

2011

Financial Report

ELEXON Limited
Report and Financial Statements
31 March 2011
Company Registration Number 3782949



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DIRECTORS

Nick Durlacher	(Chairman, resigned 30 September 2010)
Andrew Pinder	(Chairman, appointed 1 October 2010)
Jane E Tozer	(Non-executive)
Barbara Vest	(Non-executive)
Peter Teague	(Non-executive)
Sebastian Eyre	(Non-executive, resigned 30 September 2010)
Nigel Cornwall	(Non-executive, appointed 14 October 2010)

COMPANY SECRETARY

Nicholas Brown

REGISTERED OFFICE

4th Floor
350 Euston Road
London NW1 3AW

BANKERS

Barclays Bank plc
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London EC3P 3AH

SOLICITORS

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Exchange House
Primrose Street
London EC2A 2HS

SNR Denton
One Fleet Place
London EC4M 7WS

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1 Bunhill Row
London EC1Y 8YY

Thring Townsend Lee & Pemberton
Kinnard House
1 Pall Mall East
London SW1Y 5AU

AUDITOR

Deloitte LLP
Chartered Accountants
London



Chairman Andrew Pinder

2.1 Report from the Chairman

Since being appointed as Chairman of ELEXON in October 2010, it's become increasingly apparent to me that we are operating in a time of momentous industry change. The introduction of smart meters is fast looming. Set this alongside the Government's Electricity Market Reform proposals, and it's clear that we're in the midst of some of the most radical changes to the market since privatisation.

A period of such change presents us with challenges, but also some great opportunities. As the Government commits to rapid transformation of the sector to secure reliable, affordable and sustainable energy, ELEXON is looking for ways to support the industry in this change agenda. ELEXON has a key role to play in providing stability and protecting the core of settlement throughout this period of change, whilst also being well placed to use our considerable expertise and talent to help steer the industry towards improved efficiency.

At the end of 2010, the draft BSCCo Business Strategy for 2011/12 highlighted our belief that ELEXON's governance framework is preventing us from fully applying our expertise, experience and assets to support the industry through this period of change. We've been working for some months now with DECC, Ofgem and other BSC Stakeholders to review ELEXON's governance structure so that we're operating under a model that is fit for purpose in a rapidly developing market, allowing us to

fulfil a wider role and take a more active approach to providing solutions to common industry problems. This work will continue into the year ahead. We're committed to engaging with the industry on what the final solution looks like and will continue to keep our customers and stakeholders up to date on our progress.

2.2 Report from the CEO

The last financial year was a busy one for ELEXON. At a time of considerable market upheaval, ELEXON has taken some very significant steps forward to develop in order to meet the challenges the industry is facing, particularly around smart metering and the consequential evolution of settlement.

Doing more with fewer people; securing value and innovation

In July, we implemented an internal restructure. We consolidated all of our operational teams into one department, giving us real scope for delivering operational efficiencies whilst also freeing up some of our expert resource to work on key areas such as smart metering and code development.

We have been, and will continue to be, constantly mindful of the need to drive down our costs and how we could save the industry money. One of our operational successes of 2010/11 was our review of the Profile Administrator Agent Service, the outcome of which will enable us to deliver a better, more flexible service at less cost to the industry.

Last year's Business Strategy committed us to seeking opportunities to do more with our capabilities and assets to benefit our customers. We're now delivering more with fewer people, and making better use of ELEXON's significant technical expertise. We've carried this commitment into our 2011/12 Business Strategy. The overall costs for 2010/11 were £30.4m (£1.7m less than our approved budget and £1.2m less than the overall costs for 2009/10).

Supporting the wider change agenda

It is my view that ELEXON has a duty to provide expertise and input into wider reforms and changes that have an impact on the operation of the UK energy market. Over the course of the year, we've responded to several industry consultations including Ofgem's review of current metering arrangements, the Government's Electricity Market Reform proposals and Ofgem and DECC's consultations on the Smart Metering Implementation Programme. Our experts have been assisting Ofgem and DECC with end-to-end business process modelling for the smart metering arrangements and have begun the important, and not insignificant, challenge of considering how settlement will need to adapt and how the BSC can better facilitate tariff innovation in a smart metered world.

We've also actively contributed to delivering the outputs of Ofgem's Code Governance Review. We've taken a leading role in drafting the code administrators' code of practice – which reinforces many of the activities we previously undertook as part of our own best practice review.

Working with ELEXON's service providers

Throughout 2010/11, we've been bedding in the new contracts procured under our Isis programme for the operation, hosting, maintenance and development of the BSC Applications. In partnership with our key service providers, Cognizant and Logica, we're already starting to deliver substantial cost savings and greater value to our customers. Through a combination of negotiations via procurement projects and by effectively managing all our agents, we've achieved total contracted costs of £13.6m (£604k less than the corresponding figure in 2009/10).



Chief Executive Peter Haigh

A customer-centric approach

The results of our 2010 customer survey were some of our best ever. More customers than last year felt that ELEXON was improving; the overall rating of ELEXON and our value for money score improved, particularly among smaller companies. The website remained the area that customers most wanted to see improved. In partnership with Cognizant and Logica, we've listened to your feedback and reviewed all our web platforms to deliver a new ELEXON website and move all our operational data onto the ELEXON Portal, enabling customers to benefit from upgraded operational data and easier navigation.

To continue improving in all areas, we must carry on seeking feedback from our customers and developing greater insight into their needs. We'll build on the questions we've been asking this year and continue being curious about what we could do better, looking for more opportunities to deliver value and building on the 'critical friend' role that we've adopted so successfully in delivering the modification process.

Andrew Pinder
Chairman

Peter Haigh
Chief Executive

The Directors present their annual report and the audited financial statements for the year ended 31 March 2011.

Principal Activities

ELEXON

ELEXON Limited (ELEXON) is the parent Company of a group of companies whose principal role, as set out in the BSC, is to provide and procure the facilities, resources and services required for the proper, effective and efficient implementation of the BSC.

ELEXON is wholly owned but not controlled by National Grid Electricity Transmission plc (NGET) and is not consolidated in NGET's financial statements. ELEXON's independence of NGET is established by the BSC. The management of ELEXON is not controlled by NGET as all of ELEXON's Directors are appointed independently.

Section C of the BSC prescribes the constitution of ELEXON, its role, powers, management, liability position and subsidiaries.

ELEXON has a Board of Directors comprising five persons. The Chairman is appointed by the Gas and Electricity Markets Authority (the Authority) for a fixed term to chair the BSC Panel and, in accordance with the BSC, to also chair the Board of the Company. Two of the other members of the Board, in accordance with the BSC, are nominated by the BSC Panel from among the Panel members elected by BSC Trading Parties (thus ensuring that the industry that pays the costs of ELEXON is represented on its Board). The other two members of the Board are, in accordance with the BSC and the formal Board and corporate governance processes, selected by the Chairman after consultation with the Panel, to bring relevant expertise to the Board's deliberations. The Chairman devotes a minimum of three days per week to Board and Panel matters. The other Board members are non-executive and all serve for fixed terms.

ELEXON has four wholly-owned subsidiaries: ELEXON Clear Limited, Poolserco Limited, Poolit Limited and BSC Co. Limited. These are described below.

ELEXON Clear Limited

ELEXON Clear Limited (ELEXON Clear) is the legal counterparty to balance and imbalance transactions under the BSC. ELEXON Clear has the same Directors as ELEXON and has a broadly similar Memorandum (save as to objects) and Articles of Association. ELEXON Clear is referred to in the BSC as the BSC Clearer.

Poolserco Limited

As part of the transition from the Electricity Pool of England and Wales (the Pool) to the New Electricity Trading Arrangements (NETA) reflected in the BSC, Poolserco Limited (Poolserco) held contracts with various service providers for activities required under the BSC. These contracts have been novated to ELEXON Limited and Poolserco Limited has ceased trading.

Poolit Limited

Poolit Limited (Poolit) holds mainly historic intellectual property developed by Pool Members jointly under the Pool. Poolit is a non trading Company.

BSC Co. Limited

BSC Co. Limited was acquired from NGET in March 2009 and is a dormant company.

Business Review

ELEXON and its subsidiaries form a not-for-profit group which recoups its costs from BSC Parties in accordance with the terms of the BSC. All licensed electricity generators and suppliers in Great Britain are obliged to become signatories to the BSC. Other companies may choose to do so.

Turnover for the year to 31 March 2011 was £30.4m, compared with £31.5m, in the previous year. This represents total expenditure and is recharged to Trading Parties under the provisions of Section D of the BSC. As the Group is not for profit, costs and interest charges are exactly matched by turnover for the year. In order to achieve this there has been a reconciliation of amounts charged to Trading Parties for the 2010/11 financial year based on the final audited costs and interest charges shown in this report. A credit of £632k for the 2010/11 financial year will be returned to BSC Trading Parties in August 2011.

This is ELEXON's tenth full year of operation. Since the start of the balancing and settlement arrangements ELEXON's costs, net of interest, have fallen from £71.8m in 2001 to £30.4m. Costs for the year have reduced by £1.2m mainly as a result of re-procurement and effective management of our service providers.

Overall, ELEXON reported a £1.7m underspend against the 2010/11 Annual Budget of £32.1m. Looking forward, the budget for 2011/12 has been set at £35.5m. The 2011/12 budget includes one-off investment in organisational development of £1m and SMART costs of £3m to enable us to develop our business to address industry challenges through embracing opportunities arising from the SMART Metering Programme.

Financial Risk Management


The Group is exposed to financial risk through its financial assets and liabilities. The key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from liabilities as they fall due. The most important components of financial risk are interest rate risk, currency risk, credit risk, liquidity risk, cash flow risk and price risk. Due to the nature of the group's business and the assets and liabilities contained within the group's balance sheet, the only financial risks the Directors consider relevant are credit risk, particularly in relation to the large deposits held by ELEXON Clear, and liquidity risk. These risks are mitigated by the nature of the debtor balances owed, with the BSC providing for other BSC Parties to meet the liabilities of any debtor in default.

Going Concern

The Group has arranged a £0.1m overdraft facility for ELEXON and £1.0m overdraft facility for ELEXON Clear respectively with Barclays PLC at the variable rate of 1.75 percent above the bank's base rate. The Board believe that this provides a secure financial base for the Group for the foreseeable future. Financial risks are also mitigated by the nature of the debtor balances owed, with the BSC providing for other BSC Parties to meet the liabilities of any debtor in default; and the provision of the BSC

Table 1: Five Year Comparison Figures

	Year Ended 31 March 2011	Year Ended 31 March 2010	Year Ended 31 March 2009	Year Ended 31 March 2008	Year Ended 31 March 2007
	£'000	£'000	£'000	£'000	£'000
Turnover	30,367	31,531	35,323	34,323	33,074
Cost of Sales	(30,380)	(31,569)	(35,463)	(34,486)	(33,250)
Net Interest Income	13	38	140	163	176



whereby ELEXON recovers its cost one month in advance. As a result, the Board considers that there is a reasonable expectation that the Group will continue in operating existence for the foreseeable future and has therefore used the going concern basis of accounting in the preparation of the financial statements.

Environmental

ELEXON recognises the importance of its environmental responsibilities and has formally adopted an environmental policy which aims continually to monitor and reduce its impact on the environment through the use of recycled resources where appropriate, recycling, safe disposal of electrical and hazardous waste, redundant stationery and equipment and energy saving measures.

Employees

Details of the number of employees and related costs are given in note 11.3.

Dividends

Under the terms of the BSC, the Company has no power or authority to declare or pay any dividends.

Payment to Suppliers of Goods and Services

The Group agrees terms and conditions for its business transactions with suppliers of goods and services. Payment is then made in accordance with these terms, subject to compliance by the suppliers with the requirements of their contracts. Trade creditors of the Company at 31 March 2011 were equivalent to 16 days' purchases (2010: 36 days*), based on the average daily amount invoiced by suppliers to the Company during the year.

Directors and Their Interests

The membership of the Board during the year is set out below. Details of Directors' remuneration are given in note 11.3 to the financial statements. None of the

Directors had any interests in the share capital of the Company or any other Group Companies.

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Directors

The Directors at 31 March 2011 were as follows:

Andrew Pinder (Chairman)
Peter Teague
Jane E Tozer
Barbara Vest
Nigel Cornwall

Auditor

Deloitte LLP has expressed its willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Approved by the Board of Directors and signed on behalf of the Board.

Nicholas Brown
Company Secretary
16 June 2011



04. Corporate Governance Statement

ELEXON complies with the UK Corporate Governance Code to the extent this is applicable to the Group. Whilst ELEXON is not a listed Company, the Company's Board appreciates the value of good corporate governance, and considers compliance with the Corporate Governance Code appropriate given the unique position of the Company and its accountability and responsibility to the electricity industry.

Throughout the year ended 31 March 2011 the Group complied with the UK Corporate Governance Code, except in the limited circumstances where the BSC takes precedence over the UK Corporate Governance Code or where compliance is not practicable or appropriate due to the nature, structure and function of ELEXON. Any area in which ELEXON is not in accordance with the UK Corporate Governance Code is noted below.

A general narrative statement relating to the governance of the Group appears below. This statement comprises four parts: Board and Directors, Directors' Remuneration, Relations with Shareholders and Accountability and Audit.

Board and Directors

The Company is controlled through the Board of Directors, which comprises four non-executive Directors, plus the Chairman.

In accordance with the BSC, the Chairman of the BSC Panel (who is appointed by the Authority) is also the Chairman of the Board. One of the primary responsibilities of the Chairman is the leadership of the Board. As part of this responsibility the Chairman ensures that all Directors receive sufficient, accurate and relevant information on financial, business and corporate issues in a timely manner prior to meetings. The Chairman had no significant commitments outside the ELEXON Group and the BSC Panel, during the year ended 31 March 2011.

The Board considers all non-executive Directors to be independent. One non-executive Director, Barbara Vest, has served on the Board for more than ten years. Barbara Vest is a Panel Member who has been appointed to the Board following an election by eligible Panel Members in accordance with the BSC.

The non-executive Directors normally hold one meeting without the Chairman and the Executive Team being present. This meeting takes place in order to accord with the requirements of the UK Corporate Governance Code. The formal meeting between non-executive Directors and the Chairman without the Executive Team present did not take place in 2011. A new Chairman was appointed part way through the year and the meeting was postponed until the Chairman had been in post for an appropriate time.

The Board has not considered it necessary or appropriate to appoint a senior independent Director as suggested in the UK Corporate Governance Code. This is because the primary purpose of a senior independent Director is for the benefit of institutional shareholders (which the Company does not have).

The BSC prescribes how the Directors are appointed and removed, and the terms of office which apply to the Panel Directors. It also specifies the number of members of the Board, its structure and its composition. The Company therefore cannot comply with the requirements of the UK Corporate Governance Code in relation to the balance between executive directors and non-executive directors and cannot comply in full with the process for appointing new Directors (for example, the use of an external search consultant or open advertising only takes place in relation to the appointment of the non-Panel Directors). The BSC sets up a formal and transparent procedure for the appointment of new Panel Directors.

All new or re-appointed Directors are required to sign a standard letter setting out the terms of their appointment and explaining the time commitment which is expected of



them. The Directors are expected to undertake regular training to update and refresh their skills and knowledge.

The BSC sets out the role of the Chief Executive. It requires the Board to delegate authority to conduct the day-to-day business of the Company to the Chief Executive. In addition, the Company has clearly established, in accordance with the UK Corporate Governance Code and corporate governance best practice, a schedule of matters reserved for the Board and a written division of responsibilities between the Chairman and the Chief Executive. The Chief Executive is not a Director of the Company but is entitled to receive notices of and attend and speak (but not to vote) at all meetings of the Board. The Board may require the Chief Executive to be absent from any part of a meeting at which any matter concerning his employment by the Company is being considered.

The day-to-day management of the Company is performed by the Chief Executive in conjunction with the Executive Team, comprising the heads of the various Departments. The Board receives the benefit of input from and discussion with the Chief Executive and members of the Executive Team by way of their regular attendance at Board meetings.

The BSC prescribes various Board duties and responsibilities, such as approval of the annual budget. The Board generally meets on a monthly basis and otherwise will meet as required to conduct its business. Its activities include monitoring exposure to key business risks, setting and reviewing the strategic direction of the Group, reviewing progress towards achievement of objectives, ensuring that the necessary financial and human resources are in place for the Company to meet its objectives, reviewing management performance, setting the Company's values and standards, ensuring that its obligations under the BSC are understood and met and reviewing expenditure against budget.

The Board carries out annual evaluations of its own performance and that of its Committees. Each Committee also carries out an annual evaluation of its own

performance, and evaluations are also carried out of the performance of individual Directors and of the Chairman. These evaluations are carried out in accordance with the process approved by the Board using a questionnaire tailored for the relevant evaluation. Evaluations of the Chairman and each non-executive Director have been postponed until the new Chairman has been in post for an appropriate period of time to allow for meaningful evaluations.

The Board has established an Audit Committee and a Remuneration and Nomination Committee. Membership of these Committees comprises all Directors. This is considered appropriate bearing in mind the structure and composition of the Board as specified by the BSC. Peter Teague, who has recent, relevant and significant financial experience, chairs the Audit Committee. The Chairman of the Board, Andrew Pinder, chairs the Remuneration and Nomination Committee. This is considered appropriate because of the BSC requirements relating to the role of the Chairman. The minutes of the Board and of these Committees are circulated to and reviewed by the Board of Directors.

The main roles and responsibilities of the Audit Committee are to:

- monitor the integrity of the financial statements of the Company, reviewing significant financial reporting judgements contained in them;
- review the Company's internal financial control and risk management systems, and to monitor and review the effectiveness of the company's internal audit function;
- make recommendations to the Board in relation to the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- monitor and review the external auditor's independence, objectivity and effectiveness, taking into consideration relevant UK professional and regulatory requirements;

- develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm;
- review arrangements by which staff of the Company may in confidence raise any concerns; and
- report to the Board identifying any matters in respect of which it considers that action or improvement is needed and making recommendations on the steps to be taken.

In discharging these responsibilities, the Audit Committee considers reports from the external auditor, internal auditors and from management, and monitors the implementation of any necessary actions including an independent review of nominated areas of internal control.

The Audit Committee also gives regular consideration to the independence of the external auditor. Where the external auditor has provided non-audit services the Audit Committee has concluded that the value of this

work is not so significant as to affect the independence of the auditor.

The role of the Remuneration and Nomination Committee in remuneration matters is to make recommendations to the Board on changes to the terms and conditions of appointment of the Executive Team, to determine the framework for the remuneration of the Executive Team, to oversee the general remuneration policy of the Company (in particular the salary and bonus arrangements for the Executive Team) and to be aware of, advise on and oversee any major changes in employee benefit structures throughout the Company.

The role of the Remuneration and Nomination Committee in nomination matters is to ensure that there is a proper procedure in place for the appointment of new non Panel/Industry Directors to the Board, and to ensure that succession plans are in place for Board members and members of the Executive Team so as to maintain an appropriate balance of skill and expertise within the Company and the Board. The Remuneration and Nomination Committee does not have a role in relation to the selection of new Panel/Industry Directors as the process for the selection of these Directors is set out in the BSC.

Attendance at Meetings 2010/11

Name of Director	Attendance at Board meetings	Attendance at Remuneration & Nomination Committees	Attendance at Audit Committees
Total Number of Meetings	9	4	3
Nick Durlacher *	5	3	1
Andrew Pinder *	8 (4 as Chairman Designate and 4 as Chairman)	4 (3 as Chairman Designate and 1 as Chairman)	3 (1 as Chairman Designate and 2 as Chairman)
Peter Teague	8	4	3
Jane E Tozer	9	4	3
Barbara Vest	9	4	3
Nigel Cornwall *	4	1	2
Sebastian Eyre *	4	2	1

* these Board members either joined or left part-way through the year



Directors' Remuneration

Note 11.3 to the Financial Statements sets out the Directors' remuneration for the year.

Relations with Shareholders

The Company is wholly owned by National Grid Electricity Transmission (NGET). The BSC provides that the Memorandum and Articles of Association of the Company are incorporated into and form part of the BSC. Together these documents set out the constitution of the Company, and the rights and responsibilities of NGET in relation to the Company. NGET does not have the right to appoint or remove Directors, change the Memorandum and Articles of Association or issue share capital in the Company. Certain principles set out in the UK Corporate Governance Code relating to shareholders and investors do not apply to the Company as a result of its nature and function and the nature, structure and composition of its Board.

Accountability and Audit

Financial Reporting

The Board considers that the Directors' Report and the Financial Statements present a balanced and understandable assessment of the Group's position and prospects. The Directors' responsibility for the Financial Statements is described in section 5 of this report.

Going Concern

Arrangements are in place to manage financial risk, as stated on page 7 of the Report of the Directors. As a result, the Board considers that there is a reasonable expectation that the Company will continue in operating existence for the foreseeable future and has therefore used the going concern basis of accounting in the preparation of the financial statements.

Internal Control

The Board, via the Audit Committee, is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against misstatement or loss.

The Board is of the view that a comprehensive process for identifying, evaluating and managing the Group's significant risks has been in place for the entire reporting period and up to the date of the approval of this document.

The Directors (sitting either as the Board or as the Audit Committee) review significant risks on a six monthly basis. This includes reviewing a report from the Executive Team with commentary on:

- the state of risk management and internal control;
- any significant failings or weaknesses identified during the period; and
- actions taken to remedy any significant weaknesses.

A complete review of ELEXON's risk management system was carried out in 2010/11. The objective of this review was to reassess our risks to better reflect our current circumstances as well as incorporate relevant, best practice improvements. A number of changes were implemented: the risks were reviewed and rationalised to better reflect ELEXON's risk exposure, the register itself was reformatted and a new business risk register created to manage departmental risk.

The risk management process has also been updated: both corporate and business risks are assessed monthly by the responsible individuals assigned to the risk. The monthly assessment will consider whether the threat of the risk is reducing or increasing as a result of the mitigation applied. Any new risks, both at a corporate and business level, will also be considered and added as necessary.



Risk changes will be collated by Corporate Assurance and reported to the monthly Executive Meeting. The Executive will decide if any business risks should be escalated to a corporate risk. They will also assess which risk changes or events merit inclusion in the risk section of the monthly Chief Executive's Report which is presented to the Board.

ELEXON has an Internal Audit function that provides the Audit Committee with independent, objective assurance regarding internal controls and risk management processes as part of the Company's risk management and assurance regime. The Audit Committee agrees a programme of internal audit work annually and reviews progress at each of its meetings with the head of the internal audit function.

Compliance Statement

Subject to the sections noted above and where the BSC takes precedence over requirements set out in the UK Corporate Governance Code or such requirements are not appropriate, the Group has complied with the provisions of the UK Corporate Governance Code throughout the year.



05. Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



06. Independent Auditor's Report to the Members of ELEXON Limited

We have audited the financial statements of ELEXON Limited for the year ended 31 March 2011 which comprise the Group Profit and Loss Account, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement and the related notes 11.1 to 11.22. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by

fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2011 and of the group's results for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.



Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Dean Cook, MA, FCA (Senior Statutory Auditor)

for and on behalf of **Deloitte LLP**

Chartered Accountants and Statutory Auditor

London, United Kingdom

16 June 2011

07. Consolidated Profit and Loss Account

	Notes	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
TURNOVER	11.2	30,367	31,531
Cost of sales		(30,380)	(31,569)
OPERATING RESULT	11.4	(13)	(38)
Interest receivable and similar income	11.5	13	38
Interest payable and similar charges		0	0
RESULT FROM ORDINARY ACTIVITIES BEFORE TAXATION		0	0
Tax on result from ordinary activities	11.6	0	0
RESULT FOR THE FINANCIAL YEAR		0	0
Retained result brought forward		0	0
Retained result carried forward		0	0

There are no movements in reserves, shareholder's funds, or any other recognised gains and losses and consequently no Statement of Recognised Gains and Losses has been presented. All activities arise from continuing operations.

The notes on pages 21 to 31 form part of these accounts.

o8. Consolidated Balance Sheet

	Notes	31 March 2011 £'000	31 March 2010 £'000
FIXED ASSETS			
Tangible assets	11.8	483	634
CURRENT ASSETS			
Debtors	11.10	46,921	40,366
Cash at bank and in hand	11.11	80,570	81,058
Total		127,491	121,424
CREDITORS: amounts falling due within one year	11.12	(127,450)	(121,438)
NET CURRENT ASSETS		41	(14)
TOTAL ASSETS LESS CURRENT LIABILITIES		524	620
CREDITORS: amounts falling due after more than one year	11.13	(524)	(620)
NET ASSETS		0	0
CAPITAL AND RESERVES			
Called up share capital	11.14	0	0
SHAREHOLDER'S FUNDS		0	0

The notes on pages 21 to 31 form part of these accounts.

These financial statements were approved by the Board of Directors on 14 June 2011.

Signed on behalf of the Board of Directors

Company Registration Number 3782949

Andrew Pinder

Director

09. Company Balance Sheet

	Notes	31 March 2011 £'000	31 March 2010 £'000
FIXED ASSETS			
Tangible assets	11.8	483	634
Investments	11.9	0	0
Total		483	634
CURRENT ASSETS			
Debtors	11.10	927	1,050
Cash at bank and in hand	11.11	4,921	4,734
Total		5,848	5,784
CREDITORS: amounts falling due within one year	11.12	(5,807)	(5,798)
NET CURRENT ASSETS		41	(14)
TOTAL ASSETS LESS CURRENT LIABILITIES		524	620
CREDITORS: amounts falling due after more than one year	11.13	(524)	(620)
NET ASSETS		0	0
CAPITAL AND RESERVES			
Called up share capital	11.14	0	0
SHAREHOLDER'S FUNDS		0	0

The notes on pages 21 to 31 form part of these accounts.

These financial statements were approved by the Board of Directors on 14 June 2011.

Signed on behalf of the Board of Directors

Company Registration Number 3782949

Andrew Pinder

Director

10. Consolidated Cash Flow Statement

	Notes	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Operating activities			
Net cash outflow from operating activities	11.19	(444)	(61,421)
Returns on investments and servicing of finance			
Interest received		13	38
Net cash inflow from returns on investments and servicing of finance		13	38
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(57)	(239)
Receipts from sales of tangible fixed assets		0	3
Net cash outflow from capital expenditure and financial investment		(57)	(236)
Decrease in cash and cash equivalents	11.20	(488)	(61,619)

The notes on pages 21 to 31 form part of these accounts.

11.1 Accounting Policies

The financial statements are prepared in accordance with United Kingdom law and applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Basis of consolidation

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

Basis of preparation

Arrangements are in place to manage financial risk, as stated on page 9 of the Report of the Directors. As a result the Board considers that there is a reasonable expectation that the Company will continue in operating existence for the foreseeable future and has therefore used the going concern basis of accounting in the preparation of the financial statements.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at original cost, together with any incidental cost of acquisition.

Depreciation is calculated on a straight-line basis over the useful life of the tangible fixed assets. The estimated useful life used for the purpose of these accounts is:

Fixtures and fittings	Four years
Office equipment	Three years
Operational assets – metering equipment	Ten years

Investments

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

Deferred Taxation

Deferred tax is recognised in respect of all timing differences that have originated or reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Leases

Operating lease rentals are charged to the profit and loss account in equal annual amounts over the lease term. Rent free periods have been treated in accordance with UITF 28 (Operating Lease Incentives) with the benefit being spread over the lease term on a straight-line basis.

Pension and Other Post Retirement Benefits

As described in note 11.17, the Group contributes to National Grid Electricity Transmission's (NGET) section of the Electricity Supply Pension Scheme (ESPS), a defined benefit scheme. The Group is unable to identify separately its share of NGET's section of the Scheme's underlying assets and liabilities and accordingly under Financial Reporting Standard 17 (Retirement Benefits) contributions are accounted for as if it were a defined contribution scheme.

For the defined contribution scheme the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as accruals or prepayments in the balance sheet.

Related Party Transactions

In line with Financial Reporting Standard 8 (Related Party Disclosures), the Company is not required to disclose transactions with wholly-owned subsidiaries.

11.2 Turnover

Turnover in the year represents amounts due from BSC Parties under the terms of the BSC. There is a reconciliation which charges/credits the difference between amounts invoiced to each BSC Party relating to the financial year and the amount due from each BSC Party under the terms of the BSC. Any difference is deferred or accrued as appropriate. All turnover arises from activities in the UK.

11.3 Information Regarding Directors and Employees

Under the BSC, the Chairman, after consultation with the Panel, determines the remuneration of the two Independent Directors (Peter Teague and Jane E Tozer). The two Industry Directors (Barbara Vest and Nigel Cornwall), in accordance with the BSC, are not entitled to remuneration other than costs and expenses properly incurred in attending meetings or otherwise in conducting the business of the Board. The Chairman's remuneration is determined by the Authority (Ofgem).

The remuneration of individual Directors for the year ended 31 March 2011 is set out below:

Remuneration of individual Directors for the year ended 31 March 2011:

Basic Salary and Fees	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Nick Durlacher (Chairman, resigned 30 September 2010)	72	145
Andrew Pinder (Chairman, Appointed 1 October 2010)	70	0
Peter Teague	28	28
Jane E Tozer	25	25
Barbara Vest	0	0
Sebastian Eyre (Resigned 30 September 2010)	0	0
Nigel Cornwall (Appointed 14 October 2010)	0	0
Total	195	198

Up to his resignation in September 2010, Nick Durlacher's remuneration remained at £144,890 per annum for three days a week in his dual role as BSC Panel and Board Chairman. Andrew Pinder was appointed to replace Nick Durlacher in October. Andrew's remuneration remained at £140,000 per annum for three days a week in this dual role as BSC Panel and Board Chairman since his appointment. Peter Teague and Jane E Tozer were paid fees of £28,000 and £25,000 per annum respectively. The Directors received no other benefits apart from

Nick Durlacher and Andrew Pinder who had private health insurance of £742 (31 March 2010: £1,551) and £742 (31 March 2010: £nil) respectively. Andrew Pinder is the only Director who is a member of the Company's defined contribution pension scheme. The company's contribution to Andrew's pension was £8,400 for the year ended 31 March 2011 (31 March 2010: £nil). None of the Directors hold any shares or share options in the Company.

Average number of persons employed

Year ended 31 March 2011	Year ended 31 March 2010
125	140

Staff costs during the year (including directors)

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Wages and salaries	6,643	7,100
Social security costs	670	724
Pension costs (See note 11.17)	2,043	1,290
Total	9,356	9,114

Overall wages and salaries costs were £6,643k (2010: £7,100k). After removing one-off severance payments to certain employees whose employment terminated in the year, the like-for-like comparison equates to an overall reduction of 11%. Pension costs were £2,043 (2010: £1,290). After removing one-off pension deficiency (top-up) payment for certain employees whose

employment terminated in the year, the like-for-like comparison equates to an overall increase of 22%. This was mainly due to the increase in pension deficit repair to the company's defined benefit pension scheme. For more details of our pension schemes, please refer to note 11.17.

11.4 Operating Result

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Operating result is after charging		
Depreciation	208	203
Loss on disposal of fixed assets	0	49
Operating lease rentals – land and buildings	1,666	1,666
– plant and machinery	20	23
Fees payable to the Company's auditor for the audit of the Company's accounts	54	54
Total non-audit fees	0	20

Audit fees

Group audit fees payable to Deloitte LLP were £53,500 (2010: £53,500) of which £50,500 (2010: £50,500) relates to the Company. No other fees were payable to Deloitte LLP (2010: £19,538).

11.5 Interest Receivable and Similar Income

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Bank interest	13	38

11.6 Tax on Result from Ordinary Activities

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
United Kingdom corporation tax at 28% (2009: 28%) based on the profit for the year	0	0

11.7 Result of Parent Company

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the parent Company, ELEXON Limited, is not presented as part of these accounts. The parent Company's result for the financial year was £nil (2010: £nil).

11.8 Tangible Fixed Assets

Group and Company

	Operational assets £'000	Fixtures and fittings £'000	Office equipment £'000	Total £'000
Cost				
At 1 April 2010	484	957	710	2,151
Additions	9	10	38	57
Disposals	0	0	0	0
At 31 March 2011	493	967	748	2,208
Accumulated depreciation				
At 1 April 2010	155	913	449	1,517
Charge for the year	46	15	147	208
Disposals	0	0	0	0
At 31 March 2011	201	928	596	1,725
Net book value				
At 31 March 2011	292	39	152	483
At 31 March 2010	329	44	261	634

11.9 Investments

Company investments at cost were £178 at 31 March 2011 (2010: £178).

11.10 Debtors

	Group		Company	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Trade debtors	104	114	104	114
Trading Party balances	45,994	39,316	0	0
Prepayments and accrued income	769	854	769	854
Other debtors	54	82	54	82
Total	46,921	40,366	927	1,050

Trading Party balances represent amounts due from Trading Parties under Section N of the BSC for the 28 days of trading from 4 March 2011 to 31 March 2011. A corresponding balance is included in Creditors: amounts falling due within one year (see note 11.12).

11.11 Cash at Bank and in Hand

Group cash of £80,569,927 (2010: £81,058,180) includes £75,649,273 (2010: £76,340,032) of security deposits lodged by Trading Parties with ELEXON Clear under Section M of the BSC. Amounts lodged as security deposits are the absolute property of ELEXON Clear but can only be used as credit cover for trading balances as set out in the BSC. The BSC also sets out the limited instances whereby security deposits are repaid to Trading Parties.

11.12 Creditors: Amounts Falling Due Within One Year

	Group		Company	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Security deposits lodged by Trading Parties (see note 11.11)	75,649	76,340	0	0
Trade creditors	932	2,173	932	2,173
Trading Party balances (see note 11.10)	45,994	39,300	0	0
Taxation and social security	730	131	730	131
Other creditors	98	104	98	104
Accruals and deferred income	4,047	3,390	4,047	3,390
Total	127,450	121,438	5,807	5,798

11.13 Creditors: Amounts Falling Due After More than One Year

	Group		Company	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Rent charges	524	620	524	620

Rent Charges

Under the terms of the lease for 350 Euston Road, ELEXON was granted an initial rent free period of 11 months. In accordance with UITF 28 (Operating Lease Incentives), the value of the rent free period is shown in the Balance Sheet and is amortised to the Profit and Loss account on a straight-line basis over the duration of the lease. The value of the rent free period that will be amortised to the Profit and Loss Account during financial years more than one year after the Balance Sheet date is shown within Creditors: amounts falling due after more than one year.

11.14 Called Up Share Capital

	2011 £	2010 £
Authorised:		
Ordinary shares of £1 each	100	100
Called up, allotted and fully paid:		
Ordinary share of £1	1	1

11.15 Financial Commitments

Operating lease commitments

The total annual commitments in respect of non-cancellable operating leases are analysed by year of expiry as follows:

	Group		Company	
	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Leases which expire:				
After five years	1,762	1,755	1,762	1,755

Operating lease commitments relate to land and buildings.



11.16 Ultimate Parent Company and Related Party Transactions

ELEXON is wholly owned by National Grid Electricity Transmission plc (NGET). The ultimate parent entity of NGET is National Grid plc.

The Directors are of the opinion that under Financial Reporting Standard 2 (Accounting for Subsidiary Undertakings) the financial statements of ELEXON do not require consolidation within the financial statements of National Grid plc group. Under Section C of the BSC, NGET is prohibited from consolidating the financial results of ELEXON or its subsidiaries with its own or with any of its affiliated entities.

There are no related party transactions, material to the Company or the related party, which are not eliminated on consolidation of the ELEXON Limited Group.

11.17 Pension Scheme

During the year ended 31 March 2011, about 34% of the Group's employees were members of NGET's section of the Electricity Supply Pension Scheme ("ESPS"), a defined benefit scheme. The assets of the Scheme are held in a separate trustee administered fund. The Scheme is divided into sections, one of which relates to NGET. NGET's section of the scheme provides final salary defined benefits and was closed to new entrants on 1 April 2006.

The Group's pension contributions are determined on a section-wide basis as advised by the actuary and are fully expensed in the Profit and Loss Account. Agreed Group contribution rates for the year ended 31 March 2011 were 20.5% (2010: 20.5%), following the results of the actuarial valuation as at 31 March 2007.

The latest full actuarial valuation of NGET's section of the Scheme was carried out by Hewitt Associates Limited as at 31 March 2007. The results of this actuarial valuation have been used as the basis for assessing pension costs. The projected unit method was used for the last valuation and the principal actuarial assumptions adopted were that the real annual rate of return on investments held

would average 6.4%; that the real annual increase in salary would average 4.6%; and that pensions would increase at a real annual rate of 3.8%. The total market value of assets relating to NGET's section of the Scheme at 31 March 2007 was £1,345m, but as the Scheme had a deficit of £405m at the valuation date the actuarial value of the assets represented approximately 77% of the actuarial value of benefits that had accrued to members measured on a past service basis.

At the date of approval of these financial statements, a full actuarial valuation of NGET's section of the Scheme as at 31 March 2010 had been undertaken, but not finalised. In light of the valuation, ELEXON estimates its deficit repair contributions are likely to increase to £614,000 per annum (previously £322,000 per annum) from 1 April 2010. The full estimate has been accrued at 31 March 2011, but the actual amount payable in respect of the year ended 31 March 2011 will be dependent on the finalisation of the valuation and agreement with the trustees, expected by the end of June 2011.

Since 1 September 2006 all new permanent employees have only been offered the option to join a new ELEXON Pension Scheme. The ELEXON Pension Scheme is a defined contribution Group Stakeholder Pension Plan. ELEXON matches employee contributions on a 2 for 1 basis to a maximum of 12% of basic salary.

Prior to the introduction of the new company pension scheme on 1 September 2006, ELEXON also operated an alternative pension facility which was to allow payments into an FSA approved defined contribution scheme for those not in the ESPS. This facility was closed to new entrants with effect from 31 August 2006 and existing members of the old scheme were transferred to the new ELEXON Pension Scheme in 2008.

The total pension cost for the year ended 31 March 2011 from all schemes comprised regular contributions of £1,443,156 (2010: £1,183,778), and other top-up payments required of £599,482 (2010: £105,743). At 31 March 2011 there were accrued pension liabilities of £777,756 (2010: £130,664).

11.18 Additional Information on Subsidiary Undertakings

Subsidiary undertaking	Country of registration	Activity	Portion of ordinary shares held %
Poolserco Limited	England and Wales	Non-trading	100
Poolit Limited	England and Wales	Holder of intellectual property rights and licences, non-trading	100
ELEXON Clear Limited	England and Wales	Legal counterparty to balance and imbalance transactions per the BSC	100
BSC Co. Limited	England and Wales	Non-trading	100

The results of all of the above entities are included within the consolidated financial statements.

11.19 Reconciliation of Operating Result to Net Cash Flow from Operating Activities

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Operating result	(13)	(38)
Depreciation charges	208	204
Loss on disposal of fixed assets	0	48
Increase in debtors	(6,555)	6,719
Increase in creditors	6,607	(5,842)
Decrease in security deposits lodged by Trading Parties	(691)	(62,512)
Net cash outflow from operating activities	(444)	(61,421)

11.20 Reconciliation of Net Cash Flow to Movement in Net Cash

	Year ended 31 March 2011 £'000	Year ended 31 March 2010 £'000
Net cash at 1 April	81,058	142,677
Decrease in cash in the period	(488)	(61,619)
Change in net cash resulting from cash flows	(488)	(61,619)
Net cash at 31 March	80,570	81,058

11.21 Analysis of Changes in Net Cash

	2010 £'000	Cash flow £'000	2011 £'000
Cash in hand and at bank at 1 April and 31 March	81,058	(488)	80,570

11.22 Subsequent Events

There are no events subsequent to 31 March 2011 requiring disclosure.

