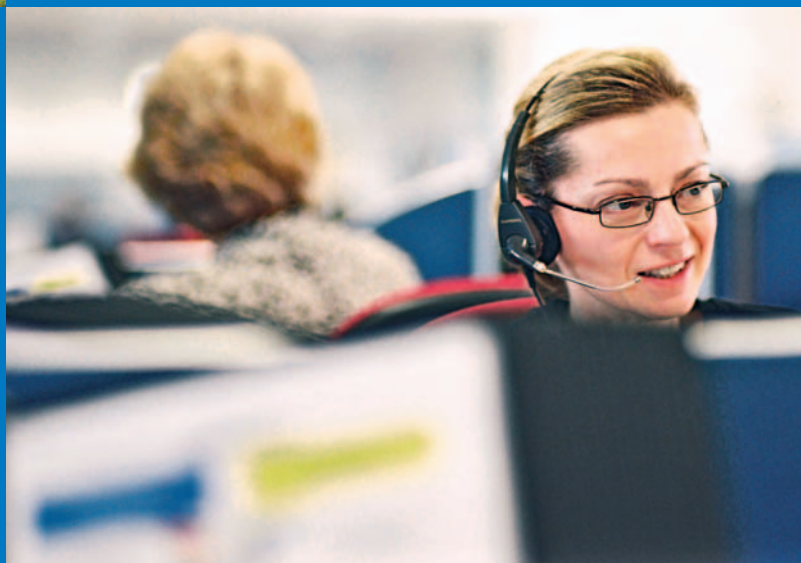


Annual Review 2006/07



national**grid**

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Dear shareholder

We are pleased to report a good financial performance for the year ended 31 March 2007. Adjusted operating profit[†] was £2,454 million and adjusted earnings per share[†] was 47.7p, up 5%. Operating profit^{*} was £2,513 million and basic earnings per share^{*} was 48.1p, up 16%. These results reflect the Company's sound platform of operational performance and we are confident they provide a solid basis for our future investment.

As part of our aim to be world-class in all we do, we have undertaken a fresh strategic review. At the core of this review was the need to ensure we are maximising value for shareholders and continuing our focus on providing a safe, efficient and reliable service while acting responsibly.

As a result of the review, we are now focusing on our core skills of operating in the gas and electricity sector in the US and UK. We are committed to ensuring a disciplined approach to running our business, reducing inefficiencies and developing more effective ways of working. To support this, the Company has been reorganised under lines of business to allow further integration and knowledge transfer between our US and UK businesses.

We continue to invest in the development of our workforce with the aim of employing and retaining the highest calibre people both now and in the future. We are proud of the commitment and professionalism demonstrated by our talented and diverse employees.

The Company's goal of world-class performance remains unchanged. We believe this will be achieved through our investment programmes and our determination to continue to create value in our existing businesses. We are both confident of the Company's ability to continue to provide good financial performance and value for our shareholders.

Sir John Parker,
Chairman

Steve Holliday,
Chief Executive

Important Notice

This document contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. For a description of factors that could affect future results, reference should be made to the full 'Cautionary Statement' on the back cover.

Highlights

For more information see www.nationalgrid.com

Revenue* £8,695m 2005/06: £8,868m, down 2%	Adjusted operating profit**† £2,454m 2005/06: £2,457m	Adjusted earnings per share**† 47.7p 2005/06: 45.5p, up 5%
Cash generated from operations* £3,090m 2005/06: £2,973m, up 4%	Operating profit* £2,513m 2005/06: £2,374m, up 6%	Earnings per share* 48.1p 2005/06: 41.6p, up 16%
Capital expenditure* £2,345m 2005/06: £1,907m, up 23%	Return on equity 12.4% Three year average	Ordinary dividends 28.7p 2005/06: 26.1p, up 10%
Lost time injuries 142 2005/06: 117, up 21%	Percentage of females in workforce 23.7% 2005/06: 23.4%	Reduction in greenhouse gas emissions 35% 2005/06: 26%

■ New operating structure

New lines of business are now in place as part of the strategic review.

■ Disposal of wireless business

Sale of the UK wireless business on 3 April 2007 for £2.5 billion and announced intended £1.8 billion share buy-back with the proceeds.

■ £169 million share buy-back

We have commenced a share buy-back programme, in 2006/07 this amounted to £169 million.

■ Responsible business approach

We have been recognised as a 'Platinum' company in the Business in the Community 2006 Corporate Responsibility Index.

* for continuing operations

† excludes the impact of exceptional items and remeasurements

Chairman's Statement

Sir John Parker



I believe our refreshed strategy will position us to take full advantage of the value creating opportunities we foresee over the next few years.

Board

In January 2007, the role of Chief Executive successfully transferred from Roger Urwin to Steve Holliday. Steve served as Deputy Chief Executive from April 2006 through to December, when Roger stood down. The Non-executive Directors agreed a handover plan of responsibility and this assisted in ensuring a smooth transition and providing management continuity. The success of this approach is demonstrated by the continued strength of the Company's performance throughout this period. Roger's depth of experience and leadership will be missed and all the Directors wish him well in his new ventures.

I am confident that Steve will provide strong leadership of the Executive team as we enter a new phase in the development of National Grid. I also believe that our new operating model and our refreshed strategy will position us to take full advantage of the value creating opportunities we foresee over the next few years.

Other changes to the Board saw Mike Jesanis step down as an Executive Director of National Grid. He had been with the Company for 23 years and had been a member of the Board since July 2004. We will miss his contributions and knowledge and we wish him well in the future.

Paul Joskow, one of our Non-executive Directors, has announced his intention to stand down after the Annual General Meeting in July. He has been a member of the Board since 2000 and his support and advice have been greatly valued throughout this time.

I am pleased to welcome Mark Fairbairn as the Executive Director responsible for our Gas Distribution business in the UK and US. Mark has worked within National Grid for 18 years in a variety of roles, most recently as Chief Operating Officer of our UK gas distribution business.

We welcome Linda Adamany to the Board as a new Non-executive Director. Her energy sector experience in the US market, in particular, will further strengthen the Board.

Following the expected completion of the KeySpan acquisition, we will be welcoming Bob Catell as Deputy Chairman. Bob is currently the Chairman and CEO of KeySpan.

We will seek to ensure that the Board reflects the broadly equal US and UK split of the business following the KeySpan acquisition.

28.7_p

Ordinary dividends

1,000

We aim to have placed
1,000 young people in training
and jobs through the 'Young
Offender Programme' by the
end of this calendar year

47.7_pAdjusted earnings per share[†]
for continuing operations48.1p earnings per share
for continuing operations

The Board continues to support a robust process of review of its own performance and that of its Committees. We also devote time to the programmes we have in place to identify and develop the leaders of the future, which is the basis of good management succession planning. We attach importance to giving people in the boardroom and throughout our organisation the right opportunities and experience to grow and develop. We see these as crucial investments in the best interests of all our stakeholders now and into the future.

Safety

Safety is at the heart of our activities and it continues to be at the top of the Board's agenda. It is disappointing to see that the injury rate has increased this year so we are conscious that we must increase our safety focus and ensure that it remains a top priority in all our activities, including with our contractors, as we deliver a larger capital investment programme over the next five years. The Board is supported in this critical area, and in its management of the environment and its other corporate responsibilities, by the diligent work of the Risk and Responsibility Committee.

As part of the continued focus on safety, I was delighted by the quality of entries for this year's Chairman's awards, which aim to encourage innovation and continuous improvement in safety, health and environmental performance by recognising outstanding achievements in these fields. The winners ranged from flat bed truck safety rails through to the development and introduction of new operating procedures. More details of some of these can be found later in the Business Overview section.

Dividend policy

The Board has approved a final dividend of 17.8p per ordinary share, resulting in a total dividend of 28.7p per ordinary share, an increase of 10%. This year-on-year increase reflects our belief that the business is in a position to deliver good growth for shareholders through continuing cost efficiencies and capital growth. We will carry on with the strategic refocusing of the business and disciplined approach to investment. Our aim continues to be to increase sterling dividends per ordinary share by 7% per year through to March 2008.

Governance

The Board is committed to pursuing leading governance practices – we strive for constant improvement through rigorous review of our internal processes. This year, we have undertaken a comprehensive review of business processes and systems to ensure compliance with Sarbanes-Oxley requirements.

Community investment

Support for and involvement with our local communities and customers continues to be important to us. Through our programmes of community investment in both our UK and US operations, we endeavour to ensure National Grid operates in a responsible manner.

In the US, National Grid and its employees donated nearly \$2.2 million (£1.2 million) to United Way, a national network of organisations that works to create lasting positive changes in people's lives and their communities. In addition to financial support, many employees volunteered their time and participated in the United Way's 'Annual Day Of Caring', where they painted, cleaned, gardened and built playgrounds in local communities.

I am proud of our continued leadership of the 'Young Offender Programme' in the UK, and that there are now 80 companies involved alongside us. The programme has continued to develop this year, providing stable employment opportunities to offenders. This contributes to a significant reduction in the national re-offending rate from over 70% to about 7% for offenders participating in the National Grid programme. Collectively, we aim to have placed 1,000 young people into training and jobs, through the programme, by the end of this calendar year.

Outlook

The Board remains confident that National Grid is well positioned to continue to generate value for its shareholders. We are entering a period of significant investment and the development of our new operating model should allow us successfully to take on this challenge. We will continue to focus on safety, efficiency of our operations and providing a reliable service to our customers, while acting responsibly in everything we do.



Sir John Parker
Chairman

[†] excludes the impact of exceptional items and remeasurements

Chief Executive's Review

Steve Holliday



National Grid is well positioned in the UK and US to take advantage of the global growth opportunity.

I am delighted to be writing my first Chief Executive's review for National Grid and I am immensely proud to have taken over at what is an exciting time for our industry in general and National Grid in particular.

Worldwide, some \$10 trillion (£5 trillion) of investment is required over the next 20 years in the electricity and gas utility sector. This requirement is driven by a need to meet growing demand, changes to how we source our energy and the replacement of ageing assets.

National Grid is well positioned in the UK and US to take advantage of this global growth opportunity. In the UK, we are entering into a period of significant investment in our electricity and gas systems, as we connect new sources of gas and new types of generation and replace assets built in the 1960s. In the US there is also a strong growth story, connecting new customers to our gas networks and replacing ageing assets, as well as improving the service reliability to our customers.

Strategy

So wherever I look there is opportunity; however, in order to capitalise on our strong position and take National Grid to the next level, the Executive team and I have undertaken a careful strategic review, seeking inputs from within the Company and many external stakeholders. The result is not a major change of direction but a need to become more focused, more integrated and more disciplined.

- We are **focusing** on electricity and gas in the UK and the US. As a consequence, we have taken steps to realise the value we have created in both our wireless business and our Basslink project in Australia and completed the sale of the UK wireless business in April 2007.

- We are **integrating** our operations around lines of business, removing the geographic boundaries.
- We are adopting a **disciplined** approach to standardising the way in which we work, sharing and applying best practice and seeking greater rigour to our financial management, ensuring we have the capital to grow, but maintaining the investor confidence that comes from balance sheet discipline.

We believe we are able to do this while maintaining the critical balance between ambitious growth and the need to provide excellent customer service.

Growth

In 2006, we announced and completed the acquisition from the Southern Union Company of the Rhode Island gas distribution network. The Rhode Island gas business serves approximately 245,000 customers through a distribution network of over 3,000 miles of mains. The network substantially overlaps our existing electricity distribution network and is expected to create opportunities for savings.

We also announced the agreement to acquire KeySpan. KeySpan is a gas and electricity energy business with 2.6 million gas customers in New York, Massachusetts and New Hampshire and 1.1 million electricity customers in New York under a long-term contract with the Long Island Power Authority. We are working towards completing the transaction in the autumn with five of the seven approvals already having been granted. Providing we obtain these approvals, KeySpan will be an excellent strategic and operational fit with our business. Our lines of business model should permit swift integration of KeySpan's activities with our operations and provide a model for future acquisitions.

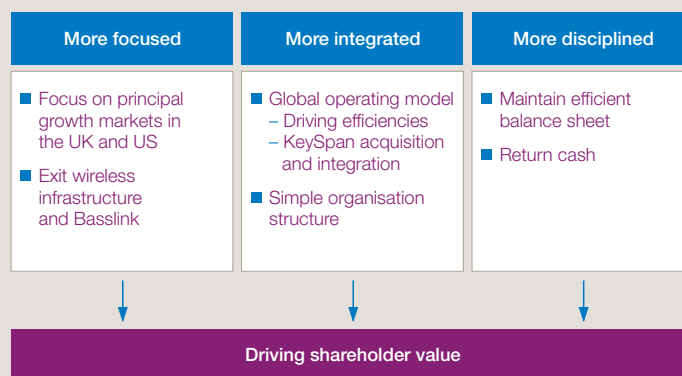
* continuing operations

† excludes the impact of exceptional items and remeasurements

on a constant currency basis

£2,345m

2006/07 Capital expenditure from continuing operations



This year we concluded the Price Control Reviews for our UK gas and electricity transmission networks, setting the financial basis for the significant investment required, which will result in around a 40% growth in the transmission regulatory asset base.

Performance

National Grid has delivered a good performance for 2006/07. Our cash generated from operations* was more than £3 billion while adjusted profit before tax* and adjusted earnings per share** were higher by 3% and 5% respectively. Profit before tax* and earnings per share* were higher by 2% and 16% respectively. The performance of our individual businesses has also been very encouraging.

Our Transmission business had a good year and contributed £1,054 million to the adjusted operating profit*, a 9%# increase compared to 2005/06. During the year, we invested £1,235 million in the UK connecting new customers, generation, and sources of gas to our transmission networks. In the US, we invested £108 million in our transmission network, 19% more than last year.

Adjusted operating profit* for Gas Distribution was down by 9%# at £480 million, primarily due to the impact of lower delivery volumes as a result of warmer UK weather and higher energy prices reducing gas usage. This impact more than offset the contribution from our new Rhode Island gas distribution business. We invested a total of £526 million, mainly in the UK in our mains replacement programme.

Electricity Distribution results were strong with adjusted operating profit* up 23%# to £364 million, principally driven by the recovery of costs incurred in previous periods in New York. Capital investment in the year of £218 million mainly reflected increased expenditure

under our reliability enhancement programme.

Our Non-regulated Businesses and other activities contributed £133 million to the adjusted operating profit*, this was a decrease of £17 million from 2005/06, with a good performance in our Metering and Grain LNG businesses more than offset by higher costs in corporate, insurance and other activities.

Safety

Safety will always be an area of major focus in all our activities. Unfortunately, the last 12 months have seen a decline in our performance, with 142 employee lost time injuries. It is with sadness that we also have to report the death of a contractor who was working for our Transmission business in the UK. We are committed to creating a culture that delivers ever safer ways of working for the protection of our colleagues, our contractors and the public.

Our people

One of my priorities is to ensure National Grid is a company where our employees are able to perform to the best of their abilities and attract the necessary talent to run our business into the future. Talent management, effective performance management and encouraging the progress we have made on inclusion and diversity will be critical to achieving our growth ambitions.

Climate change

As we move to a low carbon economy, there will be significant change in the gas and electricity markets and, in particular, the infrastructure requirements. We have a vital role to play in helping society deliver these requirements but also have an individual contribution to make.

Inside National Grid, we are taking action to ensure that our business is carried out

in a sustainable and responsible manner. In last year's Annual Report, we committed to delivering a 60% reduction in greenhouse gases from our processes, operations and offices well ahead of the 2050 UK Government target. As part of this, we aim to move to 100% renewable energy for our own use by the end of 2010. Work is also being undertaken to consider the impact of climate change on the operation of our businesses and to review what actions we can take to mitigate the effect. I look forward to updating you on this as we make progress.

Outlook

The next year will be both a busy and an important one for the future development of National Grid, as we:

- embed our operational reorganisation along lines of business;
- reinvigorate and work towards improving our safety performance;
- work towards completing the KeySpan acquisition;
- sell our Basslink operation in Australia;
- deliver our capital investment programme;
- maintain our reliability levels in the UK and seek to improve our reliability in the US; and
- focus on the development of all our employees, including those that we expect to welcome from KeySpan.

We have achieved much in the last year. None of this would have been possible without the hard work, professionalism and dedication of all our employees. They have, once again, risen to the challenges set, for which I and my Executive colleagues are very grateful.



Steve Holliday
Chief Executive

What we do

National Grid's main operations are based in the UK and northeastern US. The maps below show where each of our businesses operate with a description of our main activities.

TRANSMISSION – UK electricity and gas systems

Key facts

4,479 miles of overhead line

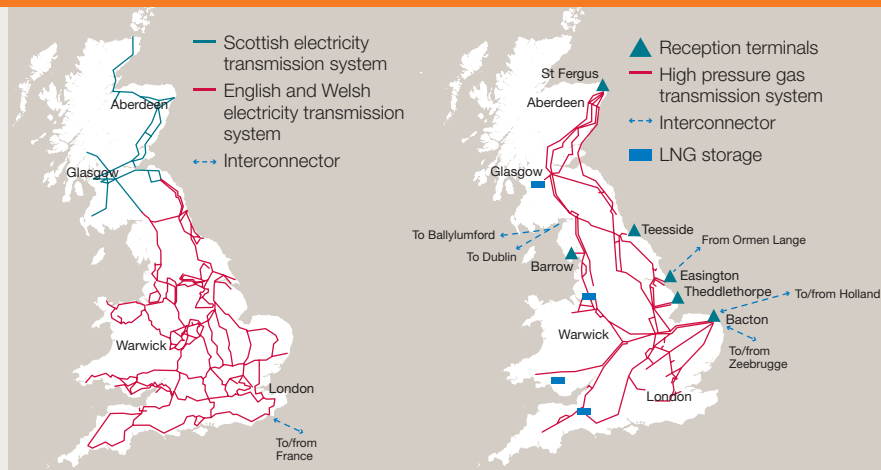
420 miles of underground cable

4,326 miles of high pressure gas pipeline

We own and operate the electricity transmission system in England and Wales. We operate (but do not own) the two electricity transmission networks in Scotland.

We own and operate the gas transmission network in Great Britain.

We own and operate the UK assets and a portion of the subsea cable of the electricity interconnector between England and France. We also own and operate four liquefied natural gas storage facilities.



TRANSMISSION – US electricity system

Key facts

8,500 miles of overhead line

89 miles of underground cable

501 electricity substations

We own and operate an electricity transmission network spanning upstate New York, Massachusetts, Rhode Island, New Hampshire and Vermont. Our US electricity transmission facilities operate at voltages ranging from 69 kV to 345 kV.

We are the largest electricity transmission service provider in the northeastern US by reference to the length of these high-voltage transmission lines.



ELECTRICITY DISTRIBUTION

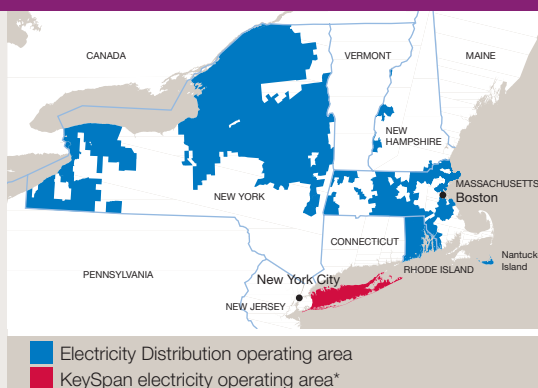
Key facts

71,000 circuit miles of electricity distribution network

30,000 square miles of service territory

We own and operate electricity distribution networks in New York, Massachusetts, Rhode Island and New Hampshire. Our service territory spans all the way from Buffalo, in the far western part of New York State, to the island of Nantucket, off the eastern coast of Massachusetts.

We are one of the leading electricity distribution service providers in the northeastern US, as measured by energy delivered, and one of the largest utilities in the US, as measured by the number of customers.



*KeySpan acquisition subject to final approvals being received

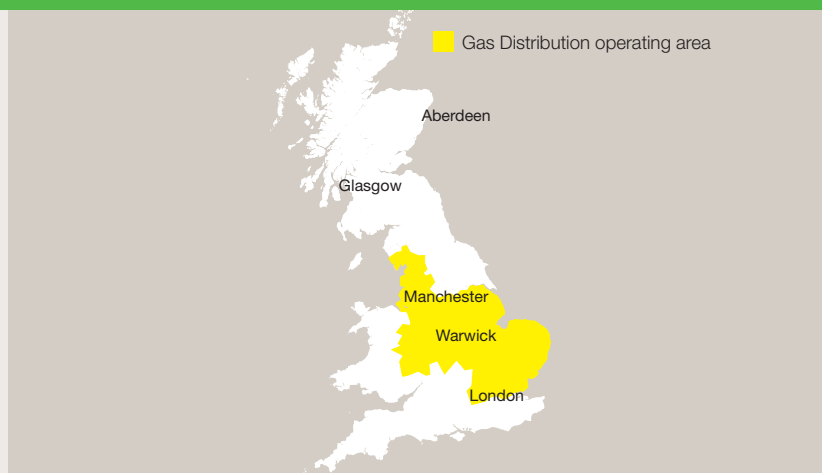
GAS DISTRIBUTION – UK system

Key facts

82,000 miles of
gas distribution
pipeline

14,477 above
ground
installations

Our UK operation comprises almost half of Great Britain's gas distribution network. We own and operate the gas distribution system in the northwest of England, east of England, West Midlands and London. The system includes the gas pipelines that service homes and businesses. We also continue to operate the UK national gas emergency number on behalf of all the networks and gas transporters (0800 111 999).



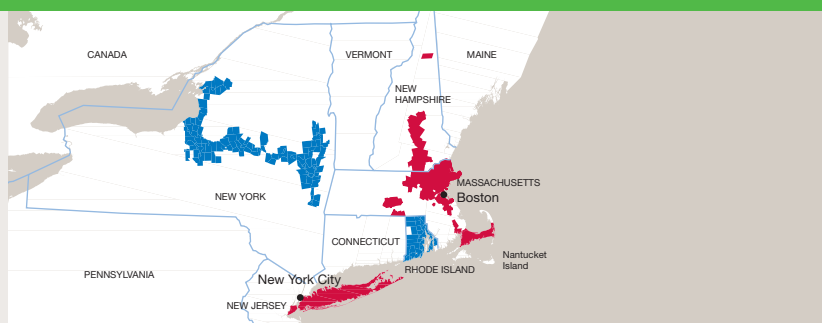
GAS DISTRIBUTION – US system

Key facts

11,800 miles of
gas pipeline

5,460 square
miles of service
territory

We own and operate gas distribution systems in New York and Rhode Island. We provide the core services of operation and emergency response, as well as billing, customer and supply services. Customers may purchase their supply from independent providers, with billing for those purchases provided by National Grid.



*KeySpan acquisition subject to final approvals being received

NON-REGULATED BUSINESSES

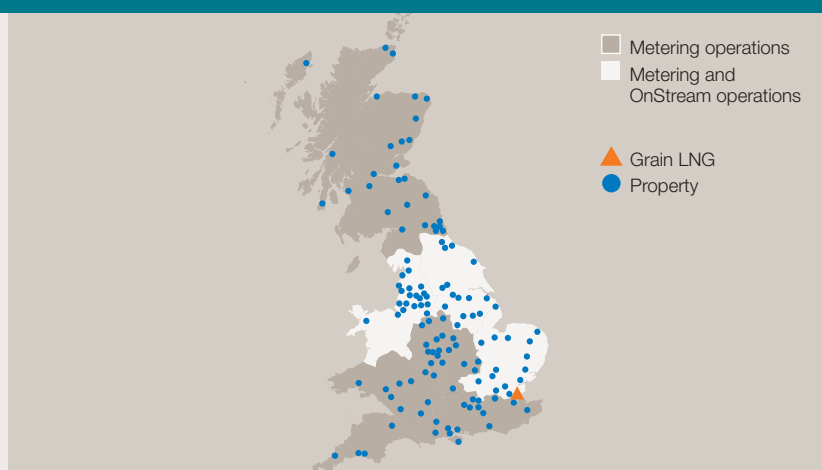
Key facts

Over 20 million
meters across
Great Britain

Capacity to
supply 4% of
current gas
demand

1,500 buildings
managed

Our businesses comprise: National Grid Metering, OnStream, National Grid Grain LNG and National Grid Property. Metering provides regulated gas metering and meter-reading services while OnStream provides gas and electricity metering and meter-reading services to the competitive market. Grain LNG operates our liquefied natural gas importation terminal. Property manages a portfolio of buildings and land areas across Great Britain.

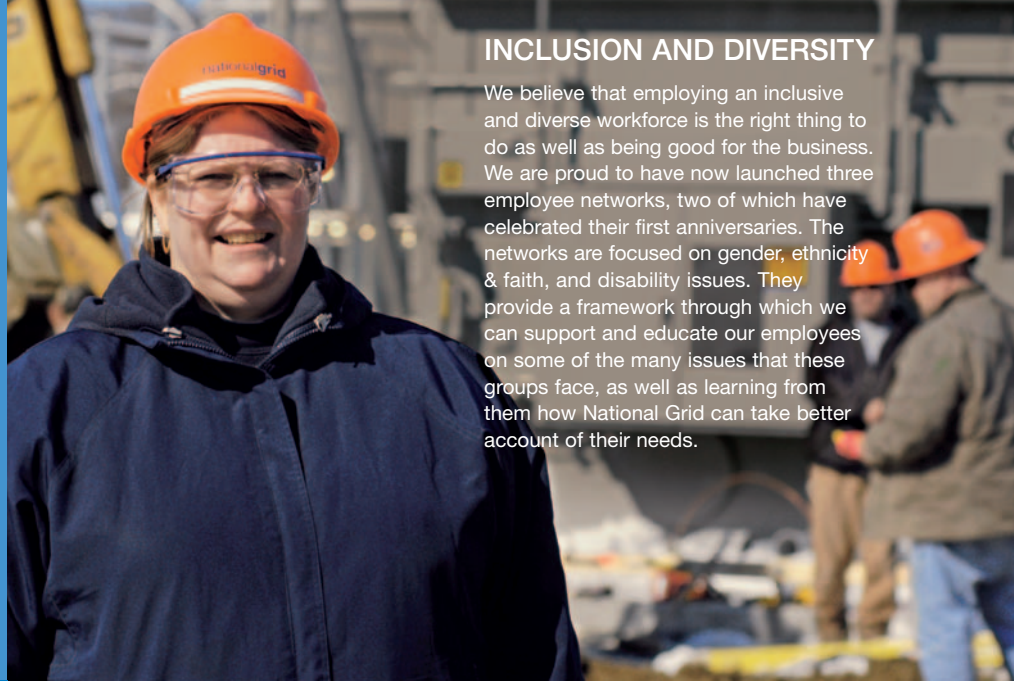


How we do business

National Grid is committed to carrying out its business in a manner that is safe, efficient, reliable and responsible. We are also committed to developing the skills of our people, who are at the heart of our success.

CLIMATE CHANGE

Our Grain Liquefied natural gas import terminal has signed an agreement with a proposed neighbouring power station. This agreement allows the terminal to use the station's excess heat to warm liquefied gas, in the process of converting it for use on the national gas system. The result is expected to include a reduction of 350,000 tonnes of carbon dioxide used every year. A pipeline will be built between the two sites to transport warm water to the terminal. The first heat transfer is planned for 2010.



INCLUSION AND DIVERSITY

We believe that employing an inclusive and diverse workforce is the right thing to do as well as being good for the business. We are proud to have now launched three employee networks, two of which have celebrated their first anniversaries. The networks are focused on gender, ethnicity & faith, and disability issues. They provide a framework through which we can support and educate our employees on some of the many issues that these groups face, as well as learning from them how National Grid can take better account of their needs.

A GOOD PLACE TO WORK

National Grid has been listed as one of the best companies to work for in the UK. We were ranked 6th out of 100, by an independent panel advising the Corporate Research Foundation. We have also been named in The Times top 50 companies 'Where Women Want to Work' and scored 75% in the US Human Rights Campaign's Corporate Equality Index, well above the average scored by peer companies.

EMPLOYEE SURVEY

In July 2006, we conducted a National Grid-wide employee opinion survey. Over 11,000 employees took part. The results show that 67% are confident about the future success of the Company and 83% are willing to do their job differently than in the past to help us to improve.



BUSINESS CONDUCT

We believe that delivering sustained value depends on the trust and confidence of our key stakeholders. To support this we have introduced new 'Standards of Ethical Business Conduct' that will replace our existing US and UK codes of ethics. The new Standards provide a common set of practical guidelines to help our employees meet our high ethical standards in their everyday business decisions and are supported by advice teams who can help provide guidance about all aspects of business conduct. While the Standards can only apply to National Grid's employees, work is ongoing to ensure that our suppliers have codes of ethics in place that reflect our high ethical standards.



ECONOMIC DEVELOPMENT

As part of our economic development work in the US, we have been collaborating with state and local government to promote and advance the site preparation of Luther Forest Technology Park, a 1,350 acre development site in upstate New York. These efforts saw a major success this year with AMD, a global provider of microprocessor and graphics solutions, announcing that it plans to build a new \$3.2 billion (£1.6 billion) semiconductor fabrication plant in Luther Forest. This is expected to generate 1,200 direct jobs in the local economy with the potential for up to 4,000 jobs to be created in related companies, providing economic growth and development of the electricity infrastructure in the area.

COMMUNITY INVOLVEMENT

We believe that we should encourage and support social growth and development in the communities in which we operate. Our volunteering programme reflects our commercial needs and is designed to develop our business and enhance our reputation by engaging our employees and supporting the local community. We aim to build sustainable relationships with our community neighbours using our business skills and sharing opportunities to develop our employees. During 2006/07, over 1,600 employees have undertaken approximately 20,000 hours of community support in the UK. In the US, many employees serve as board or committee members of charitable organisations or coordinate fundraising, while others volunteer their time building recreational areas, cleaning up parks and communities, or tutoring and mentoring young students.



DEVELOPMENT OF FUTURE TALENT

In the UK and US, there are a reducing number of students taking up engineering and we face the prospect of recruiting from a smaller pool of talent. In the US, we have introduced a university relations programme. This programme focuses our interactions on 11 universities involving activities such as attending job fairs and participating in engineering clubs, as well as placing key executives on education advisory boards. In the UK, we have established our e-futures strategy which aims to encourage today's children to become tomorrow's engineers. The strategy begins through a network of Imagineering after-school clubs for eight year olds which we support, and continues through to our award-winning apprenticeship and graduate schemes.



SAFETY AND OCCUPATIONAL HEALTH

During the year, we held our first safety, health and environmental conference, involving 60 participants from across National Grid and KeySpan. The conference provided the opportunity to review our Safety and Occupational Health Policy and Vision for Safety and develop strategies to reinvigorate our commitment to zero work-related injuries.

What we have achieved

Transmission

We own and operate gas and electricity transmission networks in Great Britain and England & Wales respectively and an electricity transmission network in the northeastern US. We also operate the electricity transmission network in Scotland.



Efficiency

Investment for growth

We are entering a period of significant investment in our systems and this brings challenges for our Transmission operations. We need to provide high-voltage electricity lines for the new renewable sources of electricity generation, but this generation is often located away from the traditional centres of demand. Similarly for gas, new infrastructure is required to reinforce and provide new routes for the gas supplies to the interconnectors with Europe and the liquefied natural gas sites at the Isle of Grain and Milford Haven. In addition, we have a large asset replacement programme in place for both our UK and US transmission businesses, with baseline investment over the six years to March 2012 expected to be £7 billion. To enable us to take full advantage of this investment programme we have made some changes to our business model.

In the UK, we have partnered with several large utility construction businesses to create 'Electricity Alliances', similar to the arrangements already in place in Gas Distribution. In the US, we have developed a new operating model that allows the transmission assets to be designed, planned, constructed and operated within the business. These Alliances and the new operating model are an integral part of Transmission's strategy to deliver its investment programme.

Area of operations

We design and maintain National Grid's transmission networks; project manage, construct and commission new assets; and work with the industry and regulators to ensure we have the right returns to carry out our role. In Great Britain, we are the system operator, ensuring reliability of supply to our customers.

57.5 GW and 436 mcm

This year saw a peak electricity demand in Great Britain of 57.5 GW and a peak gas demand of 436 mcm.

£1.3 billion

In 2006/07, we invested over £1.3 billion in our networks to replace ageing assets and to connect new sources of supply.

2006/07 highlights

- > Good year for reliability in Great Britain: 100% of gas delivered and 99.9999% of electricity energy delivered.
- > 7.5% reduction in lost time injuries across Transmission.
- > 8% reduction in cable oil loss in the UK.
- > 15% reduction in CO₂ emissions in the UK.

£1.1bn

Adjusted operating profit†

£1.3bn

Capital investment

43%

Increase in capital investment

**Reliability
Ward Hill**

As part of National Grid's commitment to a wider reliability infrastructure improvement programme in New England, we have completed a \$49 million (£26 million) operational upgrade of Ward Hill electricity substation. The upgrade included increasing the number of circuit breakers from 7 to 23 and the number of transformers from 1 to 4. In addition to the substation work, three of the high-voltage electricity transmission circuits feeding into Ward Hill were also upgraded to increase their capacity. The project required careful planning to ensure that customers' supplies were maintained throughout the construction phase. The timescales of the project were challenging and this was made worse by two periods of heavy rain and floods which occurred during construction, halting some work. However, despite these issues, the project was completed to schedule, with construction completed in 12 months.

**Safety (Chairman's award winner)
Flatbed truck redesign**

As part of our continued focus on safety we welcome initiatives from across the Company to improve our performance. One of these initiatives was the development of modifications for flatbed trucks used by our oil management unit. The trucks have been fitted with fold-away handrails, which provide a safer working environment while working at height. When access to the truck flatbed is required, the handrails are put in place. If the handrails need to be lowered, access restrictions are instigated. These modifications have been designed in conjunction with the unit's employees so that consideration of work methods and usage have been incorporated. Following a successful trial period, all the oil management unit trucks have been modified. Further work has been carried out with our contractors to allow them to use the designs we have developed and we are also considering wider use throughout National Grid.

**Responsibility
Milford Haven**

On our Milford Haven gas pipeline project, in Wales, we are consulting with local communities directly affected by our works. To provide information we have created a project website and produced a range of bilingual leaflets and fact sheets providing project information. All MPs, Welsh Assembly Members and councils with constituents affected by the project have been written to and we have met with many of them. There have been a number of public information events and presentations to community councils. Our community relations team has made individual visits to many residents to discuss any concerns they may have. We also provide a freephone number for local residents to call if they have any questions about our works at any time. Despite these efforts, due to the size and nature of our works, there are still concerns in the local community. Throughout the remaining works this level of support to the community will continue as we aim to ensure everyone is informed and is able to have their questions answered.



Left Overhead linesmen carrying out repair work on a 400 kV transmission line.

First right Ward Hill substation following the operational upgrade.

Second right Employee of the oil management unit working on a truck fitted with the redesigned handrails.

Third right Work in progress on the Milford Haven gas pipeline project.

† excludes the impact of exceptional items and remeasurements

What we have achieved

Gas Distribution

We own and operate gas distribution systems in the UK and the northeastern US.



£480m

Adjusted operating profit†

£526m

Capital investment

12%

Increase in capital investment

Efficiency Sharing best practice

The application of a line of business operating model helps to ensure that we can more easily share best practice. An example of this was the trial in the UK of specialist equipment for gas repairs that is already in use in the US. Two specialist trucks were shipped from the US along with a team of US technicians to train their UK counterparts. The technology works by drilling an 18 or 24 inch hole through the road surface to allow access. The repair is then carried out using long-handled tools. Once the work has been completed, the original road surface can be replaced, significantly reducing the time required for excavation and reinstatement. The reduction in time should assist us in minimising disruption to the public. This technique results in savings in materials and landfill and demonstrates how sharing best practice can potentially deliver benefits to the business, the public and reduce the environmental impact of the work we undertake.

Left UK employee operating the specialist truck from the US.

First right Gas engineers setting up streetworks.

Second right Polyethylene gas pipe being cut for use as part of the network replacement work.

Area of operations

We distribute gas to 11.8 million homes and businesses across the UK, and Rhode Island and New York State in the US. We employ around 4,700 people in the UK and 700 in the US.

0800 111 999

We operate the UK national gas emergency number for our networks, other networks and other gas transporters.

2.3 million calls

In 2006/07 we handled 2.3 million emergency calls in the UK on the above number. In the US we handled 35,000 gas emergency calls.

2006/07 highlights

- > Actual gas consumption 303 TWh in the UK and 50.8 TWh in the US.
- > Replaced 1,850 km of iron gas pipes in the UK.
- > 5,000 new services and 84 km of new gas main connected in the US.
- > This year was the second warmest winter on record in the UK, reducing gas distribution volumes by 8% over the year.

**Reliability
Investment**

We expect to invest £2.6 billion in our UK gas network over the next five years. This investment includes up to £400 million per year on network replacement works and up to £190 million on infrastructure investment. The majority of the network replacement work is driven by the iron mains replacement programme agreed with the Health and Safety Executive (HSE). Under this programme, we are required to replace iron gas mains that are within 30 metres of buildings by 2032. Since 2002/03, we have been ramping up the replacement levels to ensure that the 2032 target can be met. During 2006/07 we have replaced about 1,850 km of mains gas pipes. This means we have now achieved the required replacement rate to meet the 2032 target. The 2006/07 figures represent a 7% increase compared with the previous year and a 50% increase compared with 2002/03. To achieve this significant increase we have been working closely with our Gas Distribution Alliance Partners and, due to the success of these partnerships, this model has been rolled out to our Transmission business in the UK. Over 90% of the mains replacement work was completed using techniques that do not require the whole length of pipe to be dug up. This significantly improves the efficiency of the activity, reduces cost, and minimises disruption to the public and the environment.

**Responsibility (Chairman's award winner)
Plastic pipe recycling**

In the UK, we are currently carrying out a programme to replace old iron pipes with polyethylene pipe. This pipeline replacement can result in the production of waste polyethylene pipe. By working with our suppliers, we have devised an award-winning process that enables the waste pipe to be collected and returned to the supplier. The pipe can then be converted into pellets and reused. To reduce further the environmental impact, the waste pipe is collected by the supplier after a delivery of new pipe, so no additional journeys are required. To achieve this, special cages, which fit on the back of the delivery vehicles, were designed by our supplier for the collection of the waste pipe and fittings. The profit made through this process is shared between us and our supplier and some depots have decided to give this to local charities. The process was trialled in our East of England gas distribution network area and has now been expanded to cover the London and West Midlands areas. There are 13 depots currently involved and we have recycled around 165 tonnes of polyethylene pipe this financial year. Our suppliers have extended the programme to include other major utility companies. Through the polyethylene recycling scheme we have saved the equivalent of 330 tonnes of carbon dioxide and 3,300 transport miles.

**Safety
Cable strike prevention**

When carrying out excavation of gas pipes for replacement or repair, a common risk is the possibility of our excavation equipment damaging buried cables. An induced current detection method, which had been in use for some time, was extended to include domestic cable. A pilot strategy was developed by employees in the UK to highlight this technique, including guidance on how and why this approach should be used. This resulted in the cable strikes in the pilot area reducing by 74% over a 10 month period.

**Responsibility
Customer focus**

Gas Distribution is dedicated to delivering customer satisfaction through the provision of consistent and reliable services. In the UK we continue to meet all of the standards of service targets set by Ofgem. However, we know from customer surveys that there are some areas where we can do more. We have reviewed our customer focus and have developed plans to bring together a number of existing and new initiatives. One change has seen the letters we send to customers notifying them of mains replacement work being made more customer friendly by providing more information on the work involved and removing technical jargon.

[†] excludes the impact of exceptional items and remeasurements

What we have achieved

Electricity Distribution

We distribute electricity to approximately 3.4 million customers in upstate New York and New England.

Responsibility

Restoring power to western New York

National Grid's aim is always to respond to major storms and natural disasters swiftly and effectively. In October 2006, a storm hit western New York State causing thousands of power lines to be damaged and resulting in 265,000 homes and businesses being without power. More than 4,000 of our employees, mutual aid crews and contractors worked around the clock to restore power. Supporting this team of workers involved serving 12,000 meals a day and providing 1,500 utility vehicles and 50 crew shuttle buses. Daily briefings with the community were established to ensure clear communication channels which enabled us to modify our restoration plans to meet the community's requirements and to ensure the safety of the repair crews and the public. These efforts, even under such difficult circumstances, ensured that power was restored to 98% of those affected within eight days. We have received many positive comments from customers, regulators, public officials and the media. We have also won recognition from the industry for our outstanding efforts in helping communities recover from the storm effects.



Area of operations

We provide a range of services for the delivery of electricity including: owning, operating and maintaining a distribution system covering 30,000 square miles; handling more than 8.7 million customer enquiries annually; restoring service promptly when outages occur; metering and billing; offering customers energy efficiency programmes; and purchasing electricity for customers who have not chosen their own suppliers.

14.0 GW

The peak electricity demand for 2006/07 in our service area was 14.0 GW on 2 August 2006.

£218 million

In 2006/07, we invested over £200 million in our electricity distribution network.

2006/07 highlights

- > Met all service quality standards in Rhode Island. Met majority of service quality standards and improved reliability performance in New York and Massachusetts.
- > Achieved our goal for reducing the average time customers are without power when they have a service interruption.

£364m

Adjusted operating
profit*†

£218m

Capital investment

6%

Increase in capital
investment on a
constant currency basis

Reliability Reliability Enhancement Program

A five year 'Reliability Enhancement Program' was started last year across the US service territory, with the aim of reducing the number and duration of outages on our network, as well as meeting the service quality standards in each of the states, where applicable. 2006/07 was the first full year of the programme with \$150 million (£79 million) of work completed. This work involved: the replacement of more than 45,500 cutouts as well as replacing other critical assets; improvements to more than 1,300 miles of our overhead lines, through a range of actions including replacing poles and installing lightning protection; and the trimming or removal of trees adjacent to more than 10,000 miles of lines, where they were considered to pose a risk to reliability. Our employees have increased their engagement by focusing daily on reliability, finding more efficient ways of working, as well as developing new approaches to some tasks. This work has contributed to improved performance in both the frequency and duration of reportable outages.

Safety (Chairman's award winner) New electrical operating procedure

We have introduced a new common operating procedure across Electricity Distribution that allows employees to isolate safely electrical equipment for maintenance. The aim of this change is to ensure employees feel confident they are carrying out their role correctly, regardless of location, and to provide a framework to achieve zero injuries every day. The procedure provides a consistent set of rules and practices, allowing employees to operate across the business. Employees from a wide range of departments came together to develop the processes. In addition to the documentation, a comprehensive training programme was developed and, over a period of 5 months, nearly 3,000 employees were trained, requiring either a 2 or 3 day course. To meet this intensive programme, more than 90 employees were trained as instructors and, at one point, simultaneous training was taking place at 15 different locations.

Efficiency Floods

In June 2006, a severe flood hit the communities along the Mohawk River and East Canada Creek in the state of New York and some of our substations were flooded under more than 3 feet of water. This resulted in significant damage to 3 substations in the area and 9,800 customers being without power. The emergency recovery plan was put into force. Temporary substations were brought in to replace 2 of the damaged sites and temporary repairs were carried out at the 3rd. In addition, 2,500 feet of electric line was installed from the mobile substations to restore power. Helicopter patrols were used to monitor and assess the flood damage. Electricity was shut off to those areas affected by the flood due to safety concerns. Power was restored within 2 days, although some customers remained without power for longer as household repairs were required.

Left National Grid teams working on restoring power in Buffalo, New York.

First right Hendrix wire being used to improve reliability of the overhead electricity distribution network.

Second right Floods affecting Inghams substation during June 2006.



* excludes US stranded cost recoveries

† excludes the impact of exceptional items and remeasurements

What we have achieved

Non-regulated Businesses

Our businesses comprise National Grid Metering, OnStream, National Grid Grain LNG and National Grid Property.

Safety/Reliability (Chairman's award winner)

Development of liquefied natural gas (LNG) import facilities

Following the commissioning of the Isle of Grain LNG importation terminal in July 2005, over 60 ships have now delivered cargoes of LNG from around the world at the Grain LNG terminal. The £388 million second phase of development is currently under way and is expected to start operation in late 2008. This phase will increase the import capacity of the terminal up to approximately 12% of the UK's gas demand. The end of 2006 saw a successful milestone reached for the second phase, with the raising of the steel dome roof on the last of the three new LNG storage tanks. Safety is a critical element of a major construction project. During this project, the milestone of 1.2 million hours worked with no lost time injury was achieved, through tight control on all aspects of safety and everyone on site taking personal responsibility for safety.

£103m

Adjusted operating profit[†]
for National Grid Metering
and OnStream

£9m

Adjusted operating profit[†]
for National Grid Grain LNG

£86m

Adjusted operating profit[†]
for National Grid Property

Left One of the new LNG storage tanks being constructed as part of the phase II development at Grain.

First right An example of a smart electricity meter being used in the pilot project.

Second right The 'National Remploy Leading the Way Award' received by the Gloucester metering centre.

Third right Land regeneration work being carried out in Hull.

Area of operations

We either operate in markets related to our principal businesses or provide support to our businesses.

- Metering and OnStream operate in the regulated and competitive metering markets.
- Grain LNG terminal is the first LNG terminal to be developed in the last 30 years.
- Property manages a portfolio of properties across Great Britain.

20 million

The metering businesses have a collective asset base of over 20 million meters nationwide and manage just under 10,000 meter transactions per day.

4%

Grain LNG currently has the capacity to meet 4% of UK gas demand.

2006/07 highlights

- Installed over 800,000 meters under competitive contracts.
- Successfully piloted smart meters.
- Around £500 million of investment approved in new infrastructure projects.
- Completed the remediation of 17 sites in Great Britain.

**Efficiency
Smart metering**

At a time of increased focus on climate change and energy prices, we are proud of the work being carried out on the development of smart metering. We have successfully completed a pilot involving over 500 non-domestic electricity customers, which involved the use of our smart metering device. The solution has the potential to be used by 2.5 million commercial users. In addition to measuring the amount of energy used, by utilising modern communication routes, the meter can be read remotely to provide accurate meter readings without needing access to the consumer's premises. The meter readings can be collected at half hourly intervals, allowing them to track and monitor their energy consumption and gain a greater understanding of when energy is used and where efficiencies can be realised. The solution also gives organisations with multiple locations across the country the ability to verify and compare their meter readings from all their sites, with data available via a secure website the same day as the readings are collected.

Our metering business has also installed over 3,000 automated meter reading units to businesses via their gas suppliers. These meters remove the requirement for meter reading visits and aim to increase billing accuracy while reducing cost.

**Responsibility
Enabling a diverse workforce**

As part of our work on inclusion and diversity, in the UK, the metering contact centre at Gloucester has been working closely with Remploy to support the centre's ongoing recruitment. Remploy helps to provide employment opportunities for people with disabilities or heart conditions. The aim is to provide a working environment where all employees are equal members of the organisation, from recruitment, into training and beyond. The work undertaken has resulted in adjustments being made to the recruitment process as well as the workplace. Within the recruitment process, consideration is given to issues such as offering support with filling in application forms and providing large font size options for any assessments. Adjustments to the workplace have ranged from redesigning work stations to using clear markings on cupboards and walkways. Buddying arrangements and additional training have also been provided where appropriate. Throughout the process, efforts have been made to discuss issues with employees directly so that the adjustments made meet their requirements and allow them to receive the full benefit. In October 2006, these efforts were recognised when the metering centre was awarded the 'National Remploy Leading the Way Award'.

**Responsibility
Land regeneration**

We have been working across Great Britain to regenerate former town gas works. The programme is for a range of developments, which we expect to result in the building of 1,260 houses and flats, including 414 social or affordable units, from those sites regenerated in 2006/07. Other buildings on these reclaimed sites range from a primary school, a college, retail units, offices and industrial units, to a power station. The regeneration of this land can involve the removal of old buildings and structures as well as land decontamination work. In regenerating the sites we have been piloting a range of alternative technologies to minimise the amount of material taken off site to landfill. Last year we recycled 65% of our excavated material.

A specialised environmental process involving bioremediation has been introduced to clean up a former gas work site in Hull. Microbes already in the soil are stimulated to break down the tarry deposits to enable the soil to be reused. Around 66,000 tonnes of materials have been treated on site, thereby eliminating the need for over 6,000 truck movements. A tent, covering an area around the size of a football pitch, is used to protect the area from low temperatures and moisture. This work brings benefits to the local communities, while cleaning up the industrial heritage of the past and delivering financial returns for the Company.



† excludes the impact of exceptional items and remeasurements

Board of Directors



01 Sir John Parker Chairman

**Appointed October 2002, Age 65,
N (ch)**

Sir John Parker became Chairman following the merger of National Grid Group plc and Lattice Group plc. He had been Chairman of Lattice Group plc since its demerger from BG Group plc in 2000. He had previously been a Non-executive Director of BG plc from 1997. Sir John's career has encompassed the engineering, shipbuilding and defence industries.

He is Deputy Chairman of Port and Free World Zone (Dubai), a Non-executive Director of Carnival plc and Carnival Corporation, Inc., Senior Non-executive Director of the Court of the Bank of England and Chancellor of the University of Southampton. Once its demerger from Anglo American plc is complete, Sir John will become Joint Non-executive Chairman of the Mondi Group. Sir John is a former Chairman of P&O Group and of RMC Group plc, a former Chairman and Chief Executive of Harland & Wolff plc and Babcock International Group PLC and a former Non-executive Director of Brambles Industries plc, GKN plc and British Coal Corporation. He is a Fellow of the Royal Academy of Engineering.

02 Steve Holliday Chief Executive

**Appointed March 2001, Age 50,
E (ch), F**

Steve Holliday joined National Grid Group plc as Group Director, UK and Europe in March 2001. Immediately following the merger of National Grid Group plc and Lattice Group plc in October 2002, he was responsible for the electricity and gas transmission businesses. He was appointed as Group Director responsible for UK Gas Distribution and Business Services in April 2003. Steve was appointed Chief Executive on 1 January 2007, having been Deputy Chief Executive from 1 April 2006. He was formerly an Executive Director of British Borneo Oil and Gas. Previously, he spent 19 years with the Exxon Group, where he held senior positions in the international gas business and managed major operational areas such as refining and shipping. Steve's international experience includes a four year spell in the US. He has also developed business opportunities in countries as diverse as China, Australia, Japan, Brazil and the former Soviet Union. He is a Non-executive Director of Marks and Spencer Group plc.

Committee membership

- A** Audit
- E** Executive
- F** Finance
- N** Nominations
- R** Remuneration
- R&R** Risk & Responsibility
- (ch)** denotes Committee chairman

03 Steve Lucas
Finance Director**Appointed October 2002, Age 53, E, F**

Steve Lucas has been Finance Director since his appointment and is additionally responsible for UK and US Shared Services. He joined the Board following the merger of National Grid Group plc and Lattice Group plc in October 2002. Steve had previously been Executive Director, Finance of Lattice Group plc since its demerger from BG Group plc in 2000. Previously, he was Treasurer of BG Group plc having joined British Gas plc in 1994. Prior to this he was with Shell International Petroleum Company for 11 years, occupying a number of finance management positions and treasury roles, including seven years in Africa and the Far East. Steve is also a Non-executive Director of Compass Group PLC. He is a chartered accountant.

04 Nick Winser
Executive Director**Appointed April 2003, Age 46, E**

Nick Winser joined the Board in April 2003 as Executive Director responsible for transmission. He was previously Chief Operating Officer of the US transmission business for National Grid Transco plc. He joined National Grid Company plc in 1993, becoming Director of Engineering in 2001. Prior to this, he had been with Powergen since 1991 as principal negotiator on commercial matters, having joined the Central Electricity Generating Board in 1983 where he served in a variety of technical engineering roles.

05 Mark Fairbairn
Executive Director**Appointed January 2007, Age 48, E**

Mark Fairbairn was appointed to the Board in January 2007 as Executive Director with responsibility for Gas Distribution. He joined National Grid in 1989 from BNFL. He was awarded an OBE in 2001 for his services to the electrical industry in respect of his leadership of the fundamental changes implemented for the introduction of the New Electricity Trading Arrangements. Previously Chief Operating Officer of the UK gas distribution business, he has played a key role in helping to restructure the UK gas distribution market through the gas networks sales and the creation of National Grid's new gas distribution business.

06 Edward Astle
Executive Director**Appointed September 2001, Age 53, E**

Edward Astle joined the Board as Group Director, Telecommunications in September 2001 and is now Executive Director responsible for Non-regulated Businesses and leads Business Development. He was Managing Director of BICC Communications from 1997 to 1999, and between 1989 and 1997 he held a variety of positions with Cable & Wireless. He was Regional Director Europe, CEO of its global networks and marine divisions, and in 1995 joined the Cable & Wireless board as Executive Director Global Businesses.

07 Ken Harvey
Non-executive Director and Senior Independent Director**Appointed October 2002, Age 66, N, R, R&R**

Ken Harvey joined the Board following the merger of National Grid Group plc and Lattice Group plc, having been appointed to the Lattice Group plc board in September 2000. He was appointed Senior Independent Director in October 2004. He is Chairman of Pennon Group plc. A chartered engineer, Ken is a former Chairman and Chief Executive of Norweb plc, and a former Chairman of Comax Holdings Ltd, The Intercare Group plc and Beaufort International Group plc.

08 Linda Adamany
Non-executive Director**Appointed November 2006, Age 55, A, R&R**

Linda Adamany joined the Board in November 2006. She is Group Vice President, Commercial Directorate and Business Support of BP Refining and Marketing. Linda has over 25 years experience in the energy sector, having held various roles for BP in the UK and US, including Chief Executive of BP Shipping and Senior Vice-President of Commercial Development. She is a certified public accountant.

09 John Allan
Non-executive Director**Appointed May 2005, Age 58, A, R (ch)**

John Allan was appointed to the Board in May 2005. He is a member of the Management Board of Deutsche Post, having been appointed following its acquisition of Exel plc in December 2005 where he had been Chief Executive since September 1994. John started his career in marketing at Lever Brothers, moving to Bristol-Myers Company Limited and then Fine Fare Limited. He joined BET plc in 1985 and was appointed to the board in 1987. He is a member of the CBI's President's Committee, the International Advisory Council of the Singapore Economic Development Board and the University of Edinburgh Campaign Board. John was previously a Non-executive Director of PHS Group plc, Wolseley plc, Hamleys plc and Connell plc. He is a Non-executive Director of Samsonite Corporation.

10 Paul Joskow
Non-executive Director**Appointed March 2000, Age 59, F (ch), N**

Paul Joskow was appointed to the Board in March 2000 following the acquisition of New England Electric System (NEES). He served as a Director of NEES between 1987 and its acquisition. He is a Professor of Economics and Management at the Massachusetts Institute of Technology (MIT), the Director of the MIT Center for Energy and Environmental Policy Research, a Research Associate of the US National Bureau of Economic Research and a Fellow of the Econometric Society and of the American Academy of Arts and Sciences. Paul is also an independent Trustee of the Putnam Mutual Funds and an independent Non-executive Director of TransCanada Corporation.

11 Stephen Pettit
Non-executive Director
Appointed October 2002, Age 56, F, R, R&R (ch)

Stephen Pettit was appointed to the Board following the merger of National Grid Group plc and Lattice Group plc, having been appointed to the Lattice Group plc board in 2001. He is a Non-executive Director of National Air Traffic Services, Halma plc and is Chairman of ROK plc. Stephen is also a member of BT plc's Equality of Access Board. He is a former Executive Director of Cable & Wireless plc. Before joining Cable & Wireless, he was Chief Executive, Petrochemicals at British Petroleum. Stephen was previously a Non-executive Director of KBC Advanced Technologies plc and Norwood Systems Limited.

12 Maria Richter
Non-executive Director**Appointed October 2003, Age 52, A, F, R&R**

Maria Richter was appointed to the Board in October 2003. Maria worked for Morgan Stanley between 1993 and 2002, most recently as Managing Director of its Corporate Finance Retail Group. Prior to this, she was Managing Director of Investment Banking in the Southern Cone of Latin America, and Executive Director and Head of Independent Power and Structured Finance Business. Previous appointments include Vice President of Independent Power Group for Salomon Brothers, and Vice President of Prudential Capital Corporation and Power Funding Associates. Maria is a Director of Pro Mujer International, an international microfinance organisation, The Pantry, Inc. and The Vitac Group plc. She was, until April 2006, a Director of the Western Electricity Co-ordinating Council.

13 George Rose
Non-executive Director**Appointed October 2002, Age 55, A (ch), N, R**

George Rose was appointed to the Board following the merger of National Grid Group plc and Lattice Group plc, having been appointed to the Lattice Group plc board in September 2000. He has been Finance Director of BAE Systems plc (formerly British Aerospace plc) since 1998, having joined the company in 1992. He is a Non-executive Director of SAAB AB and a member of the Financial Reporting Review Panel. George is also a former Non-executive Director of Orange plc.

14 Helen Mahy
Company Secretary and General Counsel
Appointed October 2002, Age 46, E

Helen Mahy was appointed Company Secretary following the merger of National Grid Group plc and Lattice Group plc, having been Company Secretary at Lattice Group plc since March 2002. She was additionally appointed General Counsel from October 2003. Previously, she was Group General Counsel and Company Secretary at Babcock International Group PLC. Helen was appointed a Non-executive Director of Aga Foodservice Group plc in March 2003. She is a barrister, an Associate of the Chartered Insurance Institute, member of the Bar Council and chair of the GC100 group.

Summary Operating and Financial Review

Financial performance

Years ended 31 March	2007 £m	2006 £m
Continuing operations		
Revenue	8,695	8,868
Other operating income	83	80
Operating costs excluding exceptional items and remeasurements	(6,324)	(6,491)
Adjusted operating profit	2,454	2,457
Exceptional items and remeasurements	59	(83)
Total operating profit	2,513	2,374
Net finance costs excluding exceptional items and remeasurements	(547)	(602)
Exceptional items and remeasurements	(217)	(57)
Share of post-tax results of joint ventures	2	3
Profit before taxation	1,751	1,718
Taxation	(441)	(535)
Profit from continuing operations	1,310	1,183
Profit from discontinued operations	86	2,667
Profit for the year	1,396	3,850

Our financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). Comparatives have been adjusted to reflect the classification of UK and US wireless infrastructure and the Australian interconnector as discontinued operations.

Revenue, operating costs and operating profit

The movements in the year in revenue and other operating income, operating costs and operating profit for our continuing operations can be summarised as follows:

	Revenue and other operating income £m	Operating costs £m	Operating profit £m
2005/06 results	8,948	(6,574)	2,374
Add back 2005/06 exceptional items and remeasurements	–	83	83
2005/06 adjusted results	8,948	(6,491)	2,457
Exchange on US operations	(282)	220	(62)
2005/06 constant currency results	8,666	(6,271)	2,395
Transmission – UK	112	(10)	102
Transmission – US	(21)	10	(11)
Gas Distribution – UK	(27)	(47)	(74)
Gas Distribution – US	103	(76)	27
Electricity Distribution – US	65	2	67
US stranded cost recoveries	(59)	24	(35)
Other activities	(137)	120	(17)
Sales between businesses	76	(76)	–
2006/07 adjusted results	8,778	(6,324)	2,454
2006/07 exceptional items and remeasurements	–	59	59
2006/07 results	8,778	(6,265)	2,513

After taking account of exchange movements, significant movements in operating revenues and costs relate to higher allowed revenues in Transmission in the UK, reduced volumes in Gas Distribution in the UK as a result of warmer weather, revenues and costs from the acquired gas distribution network in Rhode Island, higher commodity costs in Electricity Distribution in the US passed through to customers and the recovery of costs incurred in prior years and lower connections revenues and costs in other activities relating to the regional gas distribution networks sold in 2005/06. There was an increase of

£3 million in other operating income, which primarily relates to gains on the sales of property by our property management business in the UK.

Adjusted operating profit decreased by £3 million compared with 2005/06, comprising an increase of £59 million on a constant currency basis, offset by £62 million in exchange movements.

Net operating exceptional charges of £22 million in 2006/07 related to restructuring costs incurred in the UK and the US, including the establishment of a UK shared services function, the business process review undertaken in Transmission and the integration of the acquired Rhode Island gas distribution network into our Gas Distribution business. Operating remeasurement gains of £81 million (2005/06: losses of £49 million) relate to changes in the value of commodity contracts in the US carried in the balance sheet at fair value arising from movements in energy prices.

As a consequence total operating profit rose by £139 million from £2,374 million in 2005/06 to £2,513 million in 2006/07.

Net finance costs

Net interest excluding exceptional finance costs and remeasurements in 2006/07 decreased by £55 million compared with 2005/06, primarily as a consequence of a reduction in the interest charge related to pensions and the weaker US dollar in 2006/07, and income from short-term investments partially offset by higher average debt.

Exceptional finance costs of £45 million related to the early repayment of UK debt, compared with exceptional finance costs of £49 million in 2005/06. Financial remeasurements relate to net losses on derivative financial instruments of £153 million (2005/06: gains of £6 million) and the financial element of commodity contract revaluations, totalling £19 million in 2006/07 (2005/06: £14 million). This includes £126 million of pre-tax losses that offset at the post-tax level. Net gains on derivative financial instrument remeasurements after tax are £16 million.

Profit before taxation

The items described above have combined to deliver a 3% improvement in adjusted profit before tax from £1,858 million to £1,909 million and a 2% increase in profit before tax from £1,718 million to £1,751 million.

Taxation

Excluding the effect of net tax credits on exceptional items and remeasurements, the effective tax rate for 2006/07 and 2005/06 was 32% and 30% respectively, compared with a standard UK corporation tax rate of 30% for both years.

Earnings per share from continuing operations

Adjusted earnings per share from continuing operations are up 5% from 45.5p to 47.7p. Earnings per share from continuing operations increased from 41.6p to 48.1p. These reflect the impact of the share consolidation in August 2005.

Discontinued operations

Subsequent to our announcement in November 2006 of our strategic decisions to exit our wireless infrastructure operations in the UK and the US and the Basslink electricity interconnector in Australia they were classified as businesses held for sale prior to 31 March 2007 and have been reclassified as discontinued operations in the income statement. In 2005/06 discontinued operations also includes the results of the four regional gas distribution networks we sold on 1 June 2005, together with gains on those sales of £2,605 million.

Discontinued revenues, operating costs before exceptional items, adjusted operating profit and operating profit in 2006/07 were £383 million, £266 million, £117 million and £62 million respectively. This compares with £325 million, £255 million, £70 million and £65 million for the comparable businesses in 2005/06 and £168 million, £107 million, £61 million and £46 million respectively for the sold networks.

Exceptional charges in 2006/07 were £55 million relating to an impairment in our US wireless operations, compared with exceptional items of £5 million and £15 million in 2005/06 relating to UK wireless operations and one of the sold networks respectively.

Dividends

The proposed total ordinary dividend for 2006/07 amounts to £778 million or 28.7 pence per ordinary share. This represents an increase of 10% over the previous year's ordinary dividend per share of 26.1 pence (£709 million). The above amounts exclude the £169 million spent in 2006/07 on buying back shares and the return of £2 billion in 2005/06 to shareholders through the B share scheme.

The final dividend proposed to shareholders for 2006/07 of 17.8 pence per share, amounting to £481 million, will be reported in the financial statements for the year ending 31 March 2008.

Dividend policy

The Board has confirmed the continuation of its dividend policy, which is to aim to increase dividends per ordinary share, expressed in sterling, by 7% in each financial year through to 31 March 2008.

Cash flow

Cash generated from continuing operations was £3,090 million in 2006/07, compared with £2,973 million in 2005/06. This includes cash outflows of continuing operations relating to exceptional items of £86 million and £115 million respectively. After reflecting cash flows relating to discontinued operations and tax paid, net cash inflow from operating activities was £2,958 million, compared with £2,971 million in 2005/06.

Cash outflows from investing activities were £4,277 million in 2006/07, compared with an inflow of £3,922 million in 2005/06. This reflected £354 million spent on acquiring businesses in 2006/07 compared with nil in 2005/06, a £1,725 million net investment in financial investments (2005/06: net divestment of £25 million) and disposal proceeds from discontinued operations of £27 million in 2006/07 (2005/06: £5,750 million).

Net cash raised by financing activities of £1,494 million in 2006/07 compared with £5,712 million used in 2005/06. This included £26 million in 2006/07 and £1,957 million in 2005/06 in respect of the £2 billion return of value to shareholders and £169 million in 2006/07 with respect to share buy-backs.

Net debt

Net debt increased by £0.9 billion from £10.9 billion at 31 March 2006 to £11.8 billion at 31 March 2007, primarily as a result of increased capital investment and acquisitions in the year.

Treasury policy

Funding and treasury risk management for National Grid is carried out under policies and guidelines approved by the Board. The Finance Committee, a committee of the Board, is responsible for regular review and monitoring of treasury activity and for approval of specific transactions, the authority for which may be delegated. There is a treasury function that raises funding for and manages interest rate and foreign exchange rate risk. Financing programmes exist for each of the main companies within National Grid. The Finance Committee of the Board and the board of directors of the appropriate subsidiaries approve all funding programmes. The treasury function is not operated as a profit centre. Debt and treasury positions are managed in a non-speculative manner, such that all transactions in financial instruments or products are matched to an underlying current or anticipated business requirement. The use of derivative financial instruments is controlled by policy guidelines set by the Board. Derivatives entered into in respect of gas and electricity commodities are used in support of operational requirements.

Going concern

Having made enquiries, the Directors consider that the Company and its subsidiary undertakings have adequate resources to continue in business for the foreseeable future and that it is therefore appropriate to adopt the going concern basis in preparing the consolidated and individual financial statements of the Company.

US GAAP

The consolidated financial statements have been prepared in accordance with IFRS, which differs in certain significant respects from US GAAP.

Net income for 2006/07 under US GAAP was £1,146 million compared with £1,307 million in 2005/06. This contrasts with the profit for the year attributable to equity shareholders under IFRS for 2006/07 and 2005/06 of £1,394 million and £3,848 million respectively.

Shareholders' equity under US GAAP at 31 March 2007 and 31 March 2006 was £9,330 million and £9,747 million respectively, compared with £4,125 million and £3,482 million under IFRS.

The principal adjustments from net income and equity shareholders' funds under IFRS to its equivalents under US GAAP mainly relate to differences in accounting for the business combination with Lattice Group plc as a purchase instead of a merger, US regulatory accounting, the recording of derivative financial instruments and hedge accounting; and differences in accounting for pensions.

Summary Corporate Governance

The Board of National Grid is committed to embedding good corporate governance practices throughout the organisation. It bases these practices on the requirements of the Combined Code and also on current and developing best practice. Documents relating to National Grid's corporate governance can be found on our website at www.nationalgrid.com.

The Board of National Grid is currently composed of the Chairman plus five Executive Directors and seven Non-executive Directors. Biographical details for all the Directors can be found on pages 18 and 19.

In each financial year, the Board undertakes a formal evaluation of its performance and that of its Committees and Directors. The process takes the form of surveys completed by all Directors, Committee members and certain regular attendees plus one-to-one meetings between the Chairman and each Director. The surveys consider broadly similar areas including chairmanship, membership, governance, role and administration. Action plans are drawn up each year based on the outcome of this process. The Chairman's performance is reviewed separately by the Non-executive Directors, led by the Senior Independent Director, and the results of this review are shared with him.

The Board of National Grid reserves a number of matters for its sole consideration to ensure the effective control of the Company and its businesses. The Board has delegated authority to its Committees to carry out certain tasks on its behalf. These comprise the Audit, Executive, Finance, Nominations, Remuneration and Risk & Responsibility Committees. A description of the Matters Reserved to the Board and copies of the Committees' terms of reference are available on our website.

The Board receives regular feedback on shareholders' views to ensure all Directors are kept aware of the current views of major shareholders and of any issues they may have. 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. The Company's Annual General Meeting is also attended by shareholders, at which they are given the opportunity to question the Board on the Company and its performance. We also run a Shareholder Networking programme, details of which can be found on page 29.

A statement outlining the principal differences between our corporate governance practices pursuant to the Combined Code and UK best practice and the Section 303A Corporate Governance Rules of the New York Stock Exchange can be found on our website.

Summary 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

Role of Remuneration Committee and its terms of reference

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 Remuneration Committee operates within terms of reference agreed by the Board, which are available on our website or on request from the Company. The Board has accepted all the recommendations made by the Remuneration Committee during the year.

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 are 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. These 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; and
- incentive plans, performance measures and targets should be stretching and aligned as closely as possible with shareholders' interests.

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 against 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. 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 of safety and customer service performance. 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.

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 Remuneration Committee believes that requiring Executive Directors to invest a substantial amount of their bonus in National Grid shares 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 receive an award over shares 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 for Executive Directors is 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 in two parts, a June award based on the current maximum of 125% 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.

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.

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 a group of comparator companies which included companies in the energy distribution sector including UK and international utilities. The performance condition for the June 2005 award onwards was amended, following consultation with our major shareholders, 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.

For awards made in 2005 and 2006, no shares will be released under the TSR part of the award if the Company's TSR over the three year period, 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.

In calculating TSR, for all awards, it is assumed that dividends are reinvested.

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) 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%. 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%.

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

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.

All-employee share plans

- **Sharesave:** UK-based Executive Directors, are eligible to participate in HM Revenue and Customs approved all-employee Sharesave schemes.
- **Share Incentive Plan (SIP):** UK-based Executive Directors are eligible to participate in the SIP.
- **US Incentive Thrift Plans:** US-based Executive Directors are eligible to participate in the Thrift Plans, tax-advantaged savings plans (commonly referred to as a 401(k) plans) provided for employees of National Grid's US companies.

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. 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.

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). 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. A number of Executive Directors participate in this Plan and details of the impact on their salaries are shown in Table 1 on page 25.

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.

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 based on the circumstances of the termination.

Non-executive Directors' remuneration

Non-executive Directors' fees are determined by the Executive Directors. 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.

Directors' emoluments

The aggregate amount of emoluments paid to or receivable by Directors in respect of qualifying services in the year to 31 March 2007 was £8,547,000.

Table 1: Executive Directors	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
Steve Holliday (ii) (iii)	656	617	–	19	–	1,292	870
Roger Urwin (ii) (iv)	648	716	–	23	–	1,387	1,518
Steve Lucas (ii) (v)	472	426	–	30	–	928	848
Nick Winsor (ii) (vi)	420	372	–	14	–	806	771
Mark Fairbairn (ii) (v) (vii)	100	84	–	5	–	189	–
Edward Astle (ii) (v)	420	406	12	9	–	847	759
Mike Jesanis (ii) (viii) (ix) (x)	411	276	7	11	1,377	2,082	874
Total	3,127	2,897	19	111	1,377	7,531	5,640

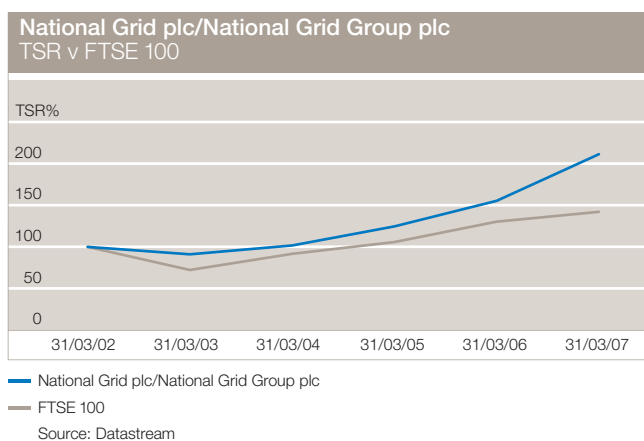
- (i) Benefits in kind comprise benefits such as private medical insurance, life assurance, either a fully expensed car or cash in lieu of a car and use of a driver when required.
- (ii) Each of the Executive Directors, with the exception of Roger Urwin and Mike Jesanis, is accruing retirement benefits under a defined benefit pension arrangement. No Executive Director except Mike Jesanis participates in any money purchase pension arrangement through the Company (see (ix) below).
- (iii) 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.
- (iv) 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.
- (v) 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.
- (vi) Nick Winsor 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.
- (vii) Mark Fairbairn was appointed to the Board on 1 January 2007.
- (viii) 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.
- (ix) The Company made contributions in the US worth £4,230.12 to a money purchase pension arrangement in respect of Mike Jesanis's Thrift Plan participation. The exchange rate used, as at 31 March 2007, was US\$1.97:£1.
- (x) Mike Jesanis exercised options over 143,960 shares in January 2007 at a market price of 721p, after he ceased employment on 31 December 2006.

Table 2: Non-executive Directors	Year ended 31 March 2007			Year ended 31 March 2006
	Fees £000s	Other Emoluments £000s	Total £000s	Total £000s
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.

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.

Summary consolidated income statement

for the years ended 31 March

	2007 £m	2006* £m
Other operating income Other operating income represents income on disposal of property, plant and equipment, principally properties disposed of by the property management business.	Revenue 8,695	8,868
	Other operating income 83	80
	Operating costs (6,265)	(6,574)
Exceptional items and remeasurements Material non-recurring items and certain remeasurement gains or losses arising from movements in the carrying value of commodity contracts and financial instruments.	Operating profit Before exceptional items and remeasurements 2,454 Exceptional items and remeasurements 59	2,457 (83)
	Total operating profit 2,513	2,374
	Interest income and similar income 1,144	1,036
	Interest expense and other finance costs Before exceptional items and remeasurements (1,691) Exceptional items and remeasurements (217)	(1,638) (57)
	(1,908)	(1,695)
	Share of post-tax results of joint ventures 2	3
Profit for the year from discontinued operations The results of our wireless businesses and Australian interconnector business for 06/07 and the results and profit on disposal of the four gas distribution networks sold in 2005.	Profit before taxation Before exceptional items and remeasurements 1,909 Exceptional items and remeasurements (158)	1,858 (140)
	Total profit before taxation 1,751	1,718
	Taxation Before exceptional items and remeasurements (611) Exceptional items and remeasurements 170	(565) 30
	Total taxation (441)	(535)
	Profit from continuing operations after taxation Before exceptional items and remeasurements 1,298 Exceptional items and remeasurements 12	1,293 (110)
	Profit for the year from continuing operations 1,310	1,183
	Profit for the year from discontinued operations Before exceptional items and remeasurements 104 Exceptional items and remeasurements (18)	77 2,590
	86	2,667
	Profit for the year 1,396	3,850
Earnings per share Basic – profit attributable to equity shareholders divided by the weighted average number of ordinary shares in issue during the year. Diluted – as per the basic calculation but assuming that new ordinary shares have been issued on the exercise of share options that have been granted.	Attributable to: Equity shareholders of the parent 1,394 Minority interests 2	3,848 2
	1,396	3,850
	Earnings per share from continuing operations Basic 48.1p Diluted 47.8p	41.6p 41.4p
	Earnings per share Basic 51.3p Diluted 50.9p	135.6p 135.0p
Dividends per ordinary share Paid during the year – represents cash paid to shareholders during the year ended 31 March. Approved or proposed to be paid – represents the interim dividend paid and final dividend proposed in respect of the year ended 31 March.	Dividends per ordinary share: paid during the year 26.8p Dividends per ordinary share: approved or proposed to be paid 28.7p	25.4p 26.1p

*Comparatives have been adjusted to reclassify amounts relating to discontinued operations

Summary consolidated balance sheet

at 31 March

	2007 £m	2006 £m
Total assets Includes goodwill and other intangible assets, property, plant and equipment, investments in joint ventures, inventories, trade and other receivables, deferred tax assets, financial and other investments, derivative financial assets, cash and cash equivalents.		
Non-current assets	21,109	22,106
Current assets	5,312	3,818
Assets of businesses held for sale	1,968	–
Total assets	28,389	25,924
Current liabilities	(3,360)	(5,683)
Non-current liabilities	(20,443)	(16,748)
Liabilities of businesses held for sale	(450)	–
Total liabilities	(24,253)	(22,431)
Net assets	4,136	3,493
Equity		
Total parent company shareholders' equity	4,125	3,482
Minority interests	11	11
Total equity	4,136	3,493

These summary consolidated financial statements were approved by the Board of Directors on 16 May 2007 and were signed on its behalf by:

Sir John Parker Chairman

Steve Lucas Finance Director

Note to summary consolidated financial statements

Differences between IFRS and US accounting principles

National Grid prepares its consolidated financial statements in accordance with IFRS, which differs in certain respects from US GAAP.

The significant adjustments necessary to restate net income and equity shareholders' funds in accordance with US GAAP are set out below:

	2007 £m	2006 £m		2007 £m	2006 £m
Net income			Total shareholders' equity		
Profit for the year attributable to equity shareholders under IFRS	1,394	3,848	Total shareholders' equity under IFRS	4,125	3,482
Adjustments to conform with US GAAP			Adjustments to conform with US GAAP		
Purchase accounting	(124)	(127)	Purchase accounting – property, plant and equipment	2,038	2,162
US regulatory accounting	(474)	(269)	Purchase accounting – goodwill	2,648	2,689
Pensions and other post-retirement benefits	(94)	(56)	US regulatory accounting	2,209	2,702
Financial instruments	160	(108)	Pensions and other post-retirement benefits	–	886
Severance and onerous lease costs	2	(63)	Financial instruments	10	119
Revenue recognition	5	(48)	Revenue recognition	(37)	(42)
Discounting of provisions	3	(14)	Intangible assets	26	28
Sale and leaseback	(19)	–	Provisions	(142)	(154)
Current tax	15	–	Non-reversal of impairments	(23)	(39)
Deferred taxation	295	208	Sale and leaseback	(19)	–
Other	15	(1)	Deferred taxation	(1,477)	(2,090)
Discontinued operations	(32)	(2,063)	Other	(28)	4
Total US GAAP adjustments	(248)	(2,541)	Total US GAAP adjustments	5,205	6,265
Net income under US GAAP	1,146	1,307	Shareholders' equity under US GAAP	9,330	9,747
Basic earnings per share	42.2p	48.2p			
Diluted earnings per share	41.9p	48.0p			

Basis of preparation and accounting policies

The summary consolidated financial statements represent an abridged version of the financial statements in the National Grid Annual Report and Accounts 2006/07, which are prepared on the basis of International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). A reconciliation of net income and equity shareholders' funds from IFRS to US GAAP is shown in the note to the summary consolidated financial statements.

Independent Verifier's Statement on Corporate Responsibility

National Grid commissioned Ernst & Young LLP (E&Y) to undertake independent third party assurance of the corporate responsibility content in the Operating and Financial Review in the Annual Report and Accounts 2006/07 and Annual Review 2006/07. Information on the scope of E&Y's assurance activities and its opinion may be found on page 76 of the Annual Report and Accounts 2006/07 and on the Company's website, www.nationalgrid.com/corporate/Our+Responsibility/Assurance.

Ernst & Young LLP

London, 16 May 2007

Independent Auditors' Statement to the Members of National Grid plc

We have examined the summary consolidated financial statements of National Grid plc, which comprise the summary consolidated income statement, summary consolidated balance sheet and summary Directors' remuneration report.

Respective responsibilities of Directors and Auditors:

The Directors are responsible for preparing the summarised Annual Review in accordance with United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the summary consolidated financial statements within the summarised Annual Review with the full annual financial statements, the Directors' report and the Directors' remuneration report, and its compliance with the relevant requirements of section 251 of the Companies Act 1985 and the regulations made thereunder.

We also read the other information contained in the summarised Annual Review and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the summary consolidated financial statements.

This statement, including the opinion, has been prepared for and only for the Company's members as a body in accordance with section 251 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this statement is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Basis of opinion:

We conducted our work in accordance with Bulletin 1999/6, 'The auditors' statement on the summary financial statement' issued by the Auditing Practices Board. Our report on the Company's full annual financial statements describes the basis of our audit opinion on those financial statements and the Directors' remuneration report.

Opinion:

In our opinion the summary consolidated financial statements are consistent with the full annual financial statements, the Directors' report and the Directors' remuneration report of National Grid plc for the year ended 31 March 2007 and complies with the applicable requirements of section 251 of the Companies Act 1985, and the regulations made thereunder.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
London, 16 May 2007

Shareholder Information

Alternative formats

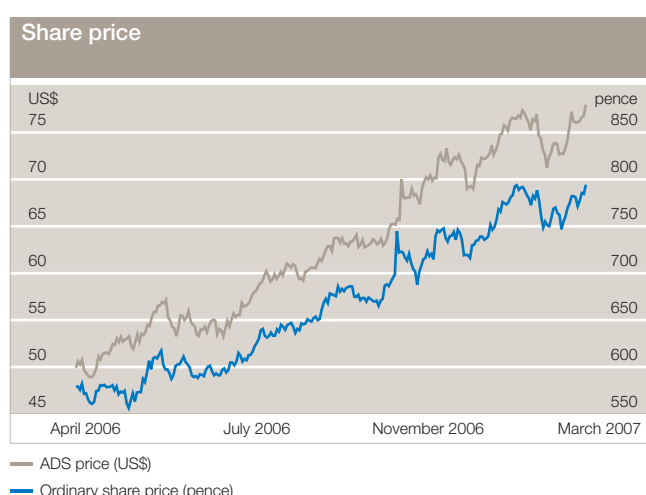
Audio tape, braille and large print versions of the Annual Review are available. If you wish to receive any of these documents please contact Capita Registrars.

Website

More information about National Grid, including up-to-date announcements, and current and historic share prices, is available on our website at www.nationalgrid.com.

Share price

The following graph represents the movement of National Grid's share price during 2006/07:



Share dealing

A low-cost share dealing service is available from Capita Registrars, allowing you to buy and sell National Grid ordinary shares by telephone and online. Trading by telephone or online allows you to know the price of the shares at the time that you deal.

For more information please call 0870 458 4577 (8am – 4.30pm) or visit www.capitadeal.com.

A postal dealing service is also available. For a postal dealing form please call 0870 162 3116.

High street banks may also offer share dealing services.

These details are provided for information only and any action you take is at your own risk. If you have any doubt as to the action you should take, you are recommended to seek your own financial advice from your stockbroker, bank manager, accountant or other independent financial adviser authorised pursuant to the Financial Services and Markets Act 2000.

Dividend reinvestment plan (DRIP)

A DRIP is in place allowing shareholders to use their dividend payments to purchase additional National Grid shares. To join the DRIP contact Capita Registrars or register electronically at www.nationalgrid.com/shareholders. Please note that charges, as set out in the relevant terms and conditions, are payable in respect of the DRIP.

Individual savings accounts (ISAs)

Corporate ISAs for National Grid shares are available from Stocktrade. For more information call Stocktrade on 0131 240 0443, or write to Stocktrade, 81 George Street, Edinburgh EH2 3ES. National Grid cannot advise you on what action, if any, you should take in respect of your shares.

ShareGift

If you hold only a few shares and feel that it is uneconomical or not worthwhile to sell them, you could consider donating your shares to charity. ShareGift is an independent registered charity (no. 1052686) that provides a free service for shareholders wishing to give holdings of shares to benefit charitable causes. For more information please visit www.ShareGift.org or call Capita Registrars.

Shareholder Networking

National Grid operates a Shareholder Networking programme, the aim of which is to allow shareholders to gain a better understanding of the business. The programme runs over two days and includes visits to operational sites and presentations by senior managers and employees. Participants also have the opportunity to meet and question Directors during the programme, the costs of which (including shareholder travel to and from the event) are covered by National Grid.

The programme normally operates during early December.

If you would like to take part, please write to:

Shareholder Networking Organiser
National Grid House
Warwick Technology Park
Gallows Hill
Warwick CV34 6DA

Participants will be selected by ballot from those applying, with priority given to those who have not recently attended.

Financial calendar

The following dates have been announced or are indicative of future dates:

6 June 2007	Ordinary shares go ex-dividend
8 June 2007	Ordinary share dividend record date
11 July 2007	DRIP election deadline 2006/07 final dividend
30 July 2007	2007 Annual General Meeting
22 August 2007	2006/07 final dividend paid on ordinary shares
15 November 2007	2007/08 interim results
28 November 2007	Ordinary shares go ex-dividend
30 November 2007	Ordinary share dividend record date
7 December 2007	DRIP election deadline 2007/08 interim dividend
23 January 2008	2007/08 interim dividend paid on ordinary shares
May 2008	2007/08 preliminary results
June 2008	Ordinary shares go ex-dividend
June 2008	Ordinary share dividend record date
July 2008	DRIP election deadline 2007/08 final dividend
July 2008	2008 Annual General Meeting
August 2008	2007/08 final dividend paid on ordinary shares

For queries about ORDINARY
SHARES or B SHARES contact:

Capita Registrars



Telephone: 0870 242 2379
(from outside the UK: +44 20 7098 1198)
(textphone: 18001 0870 242 2379)



Email: nationalgrid@capitaregistrars.com
Website: www.nationalgrid.com/shareholders



Postal address:
National Grid Share Register
Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA

For queries about AMERICAN
DEPOSITARY SHARES
(ADSs or ADRs) contact:

The Bank of New York



Telephone: 1-800-466-7215
(from outside the US: +1-212-815-3700)



Email: shareowners@bankofny.com
Website: www.adrbny.com



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UK Shareholder enquiries: 0870 242 2379
US Shareholder enquiries: 1-800-466-7215
www.nationalgrid.com

Cautionary Statement

This document comprises our Annual Review for the year ending 31 March 2007. The full Annual Report and Accounts of National Grid for the same period is published as a separate document. The Directors' Report on pages 86 and 87 and the Directors' Remuneration Report on pages 88 to 98 of the Annual Report and Accounts and the Summary Directors' Remuneration Report on pages 22 to 25 of the Annual Review have each been drawn up in accordance with the requirements of English law, and liability in respect thereof is also governed by English law. In particular, the liability of the Directors for these reports is solely to National Grid.

This document contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements include information with respect to our financial condition, our results of operations and businesses, strategy, plans and objectives. Words such as 'anticipates', 'expects', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'may', 'will', 'continue', 'project' and similar expressions, as well as statements in the future tense, identify forward-looking statements. These forward-looking statements are not guarantees of our future performance and are subject to assumptions, risks and uncertainties that could cause actual future results to differ materially from those expressed in or implied by such forward-looking statements. Many of these assumptions, risks and uncertainties relate to factors that are beyond our ability to control or estimate precisely, such as delays in obtaining, or adverse conditions contained in, regulatory approvals and contractual consents, including those required to complete the proposed acquisition of KeySpan when or as planned, unseasonable weather affecting the demand for electricity

and gas, competition and industry restructuring, changes in economic conditions, currency fluctuations, changes in interest and tax rates, changes in energy market prices, changes in historical weather patterns, changes in laws, regulations or regulatory policies, developments in legal or public policy doctrines, the impact of changes to accounting standards and technological developments. Other factors that could cause actual results to differ materially from those described in this document include the ability to integrate the businesses relating to announced acquisitions with our existing business to realise the expected synergies from such integration, the availability of new acquisition opportunities and the timing and success of future acquisition opportunities, the timing and success or other impact of the sales of our non-core businesses, the failure for any reason to achieve reductions in costs or to achieve operational efficiencies, the failure to retain key management, the behaviour of UK electricity market participants on system balancing, the timing of amendments in prices to shippers in the UK gas market, the performance of our pension schemes and the regulatory treatment of pension costs, and any adverse consequences arising from outages on or otherwise affecting energy networks, including gas pipelines, which we own or operate. For a more detailed description of some of these assumptions, risks and uncertainties, together with any other risk factors, please see our filings with and submissions to the US Securities and Exchange Commission (the 'SEC') (and in particular the 'Risk factors' and 'Operating and Financial Review' sections in our most recent Annual Report on Form 20-F). Except as may be required by law or regulation, National Grid undertakes no obligation to update any of its forward-looking statements. The effects of these factors are difficult to predict. New factors emerge from time to time and we cannot assess the potential impact of any such factor on our activities or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement.