

Lattice Group plc

Annual Report and Financial Statements

For the year ended 31 March 2014

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Lattice Group plc
Strategic Report
For the year ended 31 March 2014

The Directors present their Strategic Report on the Company for the year ended 31 March 2014.

Review of the business

The Company holds investments in other National Grid plc subsidiary companies and obtains and provides finance to fellow subsidiary companies via intercompany balances.

Executive summary

During the year the Company has received £600 million (2013: £1,900 million) of dividend income from its subsidiary, National Grid Gas Holdings Limited and paid an interim dividend of £600 million (2013: £500 million) to its immediate parent company, National Grid Holdings One plc. Both of these transactions have been settled by movements on intercompany loan assets and liabilities.

During the year there have been no significant changes in the Company's investments and no other significant changes in the Company's intercompany balances.

Results, as detailed below, largely depend on investment income received and interest received.

Results

The Company's profit for the financial year was £621 million (2013: £1,913 million).

Financial position

The financial position of the Company is presented in the balance sheet. Total shareholders' funds at 31 March 2014 were £2,362 million (2013: £2,341 million) comprising fixed asset investments of £675 million (2013: £675 million) and net current assets of £1,687 million (2013: £1,666 million).

Key performance indicators and principal risks and uncertainties

As the Company is part of a larger group, the management of the Company does not involve the use of key performance indicators, other than the profit or loss for the year, in measuring the development, performance or the position of the Company and the principal risks and uncertainties are integrated with the principal risks of National Grid plc. For information on the development, performance, risks, uncertainties and position of National Grid plc and its subsidiaries ('National Grid'), and of the key performance indicators used, refer to the Strategic Report included in National Grid plc's Annual Report and Accounts 2013/14, which does not form part of this report.

Future developments

The Directors believe the current level of trading activity as reported in the profit and loss account will continue in the foreseeable future with no anticipated significant balance sheet movements.

Approved by the Board and signed on its behalf by:



H M Rayner
Secretary
3 September 2014

Lattice Group plc
Directors' Report
For the year ended 31 March 2014

The Directors present their report and the audited financial statements of the Company for the year ended 31 March 2014.

Future developments

Details of future developments have been included within the Strategic Report on page 1.

Dividends

During the year the Company has paid an interim ordinary dividend totalling £600 million (2013: £500 million).

The Directors do not recommend the payment of a final ordinary dividend (2013: £nil).

Financial risk management

The management of the Company and the execution of the Company's strategy are subject to a number of financial risks. The Directors have identified the need to manage the Company's material financial risks, including liquidity, credit and interest rate risks. These risks are monitored through a National Grid Treasury management function which invests surplus funds, mitigates foreign exchange exposure and manages borrowings for National Grid plc and its subsidiaries.

Treasury also seeks to limit third party counterparty risk which arises from the investment of surplus funds and the use of derivative financial instruments. Treasury monitors the exposure that National Grid has with any one counterparty against agreed limits and these limits are monitored regularly and updated for changes in credit ratings.

Liquidity risk

The Company finances its operations through a combination of retained profits, new share issues and intercompany loans to ensure that the Company has sufficient long-term and short-term funds available for current operations and future activities.

Credit risk

No material exposure is considered to exist in respect of intercompany loans.

Interest rate cash flow risk

The Company has both interest bearing intercompany assets and interest bearing intercompany liabilities. To the extent that the Company enters into intercompany loans, the Company's exposure to interest rate cash flow risk arises on such loans on which interest is charged based upon sterling LIBOR.

Lattice Group plc
Directors' Report (continued)
For the year ended 31 March 2014

Directors

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

A J Agg (Resigned 31 May 2013)
F L Beaney
D C Bonar
A R J Bonfield
M C Cooper
E D Fraser
S J Holliday
S C Humphreys (Appointed 1 June 2013)
M D Noble
D A Preston
C J Waters

Directors' indemnity

National Grid has arranged, in accordance with the Companies Act 2006 and the Articles of Association, qualifying third party indemnities against financial exposure that Directors may incur in the course of their professional duties. Alongside these indemnities, National Grid places Directors' and Officers' liability insurance for each Director.

Going concern

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

Disclosure of information to auditors

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.

Lattice Group plc
Directors' Report (continued)
For the year ended 31 March 2014

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic and Directors' 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 prepared 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 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.

Approved by the Board and signed on its behalf by:


H M Rayner
Secretary
3 September 2014

Registered office:
1-3 Strand
London
WC2N 5EH

Registered in England and Wales
Company registration number: 3900804

Independent auditors' report to the members of

Lattice Group plc

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the Company's affairs as at 31 March 2014 and of its profit 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.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The financial statements, which are prepared by Lattice Group plc, comprise:

- the Balance sheet as at 31 March 2014;
- the Profit and loss account for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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). In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). 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 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 and Financial Statements (the "Annual Report") to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matter prescribed by the Companies Act 2006

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

**Independent auditors' report to the members of
Lattice Group plc (continued)**

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' responsibilities set out on page 4, 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 ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



Stephen Snook (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
4 September 2014

Lattice Group plc
Profit and loss account
For the years ended 31 March

	Notes	2014 £m	2013 £m
Income from shares in a subsidiary undertaking		600	1,900
Interest receivable and similar income	4	29	16
Interest payable and similar charges	5	(3)	(1)
Profit on ordinary activities before taxation	2	626	1,915
Tax on profit on ordinary activities	6	(5)	(2)
Profit for the financial year	12	621	1,913

The results reported above relate to continuing activities.

The Company has no recognised gains and losses other than the profit for the financial years stated above and therefore no separate statement of total recognised gains and losses has been presented.

Lattice Group plc

Balance sheet

As at 31 March

	Notes	2014 £m	2013 £m
Fixed asset investments	8	<u>675</u>	<u>675</u>
Current assets			
Debtors: amounts falling due within one year	9	2,507	2,779
Debtors: amounts falling due after more than one year	9	<u>1</u>	<u>2</u>
		2,508	2,781
Creditors: amounts falling due within one year	10	(821)	(1,115)
Net current assets		<u>1,687</u>	<u>1,666</u>
Total assets less current liabilities		<u>2,362</u>	<u>2,341</u>
Net assets		<u>2,362</u>	<u>2,341</u>
Capital and reserves			
Called up share capital	11	361	361
Share premium account	12	3	3
Other reserve	12	14	14
Profit and loss account	12	<u>1,984</u>	<u>1,963</u>
Total shareholders' funds	13	<u>2,362</u>	<u>2,341</u>

The financial statements on pages 7 to 15 were approved by the Board of Directors on 3 September 2014 and signed on its behalf by:



E D Fraser
Director

Lattice Group plc
Notes to the financial statements
For the year ended 31 March 2014

1 Accounting policies

(a) Basis of preparation

These financial statements have been prepared on the going concern basis in accordance with applicable UK accounting and financial reporting standards (FRS) and the Companies Act 2006. They have been prepared on an historical cost basis and are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates. The 2013 comparative financial information has also been prepared on this basis.

In accordance with Section 400 of the Companies Act 2006, the Company is exempt from preparing consolidated financial statements, as it is included within the consolidated financial statements of National Grid plc.

The Company is a wholly owned subsidiary within a group headed by National Grid plc and is included in the consolidated financial statements of that company which are publicly available. Consequently the Company has taken advantage of the exemption within FRS 1 (revised 1996) 'Cash Flow Statements' from preparing a cash flow statement.

Further, in accordance with exemptions under FRS 29 'Financial Instruments: Disclosures', the Company has not presented the financial instruments disclosures required by the standard, as disclosures that comply with the standard are included in the consolidated financial statements of National Grid plc.

(b) Fixed asset investments

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

(c) Taxation

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

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

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

Lattice Group plc
Notes to the financial statements (continued)
For the year ended 31 March 2014

1 Accounting policies (continued)

(d) Financial instruments

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

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

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

(e) Dividends

Interim dividends are recognised when they become payable to the Company's shareholders. Final dividends are recognised in the financial year in which they are approved.

2 Profit on ordinary activities before taxation

Audit fees of £12,000 (2013: £11,000) have been borne by the immediate parent company and not recharged.

Disclosure of non-audit fees is not required as these have been disclosed in the consolidated financial statements of National Grid plc.

3 Directors and employees

The emoluments of the Directors are not paid to them in their capacity as Directors of the Company and are payable for services wholly attributable to other National Grid subsidiary undertakings. Accordingly, no details in respect of their emoluments have been included in these financial statements. During the year there were 6 Directors (2013: 5) who exercised share options in or received ordinary shares as part of long term incentive plans of the ultimate parent company, National Grid plc.

There were no employees of the Company during the year (2013: none).

4 Interest receivable and similar income

	2014 £m	2013 £m
Interest receivable from fellow subsidiary undertakings	25	12
Interest receivable from ultimate parent company	4	4
	<u>29</u>	<u>16</u>

Lattice Group plc
Notes to the financial statements (continued)
For the year ended 31 March 2014

5 Interest payable and similar charges

	2014 £m	2013 £m
Interest payable to fellow subsidiary undertakings	1	1
Interest payable to immediate parent company	2	-
	<u>3</u>	<u>1</u>

6 Tax on profit on ordinary activities

	2014 £m	2013 £m
Current tax:		
UK corporation tax	<u>4</u>	<u>1</u>
Deferred tax:		
Origination and reversal of timing differences	<u>1</u>	<u>1</u>
Tax charge on profit on ordinary activities	<u>5</u>	<u>2</u>

The tax for the year is lower (2013: lower) than the standard rate of corporation tax in the UK of 23% (2013: 24%). The differences are explained below:

	2014 £m	2013 £m
Profit on ordinary activities before taxation	<u>626</u>	<u>1,915</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 23% (2013: 24%)	144	460
Effect of:		
Non-taxable income from shares in subsidiary undertakings	(138)	(456)
Taxation on transfer pricing adjustments	(1)	(2)
Movement in other short-term timing differences	(1)	(1)
Total current tax charge for the year	<u>4</u>	<u>1</u>

Factors affecting current and future tax charges

The Finance Act 2013 (the Act) was substantively enacted on 2 July 2013. The Act further reduced the main rate of UK corporation tax to 21% with effect from 1 April 2014 and 20% from 1 April 2015.

The reduction in the UK corporation tax rate to 20% from 1 April 2015 has been enacted and deferred tax balances have been calculated at this rate.

7 Dividends

	2014 £m	2013 £m
Equity – ordinary		
Interim paid: 16.60p (2013: 13.84p) per £0.10 share	<u>600</u>	<u>500</u>

Lattice Group plc
Notes to the financial statements (continued)
For the year ended 31 March 2014

8 Fixed asset investments

	Shares in subsidiary undertakings £m
Cost:	
At 1 April 2013 and 31 March 2014	718
Provision:	
At 1 April 2013 and 31 March 2014	43
Net book value:	
At 31 March 2013 and 31 March 2014	675

In accordance with section 410 of the Companies Act 2006, the undertakings whose results or financial position principally affect the figures shown in the Company's financial statements were as follows:

Name of subsidiary	% Holding	Principal activity
National Grid Gas Holdings Limited	100	Investment holding company
National Grid Commercial Holdings Limited	100	Investment holding company and provision of corporate centre services
National Grid Grain LNG Limited	100	Gas storage company

The above subsidiaries are registered in England and Wales.

The Company also controls indirectly through its subsidiary undertakings a number of companies. The principal subsidiaries all of which are registered in England and Wales include:

Name of subsidiary	Principal activity
National Grid Gas plc	Gas transportation and distribution services company
National Grid Metering Limited	Gas metering services company
Xoserve Limited	Gas transportation transaction services company
National Grid Property Holdings Limited	Property development company

The Directors believe that the carrying values of the investments are supported by the fair value of their underlying net assets.

Lattice Group plc
Notes to the financial statements (continued)
For the year ended 31 March 2014

9 Debtors

	2014 £m	2013 £m
Amounts falling due within one year:		
Amounts owed by fellow subsidiary undertakings	2,118	2,393
Amounts owed by immediate parent company	2	2
Amounts owed by ultimate parent company	387	384
	<u>2,507</u>	<u>2,779</u>
Amounts falling due after more than one year:		
Deferred tax	<u>1</u>	<u>2</u>
Deferred tax	2014 £m	2013 £m
Other short-term timing differences	<u>1</u>	<u>2</u>
	2014 £m	2013 £m
Deferred tax asset at 1 April	2	3
Charged to profit and loss account	<u>(1)</u>	<u>(1)</u>
Deferred tax asset at 31 March	<u>1</u>	<u>2</u>

There are no other significant unrecognised deferred tax assets or liabilities (2013: £0).

10 Creditors: amounts falling due within one year

	2014 £m	2013 £m
Amounts owed to subsidiary undertakings	438	437
Amounts owed to fellow subsidiary undertakings	328	321
Amounts owed to immediate parent company	45	344
Other creditors	10	13
	<u>821</u>	<u>1,115</u>

Other creditors includes £5 million (2013: £8 million) received from fellow subsidiary undertakings in relation to group pension costs not yet paid over to the National Grid UK Pension Scheme.

11 Called up share capital

	2014 £m	2013 £m
Allotted, called up and fully paid		
3,613,496,929 ordinary shares of £0.10 each	<u>361</u>	<u>361</u>

Lattice Group plc
Notes to the financial statements (continued)
For the year ended 31 March 2014

12 Reserves

	Share premium account £m	Other reserve £m	Profit and loss account £m
At 1 April 2013	3	14	1,963
Profit for the financial year	-	-	621
Dividends paid (see note 7)	-	-	(600)
At 31 March 2014	3	14	1,984

13 Reconciliation of movements in total shareholders' funds

	2014 £m	2013 £m
Profit for the financial year	621	1,913
Dividends (see note 7)	(600)	(500)
Net increase in shareholders' funds	21	1,413
Opening shareholders' funds	2,341	928
Closing shareholders' funds	2,362	2,341

14 Pensions

Lattice Group plc is the sponsoring company of The National Grid UK Pension Scheme.

The defined benefit arrangements are funded with assets held in separate trustee administered funds. The arrangements are managed by trustee companies with boards consisting of company and member appointed directors. The directors are required to manage the arrangements in accordance with local regulations and the arrangements' governing documents, acting on behalf of its beneficiaries.

The arrangements are subject to independent actuarial funding valuations at least every three years and following consultation and agreement with National Grid, the qualified actuary certifies the employers' contribution, which, together with the specified contributions payable by the employees and proceeds from the scheme's assets, are expected to be sufficient to fund the benefits payable. The last full actuarial valuations were carried out as at 31 March 2010. The 2013 valuations are ongoing.

The last full actuarial valuation was carried out by Towers Watson as at 31 March 2010. The market value of the Scheme's assets was £13,399m and the value of the assets represented approximately 96% of the actuarial value of benefits due to members, calculated on the basis of pensionable earnings and service at 31 March 2010 on an ongoing basis and allowing for projected increases in pensionable earnings. There was a funding deficit of £599m (£479m net of tax) on the valuation date in light of which National Grid agreed a recovery plan with the Trustees. The total contributions to be made to the National Grid UK Pension Scheme for all participating members for 2014/15 is estimated to be £113m.

Following consultations during the past year with affected employees and our trade union partners and the positive outcome of trade union ballots, National Grid, working with the Trustees, will implement changes to the benefits provided by its defined benefit pension schemes from 1 April 2014. From April 2014 an annual cap will be placed on future increases to the salary used to calculate pensions at the lower of 3% or the annual increase in the Retail Price Index. This capped salary will apply to all pensionable service from 1 April 2013 onwards. The aim of these changes is to ensure the Scheme remains affordable and sustainable over the coming years.

Lattice Group plc
Notes to the financial statements (continued)
For the year ended 31 March 2014

14 Pensions (continued)

The 2010 actuarial funding valuation showed that, based on long-term financial assumptions, the contribution rate required to meet future benefit accrual was 35% of pensionable earnings (32% by employers and 3% by employees). In addition, National Grid makes payments to the scheme to cover administration costs and the Pension Protection Fund levy. The employer contribution rate and administration costs are being reviewed as part of the 2013 valuation.

The Company accounts for the scheme as if it were a defined contribution scheme, as its share of the underlying assets and liabilities of the Scheme's defined benefit section cannot be identified separately. This is because the scheme is a mature scheme with a reducing number of active members. In addition, over time the split of pensioners and deferred members is difficult to allocate given the changes in the group structure noted during the scheme's existence. Outstanding/prepaid pension contributions at 31 March 2014 were £nil (2013: £nil).

The fair value of liabilities and assets of the defined benefit section of the Scheme are recognised in the consolidated financial statements of National Grid plc (the Company's ultimate parent company) in accordance with International Accounting Standard 19 'Employee Benefits'. The fair value of liabilities and assets of the defined benefit section of the Scheme at 31 March 2014 and 2013, calculated in accordance with FRS 17 'Retirement Benefits', are set out below:

Years ended 31 March	2014 £m	2013 £m
Actuarial value of plan liabilities	(15,631)	(15,929)
Fair value of plan assets	<u>15,452</u>	<u>15,449</u>
Liability in the scheme	<u>(179)</u>	<u>(480)</u>

15 Related party transactions and ultimate parent company

The Company is exempt under FRS 8 'Related Party Disclosures' from disclosing transactions with National Grid plc and its subsidiary undertakings where all of the voting rights are held within the group. There were no related party transactions with other companies.

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

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