Corporate Governance

Chairman's foreword

At this time of global economic turbulence there are many questions being rightfully raised about the governance and effectiveness of boards. Good corporate governance, using the Combined Code as a guide to the components of good practice, is an integral part of the Company's drive to deliver unparalleled safety, reliability and efficiency vital to the well-being of our customers and communities. Delivering sustainable value depends on the trust and confidence of all our stakeholders, and this can only be earned by conducting our business responsibly. Good governance practices develop over time and we aim to be at the forefront of best practice in order to deliver the Company's vision and, by doing so, promote the success of the business for the benefit of shareholders.

While I, with assistance from the Company Secretary & General Counsel, lead the governance process, it is a matter which is reserved to the whole Board for consideration and I believe that the Board considers such matters in an holistic manner rather than as a separate compliance exercise. By doing so, I believe that the Board and the Company are well placed to face the challenges arising from this current economic environment.

Again this year, we have carried out an in depth review of the Board's effectiveness and 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? Related questions include: do the Non-executive Directors attend sufficient meetings and spend sufficient time overall on Company issues to fully understand the business and the risks it faces? Would each Non-executive Director be regarded as capable of challenging management and influencing outturns either in the Board or in its Committees? Would the Non-executive Directors as a body be capable of overturning proposals from the management which they did not consider were in the interests of shareholders or where they consider that the inherent risks were in excess of those assessed by management?

These 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 we not only have the Board focused on good governance but we have the right Board composition and that the Board works effectively, allowing us to respond to the challenges of these difficult times.

Sir John Parker
Chairman

Governance framework

The Company is committed to operating our businesses in a sustainable and responsible manner. Our corporate governance framework forms an integral part of this approach in order to safeguard shareholder value. Our Company wide policies and procedures including risk management, which are referred to later in this report, are considered as part of the overall governance of the business; however, this report focuses on the Company's approach to corporate governance as provided in the Combined Code on Corporate Governance as revised in 2006, (the Code), applicable to UK listed companies. The Company also has regard to, and regularly reviews, developing corporate governance best practice including matters contained in the various investor guidelines.

The Board considers that it complied in full with the Code during the year.

During the year, the Board has reviewed its role and matters reserved for its consideration as part of a review of the Delegations of Authority. The Board's role includes: approval of the overall business strategy for National Grid; approval of the business plan and budget; approval of the financial policy; approval of acquisitions or divestments; oversight of governance including Policy and Procedure statements, Codes of Conduct, Delegations of Authority, the Framework for Responsible Business and Standards of Ethical Business Conduct for all employees. The framework and standards described above, together with other documentation relating to National Grid's governance, are available on our website at: www.nationalgrid.com.

The Board of National Grid during the year was composed as set out in the following table. Biographical details for all the Directors can be found on pages 16 and 17 together with details of Board Committee memberships. Attendance at Board meetings was as indicated from a total of 10 meetings held during the year (the March 2009 meeting being held on 1 April):

Name	Attendance*
Chairman	
Sir John Parker	10 of 10
Chief Executive	
Steve Holliday	10 of 10
Executive Directors	
Bob Catell (Deputy Chairman)	10 of 10
Steve Lucas	10 of 10
Nick Winser	10 of 10
Tom King	10 of 10
Mark Fairbairn	10 of 10
Edward Astle (to 30 April 2008)	1 of 1
Non-executive Directors	
Ken Harvey (Senior Independent Director)	10 of 10
Linda Adamany	10 of 10
John Allan	8 of 10
Stephen Pettit	10 of 10
Maria Richter	10 of 10
George Rose	7 of 10
Philip Aiken	8 of 8

* Attendance is expressed as number of meetings attended out of number possible or applicable for the individual Director

Board members are required to attend Board and Committee meetings regularly in order to ensure they are kept up to date with business and accordingly can contribute to meetings. Directors are informed of proposed meeting dates in advance in order to diarise these. Acknowledging that Non-executive Directors in particular will have other commitments, if they are unable to attend meetings, the Chairman is informed and the reasons recorded. Instances of non attendance during the year were considered and determined as being reasonable in each case due to the individual circumstances. Attendance at meetings is considered as part of the one-to-one Director performance evaluations conducted by the Chairman.

Directors are sent papers for meetings of the Board and those Committees of which they are a member. Should any Directors be unable to attend a meeting, they are encouraged to communicate their views and comments on the matters to be considered via the relevant Committee chairman or the Chairman of the Board.

In addition to the performance evaluation described on page 92, shareholders have the opportunity to consider formally the appointment and performance of each Director by voting in relation to their re-election as a Director. In accordance with the Articles of Association, Directors submit themselves for re-election by shareholders at the first Annual General Meeting (AGM) following their initial appointment to the Board and then at subsequent AGMs at least once every three years. Further details regarding those Directors due for re-election at the 2009 AGM can be found in the Notice of 2009 AGM.

In order to ensure transparency regarding the terms of their appointment, the service contracts (Executive Directors) and letters of appointment (Non-executive Directors) of Board members are available to our shareholders and may also be inspected at the AGM prior to the meeting. Further details regarding the Directors' service contracts and letters of appointment can be found in the Directors' Remuneration Report on pages 102 to 112. In preparation for changes introduced in the Companies Act in October 2008, the Board conducted a thorough review of potential conflicts of interest that each Director may have. Guidance on the law and developing best practice, taking into account that provided by the GC100 group of FTSE100 General Counsel and Company Secretaries, was provided to each Director together with a questionnaire for completion and subsequent verification by the Company Secretary & General Counsel. The Board considered the results of the questionnaire, and, where appropriate, approved the potential conflict (the conflicted Director not voting on the matter). Directors are reminded of their continuing obligations in relation to conflicts at each Board meeting.

Non-executive Director independence

In order for the Non-executive Directors to contribute fully to the unitary Board, and in particular to challenge the Executive Directors over strategic matters where appropriate, it is important that the Non-executive Directors bring experience, probity and independence to the Board. Accordingly, the independence of the Non-executive Directors is considered at least annually as part of the performance evaluation. This assessment also considers the character, judgement and commitment of each Non-executive Director as well as their performance on the Board and relevant Committees. The Board in its deliberations specifically took into consideration the Code and examples of indicators of potential non independence including length of service on the Board of greater than nine years. Following such evaluation, each of the Non-executive Directors has been determined by the Board to be independent.

Roles of the Chairman, Chief Executive and Senior Independent Director

In order to avoid the potential for apparent concentration of power in one individual, the Chairman and the Chief Executive have separate roles and responsibilities, which have been approved by the Board. The Chairman's main responsibility is the leadership and management of the Board and its governance. He chairs the Board meetings including, for example, ensuring that the forward agendas are appropriate, that relevant business is brought to the Board for consideration in accordance with the Matters Reserved for the Board, the Delegations of Authority and the Board's strategic remit, and that each Director has the opportunity to consider the matters brought to the meeting and to contribute accordingly. His contractual commitment to National Grid is two days per week but in practice this is often exceeded. The Board is satisfied that the Chairman, and other Non-executive Directors if required, would be available as needed outside their contracted hours. The number and perceived responsibility of other directorships are considered as part of the performance evaluation to satisfy the Board that Directors do not have excessive commitments that could potentially restrict their commitment as a Director of the Company.

The Chief Executive, as leader of the Company's executive team, retains responsibility for the leadership and day-to-day management of the Company and the execution of its strategy as approved by the Board. In addition to the other Executive Directors, key corporate executives report directly to the Chief Executive.

The Senior Independent Director is Ken Harvey. He was appointed to this role in 2004 and his responsibilities include leading the Non-executive Directors' annual consideration of the Chairman's performance and holding discussions with Non-executive Directors without management present. He is also available to shareholders in the event they feel it inappropriate to communicate via the Chairman, the Chief Executive or the Finance Director. No such requests were received from shareholders during the year.

Director development

The Chairman, with the support of the Company Secretary & General Counsel, is responsible for the induction of new directors and for the ongoing development of Directors. Upon appointment to the Board, new Non-executive Directors receive a tailored induction programme including the provision of recent Board materials and presentations, visits to businesses, one-to-one meetings with Executive Directors and other senior management, and a directors' information pack to provide background reference information on the Company's businesses and operations including issues relating to corporate responsibility. Board meetings are regularly held at the Company's sites and additional site visits are organised in order for the Directors to develop their understanding of the business.

Particular ongoing development attention is given to current issues including, for example, the economic and regulatory environment, the Company's businesses and governance best practice, emerging developments and director effectiveness. This includes, for Non-executive Directors:

- informing them at each Board meeting of the latest training courses which may be of interest;
- attendance at key site visits;
- informing Directors of legal and corporate governance updates and best practice; and
- management presentations.

For Executive Directors, coaching and development programmes include:

- internal and external mentoring;
- attendance at external courses and business schools; and
- experience of other boardrooms through non-executive appointments.

Accordingly as part of their development and with the agreement of the Board; the Chief Executive, Steve Holliday, is a Non-executive Director of Marks and Spencer Group plc, Steve Lucas, Finance Director, is a Non-executive Director of Compass Group plc and Nick Winser, Executive Director, Transmission, is a Non-executive Director of Kier Group plc. As part of her development, the Company Secretary & General Counsel is a Non-executive Director of Aga Rangemaster Group plc. The fees for these positions are retained by the Directors and the Company Secretary & General Counsel respectively. Details are on page 106.

The Company Secretariat is available to provide assistance and information on governance, corporate administration and legal matters to Directors as appropriate. Directors may also seek advice on such matters, or on other business related matters, directly from independent professional advisors should they so wish. This is in addition to the advice provided by independent advisors to the Board Committees. No requests for external professional advice were received during the year.

Performance evaluation

Directors are encouraged to challenge Board and Committee processes and procedures as part of the continual development of best practice. As part of this process, in each financial year since 2003/04, the Board has undertaken a formal evaluation of its performance and that of its Committees and individual Directors. The Board considers annually whether to use an external body to manage the performance evaluation process. It concluded this year that the approach used by the Company remained appropriate and robust.

Accordingly, the Chairman, assisted by the Company Secretary & General Counsel, led the evaluation process, which was in the form of a confidential survey completed by all Directors in relation to the Board and any Committee of which they were a member. In addition, meetings were held between the Chairman and each Director. Regular attendees at specific Committee meetings were also asked to complete surveys in relation to the relevant Committee.

The Company Secretary & General Counsel collated the evaluation results and these were considered by the Board and each Committee. Comparison was made to the prior year's report as a result of which a number of actions had been implemented including: a review of the rolling business agenda to include a greater emphasis on strategic external factors such as climate change; increasing the number of informal meetings of Board members; and consideration of the interaction between Committees. In accordance with established practice, the Board and each of the Committees separately review the matters highlighted by the evaluation and a formal response and action plan is produced as appropriate and approved by the Board.

Overall the results showed an improvement from the previous year indicating that the Directors considered that no major changes were required to Board and Committee processes and procedures. The Chairman's performance was reviewed and his leadership and performance were considered to have been of a high standard. Areas highlighted by the Board and Committees for consideration following the latest review included:
- to review the agendas to include, for example, inclusion and diversity issues and strategic business trends analysis;
- to consider further development of the use of video conferencing for Committee meetings; and
- to provide a brief overview (including career history) of each presenter to the Board.

In addition, the meeting held by the Non-executive Directors further suggested:
- receipt of Board and Committee papers normally five business days in advance of the meeting in order to enable more opportunity for discussions with Executive Directors prior to the meeting;
- arranging for potential successors to the Executive Directors to receive sufficient visibility by the Board; and
- holding an additional meeting annually for Non-executive Directors chaired by the Senior Independent Director with the Chairman and Chief Executive to attend by invitation.

The Board and its Committees

The Board reserves a number of matters for its sole consideration where these matters impact the strategic direction and effective oversight of the Company and its businesses. Examples include:
- corporate governance;
- strategy, finance and approval of the budget and business plan;
- Director/employee issues such as Director succession planning (with input and recommendations from the Nominations Committee); and
- stock exchange and listing requirements such as dividend approval/recommendation and approval of results announcements, interim management statements and the Annual Report and Accounts.

In addition to the Matters Reserved for the Board, a full description of which is available on our website at www.nationalgrid.com, certain items of strategic or governance importance are considered at every scheduled Board meeting including:
- safety, health and the environment;
- the financial status of the Company;
- operational headlines from the Company's businesses together with a detailed update from one of the lines of business on a rotating basis;
- updates on business development and strategy implementation;
- updates on external matters affecting the Company; and
- reports from the Company Secretary & General Counsel including an update on the governance of the Company and its businesses, and any legal or new risk issues that the Board ought to be aware of.

In order to have the opportunity to discuss matters, for example relating to governance, independently of management, the Chairman and Non-executive Directors meet formally at least once a year without any management present and formally at least once a year with the Chief Executive. Ad hoc meetings may be held as required. In order to operate effectively and to give appropriate attention and consideration, the Board has delegated authority to its Committees to carry out certain tasks as defined in, and regulated by, the Committees' terms of reference, which are available on our website at www.nationalgrid.com.

These Committees comprise the Audit, Executive, Finance, Nominations, Remuneration and Risk & Responsibility Committees. The Board is kept appraised by the Committee chairmen through the provision of a summary of the issues discussed and decisions taken by the Committee. Minutes of Committee meetings are circulated to other Directors once available.

The following sections explain the areas that each Board Committee has responsibility for and the areas that they covered during the year.

Audit Committee

Key functions of the Audit Committee, whose members are all independent Non-executive Directors, include: review of the effectiveness of the Company's financial reporting and internal controls; the procedures for the identification, assessment and reporting of risks; the appropriateness of the auditors in carrying out certain non-audit work; and the level of audit and non-audit fees payable to the auditors.

The Committee considers that both management and the external auditors should attend meetings where possible in order to provide the members of the Committee with the information that they require, to answer questions and to challenge them as appropriate.

Accordingly, others invited to attend meetings include the Chairman, Chief Executive, Finance Director, head of internal audit, financial controller, Company Secretary & General Counsel and external auditors. Additionally, the Executive Directors, director of tax and treasury and risk & compliance manager are invited to attend Audit Committee meetings, as necessary, to provide updates and background information.

Meetings are held at least four times a year and membership and attendance at meetings was as follows during 2008/09 from a total of six meetings:

Name	Attendance*
George Rose (chairman)	6 of 6
Linda Adamany	6 of 6
John Allan	1 of 1
Maria Richter	5 of 5
Philip Aiken	4 of 5

* Attendance is expressed as number of meetings attended out of number possible or applicable for the individual Director

Due to the technical nature of some of the financial and accounting issues that come before it, all of the Committee's members are required to have an understanding of financial matters and experience of dealing with such issues at a senior executive level. In addition, the Board has determined that George Rose, Finance Director of BAE Systems plc, has recent and relevant financial experience in accordance with the Combined Code and deems him to be a suitably qualified financial expert as required by the Audit Committee's terms of reference and US requirements.

In accordance with its terms of reference and business and accounting developments during the year, matters considered by the Committee included:

In respect of auditors:-

- the level and constitution of external audit and non-audit fees;
- the independence and objectivity of the external auditors;
- an evaluation of the external audit process globally including the expertise of the audit firm;
- monitoring and reviewing the effectiveness of internal audit activities including discussions with the head of internal audit without management present; and
- reviewing Financial Reporting Council Guidance on Audit Committees.

In respect of internal controls and risk management:-

- reviewing the effectiveness of the Company's financial reporting, internal controls and compliance with applicable legal requirements;
- monitoring risk and compliance management procedures across the Company and reviewing specific risks (details of such risks can be found on pages 97 to 99);
- receiving reports from the business separation compliance officer, as required under National Grid Gas plc's gas transporter licences; and
- receiving reports and technical updates including from the director of tax and treasury.

In respect of financial matters:-

- reviewing the Company's results statements, interim management statements and Annual Report and Accounts before publication and making appropriate recommendations to the Board following review;
- reviewing accounting policies in light of international accounting developments;
- receiving reports where appropriate in accordance with its terms of reference on business conduct issues, including any instances of alleged fraud and actions taken as a result of investigations; and
- receiving reports from the Company's cross functional steering group that has been established to ensure appropriate awareness of and actions in relation to risks arising from the current economic climate.

The Committee works closely with both the internal and external auditors. In relation to internal audit, it receives, reviews and approves the internal audit plan and ensures that the internal audit function has sufficient resources to carry out its work. The appointment and removal of the head of internal audit is subject to the approval of the Committee.

In relation to the external auditors, the Committee is solely and directly responsible for and approves the appointment, reappointment, fees and oversight of the external auditors, subject to the requirement for shareholder approval each year at the AGM. The Committee receives the external audit plan so that the external auditors have the opportunity to raise any matters in confidence, and meetings are held with the Committee at least annually without management present.

In order to ensure the external auditors remain objective and independent, in accordance with best practice, all non-audit work carried out by the external auditors is subject to Audit Committee pre-approval. The engagement of the external auditors for non-audit services is restricted by the Sarbanes-Oxley Act which prohibits them from providing certain services. Where a service is permissible, the Company's policy is that the external auditors will not be used for non-statutory audit work unless it can be demonstrated as part of the approval process that the engagement is a natural extension of their audit work or there are other overriding reasons that make them the most suitably qualified to undertake it. The non-audit services related primarily to tax and audit-related work. Details of the fees paid to the external auditors for non-audit work carried out during the year can be found in note 3e to the accounts on page 134.

A review is carried out annually of the service provided by the external auditors and, if it is determined that the audit might be provided more efficiently or effectively by an alternative audit firm, the Company may put the audit out to tender. Following the latest review, the service was considered satisfactory and the auditors will be recommended for reappointment to shareholders at the AGM. No auditor liability agreement has been entered into by the Company.

Executive Committee

The Committee oversees the financial, operational and safety performance of the Company and implements the strategy approved by the Board. The Committee comprises the Chief Executive, who is its chairman, the Executive Directors and the Company Secretary & General Counsel. In addition, the global directors of human resources, strategy, corporate affairs and IS are regular attendees of meetings. Senior management personnel are invited to attend meetings of the Executive Committee as necessary to keep it fully appraised of the Company's businesses.

Executive Committee membership and attendance at meetings was as follows during 2008/09 from a total of 11 meetings:

Name	Attendance*
Steve Holliday (chairman)	11 of 11
Bob Catell	11 of 11
Mark Fairbairn	10 of 11
Steve Lucas	11 of 11
Tom King	11 of 11
Nick Winser	11 of 11
Edward Astle (to 30 April 2008)	1 of 1
Helen Mahy, Company Secretary & General Counsel	11 of 11

* Attendance is expressed as number of meetings attended out of number possible or applicable for the individual Director

Particular examples of matters that the Committee considered during the year included:

- the financial, operational and safety performance of the Company and its businesses;
- strategic business development and implementation including updates on the integration of the KeySpan businesses;
- approving capital and operational expenditure under the specific authorities delegated to it by the Board;
- global outsourcing;
- global human resource leadership; and
- global IS strategic issues.

At each meeting there are in depth review sessions on key business areas for the Company.

Finance Committee

The Finance Committee is responsible for setting policy and granting authority for short- and long-term financing decisions and for recommending for consideration by the Board the treasury, tax, pensions and insurance management policies of the Company. The Finance Committee is made up of three Non-executive Directors, one of whom is chairman of the Committee, and the Chief Executive and Finance Director. The director of tax and treasury is invited to attend Committee meetings on a regular basis.

Membership and attendance at meetings was as follows during 2008/09 from a total of four meetings:

Name	Attendance*
Maria Richter (chairman)	4 of 4
Steve Holliday	3 of 4
Steve Lucas	4 of 4
Stephen Pettit	4 of 4
John Allan	2 of 4

* Attendance is expressed as number of meetings attended out of number possible or applicable for the individual Director

Examples of matters that the Committee considered during the year included:

- long-term funding requirements including consideration of matters affecting the Company arising out of the global economic downturn;
- setting and reviewing treasury management guidelines and policy in light of market conditions;
- taxation issues for the Company;
- treasury performance updates;
- insurance updates; and
- pensions updates.

Nominations Committee

The Nominations Committee, consisting of the Chairman and Non-executive Directors, is responsible for considering the structure, size and composition of the Board and for identifying and proposing individuals to be Directors and senior management. A key consideration is succession planning for the Board and senior management and the Committee considered this in detail during the year. External recruitment consultants are generally used as part of any appointments process. Changes to the Board require Board approval following recommendation from the Committee.

The Nominations Committee membership and attendance at meetings was as follows during 2008/09 from a total of five meetings:

Name	Attendance*
Sir John Parker (chairman)	5 of 5
Ken Harvey	5 of 5
Maria Richter	5 of 5
George Rose	3 of 5

* Attendance is expressed as number of meetings attended out of number possible or applicable for the individual Director

The Chief Executive is invited to attend Nominations Committee meetings on a regular basis. Advice is sought from the global human resources director and external advice is sought as appropriate.

Matters that the Committee considered during the year included:

- the size of the Board, its structure and composition;
- changes to the composition of Board Committees;
- succession planning for Board members; and
- development and succession plans for senior management, as developed by the Chief Executive and global human resources director.

Remuneration Committee

The Remuneration Committee, consisting of Non-executive Directors, is responsible for developing executive remuneration policy, including the composition and balance between salary and short- and long-term incentives 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.

Further details of the policy on remuneration and details of individual remuneration are available in the Directors' Remuneration Report on pages 102 to 112.

The Remuneration Committee membership and attendance at meetings was as follows during 2008/09 from a total of six meetings:

Name	Attendance*
John Allan (chairman)	4 of 6
Ken Harvey	6 of 6
Stephen Pettit	6 of 6
George Rose	3 of 6

* Attendance is expressed as number of meetings attended out of number possible or applicable for the individual Director

The global human resources director and global head of compensation & benefits provide advice on remuneration policies and practices in the markets in which the Company operates and are usually invited to attend meetings, along with the Chairman and the Chief Executive. External independent advisors are also utilised by the Committee.

Risk & Responsibility Committee

The Risk & Responsibility Committee, consisting of Non-executive Directors plus Bob Catell, is responsible for reviewing the strategies, policies, targets and performance of the Company within its Framework for Responsible Business (a copy of which is available on the National Grid website). The Committee reviews the Company's risks for which it has oversight and in this regard the Committee interfaces with and works closely with the Audit Committee.

Accordingly it reviews matters such as: safety – including public and process safety; the environment; employee occupational health; inclusion and diversity; security and human rights issues; and business ethics and conduct.

The Risk & Responsibility Committee membership and attendance at meetings was as follows during 2008/09 from a total of four meetings:

Name	Attendance*
Stephen Pettit (chairman)	4 of 4
Linda Adamany	4 of 4
Philip Aiken	3 of 4
Ken Harvey	3 of 4
Bob Catell	4 of 4

* Attendance is expressed as number of meetings attended out of number possible or applicable for the individual Director

The Chief Executive, Company Secretary & General Counsel, director of UK safety, health and environment & corporate security and US senior VP safety, health and environment are invited to attend Risk & Responsibility Committee meetings. Executive Directors and others, including business representatives, are invited to attend as necessary.

During the year, the Committee:

- considered the current and projected environmental impact of the Company, including climate change;
- considered specific identified future risks and plans for minimising such risks;
- reviewed safety, health and environment audit plans and the outcome of such audits;
- reviewed serious incident reports;
- reviewed reports on business conduct issues;
- reviewed progress in embedding a process safety culture; and
- considered reports and updates from external advisors.

Disclosure Committee

National Grid has established disclosure committees that are tasked with various duties relating to the material disclosures made to the market by the Company and relevant subsidiaries. The Disclosure Committee of the Company is chaired by the Finance Director and its members are the Company Secretary & General Counsel, director of tax and treasury, financial controller, director of investor relations, head of internal audit and corporate counsel and head of company secretariat and such other members and/or attendees as the Committee from time to time considers appropriate.

The Committee's role is to assist the Chief Executive and Finance Director in fulfilling their responsibility for oversight of the accuracy and timeliness of the disclosures made by the Company. Accordingly, during the year the Committee reviewed the process and controls over external disclosures and key documents before release including the Annual Report and Accounts, preliminary and half year results statements, interim management statements and other material stock exchange announcements and presentations to analysts.

Shareholders

In accordance with the Schedule of Matters Reserved for the Board and the Code, the Board has responsibility for ensuring effective communication takes place with all shareholders and it considers carefully all major announcements to the market. Relations with shareholders are managed mainly by the Chief Executive, Finance Director and director of investor relations. Meetings are held regularly throughout the year with institutional investors, fund managers and analysts to discuss the public disclosures and announcements made by the Company.

The Chairman also writes to major shareholders following the announcement of the Company's interim and preliminary results to offer them the opportunity to meet with him, the Senior Independent Director or any of the Non-executive Directors. This specifically enables major shareholders to take up with these individuals any issue they feel unable to raise with the Chief Executive and Finance Director. Major shareholders are also invited to meet newly appointed Directors.

In order that all Board members are made aware of and understand the views of shareholders about the Company, the Board receives feedback on shareholders' views from the Company's brokers, supported by the director of investor relations and notes from a number of analysts in the energy sector are also circulated regularly to Directors.

Smaller shareholder issues are considered by the Board, including annual updates at Board meetings on matters relevant to smaller shareholders and initiatives by the Company. For example, during the year the Company initiated a dividend reunification programme, tracing 190,000 current and past shareholders who had not cashed dividends, some dating back in excess of 12 years. Additionally a low cost share dealing service was offered by which shareholders could buy or sell shares cheaply. Meetings were held during the year by the Chairman and the Chief Executive with the UK Shareholders Association and Directors met retail shareholders at shareholder networking events, details of which can be found in the Shareholder information section on page 198.

Change of control provisions

As at 31 March 2009, the Company had borrowing facilities with a number of its banks in the amounts of US$2.35 billion (undrawn) and £1.7 billion (drawn) which, on a change of control of the Company following a takeover bid, may alter or terminate. All of the Company's share plans contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time.

No other agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid are considered to be significant in terms of their potential impact on the business as a whole.

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

As the Company has a US listing, it is required to disclose differences in corporate governance practices adopted by the Company as a UK listed company, compared to those of a US company. The corporate governance practices of the Company are primarily based on UK requirements but substantially conform to those required of US companies listed on the NYSE. The principal differences between the Company's governance practices pursuant to the Combined Code and UK best practice and the Section 303A Corporate Governance Rules of the NYSE are:

- different tests of independence for Board members are applied under the Combined Code and Section 303A;
- there is no requirement for a separate corporate governance committee in the UK; all Directors on the Board discuss and decide upon governance issues and the Nominations Committee makes recommendations to the Board with regard to certain of the responsibilities of a corporate governance committee;
- while the Company reports compliance with the Combined Code in each Annual Report and Accounts, there is no requirement to adopt and disclose separate corporate governance guidelines; and
- while the Audit Committee, having a membership of four independent Non-executive Directors, exceeds the minimum membership requirements under Section 303A of three independent Non-executive Directors, it should be noted that the quorum for a meeting of the Audit Committee, of two independent Non-executive Directors, is less than the minimum membership requirements under Section 303A.

Risk management and internal control

In order to understand the risks and potential control issues facing the Company, the following sections as well as page 40 in the Operating and Financial Review should be considered. The system of internal control and, in particular our risk management policies, has been designed to manage rather than eliminate material risks to the achievement of our strategic and business objectives while also recognising that any such process can provide only reasonable, and not absolute, assurance against material misstatement or loss. This process complies with the Turnbull working party guidance (revised October 2005) in this matter and, in addition, contributes toward our compliance with our obligations under the Sarbanes-Oxley Act as well as other internal assurance activities.

The Board considers that a sound system of internal control contributes to safeguarding the Company's assets and reputation, and, as a result, the interests of our shareholders. Effective operational and financial controls, including the maintenance of qualitative financial records, are an important element of internal control.

In accordance with the Combined Code and the Schedule of Matters Reserved for the Board, the Board retains overall responsibility for the Company's system of internal control and monitoring its effectiveness. There is an established system of internal control throughout the Company and its businesses. This system depends on thorough and systematic processes for the identification and assessment of business-critical risks and their management and monitoring over time. In depth reports are provided from both line managers and certain internal assurance providers such as Internal Audit and Risk & Compliance. These reports are provided to Board Committees in relation to their specific areas of responsibility. The Board's Committees then provide reports to the Board in this regard.

The Board reviews the internal control process and its effectiveness on an annual basis to ensure it remains robust and to identify any control weaknesses. The latest review covered the financial year to 31 March 2009 and included the period to the approval of this Annual Report and Accounts.

This review includes:

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

Internal control – information assurance

The Board considers that it is imperative to have accurate and reliable information within the Company to enable informed decisions to be taken that further the Company's objectives. This is supported by a risk-based approach that deals with information assurance as a business critical function. Key elements in managing information assurance risks are education, training and awareness. These initiatives emphasise the importance of information security, the quality of data collection and the affirmation process that supports our business transactions, evidencing our decisions and actions. The Company continues to work collaboratively with a variety of organisations and professional bodies to develop and implement best practice.

Internal control over financial reporting – Sarbanes-Oxley

National Grid has carried out an assessment of its internal control over financial reporting pursuant to s404 of the Sarbanes-Oxley Act 2002. The management of the Company, which is responsible under the Act for establishing and maintaining an adequate system of internal control over financial reporting, evaluated the effectiveness of that system using the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework. Based on that evaluation, the management of the Company expects to conclude in its Annual Report on Form 20-F filing with the US Securities and Exchange Commission that the system of internal control over financial reporting was effective as at 31 March 2009.

Risk management

Identifying, evaluating and managing risks is integral to the way we run our business. We continue to have a well established enterprise wide risk management process that ensures risks are consistently assessed, recorded and reported in a visible, structured and continuous manner, the outputs of which are primarily used as a management tool. An output from this process is information that provides assurance to management and thus helps safeguard our assets and reputation.

The Company has embedded risk management into its business decision making process. Within the business the risk management process continues to be based on both bottom-up and top-down assessments of operational, including safety, financial and other business or project risks. From the bottom-up, business units and Corporate Centre functions prepare and maintain risk registers that capture their key risks and the actions being taken to manage them. Executive Directors and other senior management are closely involved at critical stages in the review process. Their review, challenge, and debate of the outputs of the bottom-up assessment against their top-down views produce an overall evaluation of the risks that are faced by National Grid. The Executive Committee, the Risk & Responsibility Committee and the Audit Committee review the risk profile and any changes, and the Audit Committee reviews the overall risk management process.

Compliance management

Our enterprise-wide compliance management process is established and continues to raise visibility over key obligations. The process provides assurance to the Executive Directors and senior management on the effectiveness of control frameworks to manage key internal and external obligations, and also highlights instances of significant non-compliance with those obligations. External obligations are driven primarily by key legal and regulatory requirements whereas internal obligations focus more on compliance with National Grid's own corporate policies and procedures. A network of compliance coordinators and champions exists within the businesses and Corporate Centre functions to enable the top-down/bottom-up alignment of Executive Directors' obligations to be established and reported.

Furthermore, experts for each key obligation interface with relevant business contacts to ensure the quality of information reported upwards is validated. The compliance management process is consistent with, and complementary to, our risk management process and essentially provides, among other things, a more detailed breakdown of the risk of non-compliance with laws, regulations or standards of service as well as corporate policies and procedures.

Twice a year, the Executive, Risk & Responsibility and Audit Committees receive a report setting out the key obligations across National Grid and any significant non-compliance with those obligations, together with compliance opinions and action plans to improve controls where necessary. As with the risk management process, the Audit Committee also reviews the compliance management process at least once a year and reports on this to the Board. The compliance management process also contributes toward the entity level testing that is performed under the Sarbanes-Oxley Act, as well as some of our other internal assurance activities. The compliance management process was also subject to a detailed review by internal audit during the year; the outcome was satisfactory.

Risk factors

Our risk management process has identified the following risk factors that could have a material adverse effect on our business, financial condition, results of operations and reputation, as well as the value and liquidity of our securities. Not all of these factors are within our control. In addition, other factors besides those listed below may have an adverse effect on National Grid. Any investment decision regarding our securities and any forward-looking statements made by us should be considered in the light of these risk factors and the cautionary statement set out on page 200.

Changes in law or regulation could have an adverse effect on our results of operations.

Many of our businesses are utilities or networks that are subject to regulation by governments and other authorities. Consequently, changes in law or regulation in the countries or states in which we operate could adversely affect us. Regulatory decisions concerning, for example, whether licences or approvals to operate are granted or are renewed, whether there has been any breach of the terms of a licence or approval, recovery of incurred expenditure, a decoupling of energy usage and revenue and other decisions relating to the implications of energy change, remuneration for stranded assets, the level of permitted revenues and dividend distributions for our businesses and in relation to proposed business development activities could have an adverse impact on our results of operations, cash flows, the financial condition of our businesses and the ability to develop those businesses in the future. For further information, see the Operating and Financial Review and, in particular, the external market and regulatory environment and current and future developments sections and the business description sections for each of our lines of business.

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

Aspects of our activities are potentially dangerous, such as the operation and maintenance of electricity generation facilities and electricity lines and the transmission and distribution of gas. Electricity and gas utilities also typically use and generate in their operations hazardous and potentially hazardous products and byproducts. In addition, there may be other aspects of our operations that are not currently regarded or proved to have adverse effects but could become so; for example, the effects of electric and magnetic fields. We are subject to laws and regulations relating to pollution, the protection of the environment, and how we use and dispose of hazardous substances and waste materials. These expose us to costs and liabilities relating to our operations and our properties whether current, including those inherited from predecessor bodies, or formerly owned by us. We are also subject to laws and regulations governing health and safety matters protecting the public and our employees. We are increasingly subject to regulation in relation to climate change. We commit significant expenditure toward complying with these laws and regulations and to meeting our obligations under negotiated settlements. If additional requirements are imposed or our ability to recover these costs changes, this could have a material impact on our businesses and our results of operations and financial position. Any breach of these obligations, or even incidents that do not amount to a breach, could adversely affect our results of operations and our reputation.

For further information about environmental and health and safety matters relating to our businesses, see the Our Responsibility section of our website at www.nationalgrid.com.

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

Our results of operations depend on a number of factors relating to business performance including performance against regulatory targets and the delivery of anticipated cost and efficiency savings.
Earnings maintenance and growth from our regulated gas and electricity businesses will be affected by our ability to meet or exceed efficiency and integration targets and service quality standards set by, or agreed with, our regulators. In addition, from time to time, we publish cost and efficiency savings targets for our businesses. To meet these targets and standards, we must continue to improve operational performance, service reliability and customer service. If we do not meet these targets and standards, we may not achieve the expected benefits, our business may be adversely affected and our performance, results of operations and our reputation may be harmed.

Business development activity, including acquisitions and disposals, may be based on incorrect assumptions or conclusions; significant liabilities may be overlooked or there may be other unanticipated or unintended effects.
Business development activities, including acquisitions and disposals, may be based on incorrect assumptions or conclusions; significant liabilities may be overlooked or there may be other unanticipated or unintended effects. There is no certainty that planned levels of synergy and efficiency savings from acquisitions will be achieved. This could impact our ability to enter into other transactions.

For further details concerning transactions that we have undertaken over the period, see the performance against our objectives section of the Operating and Financial Review on page 33.

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

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

Fluctuations in exchange rates (in particular in the US dollar exchange rate), interest rates and commodity price indices could have a significant impact on our results of operations.
We have significant operations in the US and we are therefore subject to the risks normally associated with non-domestic operations, including the need to translate US assets and liabilities, and income and expenses, into sterling, our primary reporting currency. In addition, our results of operations may be affected because a significant proportion of our borrowings, derivative financial instruments and commodity contracts are affected by changes in exchange rates, interest rates and commodity price indices, in particular the US dollar to sterling exchange rate.

For further information see the financial performance section of the Operating and Financial Review.

Our financial position may be adversely affected by a number of factors including restrictions in borrowing and debt arrangements, changes to credit ratings and adverse changes and volatility in the global credit markets.
We are subject to certain covenants and restrictions in relation to our listed debt securities and our bank lending facilities. We are also subject to restrictions on financing that have been imposed by regulators. These restrictions may hinder us in servicing the financial requirements of our current businesses or the financing of newly acquired or developing businesses. Some of our debt is rated by credit rating agencies and changes to these ratings may affect both our borrowing capacity and the cost of those borrowings.

Our business is partly financed through debt and the maturity and repayment profile of debt used to finance investments often does not correlate to cash flows from our assets. Accordingly, we rely on access to short-term commercial paper and money markets and longer-term bank and capital markets as sources of finance. The global financial markets are currently experiencing extreme volatility and disruption. A shortage of liquidity, lack of funding, pressure on capital and extreme price volatility across a wide range of asset classes are putting financial institutions under considerable pressure and, in certain cases, placing downward pressure on share prices and credit availability for companies. If we are not able to access capital at competitive rates, our ability to finance our operations and implement our strategy will be adversely affected.

Our results of operations could be affected by deflation.

Our income under our price controls in the UK is linked to the retail price index. Therefore, if the UK economy suffers from a prolonged period of deflation, our revenues may decrease, which may not be offset by reductions in operating costs.

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

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

New or revised accounting standards, rules and interpretations could have an adverse effect on our reported financial results. Changes in law and accounting standards could increase our effective rate of tax.

The accounting treatment under International Financial Reporting Standards (IFRS), as adopted by the European Union, of, among other things, replacement expenditure, rate regulated entities, pension and post-retirement benefits, derivative financial instruments and commodity contracts, signficantly affect the way we report our financial position and results of operations. New or revised standards and interpretations may be issued, which could have a significant impact on the financial results and financial position that we report. The effective rate of tax we pay may be influenced by a number of factors including changes in law and accounting standards, the results of which could increase that rate.

Customers and counterparties to our transactions may fail to perform their obligations, or arrangements we have may be terminated, which could harm our results of operations.

Our operations are exposed to the risk that customers and counterparties to our transactions that owe us money or commodities will not perform their obligations, which could cause us to incur additional costs. This risk is most significant where our subsidiaries have concentrations of receivables from gas and electricity utilities and their affiliates, as well as industrial customers and other purchasers and may also arise where customers are unable to pay us as a result of increasing commodity prices.

A substantial portion of our KeySpan business's revenues are derived from a series of agreements with the Long Island Power Authority (LIPA) pursuant to which we manage LIPA's transmission and distribution system and supply the majority of LIPA's customers' electricity needs. These operating agreements provide LIPA with the right to terminate the agreements for poor performance or upon the occurrence of certain other limited events of default.

Our operating results may fluctuate on a seasonal and quarterly basis.

Our electricity and gas businesses are seasonal businesses and are subject to weather conditions. In particular, revenues from our gas distribution networks in the US are weighted towards the end of our financial year, when demand for gas increases due to colder weather conditions. As a result, we are subject to seasonal variations in working capital because we purchase gas supplies for storage in the first and second quarters of our financial year and must finance these purchases. Accordingly, our results of operations for this business fluctuate substantially on a seasonal basis. In addition, portions of our electricity businesses are seasonal and subject to weather and related market conditions. Sales of electricity to customers are influenced by temperature changes. Significant changes in heating or cooling requirements, for example, could have a substantial effect. As a result, fluctuations in weather and competitive supply between years may have a significant effect on our results of operations for both gas and electricity businesses.

Directors' Report

for the year ended 31 March 2009

In accordance with the requirements of the Companies Acts and UK Listing Authority's Listing, Disclosure and Transparency Rules, the following sections describe the matters that are required for inclusion in the Directors' Report and were approved by the Board. Further details of matters to be included in the Directors' Report that are incorporated by reference into this report, are set out below.

Directors

The biographies of the persons serving as Directors as at the date of this report are set out on pages 16 and 17. The names of all persons serving as Directors during the financial year are included on page 112, detailed in the table setting out Directors' beneficial interests. The Directors' interests in shares and in options to receive shares, and any changes that have occurred since 31 March 2009, are set out in the Directors' Remuneration Report on pages 102 to 112. Directors' and Officers' liability insurance cover is arranged and qualifying third party indemnities are in place for each Director.

Code of Ethics

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

Principal activities and business review

A full description of the Company's principal activities, significant contracts, business and principal risks and uncertainties, environmental, employee and social and community issues are contained in the Operating and Financial Review, on pages 18 to 89, and the Corporate Governance section, on pages 90 to 99, which are incorporated by reference into this report.

Dividends

The Directors are recommending a final dividend of 23.00 pence per ordinary share ($1.7437 per American Depositary Share) to be paid on 19 August 2009 to shareholders on the Register at 5 June 2009. An ordinary resolution will be proposed at the Annual General Meeting to allow for a scrip dividend to be available. A scrip dividend allows a dividend to be taken in shares rather than cash with no dealing costs or stamp duty payable. Further details in respect of dividend payments can be found on page 41.

Political donations and expenditure

National Grid made no political donations in the UK or European Union during the year (including donations as defined for the purposes of the Political Parties, Elections and Referendums Act 2000). National Grid USA and certain subsidiaries made political donations in the US of $180,000 (£116,959) during the year to affiliated New York State political action committees (PACs). National Grid USA's federal and state PACs gave $156,975 (£101,998) to political committees in 2008/09. National Grid USA's affiliated federal PACs were funded wholly by voluntary employee contributions. National Grid USA's affiliated New York State PACs were funded partly by contributions from National Grid USA and partly by employee contributions.

Charitable donations

During 2008/09, approximately £10 million (2007/08: £9.2 million) was invested in support of community initiatives and relationships. The London Benchmarking Group model was used to assess this overall community investment. Direct donations to charitable organisations amounted to £1.4 million (2007/08: £0.6 million). In addition to our charitable donations, financial support was provided for our affordable warmth programme, education programme, university research and our Young Offenders Programme.

Financial instruments

Details on the use of financial instruments and financial risk management are included on pages 81 to 84 and on page 87 in the Operating and Financial Review.

Contractual arrangements

Details concerning our rate plans and price controls, which we consider to be our primary contractual arrangements, can be found in the Operating and Financial Review under current and future developments sections on pages 23, 52, 60 and 68.

Post balance sheet events

On 29 April 2009, the Competition Appeal Tribunal announced its decision not to uphold in full Ofgem's 2008 decision in relation to Metering contracts. Further information is provided in the Operating and Financial Review on page 85.

Change of control provisions

The significant agreements that are affected upon a change of control of the Company as detailed on page 95 of the Corporate Governance section are included by reference into this report. No compensation would be paid for loss of office of Directors on a change of control of the Company.

Future developments

Details of future developments are contained in the Operating and Financial Review.

Research and development

Expenditure on research and development during the year was £10 million (2007/08: £13 million).

Share capital

At the Company's 2008 Annual General Meeting (AGM) shareholder authority was given to purchase up to 10% of the Company's ordinary shares. The Directors intend to seek shareholder approval to renew this authority at this year's AGM.

The Company's interim results statement for the six months to 30 September 2006 included the announcement of a share repurchase programme to return around $1.9 billion (£1 billion) to shareholders. The ordinary share repurchase programme commenced on 20 November 2006 and in May 2007 it was extended to return £1.8 billion of the proceeds of the sale of our wireless businesses. As announced with the half year results for 2008/09, we have completed the return of £1.8 billion and the US stranded asset post tax cash flows for 2008/09. During 2008/09, the Company purchased 85,457,497 shares representing 3.3% of the issued ordinary share capital at an aggregate consideration of £593,545,263. In total, as at the date of this report, 307,992,296 ordinary shares (representing approximately 11.9% of our issued ordinary share capital) had been repurchased since November 2006 for an aggregate consideration of £2,270 million. Of the shares repurchased as at 12 May 2009, 149,276,986 were held in treasury and 9,509,217 have been transferred to employees under the employee share plans.

Shares and ADRs purchased on behalf of the Company by the Employee Share Trusts (see notes 25 and 26 to the consolidated financial statements on pages 154 and 155 of the accounts) are used for employee share incentive plans.

The share capital of the Company consists of ordinary shares of $11\frac{17}{43}$ pence nominal value each and American Depositary Shares only. The ordinary and American Depositary Shares allow holders to receive dividends and vote at general meetings of the Company. Shares held in treasury are not entitled to vote or receive dividends. There are no restrictions on the transfer or sale of ordinary shares.

Some of the Company's employee share plans include restrictions on transfer of shares while the shares are subject to the plan.

Where, under an employee share plan operated by the Company, participants are the beneficial owners of the shares but not the registered owner, the voting rights may be exercised by the registered owner at the direction of the participant.

Employees

The Company employs over 27,500 people. Communication is a key theme both at a corporate and business level. The Company wide internet based publication National Grid One provides employees with an overview of performance and updates on relevant acquisitions, alongside material setting out the strategy and operating model for National Grid. This publication is only one example of the multiple communication channels, including the use of various business specific intranets, which the Company has established and continues to develop to ensure the timely cascade of critical information to employees.

Feedback has been provided by employees in confidence via a Company wide employee engagement survey conducted in 2009; 91.8% of employees took part in the process. Action plans will be developed by each of the businesses to address their key priorities for improvement.

National Grid's core values are respect, ownership, integrity and working together. National Grid's inclusion and diversity vision is to develop and operate its business in a way that results in a more inclusive and diverse culture. This supports the attraction and retention of the best people, improves effectiveness, delivers superior performance and enhances the success of the Company. Employees are provided with the opportunity to develop to their full potential regardless of race, gender, nationality, age, disability, sexual orientation, gender identity, religion and background. The employee share schemes, available to encourage the involvement of employees in the Company's performance, are explained further on page 104.

Policy and practice on payment of creditors

It is National Grid's policy to include in contracts, or other agreements, terms of payment with suppliers. Once agreed, National Grid aims to abide by these payment terms. The average creditor payment period at 31 March 2009 for National Grid's principal operations in the UK was 13 days (18 days at 31 March 2008).

Audit information

Having made the requisite enquiries, so far as the Directors in office at the date of the signing of this report are aware, there is no relevant audit information of which the auditors are unaware and each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Articles of Association

The Articles of Association set out the internal regulation of the Company and cover such matters as the rights of shareholders, the appointment or removal of Directors and the conduct of the Board and general meetings. Copies are available upon request and are displayed on the National Grid website at www.nationalgrid.com. In accordance with the Articles of Association, Directors can be appointed or removed by the Board or shareholders in general meeting. Amendments to the Articles of Association have to be approved by at least 75% of those voting in person or by proxy at a general meeting of the Company. Subject to company law and the Articles of Association, the Directors may exercise all the powers of the Company, and may delegate authorities to Committees and day-to-day management and decision making to individual Executive Directors. Details of the main Board Committees can be found on pages 92 to 95. In order to update for Companies Act 2006 changes, special resolutions will be put to the 2009 Annual General Meeting to adopt the Articles of Association with effect from the AGM, and to adopt new Articles of Association effective from 1 October 2009.

Material interests in shares

As at the date of this report, National Grid had been notified of the following holdings in voting rights of 3% or more in the issued share capital of the Company:

	% of voting rights
Legal and General Investment Management Ltd	5.46
Fidelity	3.06

No further notifications have been received.

Annual General Meeting

National Grid's 2009 AGM will be held on Monday 27 July 2009 at The International Convention Centre in Birmingham. Details are set out in the Notice of AGM.

On behalf of the Board

Helen Mahy
Company Secretary & General Counsel
13 May 2009

National Grid plc, 1-3 Strand, London WC2N 5EH
Registered in England and Wales No. 4031152

Directors' Remuneration Report

We are pleased to present the Directors' Remuneration Report for 2008/09. 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. We aim to ensure the Company continues to attract, motivate and retain high calibre individuals to deliver the highest possible performance for our shareholders.

We have made no changes to our arrangements this year and firmly believe the changes we have made over the last few years continue to provide an appropriate and balanced opportunity for executives. Our incentive plans remain aligned with the Company's strategic objectives and our shareholders' interests, while continuing to motivate and engage the team leading the Company to achieve stretching targets.

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

Overall, Company performance has been strong for the last year and therefore Annual Performance Plan (bonus plan) awards to the Executive Directors and their teams reflect that strong performance.

In recognition of the external economic market conditions, the Executive Directors have decided voluntarily they will forego salary increases in June 2009. It is anticipated their salaries will next be reviewed in 2010.

Edward Astle left National Grid on 30 April 2008, following the sale of parts of the non-regulated portfolio, including National Grid Wireless which was sold for a price that was significantly in excess of market expectations at that time. Details of Edward's leaving arrangements follow later in this report.

Bob Catell retired as an Executive Director on 31 March 2009 and became a Non-executive Director as well as being Deputy Chairman and Non-executive Chairman of National Grid USA, which will be effective until the conclusion of the Company's Annual General Meeting on 27 July 2009 when Bob will leave the Company. Bob will not receive any payments on leaving, other than with respect to his contractual pension rights and an Annual Performance Plan award reflecting the performance year 2008/09 (details of this award can be found on page 107).

John Allan
Chairman of the Remuneration Committee

Remuneration Committee

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

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

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

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

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

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

In the year to 31 March 2009, the following advisors provided services to the Remuneration Committee:

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

Remuneration policy

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

- total rewards should be set at levels that are competitive in the relevant market. For UK-based Executive Directors, the primary focus is placed on companies ranked (in terms of market capitalisation) 11-40 in the FTSE 100. This peer group is therefore weighted towards companies smaller than National Grid and positioning the package slightly below median against this group is considered to be appropriate for a large, international but predominately regulated business. For US-based Executive Directors, the primary focus is placed on US utility companies;
- a significant proportion of the Executive Directors' total reward should be performance based. Performance based incentives will be earned through the achievement of demanding targets

for short-term business and individual performance as well as long-term shareholder value creation, consistent with our Framework for Responsible Business which can be found at: www.nationalgrid.com/corporate/About+Us/CorporateGovernance/Other;
- for higher levels of performance, rewards should be substantial but not excessive; and
- incentive plans, performance measures and targets should be stretching and aligned as closely as possible with shareholders' interests.

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

Executive Directors' remuneration

Remuneration packages for Executive Directors consist of the following elements:
- salary;
- Annual Performance Plan 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. For UK-based and US-based Executive Directors, UK and US markets are used respectively. In setting individual salary levels, the Remuneration Committee takes into account business performance, the individual's performance and experience in the role together with salary practices prevailing for other employees in the Company.

Annual Performance Plan including the Deferred Share Plan (DSP)

The Annual Performance Plan (bonus plan) is based on the 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), see page 43 for further details; consolidated cash flow and return on equity. The main divisional measures are operating profit and line of business returns targets. Financial targets represent 70% of the plan. Individual targets, representing 30% of the plan, are set in relation to key operating and strategic objectives. The Remuneration Committee sets targets at the start of the year and reviews performance against those targets at year end. The Remuneration Committee may use its discretion to reduce payments to take account of significant safety or service standard incidents; or to increase them in the event of exceptional value creation. The Remuneration Committee also has discretion to consider environmental, social and governance issues when determining payments to Executive Directors.

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

	Level of performance achieved in 2008/09 as determined by the Remuneration Committee	
Financial measures	Company targets	Divisional targets
Adjusted EPS	Between target and stretch	
Consolidated cash flow	Stretch	
Return on equity	Between target and stretch	
Operating profit		Varied performance (i) (ii) (iii)
Line of business returns targets		Varied performance (iv) (v) (vi)

(i) Electricity Distribution & Generation between threshold and target.
(ii) Gas Distribution between target and stretch.
(iii) Transmission at stretch.
(iv) Electricity Distribution & Generation below threshold.
(v) Gas Distribution between target and stretch.
(vi) Transmission between target and stretch.

In 2008/09, the maximum opportunity under the Annual Performance Plan for Executive Directors was 150% of base salary, with 40% of the plan (60% of salary) being paid for target performance. One half of any award 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 plan year 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. We believe the forfeiture provision serves as a strong retention tool.

The Remuneration Committee believes that requiring Executive Directors to invest a substantial amount of their Annual Performance Plan award in National Grid shares increases the proportion of rewards linked to both short-term performance and longer-term total shareholder returns (TSR). This practice also ensures that Executive Directors share a significant level of personal risk with the Company's shareholders. Awards for UK-based Executive Directors are not pensionable but, in line with current US market practice, US-based Executive Directors' awards are pensionable.

Long-term incentive – Performance Share Plan (PSP)

Executive Directors and approximately 400 other senior employees who have significant influence over the Company's ability to meet its strategic objectives, may receive an award which will vest subject to the achievement of performance conditions set by the Remuneration Committee at the date of grant. The value of shares (ADSs for US-based Executive Directors and relevant employees) constituting an award (as a percentage of salary) varies by grade and seniority subject to a maximum, for Executive Directors, of 200% of salary. Typically awards of 200% of salary have been awarded to Executive Directors. The provisions in the PSP rules allow awards up to a maximum value of 250% of salary, in order to provide a degree of flexibility for the future.

Shares vest after three years, conditional upon 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, in cash or shares, equivalent to the dividend which would have been paid on the vested shares.

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

Awards from 2005 onwards vest based on the Company's TSR performance when compared to the FTSE 100 at the date of grant (50% of the award) and the annualised growth of the Company's EPS (50% of the award). This approach will continue going forward.

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

In calculating TSR it is assumed that all dividends are reinvested. No shares will be released under the TSR part of the award if the Company's TSR over the three year performance 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 on an annualised compound basis is 7.5% above that of the median company in the FTSE 100 (upper target).

The EPS measure is calculated by reference to National Grid's real EPS growth, see page 43 for further details. Where annualised growth in adjusted EPS (on a continuing basis and excluding exceptional items, remeasurements and stranded costs) over the three year performance period exceeds the average annual increase in RPI (the general index of retail prices for all items) over the same period by 3% (threshold performance), 30% of the shares under the EPS part of the award will be released. 100% of the shares will be released where EPS growth exceeds RPI growth by 8% (upper target). For awards made prior to 2007, the upper target for EPS was 6%. The Remuneration Committee considers the adjusted upper target to be more challenging to achieve.

For performance, under each measure, between threshold and the upper target, the number of shares released is pro rated on a straight-line basis.

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

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

Vested 2005 PSP award

The upper targets for both the EPS and TSR performance criteria were reached for the 2005 award, which has resulted in 100% vesting. The shares from this award will be transferred to participants in July 2009, following the completion of the retention period. The Remuneration Committee agreed to pay a cash amount equivalent in value to the net dividends (after taxes, commissions and any other charges) that would be paid during the retention period in respect of the shares comprised in the vested award. These payments were made in August 2008 and February 2009, to align broadly with dividend payments to our shareholders.

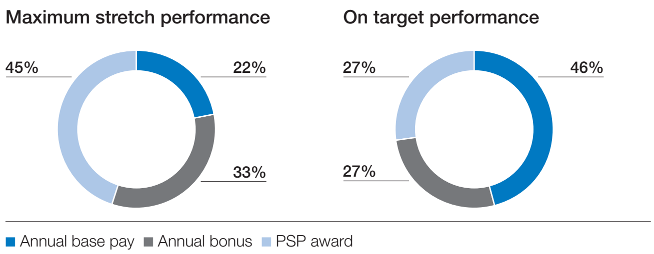
Recruitment Promise – Special Retention Award (SRA)

As part of a contractual commitment made at the time of Tom King's recruitment, Tom received a Special Retention Award in November 2007. This one-off award of National Grid ADSs vests in equal tranches, over three years, on the anniversary of the award (November 2008 through to November 2010) subject to his continued employment. There are no performance conditions attached to this award. Details of the vested ADSs representing the first tranche of this award can be found on page 111.

Executive Directors' remuneration package

Illustrated below is the current remuneration package for Executive Directors (excluding pensions, all-employee share plans and non-cash benefits) for both 'maximum stretch' performance and assuming 'on target' performance based on 40% (60% of salary) for the Annual Performance Plan; and TSR and EPS performance such that 30% (60% of salary) of PSP awards are released to participants at the end of the performance period and subsequent retention period. All Executive Directors have the same proportion of fixed and variable remuneration in this respect.

Executive Directors' remuneration package
2008/09 UK & US



Note: Excludes Tom King's Special Retention Award.

All-employee share plans

- Sharesave: Employees resident in the UK, including UK-based Executive Directors, are eligible to participate in HM Revenue & Customs approved all-employee Sharesave schemes. Under these schemes, participants may contribute between £5 and £250 in total each month, for a fixed period of three years, five years or both. Contributions are taken from net salary. At the end of the savings period, these contributions can be used to purchase ordinary shares in National Grid at a discount capped at 20% of the market price set at the launch of each scheme.
- Share Incentive Plan (SIP): Employees resident in the UK, including UK-based Executive Directors, are eligible to participate in the SIP. Contributions up to £125 are deducted from participants' gross salary and used to purchase ordinary shares in National Grid each month. The shares are placed in trust and if they are left in trust for at least five years, they can be removed free of UK income tax and National Insurance Contributions.
- US Incentive Thrift Plans: Employees of National Grid's US companies (including US-based Executive Directors) are eligible to participate in the Thrift Plans, which are tax-advantaged

savings plans (commonly referred to as 401(k) plans). These are defined contribution pension plans that give participants the opportunity to invest up to applicable Federal salary limits ie a maximum of 50% of salary (pre-tax) limited to US$15,500 for those under the age of 50 and US$20,500 for those over 50 for calendar year 2008 and US$16,500 and US$22,000 respectively for 2009; and/or up to 15% of salary (post-tax) up to applicable limits (US$230,000 for calendar year 2008 and US$245,000 for 2009). The Company matches 100% of the first 2% and 75% of the next 4% of salary contributed, resulting in a maximum matching contribution of 5% of salary up to the Federal salary cap. For employees in legacy KeySpan plans, the Company matches 50% of employees' contributions up to a maximum Company contribution of 3%. Employees may invest their own and Company contributions in National Grid shares or various mutual fund options. Legacy KeySpan employees who invest in National Grid shares do so with a 10% discount.

- Employee Stock Purchase Plan (ESPP): Employees of National Grid's US companies (including US-based Executive Directors) are eligible to participate in the ESPP (commonly referred to as a 423b plan). Eligible employees have the opportunity to purchase ADSs on a monthly basis at a 10% discounted price. Under the plan employees may contribute up to 20% of base pay each year up to a maximum annual contribution of US$20,000 to purchase ADSs in National Grid. Any ADSs purchased through the ESPP may be sold at any time, however, there are tax advantages for ADSs held for at least two years from the offer date.

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 twelve 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 have elected to participate in the unfunded scheme in respect of any benefits in excess of the Lifetime Allowance or their Personal Lifetime Allowance. An appropriate provision in respect of the unfunded scheme has been made in the Company's balance sheet. 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.

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

Non-cash benefits

The Company provides competitive benefits to Executive Directors, such as a fully expensed car or a cash alternative in lieu of car, 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 Executive Director. We have recently ceased the provision of fuel cards for senior employees to align with our climate change initiative. Buyout payments were made to any senior employees, including Executive Directors, who had previously chosen to retain a fuel card, details of these payments can be found in Table 1A on page 107.

Flexible benefits plan

Additional benefits may be purchased under the flexible benefits plan (the Plan), in which UK-based Executive Directors, along with most other UK employees, have been given the opportunity to participate. The Plan operates by way of salary sacrifice, that is, the participants' salaries are reduced by the monetary value used to purchase benefits under the Plan. Many of the benefits are linked to purchasing additional healthcare and insurance products for employees and their families. A number of the Executive Directors participate in this Plan and details of the impact on their salaries are shown in Table 1A on page 107.

Similar plans are offered to US-based employees. However, they are not salary sacrifice plans and therefore do not affect salary values. Both Tom King and Bob Catell (when an Executive Director) were participants in such plans during the year.

Share ownership guidelines

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

Share dilution through the operation of share-based incentive plans

Where shares may be issued or treasury shares reissued to satisfy incentives, the aggregate dilution resulting from executive incentives will not exceed 5% in any ten year period. Dilution resulting from all incentives, including all-employee incentives, will not exceed 10% in any ten year period. The Remuneration Committee reviews dilution against these limits regularly and under these limits, the Company currently has headroom of 3.77% and 5.62% respectively.

Executive Directors' service contracts

Service contracts for all Executive Directors provide for one year's notice by either party.

Entitlement to payment of 12 months' remuneration on early termination for Executive Directors is not automatic and is determined by the Remuneration Committee exercising its sole discretion, taking into account the circumstances of the termination. In determining any other such payments, the Remuneration Committee gives due regard to the comments and recommendations in the UK Listing Authority's Listing Rules, the Combined Code on Corporate Governance, as revised in 2006; and other requirements of legislation, regulation and good governance.

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 normally be expected to mitigate any losses incurred as a result of the termination.

	Date of contract	Notice period
Executive Directors		
Steve Holliday	1 April 2006	12 months
Steve Lucas	13 June 2002	12 months
Nick Winser	28 April 2003	12 months
Mark Fairbairn	23 January 2007	12 months
Tom King	11 July 2007	12 months
Edward Astle (i)	27 July 2007	12 months
Bob Catell (ii)	26 October 2007	12 months

(i) Edward Astle left the Board on 30 April 2008.

(ii) Bob Catell ceased being an Executive Director on 31 March 2009. His employment agreement was terminated and replaced with a Non-executive Director contract for services and he will retire from the Board at the conclusion of the Company's AGM on 27 July 2009.

External appointments and retention of fees

With the approval of the Board in each case, Executive Directors may normally accept an external appointment as a non-executive director of another company and retain any fees received for this appointment. The table below details the Executive Directors who served as non-executive directors in other companies during the year ended 31 March 2009.

	Company	Retained fees (£)
Executive Directors		
Steve Holliday	Marks and Spencer Group plc	67,000
Steve Lucas	Compass Group PLC	82,500
Nick Winser (i)	Kier Group plc	3,400
Bob Catell (ii)	Keyera Energy Management Ltd (a), Sovereign Bancorp Inc Advisory Board (b) and JP Morgan Chase Inc Metropolitan Advisory Board (c)	56,374

(i) Reflects retained fees for the period 1 March 2009 to 31 March 2009 only.

(ii) The retained fees comprise the following: (a) £10,890, (b) £42,235 and (c) £3,249. The exchange rate used for (a) is Canadian$1.9058:£1 and US$1.539:£1 for (b) and (c).

Non-executive Directors' remuneration

Non-executive Directors' fees are determined by the Executive Directors subject to the limits applied by National Grid's articles of association. Non-executive Directors' remuneration comprises an annual fee (£45,000) 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 (£4,000). 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 either any annual bonus plan or 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 by either party to give the Company reasonable security with regard to his service. The terms of engagement of Non-executive Directors other than the Chairman are also set out in letters of appointment. For all Non-executive Directors, their initial appointment and any subsequent reappointment is subject to election by shareholders. The letters of appointment do not contain provision for termination payments.

	Date of letter of appointment(i)	Date of next election
Non-executive Directors		
Sir John Parker	11 May 2009	2009 AGM
Ken Harvey	4 November 2004	2009 AGM
Linda Adamany	20 October 2006	2010 AGM
Philip Aiken (ii)	14 May 2008	2011 AGM
John Allan	27 April 2005	2011 AGM
Stephen Pettit	22 November 2004	2009 AGM
Maria Richter	25 June 2007	2010 AGM
George Rose	5 June 2003	2009 AGM

(i) Date of original appointment or most recent Non-executive role.

(ii) Philip Aiken joined the Board on 15 May 2008.

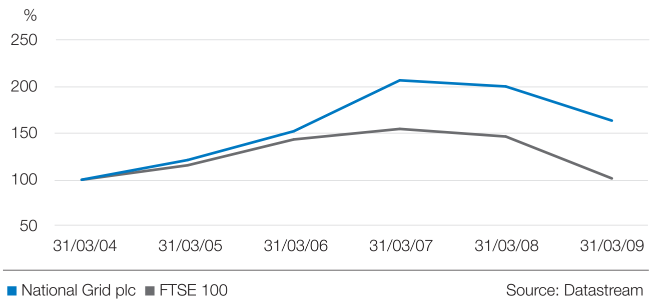
Performance graph

The graph below represents the comparative TSR performance of the Company from 31 March 2004 to 31 March 2009.

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

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

National Grid plc
TSR v FTSE 100



Source: Datastream

Remuneration outcomes during the year ended 31 March 2009

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

1. Directors' emoluments

The following tables set out the pre-tax emoluments for the years ended 31 March 2009 and 2008, including bonuses but excluding pensions, for individual Directors who held office in National Grid during the year ended 31 March 2009.

Table 1A	Year ended 31 March 2009						Year ended 31 March 2008
	Salary(i) £000s	Annual Performance Plan (bonus) £000s	Benefits in kind(ii) (cash) £000s	Benefits in kind(ii) (non-cash) £000s	Other emoluments £000s	Total £000s	Total £000s
Executive Directors							
Steve Holliday	917	1,265	12	12	–	2,206	2,062
Steve Lucas (iii)	516	709	6	28	–	1,259	1,183
Nick Winser	459	620	–	17	–	1,096	963
Mark Fairbairn (iii)	458	598	8	25	–	1,089	1,010
Tom King (iv)	677	704	5	10	–	1,396	1,149
Edward Astle (v)	37	–	1	–	440	478	1,070
Bob Catell (iv) (vi)	825	1,090	6	28	–	1,949	818
Total	**3,889**	**4,986**	**38**	**120**	**440**	**9,473**	**8,255**

(i) The Executive Directors decided voluntarily to forego salary increases in 2009. It is anticipated their salaries will next be reviewed in 2010.

(ii) Benefits in kind comprise benefits such as private medical insurance, life assurance, either a fully expensed car or cash in lieu of a car, use of a driver when required; and for this year a fuel card buyout.

(iii) These Executive Directors participate in the UK 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 £5,522 and Mark Fairbairn £786.

(iv) For US-based Executive Directors, the exchange rate averaged over the year 1 April 2008 to 31 March 2009 to convert US dollars to UK pounds sterling is US$1.539:£1.

(v) Edward Astle left National Grid on 30 April 2008. He received a contractual entitlement of one year's additional salary, part of which was payable in 6 monthly instalments and was subject to mitigation had he taken employment during the period.

(vi) Bob Catell ceased being an Executive Director on 31 March 2009. His employment agreement was terminated and replaced with a Non-executive Director contract for services and he will retire from the Board at the conclusion of the Company's AGM on 27 July 2009. He did not, nor will he, receive any termination payments.

Table 1B	Year ended 31 March 2009			Year ended 31 March 2008
	Fees £000s	Other emoluments £000s	Total £000s	Total £000s
Non-executive Directors				
Sir John Parker (i)	542	62	604	559
Ken Harvey	83	–	83	79
Linda Adamany	75	–	75	77
Philip Aiken (ii)	59	–	59	n/a
John Allan	76	–	76	71
Stephen Pettit	84	–	84	79
Maria Richter	92	–	92	92
George Rose	84	–	84	82
Total	**1,095**	**62**	**1,157**	**1,039**

(i) Sir John Parker's other emoluments comprise a fully expensed car, private medical insurance and life assurance.

(ii) Philip Aiken joined the Board on 15 May 2008.

Directors' Remuneration Report continued

2. Directors' pensions

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

Table 2	Personal contributions made to the scheme during the year £000s	Additional benefit earned during year ended 31 March 2009 pension £000s	Accrued entitlement as at 31 March 2009 pension £000s	Transfer value of accrued benefits as at 31 March (i) 2009 £000s	Transfer value of accrued benefits as at 31 March (i) 2008 £000s	Increase in transfer value less Director's contributions (ii) £000s	Additional benefit earned in the year ended 31 March 2009 (excluding inflation) pension £000s	Transfer value of increase in accrued benefit in the year ended 31 March 2009 (excluding inflation & Director's contributions) £000s
Steve Holliday (iii)	18	49	280	4,740	4,730	(8)	37	591
Steve Lucas	31	25	250	4,877	3,680	1,165	17	293
Nick Winser (iv)	28	16	186	2,802	3,237	(463)	7	76
Mark Fairbairn (v)	28	26	186	3,084	3,340	(284)	18	249
Tom King (vi)	–	49	126	442	207	235	49	174
Edward Astle (vii)	19	16	112	2,939	1,997	924	15	385
Bob Catell (vi) (viii)	–	256	1,754	20,431	12,774	7,657	256	2,812

(i) The transfer values shown at 31 March 2008 and 2009 respectively represent the value of each Executive Director's accrued benefits based on total service compared to the relevant date. The transfer values for the UK Executive Directors at 31 March 2008 have been calculated in accordance with guidance note 'GN11'; transfer values for the UK Executive Directors at 31 March 2009 have been calculated in line with new transfer value bases agreed with the UK Pension Scheme Trustees. The transfer values for the US Executive Directors have been calculated using discount rates based on high quality US corporate bonds and associated yields at the relevant dates.

(ii) Figures for the increase in transfer value less Director's contributions include the impact of changes during the year to the UK transfer value bases for UK Directors and exchange rate movements for US Directors. The figures excluding these impacts were Steve Holliday £625,000, Steve Lucas £464,000, Nick Winser £62,000, Mark Fairbairn £233,000, Tom King £114,000, Edward Astle £1,166,000 and Bob Catell £2,052,000.

(iii) In addition to the pension above, there is an accrued lump sum entitlement of £107,000 as at 31 March 2009. The increase to the accumulated lump sum including inflation was £7,000 and excluding inflation was £3,000 in the year to 31 March 2009. The transfer value information above includes the value of the lump sum.

(iv) In addition to the pension above, there is an accrued lump sum entitlement of £258,000 as at 31 March 2009. The increase to the accumulated lump sum including inflation was £8,000 and excluding inflation was nil in the year to 31 March 2009. The transfer value information above includes the value of the lump sum.

(v) In addition to the pension above, there is an accrued lump sum entitlement of £278,000 as at 31 March 2009. The increase to the accumulated lump sum including inflation was £23,000 and excluding inflation was £11,000 in the year to 31 March 2009. The transfer value information above includes the value of the lump sum.

(vi) The exchange rate as at 31 March 2009 was US$1.4368:£1 and as at 31 March 2008 was US$1.98:£1.

(vii) It was agreed that £344,754, representing the value of 49,032 shares which Edward Astle would otherwise have received in respect of his PSP awards (see Table 4 on page 111), instead be transferred into his pension fund. This is equivalent to one additional year of pension credit and is included above. Edward received an immediate unreduced pension on cessation of employment under the standard redundancy terms of the Trust Deed and Rules of the Pension Scheme.

(viii) Bob Catell retired as an Executive Director on 31 March 2009 and was eligible to draw immediate pension benefits. In addition to the pension quoted above, through participation in the Thrift Plan in the US, the Company made contributions worth £4,948 to a defined contribution arrangement.

3. Directors' interests in share options

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

Table 3	Options held at 1 April 2008	Options exercised or lapsed during the year	Market price at exercise (pence)	Options granted during the year	Options held at 31 March 2009 or, if earlier, on retirement †	Exercise price per share (pence)	Normal exercise period
Steve Holliday							
ESOP	67,497	–	–	–	67,497	481.5	June 2005 to June 2012
Share Match	10,350	–	–	–	10,350	100 in total	June 2005 to June 2012
	14,083	–	–	–	14,083	100 in total	June 2006 to June 2013
	18,713	–	–	–	18,713	nil	May 2007 to May 2014
	9,983(i)	9,983	663	–	–	nil	June 2008 to June 2015
Sharesave	4,692	4,692	660.5	–	–	350	Mar 2008 to Aug 2008
	2,564	2,564	–	–	–	655	Apr 2013 to Sep 2013
	–	–	–	3,432	3,432	488	Apr 2014 to Sep 2014
Total	**127,882**	**17,239**		**3,432**	**114,075**		
Steve Lucas							
ESOP	54,404	–	–	–	54,404	434.25	Dec 2005 to Dec 2012
Share Match	14,778(ii)	14,778	663	–	–	nil	June 2008 to June 2015
Sharesave	1,693	–	–	–	1,693	558	Apr 2010 to Sep 2010
Total	**70,875**	**14,778**		**–**	**56,097**		
Nick Winser							
ESOP	19,755	–	–	–	19,755	531.5	June 2003 to June 2010
Share Match	11,581(iii)	11,581	663	–	–	nil	June 2008 to June 2015
Total	**31,336**	**11,581**		**–**	**19,755**		
Mark Fairbairn							
ESOP	2,180	–	–	–	2,180	435.75	July 2002 to July 2009
	33,489	–	–	–	33,489	531.5	June 2003 to June 2010
	31,152	–	–	–	31,152	481.5	June 2005 to June 2012
Share Match	2,134(iv)	2,134	663	–	–	nil	June 2008 to June 2015
Sharesave	862	–	–	–	862	383	Apr 2010 to Sep 2010
	1,760	–	–	–	1,760	558	Apr 2012 to Sep 2012
	512	–	–	–	512	655	Apr 2013 to Sep 2013
Total	**72,089**	**2,134**		**–**	**69,955**		
Edward Astle							
ESOP (v)	67,497	–	–	–	67,497†	481.5	May 2008 to Apr 2009
Share Match (v)	6,553	–	–	–	6,553†	100 in total	May 2008 to Oct 2008
	13,812	–	–	–	13,812†	100 in total	May 2008 to Oct 2008
	15,716	–	–	–	15,716†	nil	May 2008 to Oct 2008
	14,637	–	–	–	14,637†	nil	May 2008 to Oct 2008
Total	**118,215**	**–**		**–**	**118,215†**		

(i) Steve Holliday exercised a Share Match award over 9,983 shares. The market price at the date of exercise was 663p. He received £9,739 in respect of a cash payment in lieu of dividends. He also exercised, on its five year maturity, a Sharesave option over 4,692 shares with an option price of 350p. In addition, he cancelled an existing Sharesave contract over 2,564 shares with an option price of 655p in order to commence a Sharesave contract over 3,432 shares with an option price of 488p.

(ii) Steve Lucas exercised a Share Match award over 14,778 shares. The market price at the date of exercise was 663p. He also received £17,761 in respect of a cash payment in lieu of dividends.

(iii) Nick Winser exercised a Share Match award over 11,581 shares. The market price at the date of exercise was 663p. He also received £14,078 in respect of a cash payment in lieu of dividends.

(iv) Mark Fairbairn exercised a Share Match award over 2,134 shares. The market price at the date of exercise was 663p. He also received £3,050 in respect of a cash payment in lieu of dividends.

(v) On leaving, Edward Astle was permitted 12 months from his termination date in which to exercise his ESOP awards and 6 months for his Share Match awards. This aligns with normal practice for such leavers under the plan rules.

Directors' Remuneration Report continued

3. Directors' interests in share options continued

Executive Share Option Plan (ESOP)

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

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

Grants in excess of 100% of salary vest on a sliding scale, becoming fully exercisable if the Company's TSR is in the top quartile.

Grants made in 2000

The performance condition attached to options granted in June 2000 is tested annually throughout the lifetime of the option. These options remain unvested. The final re-test will be in March 2010 and if the performance criterion is not reached at that time the options will lapse in full.

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

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

4. Directors' interests in the PSP, DSP and SRA

The table on page 111 gives details of the Executive Directors' holdings of conditional shares awarded under the PSP whereby Executive Directors receive a conditional award of shares, up to a current maximum of 200% of salary, which is subject to performance criteria over a three year performance period. Awards vest based on the Company's TSR performance when compared to the FTSE 100 at the date of grant (50% of the award) and the annualised growth of the Company's EPS (50% of the award), see pages 103 and 104 for further information. Shares are then released on the fourth anniversary of the date of grant, following a retention period. The table includes conditional share awards under the DSP, where Executive Directors receive an award of shares representing one half of any Annual Performance Plan award earned in the year. The deferred shares are held in trust for three years before release. As part of a contractual commitment made at the time of Tom King's recruitment, Tom received a SRA. The one-off award of National Grid ADSs vests in equal tranches, over three years, on the anniversary of the award (November 2008 through to November 2010) subject to continued employment. There are no performance conditions attached to the award.

4. Directors' interests in the PSP, DSP and SRA continued

Table 4	Type of award	PSP, DSP and SRA conditional awards at 1 April 2008	Awards lapsed during year	Awards vested in year	Awards granted during year	Market price at award (pence except#)	Date of award	Conditional awards at 31 March 2009 or, if earlier, on retirement†	Release date
Steve Holliday	PSP	100,801(i)	–	100,801	–	527.03	June 2005	100,801	June 2009
	PSP	126,788	–	–	–	591.5382	June 2006	126,788	June 2010
	PSP	139,217	–	–	–	740.75	June 2007	139,217	June 2011
	PSP	77,247	–	–	–	800.9919	Nov 2007	77,247	Nov 2011
	PSP	–	–	–	276,947	667.9967	June 2008	276,947	June 2012
	DSP	36,389	–	–	–	583.96	June 2006	36,389	June 2009
	DSP	42,435	–	–	–	726.87	June 2007	42,435	June 2010
	DSP	–	–	–	85,307	697.48	June 2008	85,307	June 2011
Total		**522,877**	**–**	**100,801**	**362,254**			**885,131**	
Steve Lucas	PSP	99,615(i)	–	99,615	–	527.03	June 2005	99,615	June 2009
	PSP	101,430	–	–	–	591.5382	June 2006	101,430	June 2010
	PSP	84,930	–	–	–	740.75	June 2007	84,930	June 2011
	PSP	47,125	–	–	–	800.9919	Nov 2007	47,125	Nov 2011
	PSP	–	–	–	157,186	667.9967	June 2008	157,186	June 2012
	DSP	34,882	–	–	–	583.96	June 2006	34,882	June 2009
	DSP	29,276	–	–	–	726.87	June 2007	29,276	June 2010
	DSP	–	–	–	47,263	697.48	June 2008	47,263	June 2011
Total		**397,258**	**–**	**99,615**	**204,449**			**601,707**	
Nick Winser	PSP	91,314(i)	–	91,314	–	527.03	June 2005	91,314	June 2009
	PSP	88,751	–	–	–	591.5382	June 2006	88,751	June 2010
	PSP	75,008	–	–	–	740.75	June 2007	75,008	June 2011
	PSP	41,620	–	–	–	800.9919	Nov 2007	41,620	Nov 2011
	PSP	–	–	–	138,413	667.9967	June 2008	138,413	June 2012
	DSP	31,316	–	–	–	583.96	June 2006	31,316	June 2009
	DSP	25,596	–	–	–	726.87	June 2007	25,596	June 2010
	DSP	–	–	–	36,008	697.48	June 2008	36,008	June 2011
Total		**353,605**	**–**	**91,314**	**174,421**			**528,026**	
Mark Fairbairn	PSP	40,225(i)	–	40,225	–	527.03	June 2005	40,225	June 2009
	PSP	40,572	–	–	–	591.5382	June 2006	40,572	June 2010
	PSP	67,499	–	–	–	740.75	June 2007	67,499	June 2011
	PSP	37,453	–	–	–	800.9919	Nov 2007	37,453	Nov 2011
	PSP	–	–	–	138,324	667.9967	June 2008	138,324	June 2012
	DSP	10,800	–	–	–	583.96	June 2006	10,800	June 2009
	DSP	13,867	–	–	–	726.87	June 2007	13,867	June 2010
	DSP	–	–	–	40,646	697.48	June 2008	40,646	June 2011
Total		**210,416**	**–**	**40,225**	**178,970**			**389,386**	
Tom King	PSP	ADSs 24,006	–	–	–	$83.3121#	Nov 2007	ADSs 24,006	Nov 2011
	PSP	–	–	–	ADSs 32,099(ii)	$65.4211#	June 2008	ADSs 32,099	June 2012
	SRA	ADSs 35,487	–	ADSs 11,829(iii)	–	$84.5360#	Nov 2007	ADSs 23,658	Nov 2008 to Nov 2010
	DSP	–	–	–	ADSs 4,843(ii)	$68.1174#	June 2008	ADSs 4,843	June 2011
Total ADSs		**ADSs 59,493**	**–**	**ADSs 11,829**	**ADSs 36,942**			**ADSs 84,606**	
Edward Astle	PSP	94,872(iv)	–	–	–	527.03	June 2005	94,872†	April 2008
	PSP	88,751(iv)	–	–	–	591.5382	June 2006	88,751†	April 2008
	PSP	74,249(iv)	–	–	–	740.75	June 2007	74,249†	April 2008
	PSP	41,198(iv)	–	–	–	800.9919	Nov 2007	41,198†	April 2008
	DSP	28,769	–	–	–	583.96	June 2006	28,769†	April 2008
	DSP	27,927	–	–	–	726.87	June 2007	27,927†	April 2008
Total		**355,766**	**–**	**–**	**–**			**355,766†**	
Bob Catell	PSP	ADSs 17,084(v)	–	–	–	$83.3121#	Nov 2007	ADSs 17,084	Nov 2011
	PSP	–(v)	–	–	ADSs 39,146(ii)	$65.4211#	June 2008	ADSs 39,146	June 2012
	DSP	–(v)	–	–	ADSs 7,225(ii)	$68.1174#	June 2008	ADSs 7,225	June 2011
Total		**ADSs 17,084**	**–**	**–**	**ADSs 46,371**			**ADSs 63,455**	

(i) The 2005 PSP award vested in full in June 2008 but the shares under this award are subject to a retention period in order that shares may only be transferred to participants on or after the fourth anniversary of the date of grant. The Remuneration Committee determined cash equivalent dividend payments would be made to participants whilst the shares were in the retention period, therefore, Steve Holliday received £23,856 in August 2008 and £14,157 in February 2009; Steve Lucas £23,576 and £13,990; Nick Winser £21,611 and £12,825 and Mark Fairbairn £9,520 and £5,649 respectively.

(ii) Awards were made over ADSs and each ADS represents five ordinary shares.

(iii) Tom King received a Special Retention Award as part of a contractual commitment made at the time of his recruitment. The award vests in three equal parts over three years, the first vesting for which was November 2008 for 11,829 ADSs. The ADS price on vesting for the first tranche was US$47.4920.

(iv) Shortly after leaving, Edward Astle received 207,905 PSP shares that vested as a result of the performance criteria having been met and taking into account his contribution and in particular the sale of National Grid Wireless being significantly in excess of market expectations. As outlined in Table 2 on page 108, it was also agreed that instead of Edward receiving a further 49,032 PSP shares an equivalent monetary value (using a share price of 705p) would be transferred into his pension fund. All remaining PSP shares shown in the table on page 111 lapsed.

(v) As Bob Catell ceased being an Executive Director on 31 March 2009, his PSP award will be transferred to him from this date subject to performance criteria and following time pro ration. His DSP award will also be transferred to him. This treatment aligns with normal practice for such leavers under the plan rules.

5. Directors' beneficial interests

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

Table 5	Ordinary shares at 31 March 2009 or, if earlier, on retirement †(i)	Ordinary shares at 1 April 2008 or, if later, on appointment *	Options/awards over ordinary shares at 31 March 2009 or, if earlier, on retirement †	Options/awards over ordinary shares at 1 April 2008 or, if later, on appointment*
Sir John Parker	81,337	77,115	–	–
Steve Holliday (ii) (iii)	39,285	28,488	999,206	650,759
Steve Lucas (ii) (iv)	88,192	79,438	657,804	468,133
Nick Winser (ii)	83,518	69,937	547,781	384,941
Mark Fairbairn (ii) (iii)	48,305	28,584	459,341	282,505
Tom King	59,145	–	423,030	297,465
Edward Astle	28,428†	28,428	473,981†	473,981
Bob Catell	40,000	15,000	317,275	85,420
Ken Harvey	3,740	3,740	–	–
Linda Adamany	2,000	2,000	–	–
Philip Aiken	2,000	–*	–	–*
John Allan	2,000	2,000	–	–
Stephen Pettit	2,632	2,632	–	–
Maria Richter	5,255	3,255	–	–
George Rose	4,852	4,852	–	–

(i) There has been no other change in the beneficial interests of the Directors in ordinary shares between 1 April 2009 and 13 May 2009, except in respect of routine monthly purchases under the SIP (see note (iii) below).

(ii) Each of the Executive Directors, with the exception of Bob Catell and Tom King, was for Companies Act purposes deemed to be a potential beneficiary under the National Grid plc 1996 Employee Benefit Trust and the National Grid Employee Share Trust; Steve Holliday, Steve Lucas, Nick Winser and Mark Fairbairn thereby have an interest in 264,878 and 160,696 ordinary shares in the aforementioned trusts respectively, as at 31 March 2009 (with the latter holding 6,294 ADSs in addition).

(iii) Beneficial interest includes shares purchased under the monthly operation of the SIP in the year to 31 March 2009. In April and May 2009 a further 45 shares were purchased on behalf of Steve Holliday and a further 91 shares were purchased on behalf of Mark Fairbairn thereby increasing their beneficial interests.

(iv) Steve Lucas was for Companies Act purposes deemed to be a potential beneficiary in 4,057 ordinary shares held by Lattice Group Trustees Limited as trustee of the Lattice Group Employee Share Ownership Trust as at 31 March 2009.

6. National Grid share price range

The closing price of a National Grid ordinary share on 31 March 2009 was 535.5p. The range during the year was 749.5p (high) and 515p (low). The Register of Directors' Interests contains full details of shareholdings and options/awards held by Directors as at 31 March 2009.

On behalf of the Board

Helen Mahy
Company Secretary & General Counsel
13 May 2009