

2010/11

nationalgrid

Annual Report and Accounts

Useful Information

Definitions and glossary of terms

Our aim is to use plain English in this Annual Report and Accounts. However, where necessary, we do use a number of technical terms and/or abbreviations and we summarise the principal ones below, together with an explanation of their meanings. The descriptions below are not formal legal definitions.

A

American Depositary Shares (ADSs)

Securities of National Grid listed on the New York Stock Exchange, each of which represents five ordinary shares. They are also commonly referred to as American Depositary Receipts or ADRs.

Annual General Meeting (AGM)

Meeting of shareholders of the Company held each year to consider ordinary and special business as provided in the Notice of AGM.

B

bar

A unit of pressure, approximately equivalent to 14.5 pounds per square inch.

Board

The Board of Directors of the Company (for more information see pages 8 and 9).

BritNed

BritNed Development Limited.

C

consolidated financial statements

Financial statements that include the results and financial position of the Company and its subsidiaries together as if they were a single entity.

called up share capital

Shares (common stock) that have been issued and have been fully paid for.

carrying value

The amount at which an asset or a liability is recorded in the balance sheet.

circuit length

See route length.

the Company, National Grid, we, our or us

We use terms 'the Company', 'National Grid', 'we', 'our' or 'us' to refer to either National Grid plc itself or to National Grid plc and its subsidiaries collectively, depending on context.

contingent liabilities

Possible obligations or potential liabilities arising from past events for which no provision has been recorded, but for which disclosure in the financial statements is made.

D

Dth

Decatherm, being an amount of energy equal to 1 million British thermal units (BTUs), equivalent to approximately 293 kWh.

decoupling

See revenue decoupling.

deferred tax

For most assets and liabilities, deferred tax is the amount of tax that will be payable or receivable in respect of that asset or liability in future tax returns as a result of a difference between the carrying value for accounting purposes in the balance sheet and the value for tax purposes of the same asset or liability.

derivative

A financial instrument or other contract where the value is linked to an underlying index, such as exchange rates, interest rates or commodity prices. In most cases, contracts for the sale or purchase of commodities that are used to supply customers or for our own needs are excluded from this definition.

dollars or \$

Except as otherwise noted all references to dollars or \$ in this Report are to the US currency.

E

employee engagement index

A key performance indicator, based on the percentage of favourable responses to certain indicator questions repeated in each employee survey, which provides a measure of how employees think, feel and act in relation to National Grid. Research shows that a highly engaged workforce leads to increased productivity and staff retention, therefore we use employee engagement as a measure of organisational health in relation to business performance.

equity

In financial statements, the amount of net assets attributable to shareholders.

F

FERC

The US Federal Energy Regulatory Commission.

finance lease

A lease where the asset is treated as if it was owned for the period of the lease and the obligation to pay future rentals is treated as if they were borrowings. Also known as a capital lease.

financial year

For National Grid this is an accounting year ending on 31 March. Also known as a fiscal year.

FRS

A UK Financial Reporting Standard as issued by the UK Accounting Standards Board. These apply to the Company's individual financial statements on pages 177 to 183, which are prepared in accordance with UK GAAP.

G

Grain LNG

National Grid Grain LNG Limited.

Great Britain

England, Wales and Scotland.

GW

Gigawatt, being an amount of power equal to 1 billion watts (10⁹ watts).

GWh

Gigawatt hours, being an amount of energy equivalent to delivering 1 billion watts of power for a period of one hour.

H

HSE

Health and Safety Executive, the main safety regulator in the UK.

I

IAS or IFRS

An International Accounting Standard or International Financial Reporting Standard, as issued by the International Accounting Standards Board (IASB). IFRS is also used as the term to describe international generally accepted accounting principles as a whole.

individual financial statements

Financial statements of a company on its own, not including its subsidiaries or joint ventures.

IFRIC

Guidance provided by the IFRS Interpretations Committee on how to apply accounting standards.

J

joint venture

A company or other entity which is controlled jointly with other parties.

K

KeySpan

KeySpan Corporation and its subsidiaries, acquired by National Grid on 24 August 2007.

kV

Kilovolt, being an amount of electric force equal to 1,000 volts.

kWh

Kilowatt hours, being an amount of energy equivalent to delivering 1,000 watts of power for a period of one hour.

L

Lifetime Allowance

The lifetime allowance is an overall ceiling on the amount of UK tax privileged pension savings that any one individual can draw.

LNG

Liquefied natural gas, being natural gas that has been condensed into a liquid form, typically at temperatures at or below -161°C (-258°F).

lost time injury

An incident arising out of National Grid's operations which leads to an injury where the employee or contractor normally has time off the following day or shift following the incident. It relates to one specific (acute) identifiable incident which arises as a result of National Grid's premises, plant or activities, which was reported to the supervisor at the time and was subject to appropriate investigation.

lost time injury frequency rate

The number of lost time injuries per 100,000 hours worked in a 12 month period.

M

MW

Megawatts, being an amount of power equal to 1 million watts.

MWh

Megawatt hours, being an amount of energy equivalent to delivering 1 million watts of power for a period of one hour.

mbar

A unit of pressure equal to 1/1000 bar, or approximately 0.0145 pounds per square inch.

N

National Grid Metering

National Grid Metering Limited, National Grid's UK regulated metering business.

New England

The term refers to a region within the northeastern US that includes the states of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont. National Grid's New England operations are primarily in the states of Massachusetts, New Hampshire and Rhode Island.

northeastern US

The northeastern region of the US, comprising the states of Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Vermont.

O

Ofgem

The UK Office of Gas and Electricity Markets, part of the UK Gas and Electricity Markets Authority (GEMA), which regulates the energy markets in the UK.

OnStream

Utility Metering Services Limited, National Grid's UK unregulated metering business.

ordinary shares

Voting shares entitling the holder to part ownership of a company. Also known as common stock. National Grid's ordinary shares have a nominal value of 11¹⁷/₄₃ pence.

P

Personal Lifetime Allowance

The lifetime allowance applicable to individuals who registered their pre 6 April 2006 UK pension benefits for protection.

price control

The mechanism by which Ofgem sets restrictions on the amounts of revenue we are allowed to collect from customers in our UK businesses. The allowed revenues are intended to cover efficiently incurred operational expenditure, capital expenditure and financing costs, including a return on equity invested.

R

rate base

The base investment on which the utility is authorised to earn a cash return. It includes the original cost of facilities, minus depreciation, an allowance for working capital and other accounts.

Definitions and glossary of terms continued

rate plan

The term given to the mechanism by which a US utility regulator sets terms and conditions for utility service, including in particular tariffs and rate schedules. The term can mean a multi-year plan that is approved for a specified period, or an order approving tariffs and rate schedules that remain in effect until changed as a result of a future regulatory proceeding. Such proceedings can be commenced through a filing by the utility or on the regulator's own initiative.

regulated controllable operating costs

Total operating costs under IFRS less depreciation and certain regulatory costs where, under our regulatory agreements, mechanisms are in place to recover such costs in current or future periods.

regulatory asset value (RAV)

The value ascribed by Ofgem to the capital employed in the relevant licensed business. It is an estimate of the initial market value of the regulated asset base at privatisation, plus subsequent allowed additions at historical cost, less the deduction of annual regulatory depreciation. Deductions are also made to reflect the value realised from the disposal of certain assets that formed part of the regulatory asset base. It is also indexed to the retail price index to allow for the effects of inflation.

revenue decoupling

Revenue decoupling is the term given to the elimination of the dependency of a utility's revenue on the volume of gas or electricity transported. The purpose of decoupling is to eliminate the disincentive a utility otherwise has to encourage energy efficiency programmes.

RIIO

The revised regulatory framework issued by Ofgem which will be implemented in the next round of price controls which will start in April 2013.

route length

The route length of an electricity transmission line is the geographical distance from the start tower to the end tower. In most cases in the UK, and in many cases in the US, the transmission line consists of a double circuit for additional reliability. In such cases, the circuit length is twice the route length.

S

SEC

The US Securities and Exchange Commission, the financial regulator for companies with registered securities in the US, including National Grid and certain of its subsidiaries.

share premium

The difference between the amounts shares are issued for and the nominal value of those shares.

shrinkage

Shrinkage is the difference between the amount of gas entering the system and that which is billed to consumers, due to either transportation consumption or loss. This difference is mainly made up of gas leakage from distribution mains and certain activities and equipment which vent gas. Shrinkage also occurs when gas is stolen or not charged for in error.

standard cubic metre

A quantity of gas which at 15°C and atmospheric pressure (1.013 bar) occupies the volume of 1m³.

stranded cost recoveries

The recovery of historical generation-related costs in the US, related to generation assets that are no longer owned by us.

subsidiary

A company or other entity that is controlled by National Grid.

T

treasury shares

Shares that have been repurchased but not cancelled.

tonne

A unit of mass equal to 1,000 kilogrammes, equivalent to approximately 2,205 pounds.

tonnes carbon dioxide equivalent (CO₂e)

A measure of greenhouse gas emissions in terms of the equivalent amount of carbon dioxide.

TWh

Terawatt hours, being an amount of energy equivalent to delivering 1 billion watts of power for a period of 1,000 hours.

U

UK

The United Kingdom, comprising England, Wales, Scotland and Northern Ireland.

UK Corporate Governance Code

Guidance, issued by the Financial Reporting Council, on how companies should be governed, applicable to UK listed companies including National Grid. It replaces the Combined Code.

UK GAAP

Generally accepted accounting principles in the UK. These differ from IFRS and from US GAAP.

Uniform Network Code

The legal and contractual framework for the supply and transport of gas in the UK, comprising a common set of rules for all industry participants which ensure competition can be facilitated on level terms.

US

The United States of America.

US GAAP

Generally accepted accounting principles in the US. These differ from IFRS and from UK GAAP.

V

vanilla return

Metric used by Ofgem to define the allowed rate of return within the price control reviews for our UK regulated businesses. Our calculation uses IFRS business performance operating profit adjusted for various items to reflect the replacement of certain IFRS based accounting treatments with a regulatory based treatment. Primarily these items are depreciation, capital costs, pensions and taxation. The adjusted IFRS operating profit is divided by the regulatory asset value inflated to mid year to generate a percentage rate of return.

Summary consolidated financial information

Financial summary (unaudited)

The financial summary set out below has been derived from the audited consolidated financial statements of National Grid for the five financial years ended 31 March 2011. It should be read in conjunction with the consolidated financial statements and related notes, together with the Operating and Financial Review. The information presented below for the years ended 31 March 2007, 2008, 2009, 2010 and 2011 has been prepared under IFRS issued by the IASB and as adopted by the European Union.

	31 March 2011 £m	31 March 2010 £m	31 March 2009 £m	31 March 2008 £m	31 March 2007 £m
Summary income statement					
Revenue*	14,343	14,007	15,687	11,498	8,778
Operating profit					
Before exceptional items, remeasurements and stranded cost recoveries	3,600	3,121	2,915	2,595	2,031
Exceptional items, remeasurements and stranded cost recoveries	145	172	(292)	369	482
	3,745	3,293	2,623	2,964	2,513
Profit before tax					
Before exceptional items, remeasurements and stranded cost recoveries	2,473	1,974	1,770	1,829	1,486
Exceptional items, remeasurements and stranded cost recoveries	151	219	(376)	353	265
	2,624	2,193	1,394	2,182	1,751
Profit for the year attributable to equity shareholders					
Before exceptional items, remeasurements and stranded cost recoveries	1,747	1,418	1,259	1,275	1,146
Exceptional items, remeasurements and stranded cost recoveries	412	(32)	(315)	1,915	248
	2,159	1,386	944	3,190	1,394
Summary statement of net assets					
Non-current assets	39,787	38,488	37,712	30,830	21,109
Current assets	6,323	5,065	6,755	5,435	5,312
Assets of businesses held for sale	290	–	–	1,506	1,968
Total assets	46,400	43,553	44,467	37,771	28,389
Current liabilities	(6,826)	(6,559)	(7,026)	(7,146)	(3,360)
Non-current liabilities	(30,395)	(32,783)	(33,457)	(25,188)	(20,443)
Liabilities of businesses held for sale	(110)	–	–	(63)	(450)
Total liabilities	(37,331)	(39,342)	(40,483)	(32,397)	(24,253)
Net assets	9,069	4,211	3,984	5,374	4,136
Summary cash flow statement					
Cash generated from operations					
Continuing operations	4,854	4,372	3,564	3,265	3,090
Discontinued operations	–	–	(8)	10	181
	4,854	4,372	3,556	3,275	3,271
Tax received/(paid)	4	144	(143)	(110)	(313)
Net cash inflow from operating activities	4,858	4,516	3,413	3,165	2,958
Net cash flows used in investing activities	(4,774)	(2,332)	(1,998)	(3,023)	(4,061)
Net cash flows (used in)/from financing activities	(430)	(2,212)	(877)	(1,592)	1,278
Net (decrease)/increase in cash and cash equivalents	(346)	(28)	538	(1,450)	175

*Items previously reported separately as 'other operating income' have been included within revenue

Useful information

Financial calendar

The following dates have been announced or are indicative of future dates:

1 June 2011	Ordinary shares go ex-dividend for 2010/11
3 June 2011	Record date for 2010/11 final dividend
8 June 2011	Scrip reference price announced
20 July 2011	Scrip election date
25 July 2011	2011 Annual General Meeting and interim management statement
17 August 2011	2010/11 final dividend paid to qualifying ordinary shareholders
17 November 2011	2011/12 half year results
30 November 2011	Ordinary shares go ex-dividend
2 December 2011	Record date for 2011/12 interim dividend
18 January 2012	2011/12 interim dividend paid to qualifying ordinary shareholders
January/February 2012	Interim management statement
May 2012	2011/12 preliminary results

Key milestones

Some of the key dates and actions in the history of National Grid are listed below. The full history goes back much further. For example, the first national gas company in the UK commenced operations in 1812.

1986	British Gas incorporated as a public limited company
1990	Electricity transmission network in England and Wales transferred to National Grid on electricity privatisation
1995	National Grid listed on the London Stock Exchange
1997	Centrica demerged from British Gas (BG)
1997	Energis demerged from National Grid
2000	Lattice Group demerged from BG and listed separately
2000	New England Electric System and Eastern Utilities Associates acquired
2002	Niagara Mohawk Power Corporation merged with National Grid in US
2002	National Grid and Lattice Group merged to form National Grid Transco
2004	UK wireless infrastructure network acquired from Crown Castle International Corp
2005	Four UK regional gas distribution networks sold and National Grid adopted as our name
2006	Rhode Island gas distribution network acquired
2007	UK and US wireless infrastructure operations and the Basslink electricity interconnector in Australia sold
2007	KeySpan Corporation acquired
2008	Ravenswood generation station sold
2010	Rights issue raised £3.2 billion

Share price

The following graphs represent the movement of National Grid's share price during 2010/11. A graph showing the total shareholder return over the last five years is available on page 102.

Share price

pence



■ Ordinary share price (pence)

ADS price

US\$



■ ADS price (US\$)

Capital Gains Tax (CGT)

CGT information relating to National Grid shares can be found on our website under investors or obtained from Capita Registrars. Share prices on specific dates can also be found on our website at www.nationalgrid.com.

Website and electronic communication

More information about National Grid, and specifically for shareholders, is available on the National Grid website at www.nationalgrid.com. We encourage shareholders to receive documents electronically via the website and suggest registering an email address via www.nationalgridshareholders.com. Shareholders then receive an email alert when shareholder documents become available on the website and a link directly to them.