

National Grid plc
2007 AGM
Chief Executive's Review

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

Chief Executive's Review

Good afternoon, ladies and gentlemen, before I reflect on our company's achievements of the last 12 months, let me update you on the first quarter for this new financial year, details of which were announced to the Stock Exchange just prior to this meeting.

Overall we started the year strongly and our trading outlook for the full year is ahead of expectations; both cash-flow and capital expenditure remain broadly in line with our plans and our financial position remains strong.

The past few months have seen some of the wettest weather in the UK since records began and the flooding which submerged some of our towns and cities affected our transmission and gas distribution networks, firstly in June in the North of England, and of course last week the devastation in Gloucestershire and Worcestershire, in particular.

All of these images tell quite a story but perhaps the most dramatic scenes were at our Walham substation near Gloucester. The difference between success and failure, keeping supplies on the grid or losing two hundred thousand customers was 2 inches. The flood water eventually peaked 2 inches below the wall surrounding the substation. This 1km wall had to be built to keep the water out. I must pay particular tribute to the armed service personnel, fire brigade and other emergency services who worked tirelessly with our own team over those few critical days.

This past quarter has also seen considerable progress towards the completion of the KeySpan transaction and we are now very excited about the prospect of this completing in late August, but I will come back to this in a moment.

Returning to the 2006/07 results, as Sir John mentioned, we were pleased to announce another good set of results. As you have heard, pre-tax profit was up 9%, earnings per share are up 16%, with business performance earnings per share up 9% and we increased the dividend by 10%. Our capital expenditure was up 23% overall to £2.3 billion, mainly driven by investment in new gas infrastructure in the UK.

Running through each of the lines of business:

Operating profit from Gas Distribution was down 9% largely due to the warmest winter in the UK since 1914 together with higher energy prices, which together had the effect of reducing the amount of gas that flowed through our system.

Going forward, we have agreed with Ofgem, the UK electricity and gas regulator, that from this year our revenue allowance will no longer be dependent on delivery volumes; any future under-recovery will only be delayed until the following year.

And we are currently working closely with Ofgem to reach a fair settlement on the UK Gas Distribution price control that runs for the five years to 2013, one that balances risks and reward, ensuring a safe, reliable network for customers while ensuring an appropriate return for shareholders.

Rhode Island Gas, which we acquired in August last year for \$575 million made a positive contribution to our results with an operating profit in the second half of this year of £17 million.

Transmission delivered good operational and financial performance last year. Operating profit increased by 9% primarily driven by an increase in allowed revenues for electricity transmission in the UK. This price rise is required to fund the huge investment we are making in UK Transmission. In the last year, Transmission's capital expenditure rose 43% due to the massive construction activity involving projects such as Milford Haven, replacing ageing electricity assets and building connections for new sources of generation.

Operating profit from Electricity Distribution in the US increased by 15% despite experiencing one of the worst years for storms in our US operational history. Last October, a major snow storm hit western New York state, bringing down thousands of trees and thousands of power lines. At its peak, 265,000 customers were without power. The restoration effort involved 4,000 employees, with crews from other utilities and contractors. Power was restored to 98% of those affected within eight days. Our efforts won recognition from the industry and from local residents. This storm, with others, resulted in a £43 million impact on operating profit, however, we expect to recover the bulk of that cost in future periods.

For our Non-regulated Businesses, operating profit was lower than the previous year, mainly due to loss of income from connections services. Nevertheless, metering profit was up 6% and the Grain LNG business recorded its first full year contribution of £9 million from Phase I operations.

But these results are not the whole story.

In November last year we set out our strategy, a strategy all about becoming more focussed, about moving our businesses in the UK and US into integrated lines of business and being disciplined particularly with our capital and returning surpluses to you our shareholders.

Given that focus, we set about demerging the wireless business but the market conditions proved so favourable that we accepted an offer of £2.5 billion for a business that we paid £1.1 billion for just two and a half years ago. In May, we also announced an agreement to sell our smaller US Wireless business for \$290 million.

We also set out how we would focus on driving the future growth of business.

With our year end results, we announced that we expect our investment in gas and electricity infrastructure to exceed £14 billion in the six years to 2012. This includes completion of the Milford Haven pipeline where we've laid about 75% of the total pipeline and backfilled about a third of it but can't yet re-instate the land due to the wet weather we've experienced. It also includes mains replacement work in our gas distribution business where we will spend over £400 million per year for the next five years on replacing iron mains; but this is a long term programme and will take at least a further 15 years to complete.

We will also be making additional investment in a third phase expansion of our LNG terminal at the Isle of Grain bringing our total investment to £800 million and creating a facility able to handle around 20% of UK peak demand.

And we announced with our results, a JV with Tennet, the Dutch transmission company, to construct a new sub-sea electricity interconnector to the Netherlands.

These last two are two key additions to ensure energy supplies to the UK.

Let me return to KeySpan, which will of course provide further future investment opportunities. Our initial projections are for the business to add almost £1.5 billion to our plan over the period to 2012 taking our total forecast growth investments to almost £16 billion. But first we have to get the deal done and get the appropriate regulatory contract in place to reward that investment. Over the last year, we have made significant progress. More recently:

- the contracts with the Long Island Power Authority have been agreed and approved; and
- just this month, New Hampshire approved the acquisition; and
- we have an agreement in principle with the New York regulator and hope to obtain this final approval and complete the transaction in late August.

Once KeySpan is complete, we will be, in round numbers, 50% in the UK, 50% in the US; 50% gas and 50% electricity; 50% transmission and 50% distribution – a truly, balanced business.

We are also making good progress in running a much more integrated business. Our global finance and IS organisations are in place, with the other lines of business working hard to get this new way of working fully established.

The KeySpan integration work is very well advanced, we have appointed the top 85 leaders in the US. We will quickly get on track to deliver the \$200 million of synergy savings identified when we announced the deal and we are ready operationally for day 1.

So all in all, a very busy and successful year for our Company. We have:

- created outstanding value through the sale of our wireless business;
- sharpened our strategy;
- stepped up our investment programme; and
- we are ready to hit the ground running on KeySpan.

I am immensely proud of our employees. I know that they take great pride in the vital role we play in the communities that we serve. And in times of adversity, such as Buffalo or Gloucester, this is recognised by others.