Aiken	15 May 2008	2012 AGM
Paul Golby (ii)	1 February 2012	2012 AGM
Ruth Kelly (iii)	1 October 2011	2012 AGM
Stephen Pettit	21 October 2002	
Maria Richter	1 October 2003	2012 AGM
George Rose	21 October 2002	2012 AGM
Sir John Parker (iv)	21 October 2002	
John Allan (v)	1 May 2005	

(i) Sir Peter Gershon joined the Board as Deputy Chairman on 1 August 2011 and became Chairman on 1 January 2012.

(ii) Paul Golby joined the Board on 1 February 2012.

(iii) Ruth Kelly joined the Board on 1 October 2011.

(iv) Sir John Parker stepped down from the Board on 31 December 2011.

(v) John Allan stepped down from the Board on 25 July 2011.

Performance graph

The graph below represents the comparative TSR performance of the Company from 31 March 2007 to 31 March 2012.

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.

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Remuneration during the year ended 31 March 2012

Sections 1, 2, 3, 4 and 6 comprise the auditable part of the 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 2012 and 2011, including APP awards but excluding pensions, for individual Directors who held office in National Grid during the year ended 31 March 2012.

	emoluments	emoluments	emoluments	emoluments	emoluments	emoluments	emoluments
Table 1A			Year ended 31 March 2012				Year ended 31 March 2011
	Salary (i)	APP	Benefits in kind (ii) (cash)	Benefits in kind (ii) (non-cash)	Other emoluments	Total	Total
Executive Directors	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
Steve Holliday	971	1,000	12	18		2,001	2,126
Andrew Bonfield (iii) (iv)	691	726	232	4		1,653	711
Nick Winser	523	523		11		1,057	1,070
Tom King (v)	699	727	5	18		1,449	1,561
Steve Lucas (vi)					201	201	1,088
Mark Fairbairn (vii)					393	393	1,024
Total	**2,884**	**2,976**	**249**	**51**	**594**	**6,754**	**7,580**

(i) With effect from 1 June 2012, the Executive Directors salaries are as follows: Steve Holliday £1,000,000; Andrew Bonfield £712,000; Nick Winser £546,000 and Tom King £724,203. As reported in last year s Remuneration Report, salaries effective from 1 June 2011 were £975,000; £695,000; £530,000; and £714,740 respectively.

(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 on page 102 for further details).

(iii) For Andrew Bonfield the difference in the 31 March 2011 and 2012 totals reflects the comparison between a part year (2010/11) and a full year s remuneration (2011/12).

(iv) Andrew Bonfield participates in the UK flexible benefits plan which operates by way of salary sacrifice, therefore, his salary is reduced by the value of the benefits he has elected under the Plan. The value of these benefits is included in the Benefits in kind (non-cash) figure. The value is £458.84.

(v) For Tom King the exchange rate averaged over the year 1 April 2011 to 31 March 2012 to convert dollars to UK pounds sterling is $1.599: £1.

(vi) 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 was therefore entitled to nine months salary, which was payable in six monthly instalments and subject to mitigation, at the Remuneration Committee s discretion, should he have taken employment during the period. The payment of £201,000 referred to above in Other emoluments reflects the final three months of those instalments. Payments prior to 1 April 2011 were reported in last year s Remuneration Report.

(vii) 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 was therefore entitled to 10 months salary, which was payable in six monthly instalments and subject to mitigation, at the Remuneration Committee s discretion, should he have taken employment during the period. The payment referred to in Other emoluments reflects the full 6 months of those instalments. These details were disclosed in last year s Remuneration Report.

	emoluments	emoluments	emoluments	emoluments
				Year ended 31 March
Table 1B	Year ended 31 March 2012			2011
	Fees	Other emoluments	Total	Total
Non-executive Directors	**£000s**	**£000s**	**£000s**	**£000s**
Sir Peter Gershon (i)	223	5	228	
Ken Harvey	104		104	83
Linda Adamany	88		88	74
Philip Aiken	76		76	68
Paul Golby (ii)	13		13	
Ruth Kelly (iii)	38		38	
Stephen Pettit	97		97	83
Maria Richter	101		101	89
George Rose	91		91	79
Sir John Parker (iv)	412	56	468	621
John Allan (v)	28		28	81
Total	**1,271**	**61**	**1,332**	**1,178**

(i) Sir Peter Gershon joined the Board as Deputy Chairman on 1 August 2011 and became Chairman on 1 January 2012. His other emoluments comprise medical insurance, cash in lieu of a car and the use of a driver when required.

(ii) Paul Golby joined the Board on 1 February 2012.

(iii) Ruth Kelly joined the Board on 1 October 2011.

(iv) Sir John Parker stepped down from the Board on 31 December 2011. His Other emoluments comprise private medical insurance, life assurance and a fully expensed car.

(v) John Allan stepped down from the Board on 25 July 2011.

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2. Directors pensions

The table below provides details of the Executive Directors pension benefits.

	contributions (ii)	contributions (ii)	contributions (ii)	contributions (ii)	contributions (ii)	contributions (ii)	contributions (ii)
Table 2	Additional benefit earned during year ended 31 March 2012 pension £000s	Accrued entitlement as at 31 March 2012 pension £000s	Transfer value of accrued benefits as at 31 March (i) 2012 £000s	Transfer value of accrued benefits as at 31 March (i) 2011 £000s	Increase in transfer value less Directors contributions (ii) £000s	Additional benefit earned in the year ended 31 March 2012 (excluding inflation) pension £000s	Transfer value of increase in accrued benefit in the year ended 31 March 2012 (excluding inflation) and Directors contributions (ii) £000s
Steve Holliday (iii)	42	394	9,995	7,122	2,873	22	548
Andrew Bonfield (iv)							
Nick Winser (v)	29	244	5,675	3,888	1,787	17	386
Tom King (vi)	185	408	2,864	1,212	1,652	185	1,300

(i) The transfer values shown at 31 March 2011 and 2012 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. The contributions paid via FPS can be found in footnotes (iii), (iv) and (v) below.

(iii) In addition to the pension above, for Steve Holliday there is an accrued lump sum entitlement of £114,000 as at 31 March 2012. The increase to the accumulated lump sum including inflation was £3,000 and excluding inflation was nil in the year to 31 March 2012. 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 DB pension arrangements. Andrew is a member of the DC section of the National Grid UK Pension Scheme and the Company has made contributions of £27,667 to this arrangement. In addition, £13,833 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 101.

(v) In addition to the pension above, for Nick Winser there is an accrued lump sum entitlement of £294,000 as at 31 March 2012. The increase to the accumulated lump sum including inflation was £23,000 and excluding inflation was £8,000 in the year to 31 March 2012. The transfer value information above includes the value of the lump sum. Contributions were paid via FPS of £31,000.

(vi) For Tom King, the exchange rate as at 31 March 2012 was $1.59960:£1 and as at 31 March 2011 was $1.60700:£1. In addition to the pension quoted above, through participation in the 401(k) plan in the US, the Company made contributions worth £7,219 to a defined contribution arrangement.

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	Options held at 1 April 2011	Options exercised or lapsed during the year	Market price at exercise (pence)	Options granted during the year	Options held at 31 March 2012	Exercise price per share (pence)	Normal exercise period
Steve Holliday							
ESOP	77,129	77,129	625.2012			421.36	Jun 2005 to Jun 2012
Share Match	11,827 (i)	11,827	625.2012			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**	**88,956**			**41,396**		
Andrew Bonfield							
Sharesave	3,421				3,421	445	Apr 2016 to Sep 2016
Total	**3,421**				**3,421**		

(i) Steve Holliday exercised a Share Match award over 11,827 shares on 18 January 2012, the market price at the date of exercise was 625.2012p. He received £32,210 in respect of a cash payment in lieu of dividends.

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4. Directors interests in the LTPP, PSP and DSP

The table below provides details of the Executive Directors holdings of shares awarded under the LTPP whereby Executive Directors receive a conditional award of shares, up to a current maximum of 200% of salary (225% of salary for the Chief Executive), which is subject to performance criteria over a three year performance period for the annualised growth of the Company s EPS (50% of the award), see page 59 for further information, and the Company s TSR performance (25% of the award) when compared to the FTSE 100. The final 25% of the award is subject to ROE performance over four years.

The table includes shares awarded under the PSP whereby Executive Directors received a conditional award of shares, up to a 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). 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 APP award earned in the year. The deferred shares are held in trust for three years before release.

Table 4	Type of award	PSP, LTPP and DSP conditional awards at 1 April 2011	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 (dd/mm/yy)	Conditional awards at 31 March 2012	Release date (dd/mm/yy)
Steve Holliday										
	PSP	103,644			103,644 (i)		648.24	28/06/07		28/06/11
	PSP	57,508			57,508 (i)		700.95	28/11/07		28/11/11
	PSP	316,472	159,819 (ii)	156,653 (ii)			584.57	25/06/08	156,653	25/06/12
	PSP	391,212					472.89	25/06/09	391,212	25/06/13
	PSP	384,220					494.5076	29/06/10	384,220	29/06/14
	LTPP					362,148	605.7605	28/07/11	362,148	28/07/14 & 28/07/15
	DSP	97,481		97,481 (iii)			610.37	12/06/08		12/06/11
	DSP	68,960 (iv)					541.14	11/06/09	68,960	11/06/12
	DSP	130,636					506.294	15/06/10	130,636	15/06/13
	DSP					97,359	592.6	15/06/11	97,359	15/06/14
Total		**1,550,133**	**159,819**	**254,134**	**161,152**	**459,507**			**1,591,188**	

Andrew Bonfield									
	PSP	236,464				570.9098	30/11/10	236,464	30/11/14
	LTPP	&#150							