

Overview & Investment Thesis:

- **Long-term opportunity to capitalize on the growing infrastructure needs around the world:** There have been significant levels of under funding in electrical transmission and distribution infrastructure over the past forty years. NG is in an excellent position to capitalize on this problem with their strong reputation by renewing these assets and generating a regulated return on each dollar spent.
- **NG has superior operational experience in running a transmission and distribution business:** NG's proven operational track record and experience should enable the Company to continue driving down costs and grow earnings.
- **In the U.K. National Grid continues to focus investment on replacing ageing assets and on major infrastructure reinforcement:** In the U.S., National Grid is restoring baseline business performance through implementing new rate plans, strengthening its regulatory relationships and improving operating efficiency.
- **A low risk business:** future revenue streams are fairly predictable. Some 95% of NG's revenues are regulated, and the majority of the remainder are guaranteed under long-term contracts. A portfolio of approximately 20 regulatory agreements diversifies regulatory risks.
- **A low risk business:** Although a sustained period of deflation may negatively impact financial results, over 50% of net debt is index linked/floating rates. Also as there are no commodity exposures under U.K. agreements, movement in energy prices only have a modest impact.

Business Segments:

- **U.K. Transmission:** 7,200 kilometers of overhead transmission lines. 713 kilometers of underground transmission cable. 7,600 kilometers of high pressure gas pipelines.
- **U.S. Transmission:** 13,800 kilometers of overhead transmission lines. 140 kilometers of underground transmission cable. 525 electricity substations.
- **U.K. Gas Distribution:** 132,000 kilometers of gas distribution pipeline. 14,477 above ground installations, serving nearly 11 million consumers.
- **U.S. Electricity Distribution & Generation:** serves approximately 3.4 million electricity customers over a network of approximately 116,800 circuit kilometres in New England and upstate New York. Also owns 57 electricity generation units on Long Island, N.Y., providing 4.1 GW of power.
- **U.S. Gas Distribution:** 58,000 kilometers of gas pipeline. 26,400 square kilometers of service territory.
- **Non-Regulated Businesses:** Over 20 million gas meters in Great Britain. Capacity to supply 4% of current U.K. gas demand. NG manages the properties of around 800 sites. Because it is an unregulated business, this division is allowed to make returns over and above the regulated returns.

Regulatory Asset Value and Rate Base:

- Across NG's regulated businesses, the primary revenue driver is a return based on the value of regulated assets. In the U.K. the regulated asset value (RAV) is defined as the value ascribed by the regulator to the capital employed in the relevant licensed business. It is formed of an estimate of initial market value of the asset base at privatisation, plus subsequent allowed additions at historical cost, less depreciation. It is indexed to the U.K. retail price index to adjust for inflation.
- In the U.S. the rate basis is defined as base investment on which the utility is authorized to earn a cash return. It includes the original cost of facilities, less depreciation and an allowance for working capital.
- Crucially, as long as NG can control costs and improve its efficiency, the returns it makes on regulated assets should increase. In 2008, NG's efficiency metric (controllable costs/asset base) was 8.2%, in 2009 8.1% and it is set to fall below 8% in 2010 and beyond.

Business Description:

National Grid plc (NG) principal operations are the ownership and operation of regulated electricity and gas infrastructure networks in the United Kingdom and the United States serving around 19 million customers directly and many more indirectly. It also has interests in related markets, including electricity interconnectors, metering services, liquefied natural gas (LNG) importation facilities and property in the United Kingdom. The Company's business operations are divided into segments, which include Transmission-UK, Transmission-US, Gas Distribution-UK, Gas Distribution US, US Electricity Distribution and US stranded cost recoveries. Its remaining businesses are classified as other operations. NG also has LNG storage and transportation and non-regulated gas transmission pipelines in the U.S. and is a generator of electricity on Long Island, N.Y. The group has over 28,000 employees located in the U.K. and U.S.

Industry Growth Drivers/Trends:

- NG's capital expenditure has been steadily increasing in recent years due to the changing energy environment and the need to replace end of life assets in its core regulated businesses. Capital expenditures reached a record £ 3.3 billion in 2009/10 of which £ 2.2 billion was focused on the U.K. Over the next 5 years NG forecasts capital expenditure to increase significantly - totalling approximately £ 22 billion of which three quarters will be in the U.K. and 60% will be in the transmission business.
- In addition, NG has identified a pipeline of investment opportunities within the U.K. (offshore transmission, interconnectors, expansion of the groups liquefied natural gas import facility) which are aligned with its core business and estimated to be up to £ 1 billion over the next 5 years.
- NG successfully completed a rights issue in June 2010 raising £ 3.2 billion to fund a portion of the above mentioned investment programme. NG directors expect the rights issue proceeds to make a positive contribution to earnings in the year-ending 31, March 2011 as a result of lower interest expense reflecting lower average levels of debt, although the dilutory impact on earnings per share will subsist for that year.
- Aside from replacing ageing assets, there are attractive long-term growth prospects driven by GDP growth, increases in wealth, population growth, and increased power consumption. Further privatization and consolidation opportunities should also provide additional growth.
- The trend towards cleaner energies and environmental concerns should also have a positive impact on the future demand for natural gas.

Competitive Advantages:

- Scale advantage.
- Purchasing power and significant capital requirements.
- Proven track record of successfully addressing regulator's requirements.

Competitors:

- NG's gas distribution and electricity transmission/distribution platforms are monopolies in the regions in which they operate.

Barriers to Entry:

- Regulated environment.
- Experience of managing complex monopolistic networks.
- Capital intensive.

Customers:

- Fragmented customer base comprised of residential communities, industries and commercial users in the U.S. and U.K. market.

Officers and Directors:

Leadership team: Chairman, Sir John Parker; Chief Executive Officer, Steve Holliday; Finance Director, Steve Lucas.

Board of Directors:

- **14 member board:** Chairman plus 5 executive directors, 7 non-executive directors.
- Sir John Parker became Chairman in October 2002 following the merger of NG and Lattice Group. He is also Chairman of Anglo American plc, Deputy Chairman of DP World (Dubai) and a non-executive director of Carnival plc.
- Steve Holliday became CEO in January 2007, joining NG in 2001 responsible for electricity and gas transmission and formerly an executive director of British Borneo Oil and Gas and prior to that 19 years with Exxon Group.
- Steve Lucas became Finance Director in October 2002 following the merger of NG and Lattice Group. Previously he was treasurer of British Gas plc.
- Ken Harvey, Sr. Independent Director joined the Board in October 2002 and appointed Sr. Independent Director in October 2004. He is Chairman of Pennon Group plc and is a chartered engineer.
- Members of the Audit Committee and Remuneration Committee, are all independent, non-executive directors with between them experience in engineering, energy, telecommunications and finance.
- 5 executive directors total compensation = £ 7.3m < 0.3% of operating profit.

Ownership:

Blackrock 5.4%, Investco 4.87%, Crescent Holdings 4.31%, Norges Bank 4.08%, Legal & General Group 4.0%, Deutsche Bank 3.02%

Capital Allocation/Uses:

National Grid has added shareholder value by investing in organic growth under regulatory regimes and long-term contracts, by continuing to deliver operating effectiveness and by maintaining an efficient capital structure. The exceptional growth rate now available to N.G. mostly replacing ageing U.K. infrastructure prompted a £ 3.2 billion, 2 for 5 rights issue. The issue will help fund the capital expenditure, maintain the groups 'A' credit rating and deliver attractive returns to shareholders, while strengthening the group's long-term competitive position to take advantage of an appropriate share of U.K. growth opportunities. In addition, N.G. intends to maintain its policy of targeting an 8% per annum increase in dividend until March 31, 2012, after adjusting for the rights issue. Beyond 2012, N.G. intends to pursue a policy that targets real growth in dividends reflecting the strong growth prospects of the business.

Portfolio Composition:

Revenue by Service	2007	2008	2009	2010
U.K. Transmission	32%	25%	22%	24%
U.S. Transmission	3%	3%	3%	3%
U.K. Gas Distribution	14%	12%	9%	11%
U.S. Gas Distribution	7%	24%	30%	26%
U.S. Electricity Distribution & Generation	35%	30%	31%	31%
U.S. Stranded Cost Recoveries	5%			
Other Activities	7%	6%	5%	5%
Sales Between Businesses	(3%)			

Revenue by Geography	2007	2008	2009	2010
U.S.	49%	58%	34%	39%
U.K.	51%	42%	66%	61%

Operating Profit by Service	2007	2008	2009	2010
U.K. Transmission	39%	39%	42%	38%
U.S. Transmission	4%	5%	5%	4%
U.K. Gas Distribution	17%	23%	23%	21%
U.S. Gas Distribution	3%	15%	13%	14%
U.S. Electricity Distribution	15%	13%	12%	21%
U.S. Stranded Cost Recoveries	17%			
Other Activities	5%	5%	5%	2%

Operating Profit by Geography	2007	2008	2009	2010
U.S.	41%	44%	34%	39%
U.K.	59%	56%	66%	61%

Financial Statement Summary: (£MM, years ended March 31)

Income Statement	2007	2008	2009	2010
Total Revenue	8,695	11,423	15,624	13,988
Operating Income	2,513	2,964	2,623	3,293
Net Income, continuing ops	1,310	1,581	1,253	1,421
Fully diluted EPU, continuing ops	0.43	0.53	0.45	0.56
ROE	32%	29%	32%	34%

Balance Sheet	2007	2008	2009	2010
Net Debt	11,788	17,641	22,673	22,139
Common Equity	4,125	5,362	3,970	4,199
Net Debt: Common Equity	2.9	3.3	5.7	5.3

Capital Expenditure	2007	2008	2009	2010
U.S.	365	560	972	1,065
U.K.	2,007	2,493	2,270	2,187
ROW	3	1	0	0
Total	2,375	3,054	3,242	3,252

Key Profitability Ratios and Figures:

Y/E March 31	2007	2008	2009	2010
Cash Generated (£ millions)	3,090	3,265	3,564	4,372
Interest Coverage	3.8x	3.2x	3.1x	3.9x
**Return on Equity	12.0%	11.8%	10.8%	11.3%
S&P Credit Rating	A	A-	A-	A-

Sourced from Thomson Reuters and 2009 Annual Report.

*U.S. Stranded Cost Recovery: Recovery of initial cost of running transmission lines to customers.

**Return on Equity (the 3 year average and excludes exceptional and stranded cost recoveries)

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