

National Grid plc
2007 AGM
Chairman's Business Review

Annual General Meeting
National Grid plc
The ICC, Birmingham
Monday, 30 July 2007, 2pm

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 successful year during which we have announced a refreshed strategy which Steve Holliday our new Chief Executive will explain later.

Managing our networks to the highest standards of safety is at the core of everything we do. However we have not seen an improvement in our safety record with an increase of 21% in the last financial year for the number of injuries that resulted in employees across the company taking time off work. I am also saddened by the loss of one of our contractors, who died while working in one of our electricity transmission substation. Our deepest sympathies are with the family. This incident and the statistics serve as a stark reminder that we must continue to develop ever safer ways of working as well as continuing to maintain our efforts in this area.

Turning to our results, I can report that our financial performance this year has been strong. Looking at the key financial highlights, underlying earnings per share was up 16% on last year and underlying operating profit rose by 6% to over £2.5 billion. Cash generated from operations exceeded £3 billion, up 4%. Subject to your approval today, we are recommending a final dividend of 17.8 pence per ordinary share, bringing the total dividend for the year to 28.7 pence per ordinary share. This is an increase of 10% for the full year. As a result of the Company's financial strength and future prospects, we are also continuing to target annual increases of 7% to March 2008. The dividend has increased since the merger by 67%.

We will be announcing a revised dividend policy later in the financial year which will reflect the strong outlook for the business.

Over the financial year we have progressed the two acquisitions announced last year. We successfully completed the acquisition from the Southern Union Company of the Rhode Island gas business in August 2006. The Rhode Island network covers approximately 245,000 customers and around 3,000 miles of mains.

The second acquisition being progressed is with the KeySpan Corporation, a northeastern US gas and electricity distribution company. 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 under a long-term contract with the Long Island Power Authority. We have received six of the seven approvals required for this acquisition, with agreement in principle on the seventh. On completion about half our business will be based in the US and we will be the number 1 utility business in the Northeastern US and number 2 in the US as a whole.

These 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.

As many of you will have been aware from the recent news headlines, National Grid as well as other utility companies has had to deal with a number of severe weather related events this year. As you will have seen in the Annual Report, we have dealt with floods and snow and ice storms in New York State, and in the UK we have had to manage the severe storms in January as well as the recent unprecedented flooding. As a Company we aim to respond to these events as effectively and efficiently as possible and have in place relevant plans to cover for these circumstances.

The responses to these events from our staff were excellent and, although some households and businesses were cut off from either gas or electricity for a period of time, our actions have ensured that, when safe to do so, services were back to these individuals within the shortest time possible. We will continue to focus efforts in these areas to ensure that we can provide a service that is as reliable as practicable.

The Board and I are aware that through times of growth and change we must not lose our focus on the way we do business. Therefore I am proud that National Grid has continued to be recognised as a company that carries out its business in a responsible manner, being sector leader of the Dow Jones Sustainability World Index, continuing our representation in the FTSE4Good Index and being recognised as a 'Platinum' company in the Business in the Community 2006 Corporate Responsibility Index.

Progress is also being made on the area of Inclusion and Diversity; three of our employee networks covering gender, ethnicity & faith, and disabilities have now celebrated their 1st anniversaries. These networks are providing a valuable facility to both the staff and the company so that we can appreciate and understand the issues that these groups face.

We also continue our focus on the community and as part of this approach I am delighted that National Grid is supporting the Special Olympics in Great Britain. The Special Olympics is a community-driven programme of local clubs and events open to anyone who has a learning disability, with over 200 clubs offering opportunities to participate in sport every day. The support we are offering will allow us to help the communities in which we operate in as well as giving our staff the opportunity to enhance their personal development.

I am delighted and proud of the 80 companies that work alongside us on the Young Offenders Programme. Of particular note is that we expect over 1000 young people to be placed into secure jobs or training by the end of this calendar year. The programme has demonstrated its effectiveness by cutting the re-offending rate of those participating from over 70% to about 7%, a dramatic improvement in standards.

The Board has seen a number of changes over the year. As mentioned earlier we have seen the successful transfer of the Chief Executive role to Steve Holliday in January 2007. We are also pleased to welcome Mark Fairbairn to

the Executive team, as Executive Director for the Gas Distribution Business. Both Steve and Mark have worked within the Company for sometime and it is gratifying to see internal candidates developing for the benefit of the Company.

The other new member of the Board is Linda Adamany, who joined us in November 2006, as a Non-executive Director. Her background in the US and energy sector is an asset to the Board.

During the year Mike Jesanis stepped down as an Executive director, he had been with the Company for 23 years and we thank him for his contributions.

Paul Joskow steps down as a Non-executive Director following tomorrow's Board meeting. Since his appointment in 2000, Paul has supported and contributed significantly to the Board, and has chaired the Finance Committee. He has been a major contributor to all our key debates and we will miss his support and advice. Paul, we thank you for all you have contributed to National Grid.

In addition I would like to welcome Bob Catell, who is here today. Bob is the Chairman and CEO of Keyspan and will be joining the Board of National Grid following the expected completion of the Keyspan acquisition.

Also with us today is Tom King, who was recently announced as the Executive Director designate of our Electricity Distribution Business in the US. Tom will be joining the Board on the 13th August.

Finally, before I hand over to Steve, I cannot end without mentioning our employees in the UK and US. None of the achievements mentioned today would have been possible without their continued commitment, dedication and professionalism. On your behalf, I would like to thank them for their contribution 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.

Over to you, Steve.