Corporate Governance

Governance

The Board of National Grid plc remains committed to embedding leading corporate governance practices throughout the organisation. It is responsible for ensuring that proper governance arrangements for the Company and its businesses, based on the Combined Code and current and developing best practice, are in place. The Board leads the Company's governance through National Grid's Framework for Responsible Business and its standards of conduct for all employees. We are also involved in the Business Leaders Initiative on Human Rights and have developed an inclusion and diversity vision for our businesses. The framework and standards described above, plus other documentation relating to National Grid's governance, can be found on our website at www.nationalgrid.com.

We complied fully with all the provisions set out in Section 1 of the Combined Code on Corporate Governance, as issued by the Financial Reporting Council in 2003, throughout the year. We also seek to comply with various corporate governance guidelines, such as those issued by the Association of British Insurers, the National Association of Pension Funds and the Hermes Principles.

The Board

The Board of National Grid was composed as follows and attendance at Board meetings was as indicated from a total of 11 meetings during 2006/07:

Name	Attendance*
Chairman	
Sir John Parker	11 of 11
Chief Executive	
Steve Holliday (Chief Executive from 1 January 2007)	11 of 11
Roger Urwin (to 31 December 2006)	9 of 9
Executive Directors	
Steve Lucas	11 of 11
Nick Winser	11 of 11
Mark Fairbairn (from 1 January 2007)	2 of 2
Edward Astle	11 of 11
Mike Jesanis (to 31 December 2006)	5 of 9
Non-executive Directors	
Ken Harvey (Senior Independent Director)	10 of 11
Linda Adamany (from 1 November 2006)	5 of 5
John Allan	7 of 11
John Grant (to 31 July 2006)	3 of 3
Paul Joskow	10 of 11
Stephen Pettit	10 of 11
Maria Richter	11 of 11
George Rose	10 of 11

* Attendance is expressed as number of meetings attended out of number eligible to attend

Biographical details for all the Directors can be found on pages 18 and 19, together with details of Board Committee memberships.

Directors are sent papers for meetings of the Board and those Committees of which they are a member whether they are able to attend the meeting or not. In the event that a Director is unable to attend a meeting, they are able to relay their views and comments via the relevant Committee chairman, another Committee member or the Chairman of the Board.

Provided we complete the acquisition of KeySpan, Robert B. Catell, currently Chairman and Chief Executive Officer of KeySpan, will join the Board as Deputy Chairman. The intended retirement from the Board of Paul Joskow will be with effect from 31 July 2007. He will be replaced as chairman of the Finance Committee by Maria Richter with effect from 31 July 2007.

The service contracts (Executive Directors) and letters of appointment (Non-executive Directors) of Board members are available for inspection by National Grid's shareholders at our registered office and also at the Annual General Meeting (AGM) prior to the meeting. Further details regarding the Directors' service contracts/letters of appointment can be found in the Directors' Remuneration Report on pages 88 to 98. Directors are submitted for re-election by National Grid's shareholders at the first AGM following their initial appointment and then at least once every three years. Further details regarding those Directors due for re-election at the 2007 AGM can be found in the Notice of 2007 AGM.

Non-executive Director independence

Each of the Non-executive Directors has been determined by the Board to be independent following initial consideration by the Nominations Committee. The independence of the Non-executive Directors is considered at least annually and is based on the criteria suggested in the Combined Code. Further, the Nominations Committee also considers the character, judgement and behaviour of each Non-executive Director plus their performance on the Board and the relevant Committees.

In determining length of service, the Board takes into account service on the Board of National Grid plus that on the boards of either Lattice Group plc or National Grid Group plc prior to their merger. Under these criteria, Professor Paul Joskow has now served on the Board for seven years. His time as a director of New England Electric System (NEES) is not considered to have an impact on his independence given NEES now represents a minor part of our operations overall. Professor Joskow has been viewed by the Board as a valuable member as it recognises his extensive knowledge of the US utility scene and considers him to be a world authority on utility regulation.

Chairman, Chief Executive and Senior Independent Director

The roles of the Chairman and the Chief Executive are separate and have been defined and approved by the Board. The Chairman's main responsibility is the leadership and management of the Board and its governance. The Chief Executive is responsible for the leadership and day-to-day management of the Company and the execution of strategy as approved by the Board.

During the year, the Chairman's main positions outside the Company were as Senior Non-executive Director of the Court of the Bank of England, Deputy Chairman of Port and Free World Zone (Dubai) and a Non-executive Director of Carnival plc and Carnival Corporation, Inc. The Chairman's contractual commitment to National Grid is two days per week, but in practice this is often exceeded.

Following the announcement of Roger Urwin's retirement, a rigorous succession process was put in place, led by the Chairman and Non-executive Directors, to identify a new Chief Executive. This led to the appointment of Steve Holliday as Deputy Chief Executive with effect from 1 April 2006, enabling a progressive and smooth handover of responsibilities in accordance with a transition plan approved by the Chairman and Non-executive Directors.

The Senior Independent Director is Ken Harvey, who has held the role since 21 October 2004. His responsibilities include leading the Non-executive Directors' annual consideration of the Chairman's performance. He is also available to shareholders in the event they feel it inappropriate to communicate via the Chairman, the Chief Executive or the Finance Director, but we received no such requests from shareholders during the year.

Information and professional development

The Chairman, with the support of the Company Secretary & General Counsel, is responsible for ensuring the Directors continually update their skills, knowledge and familiarity with National Grid. The aim is to ensure that Board members are equipped and have adequate information to enable them to play a fully effective part on the Board.

A new Director's knowledge of the Company and its operations is facilitated upon appointment to the Board via a tailored and wide-ranging induction programme. For example, on the appointment of Linda Adamany on 1 November 2006, this programme included the provision of past Board materials and presentations to provide background information on the Company's businesses and operations. Information on the Board's processes, compliance and governance was also supplied through a Day One Information Pack. Site visits and meetings with key senior management personnel and Executive Directors were also arranged. The aim of the induction programme was to equip her with up to date knowledge of the Company and its businesses to enable her to participate fully and effectively at Board meetings at an early date following her appointment.

Mark Fairbairn, being already a senior executive within the Company, received no formal induction on his appointment to the Board with regard to the Company and its operations. However, he did receive a briefing from the Chairman and the Company Secretary & General Counsel regarding his role as a member of the Board. Steps are also being taken to ensure he is familiar with all areas of the business, particularly those outside his previous direct experience.

Following appointment, Directors' attendance at meetings is continually monitored to ensure key site visits and presentations are not missed. Directors are also encouraged to attend external courses where they feel such education and training would support their position on the Board and its Committees.
In particular, this is aimed, where necessary, at keeping Directors informed of current issues, emerging developments or increasing their effectiveness as a Director. Directors can ask the advice of the Company Secretary & General Counsel and are also given access to independent professional advice, at the Company's expense, as necessary. No independent professional advice was requested by any of the Directors during the year other than that already provided to Committees by external advisors such as the consultants to the Remuneration Committee.

Particular attention is paid to the development of the Executive Directors. Development programmes put in place for their benefit include external mentoring, attendance at external courses and business schools and experience of other boardrooms through non-executive appointments. With the agreement of the Board and as part of their personal development, the Chief Executive, Steve Holliday, is a Non-executive Director of Marks and Spencer Group plc and Steve Lucas, Finance Director, is a Non-executive Director of Compass Group PLC.

Performance evaluation

In each financial year since 2003/04, the Board has undertaken a formal and thorough evaluation of its performance and that of its Committees and Directors.

As in previous years, in 2006/07 this took the form of a survey completed by all Directors in relation to the Board and any Committee of which they were a member at the time of the evaluation. In addition, one-to-one meetings were held between the Chairman and each Director. Additionally, certain regular attendees at specific Committee meetings were asked to complete a survey in relation to the relevant Committee.

In 2006/07, the Board considered, as it had in previous years, the merit of using an external body to manage the performance evaluation process. It concluded it remained most appropriate for the Company Secretary & General Counsel to issue the surveys and collate and analyse the results and for the Chairman to continue his practice of holding one-to-one review meetings with each of the Directors. The Board did, however, agree to reconsider this decision on an annual basis going forward.

The Board survey was revised in 2006/07 to reflect comments made in previous years and ensure the process remained fresh and relevant. The surveys covered broadly similar areas for both the Board and its Committees, as laid out in the table below.

Board performance	Committees' performance
■ Chairman ■ Chief Executive* ■ Non-executive Directors ■ Board size, composition, induction and training	■ Membership and attendance (including internal attendance, external advice) ■ Chairmanship
■ Board governance	■ Terms of reference (including interactions with other Committees)
■ Board performance (including contribution to, participation in and communication of strategy)	■ Role and structure (including fulfilment of role)
■ Operation (including papers, presentations, meeting scheduling, frequency)	■ Operations (including meeting scheduling, frequency) ■ Papers and presentations
■ Performance evaluation (effectiveness of process)	

* This section of the Board survey was not completed to allow time for the Board to assess the performance of the new Chief Executive during 2007 given his appointment in January 2007

Based on the outcome of the various steps in the performance evaluation process, the Board considered itself to be performing effectively and to have successfully implemented the improvement action plans that followed from the previous year's review. However, the process continued to identify areas where further improvement could aid its overall effectiveness. Actions identified from the 2006/07 evaluation process include:

- considering additional development areas for Directors as appropriate;

- producing templates and guidance for Board and Committee papers and presentations to ensure information presented is clear and relevant; and
- devoting additional time to debating long term succession plans, particularly in relation to the Non-executive Directors (a number of whom, in two to three years time, approach the nine year independence service limit outlined in the Combined Code), as a result of recent appointments to and resignations from the Board and the planned acquisition of KeySpan.

Following the 2005/06 evaluation process, a number of actions were implemented and these included:
- reviewing and revising the Company's core values;
- reviewing and revising the structure of Executive Committee meetings and relevant paperwork; and
- arranging additional site visits for Non-executive Directors between scheduled Board meetings.

The Chairman's performance was reviewed by the Non-executive Directors, led by the Senior Independent Director, in November 2006. The results of this review were discussed with the Chairman, with his overall performance and leadership deemed to be satisfactory.

Board operation

The Board of National Grid considers the overall direction and effective control of the Company and its businesses to be of utmost importance and, to that end, it reserves a number of matters for its sole consideration. A description of the Matters Reserved to the Board is available on our website. The key areas included are:
- corporate governance;
- strategy and finance, such as the proposal to acquire KeySpan, and approval of the budget and business plan;
- Director and employee issues such as Director succession planning (with input and recommendations from the Nominations Committee); and
- listing requirements such as dividend approval and recommendation and approval of results announcements and the Annual Report and Accounts.

Certain items are considered at every scheduled meeting of the Board, covering the following:
- safety, health and the environment;
- financial status of the Company;
- operational headlines from the Company's businesses plus a detailed update from one of the lines of business on a rotating basis;
- update on business development and strategy implementation;
- update on external matters affecting the Company; and
- report from the Company Secretary & General Counsel including an update on the administration and governance of the Company and its businesses.

The Chairman and Non-executive Directors meet at least once a year without any management present and at least once a year with the Chief Executive present. These meetings provide an opportunity for the Non-executive Directors to consider issues relating to the overall governance and management of the Company including succession planning and other issues within their remit as independent directors. Additionally, the Chairman regularly communicates with the Non-executive Directors on an informal basis.

The Board has delegated authority to its Committees to carry out certain tasks as defined in the Committees' terms of reference, which have been agreed by the Board and are available on our website. These comprise the Audit, Executive, Finance, Nominations, Remuneration and Risk & Responsibility Committees. By delegating authority for the consideration of policy and oversight of specific items to these Committees, the Board ensures these items are given appropriate attention in terms of both time and priority. To keep the Board appraised of Committee activities, Committee chairmen provide a summary of the issues discussed and decisions taken at the Board meeting immediately following a Committee meeting. Draft minutes of Committee meetings are circulated to Directors once available.

Audit Committee

The Audit Committee membership and attendance at meetings was as follows during 2006/07 from a total of four meetings:

Name	Attendance*
George Rose (chairman)	4 of 4
Linda Adamany (from 1 November 2006)	2 of 2
John Allan	3 of 4
John Grant (to 31 July 2006)	1 of 1
Ken Harvey (1 August to 31 October 2006)	1 of 1
Maria Richter	4 of 4

* Attendance is expressed as number of meetings attended out of number eligible to attend

The Board has determined that George Rose has recent and relevant financial experience and deems him to be a suitably qualified financial expert as required by the Audit Committee's terms of reference. His biographical details are on page 19.

Others invited to attend Audit Committee meetings on a regular basis include the Chairman, Chief Executive, Finance Director, Corporate Director of Audit, Company Secretary & General Counsel and the external auditors. Additionally, the Executive Directors, Risk & Compliance Manager and Financial Controller are invited to attend Audit Committee meetings as necessary to provide updates and background information.

The key items for which the Audit Committee has responsibility and that it has discussed during the year include:
- monitoring and reviewing the effectiveness of internal audit activities and the appointment of the Corporate Director of Audit;
- making recommendations to the Board regarding the appointment of the external auditors and oversight of the external auditors;
- reviewing the effectiveness of the Company's financial reporting and internal control policies;
- monitoring Sarbanes-Oxley compliance;
- whistleblowing and complaints procedures;
- monitoring risk and compliance management and reviewing specific risks such as those associated with the acquisition of KeySpan;
- receiving reports from the Business Separation Compliance Officer, as required under National Grid Gas plc's gas transporter licences; and
- reviewing results statements and the Company's Annual Report and Accounts before publication and making appropriate recommendations to the Board following review.

All non-audit work carried out by the external auditors is subject to Audit Committee pre-approval to ensure the objectivity and independence of the external auditors is maintained. Details of the fees paid to the external auditors for both audit and non-audit work carried out during the year can be found in note 4 to the accounts on page 116.

Executive Committee

The Executive Committee membership and attendance at meetings was as follows during 2006/07 from a total of 11 meetings:

Name	Attendance*
Steve Holliday (chairman from 1 September 2006)	11 of 11
Edward Astle	11 of 11
Mark Fairbairn (from 19 October 2006)	5 of 5
Steve Lucas	11 of 11
Nick Winser	10 of 11
Roger Urwin (to 31 December 2006, chairman to 31 August 2006**)	5 of 8
Mike Jesanis (to 31 December 2006)	6 of 8
Helen Mahy, Company Secretary & General Counsel	11 of 11

* Attendance is expressed as number of meetings attended out of number eligible to attend
** In accordance with the handover of responsibilities plan

Senior management personnel are invited to attend meetings of the Executive Committee as necessary to keep it fully appraised of the Company's businesses. Attendance of management personnel at Executive Committee and other Board and Committee meetings is monitored by the Executive Committee as part of the Board's succession planning and development programmes. This monitoring was implemented as a result of the 2005/06 performance evaluation process.

The Executive Committee is responsible for the day-to-day management of the Company and its businesses. The key items for which the Executive Committee has responsibility and that it has discussed during the year include:

- reviewing reports of the financial, operational, safety and environmental performance of the Company and its businesses;
- developing and implementing strategy, subject to Board approval;
- monitoring the Company's businesses through the receipt and consideration of regular reports;
- approving expenditure under the specific authority delegated to it by the Board; and
- approving changes to the Non-executive Directors' remuneration after taking appropriate external advice.

Finance Committee

The Finance Committee membership and attendance at meetings was as follows during 2006/07 from a total of six meetings:

Name	Attendance*
Paul Joskow (chairman)	6 of 6
Steve Holliday (from 1 January 2007)	1 of 2
Steve Lucas	6 of 6
Stephen Pettit	6 of 6
Maria Richter	6 of 6
Roger Urwin (to 31 December 2006)	4 of 4

* Attendance is expressed as number of meetings attended out of number eligible to attend

The Tax & Treasury Director is invited to attend Finance Committee meetings on a regular basis to provide updates and background information.

The key items for which the Finance Committee has responsibility and that it has discussed during the year include:

- granting authority for investment and funding decisions, including the funding of the planned acquisition of KeySpan;
- setting and reviewing treasury management guidelines and policy;
- granting authority for parent and subsidiary companies to enter into guarantees and indemnities under the specific authority delegated to it by the Board;
- receiving updates on taxation;
- insurance renewal strategy; and
- receiving updates on pension schemes and recommending action to the Board as appropriate.

Nominations Committee

The Nominations Committee membership and attendance at meetings was as follows during 2006/07 from a total of six meetings:

Name	Attendance*
Sir John Parker (chairman)	6 of 6
John Grant (to 31 July 2006)	1 of 1
Ken Harvey	6 of 6
Paul Joskow	5 of 6
George Rose	5 of 6

* Attendance is expressed as number of meetings attended out of number eligible to attend

The Chief Executive is invited to attend Nominations Committee meetings on a regular basis. Additionally, the Group Human Resources Director is invited to attend Nominations Committee meetings as necessary to provide updates and background information.

The key items for which the Nominations Committee has responsibility and that it has discussed during the year include:

- recommending individuals for appointment to the Board following the procedures laid down by the Board in conjunction with the Nominations Committee, including the appointments during the year of Linda Adamany (Non-executive Director) and Mark Fairbairn (Executive Director);
- reviewing the size of the Board, its structure and composition, including considering Board members' independence (where appropriate), skills and experience to ensure these remain relevant to National Grid;
- considering the external commitments of all Directors, to ensure it is satisfied that these do not conflict or interfere with their duties as Directors of the Company;
- reviewing and refreshing the membership of Board Committees, particularly following the appointment of new Directors to the Board;
- considering succession planning for Board members, noting that during the year this focused on the smooth transition of responsibilities to the new Chief Executive;
- development and succession plans for senior management, as developed by the Chief Executive and the Group Human Resources Director; and
- Board and Committee performance evaluation.

During the year the Nominations Committee received external support and advice on the appointments of Linda Adamany and Mark Fairbairn.

Remuneration Committee

The Remuneration Committee membership and attendance at meetings was as follows during 2006/07 from a total of nine meetings:

Name	Attendance*
John Allan (chairman)	8 of 9**
John Grant (to 31 July 2006)	3 of 3
Ken Harvey	9 of 9
Stephen Pettit	9 of 9
George Rose	6 of 9

* Attendance is expressed as number of meetings attended out of number eligible to attend

** John Grant acted as chairman for the meeting that John Allan was unable to attend

The Chairman and the Chief Executive are invited to attend Remuneration Committee meetings on a regular basis. Additionally, the Group Human Resources Director and the Group Head of Compensation & Benefits are invited to attend Remuneration Committee meetings as necessary to provide advice.

The key items for which the Remuneration Committee has responsibility and that it has discussed during the year include:

- development of policy on Executive Director remuneration;
- determination of remuneration, including bonuses and personal targets, for Executive Directors and certain senior management personnel; and
- establishment of employee share schemes, including the introduction of the Deferred Share Plan.

Further details on these responsibilities and the external advice received by the Committee in respect of these items can be found in the Directors' Remuneration Report on pages 88 to 98.

No Remuneration Committee member or attendee participates in any discussion regarding his or her own remuneration.

Risk & Responsibility Committee

The Risk & Responsibility Committee membership and attendance at meetings was as follows during 2006/07 from a total of four meetings:

Name	Attendance*
Stephen Pettit (chairman)	3 of 4**
Linda Adamany (from 1 November 2006)	2 of 2
Ken Harvey	4 of 4
Maria Richter	4 of 4

* Attendance is expressed as number of meetings attended out of number eligible to attend

** Ken Harvey acted as chairman for the meeting that Stephen Pettit was unable to attend

The Chief Executive, the Corporate Responsibility Director and the Company Secretary & General Counsel are invited to attend Risk & Responsibility Committee meetings on a regular basis. Executive Directors and others, including the Risk & Compliance Manager and business representatives are invited to attend as necessary to provide updates.

The key items for which the Risk & Responsibility Committee has responsibility and that it has discussed during the year include consideration of:

- the environmental impact of the Company, including climate change;
- non-financial risks to the Company, including pandemic planning;
- regular updates on the safety, health and environmental performance of the Company and its businesses;
- inclusion and diversity initiative updates;
- reviewing safety, health and environmental audit plans and the outcome of such audits; and
- regular updates on business conduct issues raised in the businesses and the outcome of any subsequent investigations.

The Committee members made site visits during the year to:

- an investment recovery facility in Syracuse; and
- a gas repair site in London.

Disclosure committees

National Grid has established disclosure committees that are tasked with various duties relating to the material disclosures made by the Company and relevant subsidiaries.

The National Grid disclosure committee is chaired by the Finance Director and its members are the Company Secretary & General Counsel, the Tax & Treasury Director, the Financial Controller, the Director of Investor Relations, the Corporate Director of Audit, the Corporate Counsel and such other members and/or attendees as the committee from time to time considers appropriate. The committee's role is to assist the Chief Executive and the Finance Director in fulfilling their responsibility for oversight of the accuracy and timeliness of the disclosures made by the Company. It does so through:

- the design, establishment, monitoring and review of disclosure controls and other procedures to ensure information required to be disclosed is recorded, processed, summarised and reported accurately and on a timely basis and that information is accumulated and communicated to management in such a way as to allow timely decisions regarding such disclosures;
- reviewing and considering the preparation of key disclosure statements including but not limited to the Company's Annual Report and Accounts, Annual Review, Regulatory News Service announcements in the UK (and US equivalents), press releases containing financial information, information about material acquisitions or dispositions such as the acquisition of KeySpan, presentations to holders of debt and equity securities, analysts, rating agencies and lenders; and
- reporting as necessary to the Board, the Audit Committee and the Executive Committee all relevant information with respect to the preparation of disclosure statements and the evaluation of the effectiveness of National Grid's disclosure controls.

Relations with shareholders

Relations with shareholders are managed mainly by the Chief Executive, the Finance Director and the Director of Investor Relations. Meetings are held regularly throughout the year with institutional investors, fund managers and analysts to discuss the public disclosures and announcements of the Company and its businesses.

The Chairman also writes to major shareholders following the announcement of results to offer them the chance to meet him, the Senior Independent Director or any of the Non-executive Directors. He also specifically invites major shareholders to meet newly appointed Non-executive Directors. This enables major shareholders to take up with these individuals any issue they feel unable to raise with the Chief Executive and Finance Director.

The Board receives feedback at least annually from the Company's brokers, supported by the Director of Investor Relations, on shareholders' views. Notes from a number of analysts in the energy sector are circulated regularly to Directors. This ensures the whole Board, including the Non-executive Directors, is kept up to date with shareholder and analyst views. Additionally, in July 2006, the Chief Executive and Investor Relations department held a meeting with the UK Shareholders' Association enabling them to gain an insight into the views of the Company's retail shareholders.

The main form of communication with shareholders is via the Annual Review. We also run a shareholder networking programme, inviting shareholders to visit operational sites and meet Directors and staff, further details of which can be found on page 184.

The AGM is also attended by shareholders, at which they are given the opportunity to question the Board on the Company and its performance. In line with best practice, for the past two years, the Chairman has called a poll on all votes at the AGM to allow all shareholders, whether present in person or by proxy, to vote on all resolutions in proportion with their holding in National Grid. The Chairman will once again call a poll on all votes at the 2007 AGM.

Internal controls

The Board is responsible for the Company's system of internal control and monitoring its effectiveness. It has in place an established system of internal control to be observed throughout the Company and its businesses, which it believes satisfies this responsibility.

The system of internal control depends on thorough and systematic processes for the identification and assessment of business-critical risks, including the impact of material non-compliance with legal, regulatory and internal governance requirements, and their management and monitoring over time. This system generates reports from both line managers and certain assurance providers such as Internal Audit, Corporate Responsibility and Risk & Compliance, who are independent of management.

The Board's Committees receive reports on the Company's system of internal control as appropriate in relation to their specific areas of responsibility. The Board's Committees' reports to the Board include updates in this regard.

The Board formally reviews the effectiveness of the Company's system of internal control on an annual basis to ensure it remains robust and to identify any control weaknesses. This review includes:

- the receipt of a Letter of Assurance from the Chief Executive, which consolidates key matters of interest raised through the year-end assurance process;
- assurance from its Committees as appropriate, with particular reference to the reports received from the Audit and Risk & Responsibility Committees on the reviews undertaken by them at their respective Committee meetings; and
- assurances in relation to the Company's Sarbanes-Oxley certifications, required as a result of the Company's New York Stock Exchange listing.

The latest review covered the financial year to 31 March 2007 and included the period to the approval of this Annual Report and Accounts.

Sarbanes-Oxley

National Grid has carried out an assessment of its internal control over financial reporting pursuant to section 404 of the US Sarbanes-Oxley Act 2002, the requirements of which the Company is subject to as a result of its listing on the New York Stock Exchange. The management of the Company, who is responsible for establishing and maintaining an adequate system of internal control over financial reporting, evaluated the effectiveness of that system using the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework. Based on that evaluation, the management of the Company expects to conclude in its 20-F filing that the system of internal control over financial reporting was effective as at 31 March 2007.

Information assurance

Information is an important asset to the business and, like any other asset, it must be fit for purpose.

Critical to demonstrating information integrity is a process of assurance from the business that clearly demonstrates information is being sourced and managed effectively. The Company recognises these behaviours are important to achieving necessary standards. The key objective of having accurate and reliable information is supported by a risk-based, holistic approach that deals with information assurance as a business critical function. This approach ensures accurate and reliable information is available to those who need it in a timely fashion, thus enabling informed decisions that support and further our objectives.

We manage a broad range of risks to our information. Key elements in managing these risks are education, training and awareness. These initiatives emphasise the importance of information security, the quality of data collection and the affirmation process that supports our business transactions, providing evidence of our decisions and actions. We continue to work collaboratively with a variety of organisations and professional bodies to develop and implement best practice.

Corporate governance practices: differences from New York Stock Exchange (NYSE) listing standards

Our corporate governance practices substantially conform to those required of US companies listed on the NYSE. The principal differences between the Company's governance practices pursuant to the Combined Code and UK best practice and the Section 303A Corporate Governance Rules of the NYSE are:

- different tests of independence for Board members are applied under the Combined Code and Section 303A;
- there is no requirement for a separate corporate governance committee in the UK; all Directors on the Board discuss and decide upon governance issues and the Nominations Committee makes recommendations to the Board with regard to certain of the responsibilities of a corporate governance committee; and
- while the Company reports compliance with the Combined Code in each Annual Report and Accounts, there is no requirement to adopt and disclose separate corporate governance guidelines.

Risk management

Understanding and managing risks is integral to the way we run our business. We have a well established enterprise-wide risk management process that ensures risks are consistently assessed, recorded and reported in a visible, structured and continuous manner, the outputs of which are primarily used as a management tool. A secondary and natural output from this process is information that provides assurance to management at all levels and thus helps safeguard our assets and reputation. It is designed to manage rather than eliminate material risks to the achievement of our strategic and business objectives while also recognising that any such process can provide only reasonable, and not absolute, assurance against material misstatement or loss. This process complies with the Turnbull working party guidance (revised October 2005) and, in addition, contributes toward our compliance with our obligations under the Sarbanes-Oxley Act as well as other internal assurance activities.

Risk management in National Grid has become further embedded over time and our experience of this has enabled us to identify a number of key success criteria linked to both the risk management framework and process that, if in place, will help ensure the process continues to remain embedded. Understanding this in the context of a Company that continues to change size and geographic coverage has been invaluable in helping to identify strategies to enable the effective and timely integration of processes. A current example is the ongoing dialogue with KeySpan to identify how its respective enterprise-wide and energy trading risk functions are best integrated into National Grid going forward.

Within existing businesses the risk management process continues to be based on both bottom-up and top-down assessments of operational, financial and other business or project risks. From the bottom up, business units and Corporate Centre functions prepare and maintain risk registers that capture their key risks and the actions being taken to manage them. The key element in the top-down assessment of our enterprise-wide risk profile is the involvement of the Executive Directors and other senior management at critical stages in the review process. Their review of the bottom-up assessment produces an overall evaluation of the risks that are faced by National Grid. Graphics that set out the Company's risk profile and any significant changes to this between reporting periods have been designed to aid debate by the Executive Committee, the Risk & Responsibility Committee and the Audit Committee twice a year. The Audit Committee also reviews the risk management process at least once during each year and reports on this to the Board.

During the year we have continued to derive benefits from this process through further coordination with the Insurance team and ongoing interaction with the Internal Audit function and Sarbanes-Oxley teams. The external benchmarking exercise has continued with other FTSE 100 companies and public sector organisations to measure the effectiveness of our own approach and exchange ideas on best practice. With the move to a line of business operating model, the opportunity is being taken to restructure risk and compliance management services to ensure approaches are consistent across geographies and continue to provide value to business operations, including major projects.

Our risk management process has identified the risk factors set out on pages 84 and 85.

Compliance management

Our enterprise-wide compliance management process is now firmly established and continues to raise visibility over key obligations. The process provides assurance to the Executive Directors and senior management on the effectiveness of control frameworks to manage key internal and external obligations, and also highlights instances of significant non-compliance with those obligations. External obligations are driven primarily by key legal and regulatory requirements whereas internal obligations focus more on compliance with National Grid's own corporate policies and procedures. A network of compliance coordinators and champions exists within businesses and Corporate Centre functions to enable the top-down/bottom-up alignment of Executive Directors' obligations to be established and reported. Furthermore, experts for each key obligation interface with relevant business contacts to ensure the quality of information reported upwards is validated. The compliance management process is consistent with, and complementary to, our risk management process and essentially provides a more detailed breakdown of the risk of non-compliance with laws, regulations or standards of service as well as corporate policies and procedures.

Twice a year the Executive Committee, Audit Committee and Risk & Responsibility Committee receive a report setting out the key obligations across National Grid and any significant non-compliance with those, together with compliance opinions and action plans to improve controls where necessary. As with the risk management process, the Audit Committee also reviews the compliance management process at least once during each year and reports on this to the Board. The compliance management process also contributes toward the entity level testing that is performed under the Sarbanes-Oxley Act, as well as some of our other internal assurance activities. We continue to seek benchmarking opportunities to compare our enterprise-wide compliance management process to that of other similar organisations to ensure it remains best practice and fit for purpose.

Risk factors

Our risk management process has identified the following risk factors that could have a material adverse effect on our business, financial condition, results of operations and reputation, as well as the value and liquidity of our securities. Not all of these factors are within our control. In addition, other factors besides those listed below may have an adverse effect on National Grid. Any investment decision regarding our securities and any forward-looking statements made by us should be considered in the light of these risk factors and the cautionary statement set out on the inside back cover.

Changes in law or regulation in the geographies in which we operate could have an adverse effect on our results of operations.

Many of our businesses are utilities or networks that are subject to regulation by governments and other authorities. Consequently, changes in law or regulation in the countries or states in which we operate could adversely affect us. Regulatory decisions concerning, for example, whether licences or approvals to operate are granted or are renewed, whether market developments have been satisfactorily implemented, whether there has been any breach of the terms of a licence or approval, the level of permitted revenues for our businesses and proposed business development activities could have an adverse impact on our results of operations, cash flows, the financial condition of our businesses and the ability to develop those businesses in the future. For further information, see the Operating and Financial Review and, in particular, the 'About National Grid' section and the 'About the business' sections for each of our lines of business.

Breaches of, or changes in, environmental or health and safety laws or regulations could expose us to claims for financial compensation and adverse regulatory consequences, as well as damaging our reputation.

Aspects of our activities are potentially dangerous, such as the operation and maintenance of electricity lines and the transmission and distribution of natural gas. Electricity and gas utilities also typically use and generate in their operations hazardous and potentially hazardous products and by-products. In addition, there may be other aspects of our operations that are not currently regarded or proved to have adverse effects but could become so; for example, the effects of electric and magnetic fields. We are subject to laws and regulations relating to pollution, the protection of the environment, and how we use and dispose of hazardous substances and waste materials. We are also subject to laws and regulations governing health and safety matters protecting the public and our employees. Any breach of these obligations, or even incidents that do not amount to a breach, could adversely affect our results of operations and our reputation. For further information about environmental and health and safety matters relating to our businesses, see the 'Our Responsibility' section of our website at www.nationalgrid.com.

Network failure or the inability to carry out critical non-network operations may have significant adverse impacts on both our financial position and our reputation.

We may suffer a major network failure or may not be able to carry out critical non-network operations. Operational performance could be adversely affected by a failure to maintain the health of the system or network, inadequate forecasting of demand or inadequate record keeping. This could cause us to fail to meet agreed standards of service or be in breach of a licence or approval, and even incidents that do not amount to a breach could result in adverse regulatory and financial consequences, as well as harming our reputation. In addition to these risks, we may be affected by other potential events that are largely outside our control such as the impact of weather or unlawful acts of third parties. Weather conditions can affect financial performance and severe weather that causes outages or damages infrastructure will adversely affect operational and potentially business performance. Terrorist attack, sabotage or other intentional acts may also physically damage our businesses or otherwise significantly affect corporate activities and as a consequence have an adverse impact on the results of operations.

Our results of operations depend on a number of factors relating to business performance including performance against regulatory targets, recovery of incurred expenditure and the delivery of anticipated cost and efficiency savings.

Earnings maintenance and growth from our regulated gas and electricity businesses will be affected by our ability to meet or better efficiency targets set by or agreed with Ofgem and other regulators. In the US, under our state rate plans, earnings from our regulated businesses will be affected by our ability to deliver integration and efficiency savings. Earnings from our regulated businesses in both the UK and the US will be affected by our ability to recover incurred expenditure. Levels of earnings also depend on meeting service quality standards set by regulators. In addition, from time to time, we also publish cost and efficiency savings targets for our businesses in the UK and the US. We are also reorganising our operations along lines of business. To meet these targets and standards, we must continue to improve operational performance, service reliability and customer service. If we do not meet these targets and standards, we are not able to recover incurred expenditure or we do not implement this reorganisation as envisaged, we may not achieve the expected benefits, our business may be adversely affected and our performance, results of operations and our reputation may be harmed.

Business development activity, including acquisitions and disposals, may be based on incorrect assumptions or conclusions; significant liabilities may be overlooked or there may be other unanticipated or unintended effects.

In February 2006, we announced the acquisition of KeySpan. This transaction is subject to a number of conditions precedent of which the approvals by the New York Public Service Commission and the New Hampshire Public Utilities Commission remain outstanding. These approvals may not be received or they may be granted but on terms that are different than anticipated. We have also announced that we expect to achieve certain levels of synergy and efficiency savings from this transaction, but these may not subsequently be achievable. Following completion of the proposed acquisition of KeySpan the risks and uncertainties that its operations are subject to would be assumed by National Grid. Many of these risks and uncertainties are similar to those that are faced by our existing businesses; however, there are some that are not. These include: that KeySpan has generation capacity that may be subject to competition and general economic conditions having an impact on demand as well as other related risks; the risk that in-city unforced capacity prices in New York are less than expected causing loss under swap arrangements KeySpan has entered into; and that it has investments in natural gas and oil exploration and production that may in certain circumstances under SEC rules require non-cash impairment. For further details concerning the acquisition of KeySpan and other transactions that we have undertaken over the period, see the 'Acquisitions and disposals' section of the Operating and Financial Review on page 33.

Changes to the regulatory treatment of commodity costs may have an adverse effect on the results of operations.

Changes in commodity prices could potentially impact our energy delivery businesses. Current regulatory arrangements in the UK and the US provide the ability to pass through virtually all of the increased costs related to commodity prices to consumers. However, if regulators in the UK or the US were to restrict this ability, it could have an adverse effect on our operating results.

Our reputation may be harmed if consumers of energy suffer a disruption to their supply even if this disruption is outside our control.

Our energy delivery businesses are responsible for transporting available electricity and gas. We consult with and provide information to regulators, governments and industry participants about future demand and the availability of supply. However, where there is insufficient supply, our role is to manage the relevant network safely, which in extreme circumstances may require us to disconnect consumers.

Fluctuations in exchange rates, interest rates and commodity price indices, in particular in the US dollar, could have a significant impact on our results of operations because we have substantial business interests in the US and because of the significant proportion of our borrowings, derivative financial instruments and commodity contracts that may potentially be affected by such fluctuations.

We currently have significant operations in the US and the proportion of our activities located there would substantially increase following the completion of our proposed acquisition of KeySpan. These businesses are subject to the risks normally associated with foreign operations, including the need to translate US assets and liabilities, and income and expenses, into sterling, our primary reporting currency. Our results of operations may be similarly affected because a significant proportion of our borrowings, derivative financial instruments and commodity contracts are affected by changes in exchange rates, interest rates and commodity price indices, in particular the US dollar to sterling exchange rate. For further information about this, see the 'Financial position and financial management' section of the Operating and Financial Review.

The nature and extent of our borrowings means that an increase in interest rates could have an adverse impact on our financial position and business results.

A significant proportion of our borrowings is subject to variable interest rates, which may fluctuate with changes to prevailing interest rates. Increases in these interest rates could therefore increase our costs and diminish our profits. For further information about this, see the 'Financial position and financial management' section of the Operating and Financial Review.

Our financial position may be adversely affected by a number of factors including restrictions in borrowing and debt arrangements, changes to credit ratings and effective tax rates.

We are subject to certain covenants and restrictions in relation to our listed debt securities and our bank lending facilities. We are also subject to restrictions on financing that have been imposed by regulators. These restrictions may hinder us in servicing the financial requirements of our current businesses or the financing of newly acquired or developing businesses. Our debt is rated by credit rating agencies and changes to these ratings may affect both our borrowing capacity and the cost of those borrowings. The effective rate of tax we pay may be influenced by a number of factors including changes in law and accounting standards, the proportion of our business operations that are located in the US and our overall approach to tax planning, the results of which could increase that rate.

Future funding requirements of our pension schemes could adversely affect our results of operations.

We participate in a number of pension schemes that together cover substantially all of our employees. In both the UK and the US, the principal schemes are defined benefit schemes where the scheme assets are held independently of our own financial resources. Estimates of the amount and timing of future funding for these schemes are based on various actuarial assumptions and other factors including, among other things, the actual and projected market performance of the scheme assets, future long-term bond yields, average life expectancies and relevant legal requirements. The impact of these assumptions and other factors may require us to make additional contributions to these pension schemes which, to the extent they are not recoverable under our price controls or state rate plans, could adversely affect our results of operations.

New or revised accounting standards, rules and interpretations by the UK, US or international accounting standard setting boards and other relevant bodies could have an adverse effect on our reported financial results.

The accounting treatment under International Financial Reporting Standards (IFRS), as adopted by the European Union, of replacement expenditure, regulatory assets, pension and post-retirement benefits, derivative financial instruments and commodity contracts significantly affect the way we report our financial position and results of operations. As a body of practice develops for IFRS, the application and interpretation of accounting principles to our circumstances, and to those areas in particular, could result in changes in the financial results and financial position that we report. In addition, new standards, rules or interpretations may be issued that could also have significant effects.

Directors' Report

for the year ended 31 March 2007

Directors

The biographies of the persons serving as Directors as at the date of this report are set out on pages 18 and 19. The names of all persons serving as Directors during the financial year are included on page 98, detailed in the table setting out Directors' beneficial interests.

Directors' and Officers' liability insurance cover is arranged and qualifying third party indemnities, in accordance with sections 309A-B of the Companies Act 1985, are in place for each Director.

The Directors' interests in shares and in options to receive shares are set out in the Directors' Remuneration Report on pages 88 to 98.

Code of Ethics

The Board has adopted a Code of Ethics for senior financial professionals. This code is available on our website at www.nationalgrid.com (where any amendments or waivers will also be posted). There were no amendments to, or waivers of, our Code of Ethics during the year.

Principal activities, business review and future developments

National Grid plc is the ultimate holding company of a group of companies involved principally in the transmission and distribution of electricity and gas in the UK and northeastern US.

The Directors consider that the requirement to produce a business review is fulfilled by the inclusion in this Annual Report and Accounts of an Operating and Financial Review (on pages 20 to 75) and the Corporate Governance section (on pages 77 to 85).

Dividends

The Directors are recommending a final dividend of 17.8 pence per ordinary share ($1.7638 per American Depositary Share) be paid on 22 August 2007 to shareholders on the register at 8 June 2007. Further details in respect of dividend payments can be found on page 43.

Political donations and expenditure

National Grid made no political donations in the UK or European Union during the year (including donations as defined for the purposes of the Political Parties, Elections and Referendums Act 2000).

National Grid USA and certain subsidiaries made political donations of $100,000 (£52,289) during the year. National Grid USA's political action committees, funded partly by voluntary employee contributions, gave $149,709 (£78,282) to political and campaign committees in 2006/07.

Charitable donations

During 2006/07, some £9 million (2005/06: £7.7 million) was invested in support of community initiatives and relationships. The London Benchmarking Group model was used to assess this overall community investment. Direct donations to charitable organisations amounted to £2.9 million (2005/06: £2.7 million).

In addition to our charitable donations, substantial support was provided for our Affordable Warmth Programme, education programme, university research and our Young Offenders Into Work Programme.

Financial instruments

Details on the use of financial instruments and financial risk management are included on pages 65 to 67.

Post balance sheet events

On 3 April 2007, we completed the sale of our UK wireless infrastructure business for cash proceeds of £2.5 billion.

Also in April, we agreed to the sale of our US wireless infrastructure operations for proceeds of approximately $290 million (£147 million). Completion is expected in the autumn of 2007.

Research and development

Expenditure on research and development during the year was £6 million, compared with £7 million in 2005/06.

Share purchases

At the Company's Annual General Meeting in 2006, shareholder authority was given to purchase up to 10% of our ordinary shares.

As part of our interim results for the six months to 30 September 2006, a share buy-back programme was announced to return around $1.9 billion (£1 billion) to shareholders. This return is based on cash flows from stranded assets under our US rate plans.

This ordinary share buy-back commenced on 20 November 2006 and, as at the date of this report, 22,388,381 ordinary shares of $11\frac{17}{43}$ pence had been repurchased for an aggregate consideration of £168,983,332.59 (representing approximately 1% of our issued share capital). All of these shares were cancelled. The repurchases leave the Company with authority to buy back a further 250 million ordinary shares.

The Directors intend to seek shareholder approval to renew this authority at this year's Annual General Meeting.

Companies are permitted to hold repurchased shares as treasury shares rather than cancelling them. The Directors have no current intention to hold repurchased shares as treasury shares, other than as may be required for employee share schemes.

Return of cash: B shares

Under the return of cash, approved by shareholders on 25 July 2005, holders of B shares could elect to retain them for future repurchases. A further repurchase offer was made on 8 August 2006 and an additional 39,521,422 B shares were repurchased at 65 pence per share. Following this repurchase 45,815,437 B shares remained in issue.

Employees

Over the past year, National Grid has continued to demonstrate how it values its employees. The company-wide publication National Grid World is now issued twice a year in line with the interim and end of year financial results. In 2006/07 it has provided employees with an overview of performance, updates on the acquisition of Rhode Island gas distribution operations and KeySpan, alongside material setting out our changing strategy and new operating model. Feedback from employees has been largely positive. This publication is only one example of the multiple communication channels we have established and continue to develop to ensure the timely cascade of critical information to employees. A number of these channels have been established to support dialogue between employees and management.

In July 2006, we conducted a company-wide employee opinion survey. Over 11,000 employees (58%) took part in the process, a 9% increase on the response rate when the survey was conducted in 2004. The survey demonstrated that employees better understand the Company's strategy and the need for change. They believe that the business is heading in the right direction and are willing to do their jobs differently to help us improve. Safety continues to be recognised as one of National Grid's key strengths.

Areas that the survey highlighted as needing improvement included general management behaviours around communication with employees and performance management. Action plans have now been developed by each of the businesses to address their key priorities for improvement.

National Grid's core values are integrity, ownership and respect. Responses to the 2006 employee opinion survey demonstrated that respect and integrity are becoming embedded in the culture of the organisation. Our inclusion and diversity vision is to develop and operate our business in a way that results in a more inclusive and diverse culture. This supports the attraction and retention of the best people, improves effectiveness, delivers superior performance and enhances the success of the Company. Employees are provided with the opportunity to develop to their full potential regardless of race, gender, nationality, age, disability, sexual orientation, religion and background. We support a number of employee interest groups including groups for women and new starters. These receive Executive Director sponsorship. Over the past year, additional networks have been launched to support disabled employees and those from an ethnic minority background.

Employee share ownership of the Company is facilitated among UK employees by the operation of both the Sharesave scheme and share incentive plans. In the US, employees are able to invest in the Company through employee incentive thrift plans.

In the UK, approximately 72% of employees participate in sharesave schemes. There are also about 7,600 participants in the share incentive plans. Of current US employees participating in the National Grid USA Incentive Thrift Plans I and II, approximately 74% and 79% respectively hold ADSs.

Policy and practice on payment of creditors

It is National Grid's policy to include in contracts, or other agreements, terms of payment with suppliers. Once agreed, we aim to abide by these payment terms.

The average creditor payment period at 31 March 2007 for National Grid's principal operations in the UK was 19 days (20 days at 31 March 2006).

Audit information

Having made the requisite enquiries, so far as the Directors in office at the date of the signing of this report are aware, taking into account their periods of office, there is no relevant audit information (as defined by Section 234ZA of the Companies Act 1985) of which the Company's auditors are unaware, and the Directors have taken all the steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Material interests in shares

As at the date of this report, National Grid had been notified of the following beneficial interests in 3% or more of its issued share capital:

	% of issued share capital
Legal and General Investment Management Ltd	4.12
Fidelity International Limited	3.06

No further notifications have been received.

Annual General Meeting

National Grid's 2007 Annual General Meeting will be held on Monday 30 July 2007 at The ICC in Birmingham. Details are set out in the separate Notice of Annual General Meeting.

On behalf of the Board

Helen Mahy

Company Secretary and General Counsel

16 May 2007

National Grid plc, 1-3 Strand, London WC2N 5EH

Registered in England and Wales No. 4031152

Directors' Remuneration Report

We are pleased to present the Directors' Remuneration Report for 2006/07. Our policy of relating pay to the performance of the Company continues to be a strong principle underlying the Remuneration Committee's consideration of executive remuneration.

This year we have thoroughly reviewed our remuneration policy, in the light of the proposed KeySpan acquisition and therefore the larger and more complex scope of many of our senior roles; and to ensure it continues to attract and retain high calibre individuals to deliver the highest possible performance for our shareholders. We have consulted with our major shareholders and their representative bodies regarding our proposals to make adjustments to our annual bonus plan and the Performance Share Plan (our long-term incentive plan).

Following this consultation process, we will be increasing the maximum annual bonus opportunity for Executive Directors to 150% of salary for the performance year 2007/08.

While increasing the maximum bonus opportunity, we have amended the performance targets to be more stretching in the future. In addition, the framework has been adjusted so that, for Executive Directors, only 40% of the bonus (60% of salary) will be payable for target performance instead of the current 50%.

With respect to the Performance Share Plan, we intend to increase the maximum award to 200% of salary. However, in order to allow some flexibility for the future we will seek approval from shareholders, at the Annual General Meeting, to increase the maximum award permissible under the Performance Share Plan to 250% of salary. The upper target of the Performance Share Plan will be amended to be more challenging (detailed in the main body of this report).

Therefore, we believe the proposed arrangements will provide an appropriate and balanced opportunity for executives and will continue to align our incentive plans with the Company's strategic objectives and our shareholders' interests generally.

Overall, we believe salary levels and the mix between fixed and variable compensation are appropriate, however, we shall continue to review the remuneration package on a regular basis to ensure it remains so.

We are confident our approach continues to motivate and engage the team leading the Company, while encouraging the achievement of stretching targets.

John Allan
Chairman of the Remuneration Committee

Remuneration Committee

The Remuneration Committee members are John Allan, Ken Harvey, Stephen Pettit and George Rose. Each of these Non-executive Directors is regarded by the Board as independent and served throughout the year.

The Group Human Resources Director and Group Head of Compensation and Benefits provide advice on remuneration policies and practices and are usually invited to attend meetings, along with the Chairman and the Chief Executive.

No Director or other attendee is present during any discussion regarding his or her own remuneration.

The Remuneration Committee is responsible for developing Company policy regarding executive remuneration and for determining the remuneration of the Executive Directors and executives below Board level who report directly to the Chief Executive. It also monitors the remuneration of other senior employees of the Company and provides direction over the Company's share plans.

The Board has accepted all the recommendations made by the Remuneration Committee during the year.

The Remuneration Committee has authority to obtain the advice of outside independent remuneration consultants. It is solely responsible for their appointment, retention and termination; and for approval of their fees and other terms.

In the year to 31 March 2007, the following advisors provided services to the Remuneration Committee:

- Deloitte & Touche LLP, independent remuneration advisors. They also provide taxation and financial advice to the Company;
- Alithos Limited, provision of Total Shareholder Return calculations for the Performance Share Plan and Executive Share Option Plan;
- Linklaters, advice relating to Directors' service contracts as well as providing other legal advice to the Company; and
- Mercer Human Resource Consulting Limited, advice relating to pension taxation legislation. They also provide general advice with respect to human resource issues across the Company.

Remuneration policy

The Remuneration Committee determines remuneration policy and practices with the aim of attracting, motivating and retaining high calibre Executive Directors and other senior employees to deliver value for shareholders and high levels of customer service, safety and reliability in an efficient and responsible manner. The Remuneration Committee sets remuneration policies and practices in line with best practice in the markets in which the Company operates. Remuneration policies continue to be framed around the following key principles:

- total rewards should be set at levels that are competitive in the relevant market;
- a significant proportion of the Executive Directors' total reward should be performance based. Performance based incentives will be earned through the achievement of demanding targets for short-term business and personal performance as well as long-term shareholder value creation, consistent with our Framework for Responsible Business which can be found at: www.nationalgrid.com/corporate/About+Us/CorporateGovernance/Other;
- for higher levels of performance, rewards should be substantial but not excessive; and
- incentive plans, performance measures and targets should be stretching and aligned as closely as possible with shareholders' interests.

It is currently intended to continue this policy in subsequent years.

Executive Directors' remuneration

Remuneration packages for Executive Directors consist of the following elements:

- salary;
- annual bonus including the Deferred Share Plan;
- long-term incentive, the Performance Share Plan;
- all-employee share plans;
- pension contributions; and
- non-cash benefits.

Salary

Salaries are reviewed annually and targeted broadly at the median position in the relevant market. In determining the relevant market, the Remuneration Committee takes account of the regulated nature of the majority of the Company's operating activities along with the size, complexity and international scope of the business. For UK-based Executive Directors, a UK market is used and a US market is used for US-based Executive Directors. In setting individual salary levels, the Remuneration Committee takes into account business performance, the individual's performance and experience in the role; and salary practices prevailing for other employees in the Company.

Annual bonus including the Deferred Share Plan (DSP)

Annual bonuses are based on achievement of a combination of demanding Company, individual and, where applicable, divisional targets. The principal measures of Company performance are adjusted earnings per share (EPS) and cash flow; the main divisional measures are divisional operating profit and divisional cash flow. Financial targets represent 70% of the bonus. Individual targets, representing 30% of the bonus, are set in relation to key operating and strategic objectives and include overriding measures for safety and customer service performance. The Remuneration Committee sets targets at the start of the year and reviews performance against those targets at year end. The Remuneration Committee may use its discretion to reduce payments to take account of significant safety or service standard incidents, or to increase them in the event of exceptional value creation.

Performance against Company and divisional financial targets for this year is shown in the table below:

Financial measures	Level of performance achieved in 2006/07 as determined by the Remuneration Committee	
	Company targets	Divisional targets
Adjusted EPS	Stretch	
Cash flow	Stretch	
Operating profit		Between Target and Stretch (i)
Cash flow		Stretch (ii)
Earnings		Between Threshold and Target (iii)

(i) Except Transmission, where Stretch performance was achieved.
(ii) Except Transmission, where between Target and Stretch performance was achieved.
(iii) US Distribution financial measure only.

In 2006/07, the maximum annual bonus opportunity for Executive Directors was 100% of base salary, with 50% being paid for target performance. As outlined above, the maximum will be increased to 150% of base salary for the 2007/08 performance year, with 40% of the bonus (60% of salary) being paid for target performance. One half of any bonus earned is automatically deferred into National Grid shares (ADSs for US-based Executive Directors) through the DSP. The shares are held in trust for three years before release. During this time, they are not owned by the Executive Directors and, therefore, no dividends are paid. The Remuneration Committee may, at the time of release of the shares, use its discretion to pay a cash amount equivalent to the value of the dividends that would have accumulated on the deferred shares. For the 2007/08 bonus and onwards, the deferred shares may be forfeited if the Executive Director ceases employment during the three year holding period as a 'bad leaver', for example, resignation. The newly introduced forfeiture provisions will serve as a strong retention tool.

The Remuneration Committee believes that requiring Executive Directors to invest a substantial amount of their bonus in National Grid shares increases the proportion of rewards linked to both short-term performance and longer-term total shareholder returns. This practice also ensures that Executive Directors share a significant level of personal risk with the Company's shareholders. In line with US market practice, US-based Executive Directors' bonuses are pensionable.

Long-term incentive – Performance Share Plan (PSP)

Executive Directors and approximately 350 other senior employees who have significant influence over the Company's ability to meet its strategic objectives, may receive an award which will vest subject to the achievement of performance conditions set by the Remuneration Committee at the date of grant. The value of shares (ADSs for US-based Executive Directors) constituting an award (as a percentage of salary) varies by grade and seniority subject to a maximum, for Executive Directors, of 125% of salary. As outlined above, subject to shareholder approval being obtained, we will grant awards to Executive Directors in 2007 with a value of 200% of salary. The provisions in the PSP rules will allow awards up to a maximum value of 250% of salary, in order to provide a degree of flexibility for the future. Therefore, if approved by shareholders, the 2007 award will be granted in two parts, a June award based on the current maximum of 125% of salary and a second award after the announcement of our interim financial results, for the difference up to 200% for Executive Directors. This will result in the 2007 award, should performance criteria be met, being released to participants in two parts, in June 2011 and November/December 2011.

Awards were made at the maximum percentage of 125% of salary to Executive Directors in the year 2006/07. Shares vest after three years, subject to the satisfaction of the relevant performance criteria. Vested shares must then be held for a further period (the retention period) after which they are released to the participant on the fourth anniversary of the date of grant. During the retention period, the Remuneration Committee has discretion to pay an amount, equivalent in cash or shares, to the dividend which would have been paid on the vested shares.

Under the terms of the PSP, the Remuneration Committee may allow shares to vest early to departing participants, including Executive Directors, to the extent the performance condition has been met, in which event the number of shares that vest will be pro-rated to reflect the proportion of the performance period that has elapsed at the date of departure.

Awards made in June 2003 and June 2004 were based on the Company's Total Shareholder Return (TSR) performance over a three year period relative to the TSR performance of the following group of comparator companies:

Ameren Corporation	Iberdrola SA
AWG plc	International Power plc
Centrica plc	Kelda Group plc
Consolidated Edison, Inc.	Pennon Group plc
Dominion Resources, Inc.	RWE AG
E.ON AG	Scottish Power plc
Electrabel SA	Scottish & Southern Energy plc
Endesa SA	Severn Trent plc
Enel SpA	The Southern Company, Inc.
Exelon Corporation	Suez SA
FirstEnergy Corporation	United Utilities plc
FPL Group, Inc.	Viridian Group plc
Gas Natural SDG SA	

In calculating TSR for the 2003 and 2004 awards, it is assumed all dividends are reinvested. No shares will be released if the Company's TSR over the three year period, when ranked against that of each of the comparator companies, falls below the median. For TSR at the median, 30% of the shares awarded will be released, 100% of the shares awarded will be released for TSR ranking at the upper quartile or above. For performance between median and upper quartile, the number of shares released is calculated on a straight-line basis.

Following consultation in 2005 with our major shareholders, new performance conditions were introduced for the 2005 award onwards, so that 50% of any award is based on the Company's TSR performance when compared to the FTSE 100 (on the date of grant) and 50% is based on the annualised growth of the Company's EPS. This approach will continue going forward.

These measures are used because the Remuneration Committee continues to believe they offer a balance between meeting the needs of shareholders (by measuring TSR performance against other large UK companies) and providing a measure of performance (EPS growth) over which the Executive Directors have direct influence. The Remuneration Committee considers the PSP performance conditions to be at least as challenging as the previous single performance criterion.

In calculating TSR for the 2005 and 2006 awards, it is assumed that all dividends are reinvested. No shares will be released under the TSR part of the award if the Company's TSR over the three year performance periods, when ranked against that of the FTSE 100 comparator group, falls below the median. For TSR at the median, 30% of those shares will be released, 100% will be released where National Grid's TSR performance is 7.5% above that of the median company in the FTSE 100 (upper target).

The EPS measure is calculated by reference to National Grid's real EPS growth. Where annualised growth in adjusted EPS (excluding exceptional items and including continuing operations only) over the three year performance periods exceeds the average annual increase in RPI (the general index of retail prices for all items) over the same period by 3% (threshold performance), 30% of the shares under the EPS part of the award will be released, 100% of the shares will be released where EPS growth exceeds RPI growth by 6% (upper target). As part of our proposals for the 2007 awards, we intend to increase the performance required for 100% vesting of the shares for EPS growth exceeding RPI growth by 8% (upper target), which the Remuneration Committee considers to be more challenging.

For performance (for each target) between threshold and the upper target, the number of shares released is calculated on a straight-line basis.

If the Remuneration Committee considers, in its absolute discretion, the underlying financial performance of the Company does not justify the vesting of awards, even if either or both the TSR condition and the EPS condition are satisfied in whole or in part, it can declare that some or all of the award lapses.

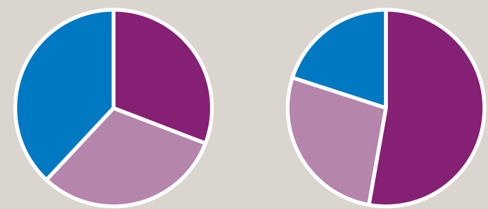
No re-testing of performance is permitted for any of the PSP awards that do not vest after the three year performance period and any such awards lapse.

The performance criterion for the 2003 award was not reached and this award has lapsed in full.

Executive Directors' remuneration package

Illustrated below is the current remuneration package for Executive Directors (excluding pensions, all-employee share plans and non-cash benefits) for both 'maximum stretch' performance and assuming 'on target' performance based on 50% for the annual bonus plan; and TSR and EPS performance such that 37.5% of PSP awards are released to participants at the end of the performance period and subsequent retention period.

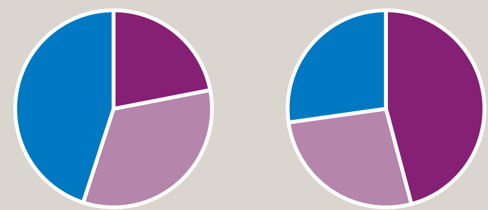
Executive Directors remuneration package
2006/07 UK & US



Maximum stretch performance		On target performance	
Annual base pay	31%	Annual base pay	53%
Annual bonus	31%	Annual bonus	27%
PSP award	38%	PSP award	20%

On the same basis, illustrated below is the proposed remuneration package for Executive Directors except, 'on target' performance is based on 40% (60% of salary) for the annual bonus plan and 60% for PSP awards.

New Reward Framework for Executive Directors
2007/08 UK & US



Maximum stretch performance		On target performance	
Annual base pay	22%	Annual base pay	46%
Annual bonus	33%	Annual bonus	27%
PSP award	45%	PSP award	27%

All-employee share plans

- Sharesave: Employees resident in the UK, including UK-based Executive Directors, are eligible to participate in HM Revenue and Customs approved all-employee Sharesave schemes. Under these schemes, participants may contribute between £5 and £250 in total each month, for a fixed period of three years, five years or both. Contributions are taken from net salary. At the end of the savings period, these contributions can be used to purchase ordinary shares in National Grid at a discount capped at 20% of the market price set at the launch of the scheme.
- Share Incentive Plan (SIP): Employees resident in the UK, including UK-based Executive Directors, are eligible to participate in the SIP. Contributions up to £125 are taken from participants' gross salary and used to purchase ordinary shares in National Grid each month. The shares are placed in trust and if they are left in trust for at least five years, they can be removed free of UK income tax and National Insurance Contributions.
- US Incentive Thrift Plans: Employees resident in the US, (including US-based Executive Directors), are eligible to participate in the Thrift Plans, tax-advantaged savings plans (commonly referred to as 401(k) plans) provided for employees of National Grid's US companies. These are defined contribution pension plans that give participants the opportunity to invest a maximum of 50% of salary (pre-tax) and/or up to 15% of salary (post-tax) up to applicable Federal salary limits (US$220,000 for calendar year 2006 and US$225,000 for 2007). The Company then matches 100% of the first 2% and 75% of the next 4% of salary contributed, resulting in a maximum matching contribution of 5% of salary up to the Federal salary cap. Employees may invest their own and Company contributions in National Grid shares or various mutual fund options.

Pensions

Current UK-based Executive Directors are provided with final salary pension benefits. The pension provisions for the UK-based Executive Directors are designed to provide a pension of one thirtieth of final salary at age 60 for each year of service subject to a maximum of two thirds of final salary, including any pension rights earned in previous employment. Within the pension schemes, the pensionable salary is normally the base salary in the 12 months prior to leaving the Company. Life assurance provision of four times pensionable salary and a spouse's pension equal to two thirds of the Executive Director's pension are provided on death.

UK-based Executive Directors who joined the Company after 31 May 1989 have been able to participate in an unfunded scheme in respect of those benefits earned on pay above the HM Revenue and Customs Earnings Cap. An appropriate provision in respect of the unfunded scheme has been made in the Company's balance sheet.

In response to the pensions taxation legislation which came into force on 6 April 2006 (A Day), the Remuneration Committee ensured the pension policy post A Day did not provide the Executive Directors with additional benefit accrual as a result of the change in pensions taxation. The current UK-based Executive Directors have elected to participate in the unfunded scheme in respect of any benefits in excess of the Lifetime Allowance or their Personal Lifetime Allowance. These Executive Directors are able to cease accrual in the pension schemes and take a 30% cash allowance in lieu of pension if they so wish. These choices are in line with those offered to current senior employees in the Company, except the cash allowance varies depending upon organisational grade.

Mike Jesanis participated in a qualified pension plan and an executive supplemental retirement plan provided by National Grid's US companies, prior to ceasing employment as an Executive Director on 31 December 2006. These plans are non-contributory defined benefit arrangements. The qualified plan is directly funded, while the supplemental plan is indirectly funded through a 'rabbi trust'. Benefits are calculated using a formula based on years of service and highest average compensation over five consecutive years. In line with many US plans, the calculation of benefits under the arrangements takes into account salary, bonuses and incentive share awards (the DSP) but not share options or the PSP awards. The normal retirement age under the qualified pension plan is 65. The executive supplemental plan, however, provides unreduced pension benefits from age 55. On the death of the participating Executive Director, the plans also provide for a spouse's pension of at least 50% of that accrued by the participating Executive Director. Benefits under these arrangements do not increase once in payment.

Non-cash benefits

The Company provides competitive benefits to Executive Directors, such as a fully expensed car or a cash alternative in lieu of car and fuel, use of a driver when required, private medical insurance and life assurance. Business expenses incurred are reimbursed in such a way as to give rise to no benefit to the Director.

Flexible Benefits Plan

Additional benefits may be purchased under the Flexible Benefits Plan (the Plan), in which UK-based Executive Directors, along with most other UK employees, have been given the opportunity to participate. The Plan operates by way of salary sacrifice, that is, the participants' salaries are reduced by the monetary value used to purchase benefits under the Plan. Many of the benefits are linked to purchasing additional healthcare and insurance products for employees and their families. A number of the Executive Directors participate in this Plan and details of the impact on their salaries are shown in table 1A on page 93.

A similar plan is offered to US-based employees. However, it is not a salary sacrifice plan and therefore does not affect salary values. Mike Jesanis participated in this plan.

Share ownership guidelines

Executive Directors are required to build up and retain a shareholding representing at least 100% of annual salary. This will be achieved by retaining at least 50% of the after-tax gain on any options exercised or shares received through the long-term incentive or all-employee share plans and will include any shares held beneficially.

Share dilution through the operation of share-based incentive plans

Where shares may be issued or treasury shares reissued to satisfy incentives, the aggregate dilution resulting from executive incentives will not exceed 5% in any 10 year period. Dilution resulting from all incentives, including all-employee incentives, will not exceed 10% in any 10 year period. The Remuneration Committee reviews dilution against these limits regularly and under these limits, the Company currently has headroom of 3.9% and 5.8% respectively.

Executive Directors' service contracts

Service contracts for all Executive Directors provide for one year's notice by either party. The Remuneration Committee operates a policy of mitigation of losses in the event of an Executive Director's employment being terminated by the Company. If this occurs, the departing Executive Director would be expected to mitigate any losses incurred as a result of the termination. Therefore, entitlement to the payment of 12 months' remuneration on early termination is not automatic, but instead is based on the circumstances of the termination. The Remuneration Committee, in determining any other such payments, will give due regard to the comments and recommendations of the UK Listing Authority's Listing Rules, the Combined Code on Corporate Governance, as issued by the Financial Reporting Council, and other requirements of legislation, regulation and good governance.

	Date of contract	Notice period
Executive Directors		
Steve Holliday	1 April 2006	12 months
Roger Urwin (i)	17 November 1995	12 months
Steve Lucas	13 June 2002	12 months
Nick Winser	28 April 2003	12 months
Mark Fairbairn (ii)	23 January 2007	12 months
Edward Astle	27 July 2001	12 months
Mike Jesanis (iii)	8 July 2004	12 months

(i) Roger Urwin left the Board on 31 December 2006.
(ii) Mark Fairbairn was appointed to the Board on 1 January 2007.
(iii) Mike Jesanis left the Board on 31 December 2006.

External appointments and retention of fees

With the approval of the Board in each case, Executive Directors may normally accept an external appointment as a non-executive director of another company and retain any fees received. The table below details the Executive Directors who served as non-executive directors in other companies during the year ended 31 March 2007.

	Company	Retained fees (£)
Executive Directors		
Steve Holliday	Marks and Spencer Group plc	60,000
Roger Urwin	Utilico Investment Trust plc (i)	16,500
	Alfred McAlpine plc (ii)	17,000
Steve Lucas	Compass Group PLC	70,000

(i) Fees paid for the period 1 April 2006 to 31 December 2006.
(ii) Fees paid for the period 1 September 2006 to 31 December 2006.

Non-executive Directors' remuneration

Non-executive Directors' fees are determined by the Executive Directors subject to the limits applied by National Grid's articles of association. Non-executive Directors' remuneration comprises an annual fee (£35,000, which rose to £45,000 on 1 January 2007) and a fee for each Board meeting attended (£1,500) with a higher fee for meetings held outside the Non-executive Director's country of residence (£3,000, which rose to £4,000 on 1 January 2007). An additional fee of £12,500 is payable for chairmanship of a Board Committee and for holding the position of Senior Independent Director. The Audit Committee chairman receives a chairmanship fee of £15,000 to recognise the additional responsibilities commensurate with this role. The Chairman is covered by the Company's personal accident and private medical insurance schemes and the Company provides him with life assurance cover, a car (with driver when appropriate) and fuel expenses. Non-executive Directors do not participate in the annual bonus plan or in any long-term incentive plan, nor do they receive any pension benefits from the Company.

Non-executive Directors' letters of appointment

The Chairman's letter of appointment provides for a period of six months' notice to give the Company reasonable security with regard to his service. The terms of engagement of Non-executive Directors other than the Chairman are also set out in letters of appointment. For all Non-executive Directors, their initial appointment and any subsequent reappointment is subject to election by shareholders. The letters of appointment do not contain provision for termination payments.

	Date of letter of appointment	End of period of appointment
Non-executive Directors		
Sir John Parker	27 March 2007	2009 AGM
Ken Harvey	27 March 2007	2009 AGM
Linda Adamany (i)	20 October 2006	2007 AGM
John Allan	3 November 2005	2008 AGM
Paul Joskow	3 November 2005	2008 AGM
Stephen Pettit	27 March 2007	2009 AGM
Maria Richter	30 September 2003	2007 AGM
George Rose	27 March 2007	2009 AGM

(i) Linda Adamany was appointed to the Board on 1 November 2006.

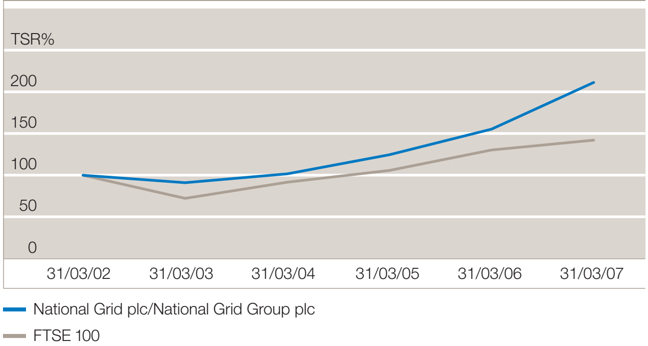
Performance graph

The graph below represents the comparative TSR performance of the Company from 31 March 2002 to 31 March 2007. For the period before the merger of National Grid Group plc and Lattice Group plc, the TSR shown is that of National Grid Group plc.

This graph represents the Company's performance against the performance of the FTSE 100 index, which is considered suitable for this purpose as it is a broad equity market index of which National Grid is a constituent. This graph has been produced in accordance with the requirements of Schedule 7A to the Companies Act 1985.

In drawing this graph it has been assumed that all dividends have been reinvested. The TSR level shown at 31 March each year is the average of the closing daily TSR levels for the 30 day period up to and including that date.

National Grid plc/National Grid Group plc
TSR v FTSE 100



Source: Datastream

Remuneration outcomes during the year ended 31 March 2007

Sections 1, 2, 3, 4 and 6 comprise the 'auditable' part of the Directors' Remuneration Report, being the information required by Part 3 of Schedule 7A to the Companies Act 1985.

1. Directors' emoluments

The following tables set out an analysis of the pre-tax emoluments during the years ended 31 March 2007 and 2006, including bonuses but excluding pensions, for individual Directors who held office in National Grid during the year ended 31 March 2007.

Table 1A	Year ended 31 March 2007						Year ended 31 March 2006
	Salary £000s	Annual bonus £000s	Benefits in kind (i) (cash) £000s	Benefits in kind (i) (non-cash) £000s	Termination payments £000s	Total £000s	Total £000s
Executive Directors							
Steve Holliday (ii)	656	617	–	19	–	1,292	870
Roger Urwin (iii)	648	716	–	23	–	1,387	1,518
Steve Lucas (iv)	472	426	–	30	–	928	848
Nick Winser	420	372	–	14	–	806	771
Mark Fairbairn (iv) (v)	100	84	–	5	–	189	–
Edward Astle (iv)	420	406	12	9	–	847	759
Mike Jesanis (vi)	411	276	7	11	1,377	2,082	874
Total	**3,127**	**2,897**	**19**	**111**	**1,377**	**7,531**	**5,640**

(i) Benefits in kind comprise benefits such as private medical insurance, life assurance, either a fully expensed car or cash in lieu of a car and the use of a driver when required.
(ii) Steve Holliday's salary was £600,000 from 1 April 2006 to 31 December 2006 while in the role of Deputy Chief Executive and was increased to £825,000 with effect from 1 January 2007 on appointment to Chief Executive.
(iii) Roger Urwin's annual salary on leaving was £820,000. The figure above is a pro-rated salary for nine months and includes £33,000 in lieu of outstanding annual leave entitlement. He did not receive additional severance payments.
(iv) These Executive Directors participate in the Flexible Benefits Plan which operates by way of salary sacrifice, therefore, their salaries are reduced by the benefits they have purchased. The value of these benefits is included in the Benefits in kind (non-cash) figure. The values are: Steve Lucas £7,944, Mark Fairbairn £12.51 and Edward Astle £16.68.
(v) Mark Fairbairn was appointed to the Board on 1 January 2007.
(vi) Mike Jesanis ceased employment on 31 December 2006. On leaving, he received £65,000 (included in the salary figure above) in lieu of outstanding annual leave entitlement. He received a pro-rated bonus of £276,000 on leaving and £1,377,000 with respect to termination payments (which includes legal costs). In addition, he received £340,000 with respect to a consultancy arrangement. This arrangement will cease on 30 June 2007. The exchange rate averaged over the year 1 April 2006 to 31 March 2007 used for Mike Jesanis's values is US$1.91:£1. The exchange rate for the previous year was US$1.79:£1.

Table 1B	Year ended 31 March 2007			Year ended 31 March 2006
	Fees £000s	Other Emoluments £000s	Total £000s	Total £000s
Non-executive Directors				
Sir John Parker (i)	500	53	553	445
Ken Harvey	68	–	68	67
Linda Adamany (ii)	25	–	25	–
John Allan	62	–	62	45
Paul Joskow	80	–	80	74
Stephen Pettit	68	–	68	68
Maria Richter	71	–	71	61
George Rose	71	–	71	67
John Grant (iii)	18	–	18	67
Total	**963**	**53**	**1,016**	**894**

(i) Sir John Parker's other emoluments comprise a fully expensed car, private medical insurance and life assurance.
(ii) Linda Adamany was appointed to the Board on 1 November 2006.
(iii) John Grant retired from the Board on 31 July 2006.

2. Directors' pensions

The table below gives details of the Executive Directors' pension benefits in accordance with both Schedule 7A of the Companies Act 1985 and the UK Listing Authority's Listing Rules.

Table 2	Personal contributions made to the scheme during the year £000s	Additional benefit earned during year ended 31 March 2007 pension £000s	Accrued entitlement as at 31 March 2007 pension £000s	Transfer value of accrued benefits as at 31 March (i) 2007 £000s	Transfer value of accrued benefits as at 31 March (i) 2006 £000s	Increase in transfer value less Director's contributions £000s	Additional benefit earned in the year ended 31 March 2007 (excluding inflation) pension £000s	Transfer value of increase in accrued benefit in the year ended 31 March 2007 (excluding inflation & Director contributions) £000s
Steve Holliday (ii)	16	69	157	2,745	1,485	1,244	66	1,134
Roger Urwin (iii)	37	27	564	12,714	11,291	1,386	13	224
Steve Lucas	29	39	199	3,535	2,725	781	34	585
Nick Winser (iv)	25	21	152	2,406	2,000	381	16	213
Mark Fairbairn (v)	19	27	116	2,014	1,483	512	24	388
Edward Astle	16	17	78	1,416	1,086	314	15	253
Mike Jesanis (vi)	0	13	292	2,828	2,497	331	13	429

(i) The transfer values shown at 31 March 2006 and 2007 represent the value of each Executive Director's accrued benefits based on total service completed to the relevant date. The transfer values for the UK Executive Directors have been calculated in accordance with guidance note 'GN11' issued by the Institute of Actuaries and the Faculty of Actuaries. The transfer values for the US Director have been calculated using discount rates based on high yield US corporate bonds and associated yields at the relevant dates.
(ii) The above information takes into account a lump sum benefit related to a previous transfer-in. This means that as well as the pension quoted above, there is an accrued lump sum entitlement of £77,000 as at 31 March 2007. The increase to the accumulated lump sum including inflation was £27,000 and excluding inflation was £25,000 in the year to 31 March 2007. The transfer value information above includes the value of the lump sum.
(iii) The accrued entitlement is calculated as at 31 December 2006, the date Roger Urwin retired from the Board. The value of the pension as at 31 March 2007, which has increased by an additional £21,000 per annum, reflects the compensation for the late payment of the benefits to which he was entitled at the start of the year. The transfer value at 31 March 2007 is calculated on the transfer basis used for pensioners, as Roger Urwin had retired from the Board. The comparative figure for 31 March 2006 is calculated on the transfer basis for non-pensioner members. The change in methodology accounts for £1,043,000 of the increase in transfer value.
(iv) The above information allows for the accrual of a pension benefit of two thirds of salary at age 60 taking into account standard benefits earned prior to 1 September 1998. This means that, as well as the pension above, there is an accrued lump sum entitlement of £236,000 as at 31 March 2007. The increase to the accumulated lump sum including inflation was £20,000 and excluding inflation was £12,000 in the year to 31 March 2007. The transfer value information above includes the value of the lump sum.
(v) Mark Fairbairn joined the Board on 1 January 2007. The above information takes into account a lump sum benefit relating to a previous transfer-in. This means that, as well as the pension above, there is an accrued lump sum entitlement of £197,000 as at 31 March 2007. The increase to the accumulated lump sum including inflation was £36,000 and excluding inflation was £30,000 in the year to 31 March 2007. The transfer value information above includes the value of the lump sum.
(vi) The accrued entitlement is calculated as at 31 December 2006, the date Mike Jesanis ceased employment. Through participation in a Thrift Plan in the US, the Company also made contributions worth £4,230.12 to a defined contribution pension arrangement. The exchange rates as at 31 March 2007 and 31 December 2006, which have been used to convert the figures from US dollars to pounds sterling, are US$1.97:£1 and US$1.96:£1. The exchange rate as at 31 March 2006 was US$1.74:£1.

3. Directors' interests in share options

The table below gives details of the Executive Directors' holdings of share options awarded under the Executive Share Option Plan (ESOP), the Share Matching Plan (Share Match) and Sharesave schemes.

Table 3	Options held at 1 April 2006 or, if later, on appointment*	Options exercised or lapsed during the year	Market price at date of exercise (pence)	Options granted during the year	Options held at 31 March 2007 or, if later, on retirement†	Exercise price per share (pence)	Normal exercise period
Steve Holliday							
ESOP	67,497	–	–	–	67,497	481.5	June 2005 to June 2012
Share Match	10,350	–	–	–	10,350	100 in total	June 2005 to June 2012
	14,083	–	–	–	14,083	100 in total	June 2006 to June 2013
	18,713	–	–	–	18,713	nil	May 2007 to May 2014
	9,983	–	–	–	9,983	nil	June 2008 to June 2015
Sharesave	4,692	–	–	–	4,692	350	Mar 2008 to Aug 2008
Total	**125,318**	**–**		**–**	**125,318**		
Roger Urwin							
ESOP	169,340	–	–	–	169,340†	280.5	Jan 2007 to Sep 2007
	91,656	–	–	–	91,656†	375.75	Jan 2007 to Dec 2007
	22,098	–	–	–	22,098†	455.25	Jan 2007 to Dec 2007
	33,867	–	–	–	33,867†	531.5	Jan 2007 to Dec 2008
	124,610	–	–	–	124,610†	481.5	Jan 2007 to Dec 2008
Share Match	18,644	–	–	–	18,644†	100 in total	Jan 2007 to Jun 2007
	25,000	–	–	–	25,000†	100 in total	Jan 2007 to Dec 2008
	30,762	–	–	–	30,762†	nil	Jan 2007 to Dec 2008
	25,570	–	–	–	25,570†	nil	Jan 2007 to Dec 2008
Sharesave	2,910	–	–	–	2,910† (i)	317	Apr 2007 to Sep 2007
Total	**544,457**	**–**		**–**	**544,457†**		

3. Directors' interests in share options (continued)

Table 3 (continued)	Options held at 1 April 2006 or, if later, on appointment*	Options exercised or lapsed during the year	Market price at date of exercise (pence)	Options granted during the year	Options held at 31 March 2007 or, if later, on retirement†	Exercise price per share (pence)	Normal exercise period
Steve Lucas							
ESOP	54,404	–	–	–	54,404	434.25	Dec 2005 to Dec 2012
Share Match	16,909	–	–	–	16,909	nil	May 2007 to May 2014
	14,778	–	–	–	14,778	nil	June 2008 to June 2015
Sharesave	–	–	–	1,693	1,693	558	Apr 2010 to Sep 2010
Total	**86,091**	**–**		**1,693**	**87,784**		
Nick Winser							
ESOP	19,755	–	–	–	19,755	531.5	June 2003 to June 2010
Share Match	3,937	3,937(ii)	592.5	–	–	100 in total	June 2006 to June 2013
	14,059	–	–	–	14,059	nil	May 2007 to May 2014
	11,581	–	–	–	11,581	nil	June 2008 to June 2015
Total	**49,332**	**3,937**		**–**	**45,395**		
Mark Fairbairn							
ESOP	8,649*	–	–	–	8,649	375.75	June 2001 to June 2008
	2,180*	–	–	–	2,180	435.75	July 2002 to July 2009
	33,489*	–	–	–	33,489	531.5	June 2003 to June 2010
	31,152*	–	–	–	31,152	481.5	June 2005 to June 2012
Share Match	4,897*	–	–	–	4,897	nil	May 2007 to May 2014
	2,134*	–	–	–	2,134	nil	June 2008 to June 2015
Sharesave	833*	–	–	–	833	397	Sep 2007 to Feb 2008
	862*	–	–	–	862	383	Apr 2010 to Sep 2010
	1,760*	–	–	–	1,760	558	Apr 2012 to Sep 2012
Total	**85,956***	**–**		**–**	**85,956**		
Edward Astle							
ESOP	67,497	–	–	–	67,497	481.5	June 2005 to June 2012
	131,086	–	–	–	131,086	400.5	June 2006 to June 2013
Share Match	6,553	–	–	–	6,553	100 in total	June 2005 to June 2012
	13,812	–	–	–	13,812	100 in total	June 2006 to June 2013
	15,716	–	–	–	15,716	nil	May 2007 to May 2014
	14,637	–	–	–	14,637	nil	June 2008 to June 2015
Total	**249,301**	**–**		**–**	**249,301**		
Mike Jesanis							
ESOP	77,861	–	–	–	77,861† (iii)	566.5	Jan 2007 to Dec 2007
	66,099	–	–	–	66,099† (iii)	481.5	Jan 2007 to Dec 2007
Total	**143,960**	**–**		**–**	**143,960†**		
Phantom ADSs (iv)	699	717	$54.34	18	–	$39.590	
	3,000	3,076	$54.34	76	–	$34.270	
	3,452	3,539	$54.34	87	–	$32.320	
	3,039	3,116	$54.34	77	–	$39.376	
	4,730	4,850	$54.34	120	–	$47.762	
Total (Phantom ADSs)	**14,920**	**15,298**		**378**	**–**		

(i) In accordance with the Rules of the scheme, the option had been granted three years prior to Roger Urwin's leave date and he was therefore able to complete the contract and exercise his option during the normal exercise period.
(ii) Nick Winser exercised a Share Match award over 3,937 shares. The market price at the date of exercise was 592.5p and he was required to pay 100p to exercise the award. He also received £2,348 in respect of a cash payment in lieu of dividends on the exercise of the Share Match award.
(iii) Mike Jesanis exercised his options over 143,960 shares in January 2007 at a market price of 721p, after he ceased employment on 31 December 2006.
(iv) In place of participation in the Share Matching Plan, Mike Jesanis elected to defer the ADS component of his bonuses between 2001 and 2005 inclusively into a deferred compensation plan. For a Phantom award under the deferred compensation plan, the ADS market value is tracked, additional value is accrued for dividends and the value is delivered, net of normal US deductions, depending on the participants' election ie in 10 years, on a specified age date from 55 to 75, or on leaving, including retirement. The closing market price of ADSs at 30 March 2007, the last business day for the year ended 31 March 2007, was US$78.81. The range during the year was $78.81 (high) and $48.83 (low). Each ADS represents five ordinary shares.

3. Directors' interests in share options (continued)

Executive Share Option Plan (ESOP)

No further awards will be made under this plan but there are outstanding options granted in previous years. Such options will normally be exercisable between the third and tenth anniversary of the date of grant, subject to a performance condition. The performance condition attached to the outstanding ESOP options is set out below. If the performance condition is not satisfied after the first three years, it will be re-tested as indicated.

Options worth up to 100% of an optionholder's base salary will become exercisable in full if TSR, measured over the period of three years beginning with the financial year in which the option is granted, is at least median compared with a comparator group of companies. Grants in excess of 100% of salary vest on a sliding scale, becoming fully exercisable if the Company's TSR is in the top quartile.

Grants made in 2000

The performance condition attached to options granted in June 2000 is tested annually throughout the lifetime of the option. These options remain unvested.

The comparator group for the 2000 award is unaudited and this information follows below. The Remuneration Committee at that time believed the group to be an appropriate mix of energy distribution sector companies, including UK and international utilities.

Allegheny Energy, Inc.	Energy East Corporation	NSTAR	Scottish Power plc
BG Group plc	FPL Group, Inc.	Powergen plc	The Southern Company, Inc.
British Energy plc	GPU, Inc.	Progress Energy, Inc.	TXU, Corp
Central & South West Corporation	Innogy Holdings plc	Public Service Enterprise Group, Inc.	United Utilities plc
Consolidated Edison, Inc.	International Power plc	Scottish & Southern Energy plc	Xcel Energy, Inc.
Duke Energy Corporation	Niagara Mohawk Holdings, Inc.		

Grants made in 2003

In June 2003, Edward Astle received a grant of Executive Share Options on the basis of 1.5 times base salary at that time, as a one-off award, to fulfill an existing contractual commitment made on his recruitment. He was the only participant to receive such an award in 2003. The comparator group used for this award is unaudited and was the same group as that used for the 2003 PSP award (see page 90). The first test of the performance criterion was undertaken in March 2006. The performance criterion was not met and was, therefore, re-tested in March 2007, where the performance criterion was not met again. The final re-test will be undertaken in March 2008.

No alteration to the advantage of the participant may be made without prior approval of shareholders.

4. Directors' interests in the PSP and DSP

The table below gives details of the Executive Directors' holdings of conditional shares awarded under the PSP. Under the PSP, Executive Directors receive a conditional award of shares, up to a current maximum of 125% of salary, which is subject to performance criteria over a three year performance period (see pages 89 and 90 for further details). Shares are then released on the fourth anniversary of the date of grant, following a retention period. The table includes conditional share awards under the DSP, whereby Executive Directors receive an award of shares representing one half of any bonus earned in the year. The deferred shares are held in Trust for three years before release.

	Type of award	PSP and DSP Conditional awards at 31 March 2006 or, if later, on appointment*	Awards lapsed during year	Awards vested in year	Awards granted during year	Market price at award (pence except#)	Date of award	Conditional awards at 31 March 2007 or, if earlier, on retirement†	Release date
Steve Holliday	PSP	115,669	115,669(i)	–	–	405.25	June 2003	–	–
	PSP	117,681	–	–	–	424.875	June 2004	117,681	June 2008
	PSP	100,801	–	–	–	527.03	June 2005	100,801	June 2009
	PSP	–	–	–	126,788	591.5382	June 2006	126,788	June 2010
	DSP	–	–	–	36,389	583.96	June 2006	36,389	June 2009
Total		**334,151**	**115,669**	**–**	**163,177**			**381,659**	
Roger Urwin	PSP	195,866	195,866(i)	–	–	405.25	June 2003	–†	–
	PSP	198,587(ii)	–	–	–	424.875	June 2004	198,587†	June 2008
	PSP	181,442(ii)	–	–	–	527.03	June 2005	181,442†	June 2009
	DSP	–	–	–	62,881	583.96	June 2006	62,881†	July 2007
Total		**575,895**	**195,866**	**–**	**62,881**			**442,910†**	
Steve Lucas	PSP	115,669	115,669(i)	–	–	405.25	June 2003	–	–
	PSP	116,210	–	–	–	424.875	June 2004	116,210	June 2008
	PSP	99,615	–	–	–	527.03	June 2005	99,615	June 2009
	PSP	–	–	–	101,430	591.5382	June 2006	101,430	June 2010
	DSP	–	–	–	34,882	583.96	June 2006	34,882	June 2009
Total		**331,494**	**115,669**	**–**	**136,312**			**352,137**	
Nick Winser	PSP	92,535	92,535(i)	–	–	405.25	June 2003	–	–
	PSP	98,558	–	–	–	424.875	June 2004	98,558	June 2008
	PSP	91,314	–	–	–	527.03	June 2005	91,314	June 2009
	PSP	–	–	–	88,751	591.5382	June 2006	88,751	June 2010
	DSP	–	–	–	31,316	583.96	June 2006	31,316	June 2009
Total		**282,407**	**92,535**	**–**	**120,067**			**309,939**	
Mark Fairbairn	PSP	47,072*	–	–	–	424.875	June 2004	47,072	June 2008
	PSP	40,225*	–	–	–	527.03	June 2005	40,225	June 2009
	PSP	40,572*	–	–	40,572	591.5382	June 2006	40,572	June 2010
	DSP	10,800*	–	–	10,800	583.96	June 2006	10,800	June 2009
Total		**138,669***	**–**	**–**	**51,372**			**138,669**	
Edward Astle	PSP	107,958	107,958(i)	–	–	405.25	June 2003	–	–
	PSP	110,326	–	–	–	424.875	June 2004	110,326	June 2008
	PSP	94,872	–	–	–	527.03	June 2005	94,872	June 2009
	PSP	–	–	–	88,751	591.5382	June 2006	88,751	June 2010
	DSP	–	–	–	28,769	583.96	June 2006	28,769	June 2009
Total		**313,156**	**107,958**	**–**	**117,520**			**322,718**	
Mike Jesanis	PSP	41,871	41,871(i)	–	–	405.25	June 2003	–†	–
	PSP	ADSs 19,987(iii,iv)	–	–	–	$39.4#	June 2004	ADSs 19,987†	June 2007
	PSP	ADSs 21,634(iii,iv)	–	–	–	$48.5#	June 2005	ADSs 21,634†	June 2007
	PSP	–	–	–	ADSs 20,435(iii,iv)	$53.8284#	June 2006	ADSs 20,435†	June 2007
	DSP	–	–	–	ADSs 6,203(iii)	$54.0483#	June 2006	ADSs 6,203†	June 2007
Totals	**Shares**	**41,871**	**41,871**	**–**	**–**			**–†**	
	ADSs	**41,621**	**–**	**–**	**26,638**			**68,259†**	

(i) For PSP awards granted in 2003, the performance condition was not satisfied at the end of the three year performance period. As a result, the award has lapsed in full.
(ii) For PSP awards granted in 2004 and 2005 to Roger Urwin, these awards will not vest until, subject to performance criteria being met, the original vesting date three years after the dates of grant. If the performance criteria is met, Roger Urwin will receive his awards pro-rated on the basis of the performance criteria having been achieved and time pro-rated from the date of grant to his retirement date.
(iii) Mike Jesanis received awards over ADSs for all awards from 2004 onwards. Each ADS represents five ordinary shares.
(iv) On ceasing employment, Mike Jesanis's June 2004 award lapsed. Partial vesting of the 2005 award occurred resulting in 3,261 ADSs vesting representing the TSR element of the award and 5,408 ADSs vesting with respect to the EPS element of the award. For the 2006 award 1,702 ADSs vested representing the TSR element of the award and all the ADSs lapsed with respect to EPS, as the performance criteria was not met.

5. Directors' beneficial interests

The Directors' beneficial interests (which include those of their families) in National Grid ordinary shares of $11^{17}/_{43}$ pence each are shown below.

	Ordinary shares at 31 March 2007 or, if earlier, on retirement† (i)	Ordinary shares at 1 April 2006 or, if later, on appointment*	Options/awards over ordinary shares at 31 March 2007 or, if earlier, on retirement†	Options/awards over ordinary shares at 1 April 2006 or, if later, on appointment*
Sir John Parker	63,994	55,832	–	–
Steve Holliday (ii) (iii)	28,293	28,063	506,977	531,405
Roger Urwin (iv)	247,810†	247,630	987,367†	1,253,566
Steve Lucas (ii) (iv) (v)	69,412	159,379	439,921	417,585
Nick Winser (ii)	60,624	56,687	355,334	355,895
Mark Fairbairn (ii) (iii) (iv)	20,838	20,495*	224,625	224,625*
Edward Astle (ii)	28,428	28,428	572,019	756,409
Mike Jesanis	3,362†	3,281	485,255†	445,105
Ken Harvey (iv)	3,399	3,399	–	–
Linda Adamany	–	–*	–	–
John Allan	2,000	2,000	–	–
Paul Joskow	4,385	4,385	–	–
Stephen Pettit	2,632	2,632	–	–
Maria Richter	1,755	1,755	–	–
George Rose (iv)	4,409	4,409	–	–
John Grant	8,775†	8,775	–	–

(i) There has been no other change in the beneficial interests of the Directors in ordinary shares between 1 April 2007 and 16 May 2007, except in respect of routine monthly purchases under the SIP (see note (iii) below).

(ii) Each of the Executive Directors, with the exception of Roger Urwin and Mike Jesanis, was for Companies Act purposes deemed to be a potential beneficiary under the National Grid 1996 Employee Benefit Trust and the National Grid plc Employee Share Trust and thereby to have an interest in 54,695 ordinary shares and 24,409 B shares held by the National Grid 1996 Employee Benefit Trust and 293,838 ordinary shares and 14,855 B shares held by the National Grid Group Employee Share Trust as at 31 March 2007.

(iii) Beneficial interest includes shares purchased under the monthly operation of the SIP in the year to 31 March 2007. In April and May 2007 a further 31 shares were purchased on behalf of each of Steve Holliday and Mark Fairbairn.

(iv) Following the Return of Cash and the issue of B shares in 2005, the following Directors held B shares as at 31 March 2007: Roger Urwin 58,397; Steve Lucas 318; Mark Fairbairn 6,132; Ken Harvey 3,874 and George Rose 5,025.

(v) Steve Lucas was for Companies Act purposes deemed to be a potential beneficiary in 24,834 ordinary shares and 23,948 B shares held by Lattice Group Trustees Limited as trustee of the Lattice Group Employee Share Ownership Trust as at 31 March 2007.

6. National Grid share price range

The closing price of a National Grid ordinary share on 30 March 2007, being the last business day for the year ended 31 March 2007, was 797.5p. The range during the year was 797.5p (high) and 552p (low). Please note the Register of Directors' Interests contains full details of shareholdings and options/awards held by Directors as at 31 March 2007.

On behalf of the Board

Helen Mahy
Company Secretary and General Counsel
16 May 2007