

Chairman's Statement

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I am pleased to report that 2007/08 has produced yet another very strong set of results. A year characterised by our renewed focus on our core businesses of gas and electricity transmission and distribution networks in the US and UK, and the realignment of our operating model to reflect the similarities of our businesses. A key part of this focus was the acquisition of KeySpan, which completed in August 2007, resulting in around 50% of our business now being located in the US.

People

None of this would have been possible without the hard work and dedication of our employees. Our people remain our key asset and we place great importance on their development. We actively seek out the potential leaders of the future and nurture their talent through leadership programmes and challenging opportunities within the organisation.

I am pleased to welcome Tom King to the Board as Executive Director of Electricity Distribution & Generation, a post he took up in August 2007. Tom came to us from Pacific Gas and Electric Company where he was CEO and President, as well as President of PG&E Corporation.

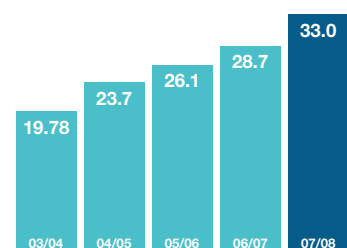
I am also pleased to welcome Bob Catell to the Board as Executive Director and Deputy Chairman, appointed in September 2007. Prior to the completion of the KeySpan acquisition, Bob was CEO and Chairman of KeySpan Corporation.

This year saw Edward Astle step down as an Executive Director in April 2008. Edward had been with us since 2001, and we valued his contribution in that time, in particular the £3.1 billion of cash created by selling several of our non-regulated businesses during the last year or so.

Finally, I am pleased to welcome Philip Aiken to the Board as a new Non-executive Director, appointed in May 2008. Philip comes to us with a wealth of engineering and health & safety experience from running international manufacturing and extraction businesses.

➔ Dividends per share (pence)

Over the past five years, dividends have grown by 92%, from 17.2p for 2002/03 to 33.0p for 2007/08.



The Board is proposing a dividend increase for 2007/08 of

15%

We are also targeting an increase of

8%

per annum from 2008/09 to 2011/12

“The Board is confident that our new operating model based on lines of business, combined with our significant opportunity to grow organically, positions us well to deliver another year of solid performance, supporting our dividend growth policy.”

Safety

Safety is at the very core of all we do and it continues to be at the top of the Board's agenda. This year we have put additional focus on process safety and on controls to manage the major hazards that arise from the transportation and storage of natural gas. At the same time we have maintained our attention on the safety of our workforce and while it is pleasing to report that the number of injuries has fallen, it is disappointing that our injury rate has remained static this year. We are working hard to revitalise and renew our efforts, implementing an ethos of trust and responsibility. We have refreshed our Chairman's Safety, Health and Environment awards for 2008 in order to create further awareness of the importance we attach to these critical business well-being issues.

Governance

Organisations that are able to perform well in the long term are those which operate responsibly. We are committed to the highest standards of corporate responsibility and we take a transparent approach to our reporting, based on a framework underpinned by a suite of policies, procedures, public position statements and internal control processes. There is more detail on this later in this Report.

We have undertaken a comprehensive review of our processes, in line with Sarbanes-Oxley requirements. I am pleased to say, we were able to report that our systems of internal control over financial reporting were effective as at 31 March 2007, and we currently anticipate making the same statement with respect to 31 March 2008.

Community

I am particularly pleased that we received a Business in The Community Silver Jubilee Award in recognition of 10 years of providing education, skills training and jobs for young people at risk of exclusion and for young offenders. This year also marks a great milestone as 1,000 people have now successfully been through the Young Offender Programme, which involves about 100 companies and operates in over 20 prisons across the UK. Its achievement is demonstrated by a reduction in re-offending rates from the national average of around 70% to less than 7%.

Once again, our employees in the US have generously donated to the United Way campaign, an organisation designed to mobilise community leaders to address local human needs. As a Company we have also donated substantial amounts. Together we raised over \$3.5 million (£1.7 million) this year. Not only have our employees been giving financially, but many also volunteered their time and energy for the charity.

I am absolutely delighted that National Grid has become the first ever official partner to Special Olympics Great Britain, an organisation set up for athletes with learning disabilities. We have made an initial three year sponsorship commitment with the option of an extension up to, and beyond, the 2012 Olympics. Unlike the Paralympics, which is for athletes with physical disabilities, Special Olympics Great Britain does not focus on one event, but has more than 200 clubs offering opportunities to participate in sport every day. We will provide funding, time and resources to help these clubs and organised events.

Dividend policy

The Board is proposing a dividend increase for 2007/08 of 15% to 33.0p per ordinary share. This will result in a final dividend of 21.3p per ordinary share. We are also targeting an increase of 8% per annum from 2008/09 to 2011/12. This uplift reflects our confidence in our growth prospects.

Outlook

The Board is confident that our new operating model based on lines of business, combined with our significant opportunity to grow organically, positions us well to deliver another year of solid performance, supporting our dividend growth policy. We will remain committed to identifying further improvements in safety, efficiency and reliability, while maintaining our endeavours to be at the heart of a low carbon society.



Sir John Parker
Chairman

UK Young Offender Programme

Chris, 22 – “It was a fantastic opportunity to turn my life around. I was able to do the training while I was in prison which combined theory with on-the-job training. I am proud that I have an NVQ qualification and did not waste my time in prison. I left with my head held high.”



Chief Executive's Review



“It has been a very successful year for National Grid and this is reflected in an excellent set of results.”

I am delighted to be reporting to you on our 2007/08 results – covering my first full year as Chief Executive. It has been a very successful year for National Grid and this is reflected in an excellent set of results.

Financials

We have delivered another very strong financial performance this year. Cash generated from operations was over £3.2 billion, revenue was over £11.4 billion while adjusted operating profit and adjusted earnings per share were higher by 27.8% and 25.3% respectively. Operating profit and earnings per share were higher by 17.9% and 25.8% respectively.

Strategy

Last year I wrote about our intention to create a more focused business and to run our business in a more integrated way. We also recognised that we needed to enhance the discipline and rigour of the way in which we both operate and finance our business. Our continuing ambition is to provide higher returns for our shareholders while also delivering to our customers in a safe, efficient and reliable manner.

We can already demonstrate the substantial progress we have made against these commitments.

We have successfully reshaped our electricity and gas business, applying a greater focus in our principal growth markets in the UK and the US. Over the past year, we have exited from businesses that did not align with this focus. In April and August we completed the sale of our UK and US wireless businesses

respectively – the proceeds of these sales doubled our initial investment. We also sold our Australian electricity interconnector in August for a 36% premium to invested capital and we sold our Advantica consulting business.

Our increased focus on the US was demonstrated on 24 August 2007 when we completed the acquisition of KeySpan, significantly growing our presence in North America and making National Grid the second largest electricity and gas company in the US by customer numbers.

Our operating model

We believe that owning and operating complementary businesses in the UK and US provides us with a great opportunity to create value for our shareholders and superior service for our customers. This belief underpins our commitment to be more integrated in everything that we do. Across our operations, around 75% of our total costs relate to processes that are common and can be managed either globally or within our operating units. This means that, in addition to securing economies of scale, we can achieve even greater efficiency through being more disciplined and systematic about how we standardise these processes and systems to develop a ‘one National Grid’ operating model. The remaining 25% of costs are associated with more local practices needed to meet specific customers’ needs and particular regulatory environments.

Achieving this standardisation and applying our operating model will be an ongoing theme for the next three years and we have already made a good start.



➤ **0800 111 999**

We operate the UK national gas emergency call centre where about 285 people deal with around 2,400,000 public reported gas escapes every year.

Investing for growth

We are investing and growing our asset value at what is a record rate for National Grid. During the last year, over £3 billion has been invested across the Company – up 30.2% over 2006/07. Based on our projections, current investment plans will drive the growth of our UK and US asset bases by over 35% and 25% respectively by 2012. These investments are made in response to the changing energy requirements in our operating territories and replacement of end of life assets. The returns on our investments are underpinned by our regulatory arrangements or by long-term contracts.

Safety

Safety continues to be a major priority for National Grid – both the safety of our people and the communities we serve. It is heartening that once again the number of lost time injuries has fallen, but I am disappointed that the injury frequency rate has remained static. We are targeting further improvements. Investigation and analysis indicates that the majority of our lost time injuries are due to behavioural causes rather than inadequate procedures, working conditions or equipment. For example, a considerable proportion of incidents relate to road traffic accidents. We launched a refreshed approach to safety across the Company that recognises the strong safety training culture we have in National Grid, focuses on setting consistent standards for good safety behaviours and encourages employees and line managers to assess hazards for themselves and put in place sensible controls. I am optimistic that this ‘Trusted to Work Responsibly’ approach and the undoubted commitment of our employees will reinvalidate our performance.

Climate change

Another area in which we have a long-standing reputation is our commitment to the environment. As a company

involved in the transmission and distribution of energy, we are already working with governments and our regulators to ensure that we are part of the solution to the global issue of climate change. This year we have sponsored a major report in the US on how to reduce greenhouse gas emissions, we have launched a groundbreaking pilot programme to generate electricity from energy currently lost in our gas distribution systems and we have decided to increase our commitment to reduce our own emissions from 60% to 80% by 2050. We are approaching this in a number of areas.

We are fully integrating climate change considerations into our business decisions and a number of projects are in place to promote internal good practice, including the introduction from April 2009 of internal carbon budgets into the management of day-to-day business operations and Company performance processes.

We have influenced legislators and regulators to reshape energy markets to meet the climate change challenge and will seek to continue to do so, for example by pioneering initiatives such as revenue decoupling, which is the separation of our revenue from energy usage, designed to promote efficiency rather than consumption.

It is pleasing that once again we have been recognised as a platinum company, one that scores over 95%, in the UK Business in the Community Corporate Responsibility Index.

People and talent

One of my personal priorities is to ensure that National Grid is a place where our employees are able to perform and grow to the best of their potential. If we are to meet the challenges we are setting, National Grid needs to be able to attract and retain the very best. Our approach to inclusion and diversity, including all of the

Executive Directors sponsoring a UK and US network, ensures that we are working to draw from the widest possible talent pools, although we still have a long way to go. We were delighted to be included again this year in The Times ‘Top 50 Organisations Where Women Want To Work’.

Looking forward

The next year will be another busy one as we:

- look to realise improved efficiency and customer service from our new operating model;
- continue to deliver on our capital investment programme;
- take a leadership role in key UK and US policy areas, such as climate change, and begin to embed our carbon budgets; and
- grow awareness of our brand in the UK and US.

Along with all of the Executive team, I am immensely proud of our employees. Their dedication often goes unnoticed by the general public but occasionally, usually in very challenging circumstances such as the floods in the UK last summer or the storms this past winter in the US, they come to the public’s attention for their incredible professionalism and determination to safeguard life and property in very difficult conditions. Six of our employees were recognised in the Queen’s New Year’s Honours List for their efforts. I would like to congratulate them and every one of our employees involved in a fantastic effort.



Steve Holliday
Chief Executive



Our Apprenticeship Scheme

We continue to invest in our Apprenticeship Scheme to ensure we have the necessary talent to drive our business forward, providing opportunities and training for 79 new people this year alone. Since 2004, 305 apprentices have taken part in the scheme.