

# Chairman's statement

I am pleased to report another set of strong results for 2008/09.



**“Everything we do to fulfil our vision would be ineffective without the dedicated involvement of our employees, and they deserve our thanks and appreciation.”**

I am pleased to report another set of strong results for 2008/09. Financial markets the world over are in recession and many businesses are affected. However, we remain strong and our business is well funded. Further, management is focused on continuing to execute our clear strategy. We also have a new brand that revolves around ‘the power of action’. This will help drive everything we do to make a difference in how we operate our business. In the Chief Executive's report, Steve Holliday will discuss how we are taking action continuously to improve our Company's performance.

## Board changes

This year saw Bob Catell retire as an Executive Director in March 2009. Bob will continue to serve as a Non-executive Director and Deputy Chairman of National Grid, as well as Non-executive Chairman of National Grid USA, until July 2009. His knowledge of the energy industry has been very helpful following the acquisition of KeySpan. He supported us on the journey to integrate successfully our US businesses and influenced how we take forward our relationships with customers, regulators and other stakeholders.

## Dividend policy

We are recommending a dividend increase of 8% for 2008/09. Over the past five years, ordinary dividends have grown by more than 80%. In addition, subject to shareholder approval at the Annual General Meeting, we will offer ordinary shareholders the opportunity to increase their holding in National Grid through a scrip dividend.

## Safety

Safety is paramount. This year, we continued our focus on process safety and on controls to manage the major hazards that arise from the delivery of electricity and the transportation and storage of natural gas. We also maintained our attention on the safety of our workforce and the public. As we are including former KeySpan incidents this year, the number of injuries resulting in lost time increased when compared to last year. However, when we incorporate the KeySpan injuries into last year's figures, creating a like-for-like basis, the Company's lost time injury rate shows real improvement. Our focus this coming year remains on process safety improvements, behavioural change initiatives, and the health and well-being of our employees.

## Chairman's awards

For the first time, this year we have expanded the Chairman's awards categories to include community action, inclusion and diversity and customer service. We received nearly 200 nominations from across the Company that exemplified the things we do to put the power of action to work every day. The awards programme recognises the outstanding achievement of employees who go above and beyond their work requirements in the pursuit of excellence.

The Board is proposing a recommended final dividend of

**23.00p**

2007/08: 21.30p

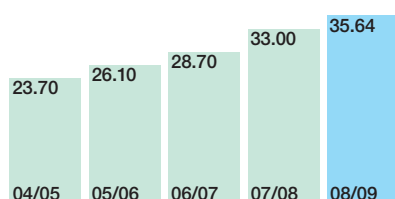
We are also targeting an increase of

**8%**

per annum from 2009/10 to 2011/12

## Dividends per share

Pence



Over the past five years ordinary dividends per share have grown by 80.2%, from 19.78p for 2003/04 to 35.64p for 2008/09.

## Young Offender Programme

Ed, 26 – “My experience in prison was overwhelming and it made me vow to change my life. I was fortunately accepted into the Young Offender Programme and earned an NVQ qualification as a gas network operative. I’m very grateful to this programme because it turned my life around.”



## Community

We have the distinction of being the first official partner to Special Olympics Great Britain (SOGB). Under a three year sponsorship, we have committed to provide funding and employee volunteers. Since 2007, we have been delivering on this pledge, and have established several employee led volunteer groups around the business. I am absolutely delighted that nearly 500 employees have registered their interest in supporting the organisation.

In the US, employees organised United Way campaigns at many Company locations to benefit local groups that work to resolve pressing community issues. They were very generous with their support and together we raised nearly \$3.5 million (£2.3 million). We also donated \$1 million (£650,000) to fuel assistance funds in New England and New York to assist those most in need during the winter heating season.

All these efforts continue to demonstrate our commitment to the communities we serve and the steps we take as a Company to have a positive impact on them.

As our corporate vision states, we are determined to be a Company that is known for being safe, reliable and efficient. We are also firmly committed to providing for the well-being of our customers and communities, and to safeguarding the global environment. Achieving our vision will create value for all our stakeholders and can only be done by conducting our business in a responsible manner. I am pleased to report that we won the 2008 Gas Industry Energy Efficiency Award for our affordable warmth programme in the UK. We were also awarded a ‘Big Tick’ in the prestigious Business in the Community Award for Excellence for our Warm Wales initiative. In the US, we won the Association of Energy Services Professionals, Outstanding Achievement in Energy Program Implementation Award for our energy efficiency programmes.

## Young Offender Programme

I continue to be heartened by the progress of the Young Offender Programme that provides skills training and sustainable employment to young people nearing completion of their sentences. The programme has now been adopted across major industry sectors and is operational in more than 22 prisons in the UK. The output from the programme reduces re-offending from approximately 70% to 7% and rehabilitates the offenders into productive members of the community.

## Inclusion and diversity

Everything we do to fulfil our vision would be ineffective without the dedicated involvement of our employees, and they deserve our thanks and appreciation. This is why we are actively seeking to develop their talent, leadership skills and capabilities, while exploring innovative ways to attract new employees as we continue to build a more inclusive and diverse workforce.

Following a review of inclusion and diversity throughout the Company, we have clarified our business case and recently launched our global inclusion charter. The charter explains what employees can expect from the Company, as well as what the Company expects from them. It builds on work in progress throughout the US and UK. For example, we held a global mobilising inclusion fortnight designed to help us move from awareness to action on our inclusion and diversity journey.

We want to be the employer of choice. We are fortunate to have a vibrant and growing array of employee networks, focused on gender, ethnicity, faith, disability, sexual orientation, families and new starters. They help us understand the different communities represented within our workforce, and provide support and information to our employees.

## Board effectiveness

At this time of global economic turbulence there are many questions being rightfully raised about the governance and effectiveness of boards. Again this year, as discussed within the Corporate Governance section, we have carried out an in depth review of the Board’s effectiveness. We have produced, as we have done for several years, an action plan to ensure constant improvement. However, an overriding acid test question for a Chairman to answer is – does the Board have the breadth of skills and experience to address and challenge adequately the key business decisions and risks that confront it?

This and related questions have concerned us in our Nominations Committee over the past years as we have carefully recruited Non-executive and Executive Directors to build the Board we have today. I therefore believe that not only has the Board focused on good governance, but that we also have the right Board composition and that the Board works effectively, allowing us to respond to the challenges of these difficult times.

## Outlook

The Board remains confident that we are well positioned to continue delivering strong performance. We have a business model that is focused on our core electricity and gas business, integrated across lines of business, and financially and operationally disciplined. While stock market sentiment will periodically fluctuate, our job inside the Company is to stay focused on delivering on our promises.

**Sir John Parker**  
Chairman

# Chief Executive's review

**In a very difficult economic climate, the robust nature of our strategy has been demonstrated by a very successful year for National Grid, reflected in a strong set of results.**



**“We continue to create a more focused business and to run it in a more integrated way.”**

I am pleased to be reporting to you on our 2008/09 results. In a very difficult economic climate, the robust nature of our strategy has been demonstrated by a very successful year for National Grid, reflected in a strong set of results. It is because of this performance that I am delighted to report that we have met our target to deliver 8% dividend growth.

At National Grid, we delivered on all fronts in 2008/09 – safety, reliability and financial – and ensured that we are well positioned for the future. The outlook for 2009/10 is very positive.

## Financials

We have delivered another strong financial and operational performance this year. Cash generated from operations was more than £3.5 billion, revenue was more than £15.6 billion while adjusted operating profit and adjusted earnings per share (on a pro forma basis)\* were higher by 12% and 14% respectively. Our continuing objective is to deliver 8% per annum growth in our dividend until 2012 for our shareholders while also delivering gas and electricity to our customers in a safe, reliable and efficient manner.

When we acquired KeySpan in 2007, we promised a \$100 million run rate in synergy savings by the end of this fiscal year. I am delighted to report that we have exceeded our promise. We have also issued £6 billion of debt between 1 January 2008 and 31 March 2009 and our overall effective interest rate has fallen.

## Investing for growth

As I told you last year, a major part of our plans is to invest by growing our asset value at what is a record rate for National Grid. These investments, necessary for society, communities and customers are made in response to the changing energy requirements in our operating territories and the need to replace end of life assets. The returns on our investments are underpinned by our regulatory arrangements or by long-term contracts. During the last year, £3.2 billion has been invested across the Company. Going forward, we plan a similar level of investment each year until 2012.

## Strategy

We continue to create a more focused business and to run it in a more integrated way. This year, we have re-articulated our strategy to give better clarity to our employees on the direction of our business. Our eight Company objectives provide the framework for the first step in achieving this clarity (see pages 10 to 15).

Our strategy sets out what we plan to achieve in the next three to five years; we want to build on our core UK and US, electricity and gas, regulated business base to deliver sustainable growth and superior financial performance. This year, we have also introduced a line of sight concept that should connect each employee with the strategic vision and overall objectives of our Company, allowing everyone to see how what they do contributes to the success of their team, their line of business and the Company.

Planned investment  
in 2009/10

**£3.4bn**

Response rate to our  
employee survey

**91.8%**

\* Earnings per share growth stated on a pro forma basis  
(see note 28 of the consolidated financial statements on page 159)

## US ice storm restoration

We received the Emergency Recovery Award from the Edison Electric Institute for our work during the December ice storm that affected New England and upstate New York. The award recognises outstanding efforts in restoring electricity service disrupted by severe weather conditions or other natural events across the US.



## Our operating model

We continue to believe that owning and operating complementary businesses in the UK and US provides us with a great opportunity to create value for our shareholders and superior service for our customers. Achieving this standardisation and applying our operating model will be an ongoing theme for the next few years and we have already made a good start.

As with nearly every business in this economic environment, controlling our costs over time is important to our success. We recognised early in these difficult economic times that changes in the way we operated our business were required and actively took steps to accelerate existing plans. Over the course of 2008/09, we have experienced normal employee turnover, but have not had significant redundancies in any part of our Company.

In October 2008, we announced our cumulative global procurement operating and capital expenditure savings target of between £170 and £350 million over a three year period. We were ahead of our annualised savings target in 2008/09 and now expect to be at the upper end of the range for the three year period.

## Safety

The safety of our people, including our contractors and the communities we serve, will always be a priority for National Grid. However, it is with sadness that we have to report the death of three contractors and one member of the public as a direct result of our operations.

On a like-for-like basis, with the safety performance of KeySpan employees included in both years, I am pleased to report that this year we have seen a 10.8% reduction in employee lost time injuries compared with 2007/08 and an improvement in the injury frequency rate. During the year, we have targeted such improvements with further impetus on our trusted to work responsibly programme, together with a series of safety leadership workshops for directors, senior managers and safety representatives. Investigation and analysis continue to indicate that the majority of our lost time injuries are due to behavioural causes rather than inadequate procedures, working conditions or equipment. We have also introduced a health and well-being strategy in the year, helping our workforce to be fit and healthy, which I believe will deliver benefits for employees, the Company and wider society.

## Climate change

Another area in which we have a long standing reputation is our commitment to the environment. As a company involved in the transmission and distribution of energy, we continue to work with governments and our regulators to ensure that we are part of the solution to the global issue of climate change. Our goal remains the same, an 80% reduction in greenhouse gas emissions by 2050; and we have recently set an interim target of 45% by 2020 to help measure our progress. During 2009/10, we will implement carbon budgets setting a maximum level of greenhouse emissions per business per financial year.

In view of our internal goals, National Grid has taken on a leadership and advocacy role in this and other related areas by working with governments in the UK and US with a focus on

expanded utilisation of energy efficiency, climate change legislation, expansion and efficient utilisation of transmission networks in connecting renewables, and renewable gas.

We remain focused on climate change and security of supply, and playing a leading role in addressing the longer term issues facing the energy industry. We continue to work closely with regulators and policy makers to deliver the energy networks of the future.

## People and talent

One of my personal priorities is to ensure that National Grid is a place where our employees are able to perform and grow to the best of their potential. I have been very clear with our employees that, even in these times of economic uncertainty, we simply will not compromise on our promise to invest in people. This year, we introduced new programmes including inclusion and diversity training for our employees, a first line supervisor's course and an inclusive leadership training workshop for senior managers to help us attain the high performance culture we are continually striving to achieve.

This year, I am pleased that we had a very positive response rate of 91.8% to the 2009 employee opinion survey. Also, our employee engagement index has increased from 60% to 70%. The results show improvement in our 2008 focus areas. While there are some areas of concern, we will continue to take targeted actions to ensure that we make National Grid a better place to work, and a stronger company for our customers and shareholders.

Along with all of the Executive team, I am immensely proud of our employees. Their dedication often goes unnoticed by the general public. Occasionally, usually in very challenging circumstances, such as the gas emergency in Rossendale in the UK or the ice storm in the US, which both occurred near Christmas, they come to the public's attention for their incredible professionalism under very difficult conditions.

## Looking forward

The next year will be busy as we continue to:

- grow our business;
- deliver our capital investment programme;
- advance our leadership role in key UK and US policy areas, such as climate change, and begin to embed our carbon budgets;
- grow awareness of our brand in the UK and US; and
- invest in our people.

**Steve Holliday**  
Chief Executive



# How we operate

Our principal operations are the ownership and operation of regulated electricity and gas infrastructure networks in the UK and the US, serving around 19 million consumers directly and many more indirectly.

## Transmission

**UK** The transmission of electricity and gas in the UK as owner and operator of the high voltage electricity transmission network in England and Wales, the gas national transmission system in Great Britain, the electricity interconnector with France and storage facilities for LNG. Operator of the electricity transmission networks in Scotland.

**US** The transmission of electricity in the northeastern US as owner of high voltage electricity transmission networks in upstate New York and in New England.

This year we have delivered more than £1.4 billion worth of electricity and gas projects to upgrade and reinforce ageing infrastructure and adapt our networks to cope with changing sources of energy.

Our fundamental priorities remain safety, reliability and efficiency. We have also created an enhanced line of sight from National Grid's objectives to Transmission's objectives and annual priorities.

We are focused on the long-term security of supply and environmental challenges arising from the transition to a low carbon economy and the decline of UK gas production from the North Sea.

Adjusted operating profit  
**£1,301m**

Capital investment  
**£1,441m**

Employees  
**3,874**

UK energy transmitted  
**1,454 TWh**

## Gas Distribution

**UK** The distribution of gas in England as owner and operator of four of Great Britain's eight gas distribution networks.

**US** The distribution of gas in the northeastern US as owner and operator of gas distribution networks in upstate New York, New York City, Long Island, Massachusetts, New Hampshire and Rhode Island.

We continue to share best practice ideas between the UK and US to improve our operating model and make it more consistent.

In the UK, we are one year into the new price control period, which will bring considerable challenge and opportunity over the remaining four years as we look to become more efficient and effective.

Once again, we have achieved our objective to replace metallic main with plastic this year, totalling over 1,900 kilometres in the UK, and reduced the amount of cast iron and unprotected steel mains by 398 kilometres in the US, improving the safety and reliability of our networks.

Adjusted operating profit  
**£1,284m**

Capital investment  
**£1,019m**

Employees  
**9,534**

Gas delivered  
**522 TWh**

## Electricity Distribution & Generation

**US** The distribution and generation of electricity in the northeastern US as owner of electricity distribution networks in upstate New York, Massachusetts, New Hampshire and Rhode Island, as operator and manager of the electricity transmission and distribution network in Long Island on behalf of the Long Island Power Authority, and as a generator of electricity on Long Island.

Our customers are at the heart of everything we do. We continue to invest in our distribution and generation systems creating sustained improvements in our system reliability.

We are focused on building a branded customer experience that demonstrates our commitment to our customers and educates them on the environmental impact they have. We believe that increased energy efficiency and deployment of smart technologies are the best ways to help our customers control their energy costs while addressing the effects of climate change.

We are seeking regulatory agreements that decouple our revenue from customer energy usage. With decoupling, we can enable increased energy efficiency for our customers without reducing our revenue stream.

Adjusted operating profit  
**£265m**

Capital investment  
**£355m**

Employees  
**7,950**

Energy saved through energy efficiency measures  
**275 GWh**

## Non-regulated businesses and other

Other services related to our main operations, principally in the UK. They do not constitute a segment so are reported, together with other operations and corporate activities, as 'other activities'.

**UK** Principally metering services, property management, our LNG importation terminal on the Isle of Grain, and the construction and operation of an electricity interconnector between The Netherlands and the UK through our BritNed joint venture.

**US** Includes LNG storage, LNG road transportation, unregulated transmission pipelines, US gas fields and home energy services.

This year has seen further expansion activity at our liquefied natural gas (LNG) importation terminal on the Isle of Grain. Through the commissioning of phase II, the site now has annual import capacity of 9.9 million tonnes. We are continuing to invest in Grain LNG and by 2010, with the phase III expansion, it will have the capacity to import 14.8 million tonnes per annum, around 20% of the UK's forecast gas demand.

During the year, approximately 645,000 new meters were installed by OnStream, our competitive metering business, comprising approximately 375,000 gas and 270,000 electricity meters.

We are undergoing a programme of land remediation at many of our brownfield sites, including legacy gas sites.

Adjusted operating profit  
**£65m**

Capital investment  
**£427m**

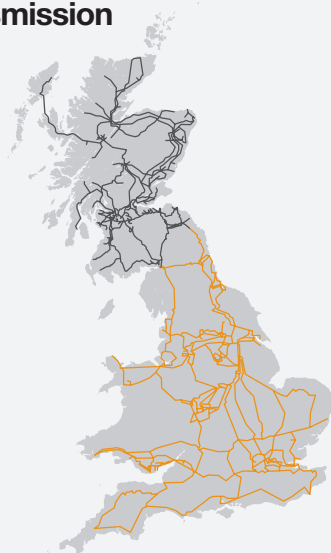
Employees  
**3,597\***

LNG imported to the UK through Isle of Grain (tonnes)  
**1,229,000**

\* Excluding shared services employees

## Electricity Transmission

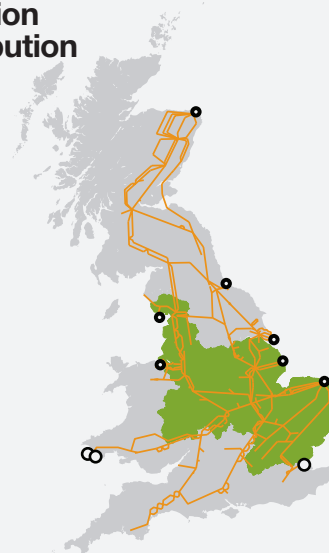
- Scottish electricity transmission system
- English and Welsh electricity transmission system



UK

## Gas Transmission and Gas Distribution

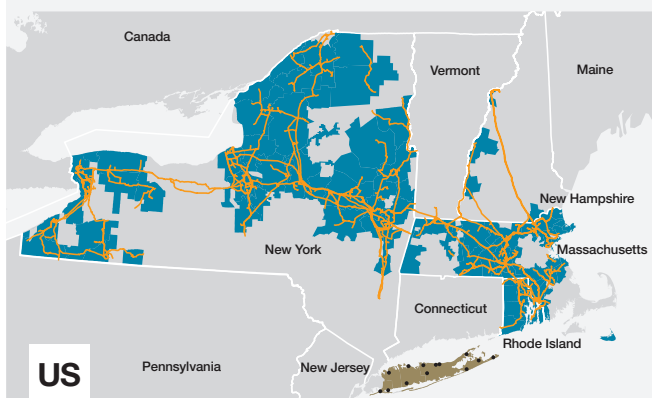
- Gas transmission system
- Gas distribution area
- Terminal
- LNG terminal



UK

## Electricity Transmission and Electricity Distribution & Generation

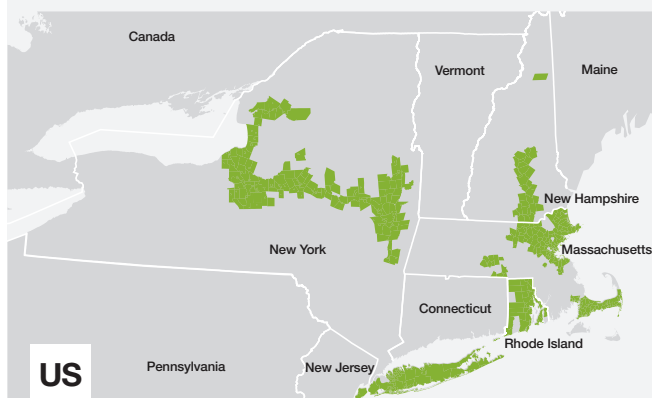
- Electricity distribution area
- Long Island Power Authority area
- Electricity transmission system
- Generation



US

## Gas Distribution

- Gas distribution area



US

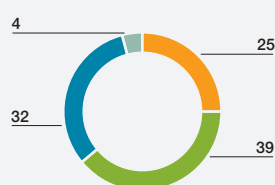
## Business and geographical analysis

### Business analysis 2008/09

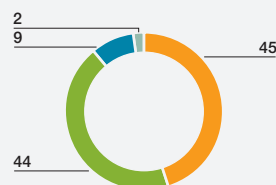
Continuing operations

- Transmission
- Gas Distribution
- Electricity Distribution & Generation
- Non-regulated businesses and other

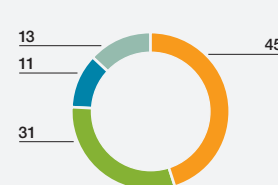
Revenue (%)



Adjusted operating profit (%)



Capital expenditure (%)

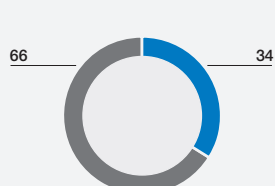


### Geographical analysis 2008/09

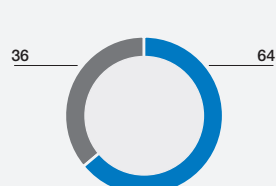
Continuing operations

- UK
- US

Revenue (%)



Adjusted operating profit (%)



# Our vision and objectives in action

## Our vision

We, at National Grid, will be the foremost international electricity and gas company, delivering unparalleled safety, reliability and efficiency, vital to the well-being of our customers and communities.

We are committed to being an innovative leader in energy management and to safeguarding our global environment for future generations.

## Our strategy

We will build on our core UK and US, electricity and gas, regulated business base and financial discipline to deliver sustainable growth and superior financial performance.

Specific examples of actions taken to implement our vision, strategy and Company objectives are found on pages 10 to 15:

### Driving improvements in our safety, customer and operational performance

Flooding, due to frequent stormy weather conditions, poses a real threat to our substations and equipment. Electricity transmission engineers have been testing mobile flood defence systems in the UK that will soon be the blueprint for future deployment plans. The systems, each comprising two trailers, can transport flood defence barriers to sites in crisis.







## Safety and reliability in adversity: New England December ice storm

The communities we serve depend on us for a constant supply of gas and electricity. This is especially true in adverse conditions, such as the severe ice storm that affected our service territory in upstate New York and New England this winter.

Over the course of 8 days in late December, more than 7,400 workers, including forestry crews, mutual aid workers, contractors and support staff across all lines of business, worked around the clock to restore electricity to more than 550,000 customers. States of emergency were declared in Massachusetts, New York and New Hampshire in what has since been called the most significant ice event to hit the northeast US in a decade.

Employees battled against unrelenting elements as ice in excess of an inch (25mm) thick, heavy winds, and falling trees downed lines making work very challenging. Despite this, the restoration was completed within a matter of days.

Even after the last customer's power was restored, our interest and involvement continued as employees donated \$230,000 (£149,000)

to the American Red Cross to support its relief efforts in those storm ravaged areas.

The sheer enormity of the storm was matched only by the scope of work performed by our employees to safely restore power to affected homes and businesses:

- 550,000 customers interrupted at peak;
- 1,252 miles (2,014 kilometres) of transmission lines out of service;
- 911,370 feet (277,785 metres) of distribution wire damaged;
- 285,834 storm related phone calls handled; and, most importantly,
- injuries sustained were minor in relation to the scope of the storm.

The level of dedication and professionalism displayed by our employees clearly demonstrated 'the power of action'. Their efforts were well received by both members of the public and public officials in New England and New York as expressions of thanks and appreciation poured in.

## Delivering strong, sustainable regulatory and long-term contracts with good returns

The New England East-West Solution (NEEWS) is a large scale regional transmission project that will see National Grid invest \$634 million (£440 million) in New England as a partner in a broader \$2.1 billion (£1.5 billion) plan. NEEWS is set to address reliability problems and enhance the New England transmission system in three states. Due to the project's scale and complexity, the Federal Energy Regulatory Commission granted us several incentives on our investment under their policies to encourage transmission owners to invest in the system.



## Modernising and extending our transmission and distribution networks

We are looking at ways to incorporate renewable energy into the existing energy mix. In Massachusetts, under the Green Communities Act, we are planning to develop and own up to 50 MW of solar generating facilities. Our modernised electricity network pilot, or smart grid, is capable of combining renewables and smart metering to save energy and increase reliability. In the UK, we are exploring emerging biogas technologies where biodegradable waste streams could be turned into biogas and injected into the gas distribution system.





## Our vision and objectives in action continued

### Safety improvements

Our employees play a critical role in helping us to deliver high performance, whether in the field or in the office. This is why the safety of our employees, contractors and, ultimately, the communities we serve will always be a priority.

On a like-for-like basis, with the safety performance of KeySpan employees included in both years, our lost time injuries have been reduced by nearly 11% in 2008/09 compared with 2007/08. Overall, the lost time injury frequency rate has improved to 0.25; down from 0.30. We believe a key contributor to that success is our trusted to work responsibly approach, which builds on our well established framework of engaging employees and giving them increased ownership for making safety decisions. The 'trusted' campaign was chosen as the winner of the 2008 Campaign of the Year in the UK by the Safety and Health Practitioner/Institution of Occupational Safety and Health awards.

Recognising the importance of demonstrable commitment from senior leadership and managers, a series of workshops have been conducted to reinvigorate the safety effort and capture crucial feedback from trade union safety representatives and front line managers to further embed the trusted approach.

### Efficiency at work – gas road repairs

Road excavation is sometimes necessary to upgrade equipment and services to improve our operational performance. This type of work must always be done in line with legislative and regulatory obligations and completed in an efficient way to minimise disruption.

The UK's Traffic Management Act 2004 is designed to provide the basis for better conditions for all road users through the proactive management of the national and local road network. In 2006, we formed the traffic management act (TMA) programme to refine and align our existing processes with the legislation.

Our efforts were recognised in December when we were awarded Team of the Year in the 2008 Utility Industry Achievement Awards. The awards are backed by trade publication Utility Week and were judged by an independent panel of industry experts who recognised the TMA programme as an excellent example of collaboration and teamwork.

### Expanding our capabilities and identifying new financeable opportunities to grow

Grain LNG, the largest LNG facility in the UK and the US, will play a major role in providing energy security and diversity of supply in the UK. Commercial operation of the newly expanded terminal (phase II) was completed in December 2008. Further expansion is under way and is expected to be completed by 2010 with a £300 million planned investment for phase III. Grain has a storage capacity of 960,000 standard cubic metres and the goal is for it to become a zero waste facility by 2012.





## Responsibility to the community

We recognise that investing in the communities we serve is equally as important as the services we provide. A major part of this is the established culture of volunteering among our employees.

In the US, we have had a 20 year successful partnership with Junior Achievement donating more than \$1 million (£650,000) to this programme, which educates students about workforce readiness. Employees also participated in the Making Strides Against Breast Cancer walk fundraiser and in Massachusetts alone \$25,000 (£17,000) was raised. These donations help the American Cancer Society fund research and support programmes for patients and their families.

Since 2007, we have made continual progress with Special Olympics Great Britain (SOGB) raising more than £25,000 (\$38,500) for SOGB clubs and establishing several employee led volunteer groups across the business. To date, nearly 500 employees have registered their interest in supporting SOGB. Three hundred of those employees have already participated in at least one volunteering activity, totalling nearly 4,500 volunteer hours.



## Responsibility to the workforce

With an employee base of more than 27,500 in the UK and US and a service territory that covers various communities on both sides of the Atlantic, inclusion and diversity is not simply a 'nice to have', it is the right thing to do as a business.

Recently, we clarified our inclusion and diversity business case and launched our global inclusion charter. This charter will build on past successes and redefine expectations. Our strong commitment to inclusion and diversity within the Company has not gone unnoticed externally.

For the third consecutive year, we were the only energy utility listed in the Times/Aurora Where Women Want to Work TOP 50. We also had a first time listing among Business Week's Best Places to Intern list in the US, and we were the only energy utility in the Stonewall Top 100 list of lesbian, gay and bisexual friendly companies in the UK.

We are also pleased that internal measures of our achievements are showing improvement with the percentage of ethnic minorities within the Company increasing to 13.2%, a rise of 0.9%.

## Becoming more efficient through transforming our operating model and increasingly aligning our processes

Our construction programme for substations and transmission lines in the US is set to increase rapidly over the next three years. We are adopting new ways of working based on developing long-term relationships with suppliers, which build on our experience of developing alliances in the UK. This change to our operating model will address our long-term resource needs, deliver improved and cost effective reliability for our customers and good returns for our shareholders. In addition, these long-term relationships with suppliers will enhance our ability to deliver complex programmes in a safe and environmentally responsible way.



## Building trust, transparency and an inclusive and engaged workforce

Our annual employee survey helps us learn employees' views on National Grid. We had a very positive response rate of 91.8% in 2009 and we are committed to acting on the results. For example, in past surveys, employees said they did not understand the Company direction and how they made a difference. Line of sight will help to make this clear by showing how what we do every day connects directly to our Company vision, strategy and objectives.





## Our vision and objectives in action continued



### Energy efficiency

We remain committed to being an innovative leader in energy management. Doing this allows us to save energy, protect the environment and help our customers save money.

Warm Wales was set up by National Grid in 2004 to help develop energy efficiency measures in fuel poor homes. To date, more than 30,000 households have benefitted from energy efficiency measures. This has generated £50 million (\$77 million) in lifetime energy savings, and achieved an annual carbon saving of more than 8,100 tonnes per year; the equivalent of removing 1,928 cars each doing 12,000 miles a year from UK roads.

For the past 20 years, we have been running highly successful energy efficiency programmes in the US. Programmes such as home energy audits, high efficiency heating and appliance rebates, and commercial lighting retrofits have helped customers reduce their electricity consumption by more than 32 billion kilowatt hours and gas consumption by more than 70 million therms.

### Securing a reliable future energy supply

Securing and improving the diversity of supply for future energy needs is a growing global concern. In the UK, the demand for gas is increasing while the North Sea gas supply, a major current source of UK gas, is dwindling.

It is estimated that by 2010 the UK will import approximately 50% of its gas. This is one of the reasons why we are increasing our liquefied natural gas (LNG) importation capacity at the Isle of Grain – the largest facility in the UK and the US. We are continuing to invest in Grain and by 2010 it should have the capacity to import 14.8 million tonnes per year – around 20% of the UK's forecast gas demand.

In the US, LNG is an essential part of our future supply outlook. We have 16 storage facilities across New England and New York with a total storage capacity of more than 9 billion standard cubic feet. LNG allows us to maintain our supply and demand balance and meet hourly peaks. It is also used to support the distribution system by bringing on LNG when needed to support system pressures.

### Developing our talent, leadership skills and capabilities

A skilled workforce is critical to any company's success and we are committed to developing the talent and leadership skills of all our employees. For instance, our two new leading edge skills development centres in Hollinwood and Hitchin in the UK provide scenario based training courses. The £5.5 million (\$8.5 million) centres, along with an existing one at Eakring, aim to set industry leading safety and competence standards for apprentices, new recruits and existing employees in all lines of business.







## Climate change – our responsibility to take action

**We believe in leading by example. As part of our commitment to safeguarding our global environment for future generations, we are dedicated to reducing our own greenhouse gas emissions.**

We have completed a thorough review of our greenhouse gas emissions inventory for the 2007/08 fiscal year, including the former KeySpan operations as if we had owned them for an entire year. This has provided a detailed assessment of the carbon footprint for each line of business and has helped identify the most effective and economical ways to reduce our greenhouse gas emissions. Carbon budgets and emission reduction targets, measured in tonnes of carbon dioxide equivalent, were adopted by each line of business in April 2009.

We have been exploring ways that the UK can meet the European Union's renewable target. This target focuses on achieving 15% of energy demand from renewable sources by 2020. Transmission UK have developed the Gone Green scenario that anticipates a sizeable increase in the volume of onshore and offshore wind generation. We have worked with the Electricity Networks

Strategy Group to examine proposed investments to deliver the necessary transmission infrastructure.

It is estimated that there are some five million homes in the UK affected by fuel poverty; we intend to invest around £10 million (\$14.4 million) in new gas connections to some 5,000 homes. With others, we have secured commitment for around £13 million (\$18.7 million) in third party funding for new gas heating. We estimate that this investment will help reduce emissions by 20,000 tonnes per year.

In the US, we have added around 60 new compressed natural gas cars to our nearly 700 strong fleet of vehicles this year, furthering our effort to reduce our carbon footprint and reduce greenhouse gases. Our generation stations make up a sizeable proportion of our carbon emissions. Ongoing projects to modernise and improve the efficiency of these plants, such as the project at Northport on Long Island, will play a major role in helping us reach our 80% target greenhouse gas emission reduction by 2050.

## Positively shaping the energy and climate change agenda with our external stakeholders in both regions

As part of our new brand strategy, an interactive website was created using a virtual polar bear named Floe designed to inspire people to make a difference in the way they use energy by helping them to understand the impact of their energy choices on climate change. To date, visitors to the US website have pledged to save more than 64 million pounds (29,000 tonnes) of carbon – the equivalent of removing more than 5,200 cars each doing 12,000 miles a year from US roads. Since the US brand campaign launch, National Grid's brand recognition among residential customers has risen to 90%. Similarly, unaided awareness increased 22% in one year.

