

**Annual General Meeting/  
Extraordinary General Meeting**

**National Grid plc**

**The ICC, Birmingham**

**Monday, 31 July 2006**

**Chairman's Business Review**

I would now like to take this opportunity to report to you on our progress this year. As you will have read in the Annual Report, we have had another very successful year under our new National Grid name – which you approved at last year's AGM.

We have made considerable progress towards our goal to be the world's premier network utility by continuing to create value from our existing businesses and identifying new opportunities at home and abroad.

Managing our networks to the highest standards of safety is at the core of everything we do. Nothing we do is more important than the safety of our employees, contractors, customers and the general public. Our safety record has again improved on our already very high standards as we move towards our target of zero injuries across the Group.

I am therefore pleased to report that in the last financial year, the number of injuries that resulted in employees across the Group taking time off work has reduced by 27%. Contractor lost time injuries fell by 18.5%.

Against these significant improvements, it is all the more tragic that one of our UK distribution colleagues was overcome by gas and died while re-laying a gas service pipe. Our deepest sympathies are with the family. This incident serves as a stark reminder that we must continue to develop ever safer ways of working.

We also continue to manage Britain's national gas emergency service telephone number on behalf of all gas transporters. More than 97% of gas escapes where the leak cannot be stopped by turning the supply off at the meter were attended within one hour, meeting the required service standard. More than 98% of gas escapes where the leak can be stopped at the meter were attended within two hours, exceeding the required service standard of 97%.

Turning to our results, I can report that our financial performance has been very strong, underpinned by our continued focus on our operational priorities of safety, reliability, efficiency and responsibility.

Looking at the key financial highlights, underlying earnings per share was up 10% on last year and underlying operating profit rose by 3% to over £2.5 billion. Cash generated from operations exceeded £3.1 billion, up 8%.

Subject to your approval today, we are recommending a final dividend of 15.9 pence per ordinary share, bringing the total dividend for the year to 26.1 pence per ordinary share. This is an increase of 10% for the full year. As a result of the Group's financial strength and future prospects, we are also continuing to target annual increases of 7% to March 2008. Since the merger in 2002, our dividend on ordinary shares has increased by more than 60%.

This set of financial results, coupled with our disciplined investment programme and excellent operational progress, demonstrate our continued commitment to drive our strategy forward to create further value for our shareholders.

Investment in our existing networks remains a top priority for the Group, with investment of more than £12 billion projected over the next five years.

This investment is driven by asset replacement in our Transmission business as the bulk of the electricity network was built in the 1960s and 70s and is due for renewal, and some of the above ground parts of the gas transmission network are also reaching the end of their lives. The investment also reflects the changing UK energy infrastructure requirements and the Government's renewable energy policy.

We must develop our networks to meet the changing patterns of supply and demand, and ensure that our UK Transmission business has the infrastructure in place to connect to new sources of electricity such as wind generation and new sources of gas imports, including the importation of liquefied natural gas by sea.

One such investment programme was the completion of the £200 million London infrastructure project that links Elstree in Hertfordshire to St John's Wood, North London last September. The new circuit will enable us to continue to meet London's increasing demand for electricity.

We are also expanding our liquefied natural gas import facility at the Isle of Grain in Kent. Commercial operations commenced on the first phase just over a year ago and when the second phase is complete, it will be capable of importing and processing around 13% of the nation's current annual gas demand.

We are also making strategic investments and in the US, we have announced two acquisitions.

First, KeySpan Corporation, a northeastern US gas and electricity distribution company, which is subject to your approval at an EGM following this meeting. KeySpan serves 2.6 million gas customers in New York, Massachusetts and New Hampshire and also operates an electricity transmission and distribution network serving 1.1 million customers in New York.

Second, Southern Union Company's Rhode Island gas distribution business, which serves approximately 245,000 customers through a distribution network of over 3,000 miles of mains.

By combining our current US operations with those of KeySpan and the Rhode Island gas distribution business, we expect to become the largest gas delivery business in the northeastern US and the third largest in the US as a whole.

These proposed acquisitions represent an excellent fit with our strategy, building on our core skills of owning and operating gas and electricity network infrastructure, and they are expected to provide us with additional opportunities for growth.

Our society depends on the reliable transmission and distribution of electricity and gas. No doubt many of you will have been caught up in World Cup fever over the past month and a half. You may also have tuned in to some of the TV

and radio coverage highlighting the crucial role National Grid was playing during this tournament.

Our role as Great Britain System Operator meant that the sudden peaks and troughs in Britain's power demands during and after games were met. These surges in demand are known as "TV pick ups" and are generally caused when people put lights or kettles on at half time or at the end of the match. Keeping pace with these sudden peaks in demand is down to a highly-skilled team of engineers at our Electricity National Control Centre.

Delivering long-term value demands that we manage our business responsibly and contribute to the societies in which we operate. I am proud to report that this year has again seen external endorsement of our responsible business approach.

We continue to feature in the Dow Jones Sustainability World and FTSE4Good indices. We are one of only two multi-utilities listed in the Dow Jones Sustainability World Index, confirming that our approach to responsible business is indeed world-class.

In May, we were placed equal fourth in Business in the Community's fourth Corporate Responsibility Index, a leading UK benchmark of responsible business. We are the only company to be ranked in the top five for three years running.

We are often questioned about the number of women or people from ethnic minorities sitting at this table. While I acknowledge there is no change on the composition of the Board since last year, I am pleased to report that we are making great progress in encouraging diversity across the workplace.

We have launched 'Women in Networks' which aims to allow employees to share and explore some of the issues affecting women in the workplace. We have also launched the Ethnic Diversity Network. One of its key aims is to support National Grid in becoming an employer of choice for ethnic minorities. Finally, this month, we launched Enabling – our disability network aimed at enabling all employees to become more "disability confident" by gaining a better understanding of disability.

We hope these networks provide the first step towards encouraging a more diverse workforce at all levels in the organisation.

As you know, we take great pride in supporting customers and communities through our community investment activities. You will have read about programmes such as the Affordable Warmth Programme and Young Offender into Work Programme in our Annual Report. We also make direct donations to charity and I am pleased to report the donation to four UK and two US charities of £145,000 of small fractional entitlements following last year's return of cash.

We very much welcome opportunities such as this to meet with you, our shareholders. We are therefore delighted to continue our innovative and prize-winning 'Shareholder Networking' programme, allowing shareholders to meet staff and visit operational sites. Details of how you might take part in a visit

are included in your Annual Report and you can obtain more information at our help desk.

Today, sadly, is the last National Grid AGM at which my Board colleagues and I will share the stage with Roger Urwin and John Grant.

As I said in the Annual Report, Roger intends to retire from the Company at the end of this year after 35 years in the utility industry. As Group Chief Executive for the last five years, Roger has led National Grid through transformational change and delivered an outstanding track record of success and value creation. His dedicated and rigorous leadership has put the Company on a very firm footing for future growth and positioned National Grid to become one of the world's leading utility companies. At the Board's request Roger agreed to defer his retirement to enable a smooth transition.

Roger, thank you for your outstanding contribution to National Grid. It has been my privilege to have worked closely with you for the past four years.

The Board undertook a thorough process of evaluating both internal and external candidates for the role of Group Chief Executive, and we are delighted that Steve Holliday emerged from this process, with the unanimous support of the Non-executive Directors, as Roger's successor. Steve was appointed Deputy Group Chief Executive from April this year. Since joining National Grid in 2001, Steve has led both the UK Transmission and the UK Gas Distribution businesses to world-leading performance. All the directors and myself are confident in the future of the Group under Steve's leadership.

John Grant steps down as a Non-executive Director following today's meeting. Since his appointment in 1995, John has made a major contribution to the Board and has chaired both the Audit and Remuneration Committees.

He has been a major contributor to all our key debates and we will miss his wisdom and insight. John, we thank you for all you have contributed to National Grid.

Finally, I cannot end today without mentioning our employees in the UK, US and Australia. None of the achievements I have outlined today would have been possible without their continued commitment, dedication and professionalism.

On your behalf, I would like to thank them for their commitment over the last year. I feel confident that their contribution will help us build on past achievements to the benefit of you, our shareholders, and the millions of customers served by our networks.