

# Corporate Governance

## Governance

The Board of National Grid is committed to embedding leading governance practices within the operations of the Group. This commitment is based on compliance with the Combined Code and both established and emerging best practice. It extends through National Grid's Framework for Responsible Business, codes of conduct for employees and involvement in the Business Leaders Initiative on Human Rights.

Documents relating to National Grid's governance (eg National Grid's Framework for Responsible Business, Board Committee terms of reference, codes of conduct and position statements) can be found on the Group website at [www.nationalgrid.com/corporate/about+us](http://www.nationalgrid.com/corporate/about+us).

The Company complied fully with all provisions set out in Section 1 of the Combined Code throughout the year.

## The Board

The Board of National Grid currently consists of 14 Directors, comprising the Chairman, six Executive Directors and seven Non-executive Directors (including the Senior Independent Director). Biographical details for each of the Directors, together with details of Board Committee memberships, are set out on pages 18 and 19.

The intended retirement of long-serving Non-executive Director, John Grant, was announced prior to the year end. John Grant stepped down as chairman of the Remuneration Committee at the end of February but remained a member to ensure an effective transition to the new chairman of the Committee, John Allan.

## Non-executive Director independence

Each of the Non-executive Directors is considered by the Board to be independent, such determination being made following initial consideration by the Nominations Committee. Independence is considered at least annually and is based on the factors set out in the Combined Code but importantly further examines whether each Director is independent in character, judgement and behaviour. Also considered are factors such as participation and performance on both the Board and Board Committees. When considering the length of service, Board service at National Grid together with that at either Lattice Group plc or National Grid Group plc prior to their merger is taken into account.

Professor Paul Joskow has now served on the Board for six years under the criteria set out above. His period as a director of New England Electric System (NEES) is not considered to have an impact on his independence given NEES now represents a minor part of the Group's operations as a whole. Professor Joskow is viewed as a particularly valuable member by the Board. He has extensive knowledge of the US utility scene and the Board recognises him as a world authority on utility regulation.

## Group Chief Executive succession

During the year, the Group announced Roger Urwin's intention to retire with effect from this calendar year end. At the same time, it was announced that Steve Holliday would replace him and be appointed as Deputy Group Chief Executive with effect from 1 April 2006, to ensure a smooth and progressive handover of responsibilities.

A particularly rigorous succession process was put in place by the Chairman. This involved all the Non-executive Directors, not just the members of the Nominations Committee. The process extended over five months and included third party interviews of the internal candidate, benchmarking of external candidates and extensive input of views from existing Executive Directors.

## Board training and development

National Grid aims to ensure that all its Directors receive up-to-date information about the Group's operations. Director attendance at meetings is monitored to make sure that Board members do not miss key visits and presentations. Board members are also encouraged to attend external courses where they feel that this will keep them updated on issues or will improve their effectiveness as a Director. Attendance at external courses is one issue raised when the Chairman holds his one-to-one meetings with each Director as part of the Board effectiveness process.

Continued attention is also given to the development programmes put in place for each of the Executive Directors. These programmes were established following in-depth personal appraisals with the assistance of external specialists. The development programmes include external and internal mentoring support, attendance at relevant business schools and experience of other boardrooms through serving as non-executive directors.

Particular attention is given to newly appointed Directors. Following appointment, materials and presentations are provided as an induction to the Company and its businesses and detailed information relating to the operation and management of the Board is supplied. Following his appointment in May 2005, John Allan attended a number of meetings with Executive Directors and senior managers from both Corporate Centre functions and various businesses within the Group. Site visits were also arranged to familiarise him with the Group, aiming to equip him to participate more effectively in Board meetings.

## Board effectiveness

The effectiveness of the Board, the Board Committees and each individual Director is vital to the overall success of the Group.

The Board has a well established process for evaluating the performance of the Board, Board Committees and individual Directors. This formal process consists of questionnaires sent to each Director, and certain Board Committee attendees, by the Group Company Secretary and General Counsel on a confidential basis. The questionnaires are complemented by one-to-one meetings between the Chairman and each Director. The questionnaires consider the performance of the Chairman, the operation and performance of the Board and Board Committees and Committee chairmen. The one-to-one meetings include discussions of individual performance and any knowledge gaps requiring training. The Non-executive Directors also meet separately under the chairmanship of the Senior Independent Director to consider the performance of the Chairman and to provide him with feedback.

The Nominations Committee initially considers all the results and based on the feedback from the questionnaires an overall outline of results and action plan is drawn up. The results and action plan are considered by the Board and, where relevant, each Committee before being finalised. The aim of the action plan is continually to improve processes, procedures and performance. Actions highlighted in the 2005/06 action plan include:

- continued monitoring of the balance of Board time spent on administration, governance, operation and strategy to ensure adequate time is spent on strategic debate;
- consideration of additional site visits for Non-executive Directors between scheduled Board meetings; and
- more critical feedback on information presented to the Board to ensure content is appropriate and adequate.

Actions undertaken as a result of the previous year's evaluation process included:

- a review of Matters Reserved to the Board; and
- a review of Committee interfaces.

The possibility of having the evaluation process reviewed by a third party was discussed during the year. It was decided that, given the level of development of the process and the continued progress of the action plan, any review should be delayed until the process was considered either in need of a major refresh or no longer at the leading edge of best practice.

### Roles of the Chairman and Group Chief Executive

The roles of the Chairman and Group Chief Executive are distinct and have been set out and approved by the Board. The Chairman's main task is the management of the Board and its governance while the Group Chief Executive's is the day-to-day management of the Group and the execution of Board-approved strategy.

The Chairman's main duties outside the Group are set out in his biography on page 18. His principal external positions during the year were as Senior Non-executive Director of the Court of the Bank of England, Chairman of Peninsular & Oriental Steam Navigation Company and as Non-executive Director of Carnival plc and Carnival Corporation, Inc. The Chairman's contractual commitment to the Company is two days per week but in practice this is generally exceeded.

### Senior Independent Director

Ken Harvey has been the Senior Independent Director throughout the year. As well as leading the Non-executive Directors when assessing the Chairman's performance, the Senior Independent Director is also available to shareholders in the event that they feel it inappropriate to relay views via the Chairman or the Group Chief Executive.

### Operation of the Board

To ensure effective control of the Group, the Board has a number of items reserved for its sole discussion and approval. At its September meeting the Board discussed these items to ensure they were appropriate; this review was prompted by issues raised during the 2004/05 Board evaluation process.

The complete document, Matters Reserved to the National Grid plc Board, is available on the Group website at [www.nationalgrid.com/corporate/about+us](http://www.nationalgrid.com/corporate/about+us). The broad areas covered are:

- corporate governance;
- strategy/finance;
- approval of the Group's budget and business plan;
- Director/employee issues;
- Director succession planning;
- listing requirements;
- dividend policy; and
- approval of results announcements and the Annual Report and Accounts.

Items considered at each Group Board meeting relate to: safety, health and environment, finance, business/finance review, business development, projects, and governance and administration. Other items discussed during the year included the Group's new corporate identity and corporate values, specifically their development and work to embed them within business operations.

Board Committees also carry out a significant amount of work towards the successful management of the Group. The Board has established Audit, Executive, Finance, Nominations, Remuneration and Risk & Responsibility Committees. The Board Committees ensure that issues of policy and oversight are given time for detailed debate outside the Board, where time may be limited because of the number of issues to be covered. To ensure that all Directors are aware of discussions at Board Committees, Board Committee chairmen provide a summary, at each appropriate Board meeting, of key issues debated and present recommendations formulated.

Each Board Committee has terms of reference, agreed by both the Board and Board Committee. These terms of reference are all available on the Group website at [www.nationalgrid.com/corporate/about+us](http://www.nationalgrid.com/corporate/about+us).

### Audit Committee

The current membership of the Audit Committee is George Rose (chairman), Maria Richter, John Grant and John Allan. John Allan joined the Audit Committee following his appointment on 1 May 2005 and Maria Richter joined the Audit Committee at the same time. These two Directors replaced Ken Harvey and Paul Joskow.

Each of these Directors is Non-executive and regarded by the Board as independent. As required by the Audit Committee terms of reference, the Board has determined that George Rose is an 'audit committee financial expert'; his biographical details are on page 19.

The Chairman, Group Chief Executive, Group Finance Director, Head of Internal Audit and Group Company Secretary and General Counsel are invited to attend the majority of meetings. Executive Directors, the Head of Risk & Compliance, the Group Financial Controller and external auditors may be invited to attend the Audit Committee as required.

Items discussed by the Audit Committee during the year included:

- recommendation with respect to the level of audit fees paid to the external auditors;
- reviews of external auditor non-audit fees and consultancy spend;
- review of the performance of the external auditors;
- International Financial Reporting Standards conversion project;
- reports from the external auditors;
- reports from the internal auditors;
- review of results and Annual Report and Accounts;
- reports on risk, compliance and business conduct (including whistleblowing);
- reports on Sarbanes-Oxley compliance preparations;
- review of the Audit Committee terms of reference;
- evaluation of the external audit process;
- review of independence and objectivity of the external auditors;
- review of the effectiveness of internal controls for the year; and
- reports from the disclosure committee.

All non-audit work by the external auditors is subject to pre-approval and their total non-audit fees are reviewed by the Audit Committee quarterly. Details of both the audit and non-audit fees paid to the external auditors during the year are set out in note 5 to the accounts on page 112.

### Executive Committee

The operational management of the Group and day-to-day decisions are delegated to the Executive Committee which is made up of all of the Executive Directors and the Group Company Secretary and General Counsel. The Executive Committee is chaired by the Group Chief Executive and meets monthly.

Issues covered on Executive Committee agendas during the year included:

- reports on safety, health and environment;
- strategy/business development;
- reports and discussions on human resources, succession planning and employee issues;
- finance;
- pensions;
- budget and business plan;
- foreign exchange and treasury management;
- year-end processes (preliminary statements, assurance processes, dividend payments, review of internal controls); and
- administrative items.

### Finance Committee

The Finance Committee consists of Paul Joskow (chairman), Roger Urwin, Steve Lucas, Stephen Pettit and Maria Richter. Committee meetings are also attended by the Group Tax and Treasury Director.

The main responsibilities of the Finance Committee are the setting and review of finance policy and the granting of certain approvals. The discussion and review of issues at the Finance Committee dovetails with processes at the Executive Committee and the Board.

Items discussed at the Finance Committee during the year included:

- treasury performance and activity reports;
- Group funding/debt;
- long-term treasury performance management;
- committed borrowing facilities;
- US financing;
- foreign exchange policy;
- guarantees;
- delegations of authority;
- tax updates;
- pensions;
- insurance renewal; and
- electricity and gas trading activity.

### Nominations Committee

The current members of the Nominations Committee are Sir John Parker (chairman), Ken Harvey, John Grant, George Rose and Paul Joskow. Each of the Non-executive members of the Nominations Committee is considered by the Board to be independent.

The Group Chief Executive is invited to attend most meetings and the Group Human Resources Director attends as required.

The main responsibilities of the Nominations Committee are to keep under review the size, structure and composition of the Board, to ensure that an adequate Board succession plan is in place and, when necessary, to identify and nominate individuals for appointment to the Board.

Items included for discussion by the Nominations Committee during the year included:

- Board and Board Committee performance evaluation;
- oversight of Group Chief Executive succession;
- Non-executive Director succession; and
- chairmanship of the Remuneration Committee.

The Nominations Committee also receives regular reports from the Group Chief Executive and Group Human Resources Director on succession and development planning for senior positions within the Group.

The Nominations Committee has overall responsibility for the Board performance evaluation process and for considering Non-executive Director independence prior to making recommendations to the Board.

### Remuneration Committee

The Remuneration Committee consists of John Allan (chairman), John Grant, Ken Harvey, Stephen Pettit and George Rose. John Allan joined the Remuneration Committee following his appointment to the Board on 1 May 2005. John Allan replaced John Grant as chairman of the Remuneration Committee with effect from 1 March 2006. Each member of the Remuneration Committee is a Non-executive Director and is considered by the Board to be independent.

The Chairman, Group Chief Executive, Group Human Resources Director and Group Head of Compensation & Benefits are usually invited to attend the Remuneration Committee to provide advice as required.

No Committee member or attendee at the Remuneration Committee participates in any discussion on his or her own remuneration.

The main responsibilities of the Remuneration Committee are the development of Group policy on Executive Director remuneration and the determination of remuneration for Executive Directors. Further detail is included in the Directors' Remuneration Report on pages 79 to 89.

To allow additional time for discussion the Remuneration Committee held a separate strategy meeting during the year.

Items included on the Remuneration Committee agenda for discussion during the year were:

- remuneration issues and disclosure;
- performance share plan update;
- total shareholder return update;
- Directors' Remuneration Report;
- bonuses and personal targets;
- headroom/dilution update;
- pensions update;
- feedback on discussions with advisers;
- tender for advisers; and
- benchmarking and market trends.

### Risk & Responsibility Committee

The members of the Risk & Responsibility Committee are Stephen Pettit (chairman), Ken Harvey and Maria Richter. Ken Harvey was appointed to the Risk & Responsibility Committee with effect from 1 May 2005.

The Group Chief Executive, Group Corporate Responsibility Director and the Group Company Secretary and General Counsel normally attend Committee meetings with Executive Directors invited to attend as necessary.

The Risk & Responsibility Committee reviews strategies, policies, management initiatives and Group targets in respect of safety, environment, health, inclusion and diversity, human rights, ethics and community involvement.

The Risk & Responsibility Committee is involved in internal control processes as it considers and provides reports to the Audit Committee on the non-financial and reputational risks faced by the Group. Items considered on the Risk & Responsibility agenda during the year included:

- Group risk, compliance (specifically non-financial items) and business conduct;
- safety, health and environment audit programme and plan;
- independent verification of non-financial data in the Annual Report and Accounts;
- review of corporate responsibility issues relevant to the business;
- non-financial performance targets;
- work-related stress;
- climate change;
- human rights;
- inclusion and diversity;
- external advisers to the Risk & Responsibility Committee; and
- electric and magnetic field science.

## Board and Board Committee attendance

The following table indicates the number of meetings of the Board and each of its Committees held during 2005/06 and the number of those meetings that each of the Directors attended as a member:

	Board Committees						
	Board meetings	Audit	Executive	Finance	Nominations	Remuneration	Risk & Responsibility
<b>Total meetings during the year</b>	<b>11</b>	<b>6</b>	<b>12</b>	<b>5</b>	<b>5</b>	<b>8</b>	<b>4</b>
Sir John Parker	11	–	–	–	5	–	–
Roger Urwin	11	–	12	5	–	–	–
Steve Holliday	11	–	11	–	–	–	–
Steve Lucas	10	–	10	5	–	–	–
Nick Winsor	11	–	12	–	–	–	–
Mike Jesanis	11	–	12	–	–	–	–
Edward Astle	10	–	12	–	–	–	–
Ken Harvey	10	1 (i)	–	–	5	8	3 (ii)
John Allan	7 (iii)	4 (iii)	–	–	– (iv)	5 (iii)	–
John Grant	11	5	–	–	5	8	–
Paul Joskow	11	1 (i)	–	5	4 (v)	–	–
Stephen Pettit	11	–	–	5	– (iv)	8	4
Maria Richter	10	5 (vi)	–	5	– (iv)	–	4
George Rose	9	6	–	–	5	7	–

(i) Ken Harvey and Paul Joskow officially left the Audit Committee as of 1 May 2005; they were only eligible to attend one meeting.

(ii) Ken Harvey joined the Risk & Responsibility Committee on 1 May 2005; he was eligible to attend a total of three meetings.

(iii) John Allan joined the Board on 1 May 2005; he was eligible to attend a total of 10 meetings of the Board, five meetings of the Audit Committee and seven meetings of the Remuneration Committee. As he was only notified of the dates of Board and Committee meetings upon his appointment, he was unable to join meetings on some occasions due to diary clashes.

(iv) At Nominations Committee meetings where the Group Chief Executive's succession was discussed, all Non-executive Directors were invited to attend, meaning John Allan, Maria Richter and Stephen Pettit attended some meetings of the Committee.

(v) Paul Joskow joined the Nominations Committee on 1 May 2005; he was eligible to attend a total of four meetings.

(vi) Maria Richter joined the Audit Committee on 1 May 2005; she was eligible to attend a total of five meetings.

## Communication with shareholders

During the year, the Group Chief Executive and Group Finance Director held regular meetings with institutional investors, fund managers and analysts to discuss information made public by the Group. In addition, the Chairman reminds major shareholders, in writing, of his availability (along with that of the Senior Independent Director or Non-executive Directors where required) should there be issues that shareholders do not wish to raise via the Group Chief Executive or Group Finance Director.

To ensure that the Board is effectively informed of shareholder views, it receives bi-annual feedback from the Company's brokers supplemented by the Group Head of Investor Relations. In addition, notes from a number of analysts in the energy sector are circulated to Directors. This ensures that all Board members, including the Non-executive Directors, are aware of the current views of major shareholders and of any outstanding issues they may have.

The principal method of communicating with the majority of shareholders is through the Annual Review. Shareholders may also attend the Company's Annual General Meeting where they have the opportunity to question Directors on any issues relating to the management of the Company. The Group also runs a very successful Shareholder Networking Programme, which allows a small number of shareholders to visit operational sites and meet senior managers, Directors and the Chairman. More details of the Shareholder Networking Programme are on page 175.

## Disclosure committees

National Grid has constituted disclosure committees that undertake various duties relating to the material disclosures made by the Company and relevant subsidiaries within the Group.

The Group Finance Director chairs the National Grid disclosure committee. This committee assists the Group Chief Executive and Group Finance Director in fulfilling their responsibility under US securities laws to oversee the accuracy and timeliness of material disclosures made by the Company. This includes the design and implementation of controls and other procedures intended to ensure that information required by the Company to be disclosed is recorded, processed, summarised and reported accurately and on a timely basis. The disclosure committee also monitors the effectiveness of the Company's disclosure controls and reviews and considers the preparation of material public disclosures. It undertakes an evaluation of the effectiveness of the Company's disclosure controls at the end of the Company's financial year and considers other matters as necessary.

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

The corporate governance practices of the Group substantially conform to those required of US companies listed on the NYSE. The principal differences between the Group'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
- while the Group reports compliance with the Combined Code in each Annual Report and Accounts, there is no requirement to adopt and disclose separate corporate governance guidelines.

### Information assurance

Information is an important asset to the business and, like any other asset, it must be fit for purpose.

Critical to demonstrating information integrity is a process of assurance from the business that clearly demonstrates that information is being sourced and managed effectively. The Group recognises that these behaviours are important to achieving necessary standards. The key objective of having accurate and reliable information is supported by a risk-based, holistic approach that deals with information assurance as a business critical function. This approach ensures that accurate and reliable information is available to those who need it in a timely fashion, thus enabling informed decisions that support and further our Group objectives.

We manage a broad range of risks to our information. Key elements in managing these 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 Group continues to work collaboratively with a variety of organisations and professional bodies to develop and implement best practice.

### Internal control

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. Consequently, the Board, together with the Executive, Audit and Risk & Responsibility Committees, is central to the internal control process. Throughout the year, the Board receives reports from each of these Committees and as part of the year-end process receives the Group Chief Executive's Letter of Assurance. This process seeks to confirm compliance with all major internal and external requirements along with the existence of appropriate controls and processes to manage risks and to provide details of material risks and control weaknesses. The Board additionally conducts a formal review of the effectiveness of internal controls based on the information and assurances provided to it directly and through the Committees mentioned.

During the year, the Company has undertaken a review of its year-end processes with the aims of maximising coordination between these processes and ensuring the most effective use of resources.

As a result of the Group's New York listing, we are also subject to the provisions of the US Sarbanes-Oxley Act, including the requirement to make an assessment of our internal control over financial reporting, commencing in 2006/07. A project team has completed the labour-intensive task of documenting processes and testing is well advanced. Progress ahead of next year's disclosure is satisfactory.

### Risk management

We believe that risk management is an essential discipline in our business operations. As an integral part of this, we have a Group-wide risk management process to ensure a consistent approach to the assessment, recording and reporting of our key risks in a visible, structured and continuous manner. This process helps to safeguard the Group's assets and is designed to manage, rather than eliminate, material risks to the achievement of the Group's 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) and, in addition, contributes toward the Group's compliance with our obligations under the Sarbanes-Oxley Act as well as other internal assurance activities.

The risk management process continues to be based on both bottom-up and top-down assessments of operational, financial and other business risks. From the bottom up, business units and Corporate Centre functions must prepare and maintain risk registers that capture their key risks and the actions that are being taken to manage them. These risk registers are primarily management tools for use at an operational level, but are also intended to ensure that risk is reported on a consistent basis throughout the Group. The key element in the top-down assessment of our risk profile is the involvement of the Executive Directors and other senior management across the Group at critical stages in the review process. Their review of the bottom-up assessment produces an overall evaluation of the risks that are faced by the Group. Graphics that set out the Group's risk profile and any significant changes to this between reporting periods are considered by the Executive Committee, the Risk & Responsibility Committee and the Audit Committee twice a year. The Audit Committee also reviews the risk management process at least once during each year and reports on this to the Board.

During the year, the Group risk management process was subject to independent internal review and found to be applied on a consistent basis across the Group. In addition, during the year we have sought to derive further benefits from this process through closer coordination with the Group Insurance team and a more formalised interaction with the Group Internal Audit function. An external benchmarking exercise has also continued with other FTSE 100 companies and similar organisations to measure the effectiveness of our own approach and exchange best practice.

Our risk management process has identified the risk factors set out on pages 74 to 76.

### Compliance management

During the year, we have continued to develop and implement our Group-wide compliance management process, which seeks to ensure that key legal and regulatory obligations are identified, that appropriate control frameworks are established to minimise the potential for and impact of non-compliance with these obligations and that a transparent process exists to support this. The principal areas of focus during the year have been to close any outstanding gaps in the process and ensure that it is consistently applied across our businesses. The compliance management procedure is consistent with, and complementary to, our risk management procedure including bottom-up and top-down elements. The process is also used to review compliance with our Group policies and procedures.

Twice a year the Executive Committee, Audit Committee and Risk & Responsibility Committee receive a report setting out the significant obligations across the Group and any material non-compliances with those, together with control opinions and action plans to improve controls where necessary. As with the Group risk management process, the Audit Committee also reviews the compliance management process at least once during each 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. Following the progress made in implementing this process during the year we have commenced a series of meetings with other leading companies to benchmark what we have achieved to date.

### Risk factors

Our risk management process has identified the following risk factors which 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 the Group. 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 the inside back cover.

#### Changes in law or regulation in the geographies in which we operate 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 the Group. Regulatory decisions concerning, for example, whether licences or approvals to operate are renewed, whether market developments have been satisfactorily implemented and whether there has been any breach of the terms of a licence or approval, the level of permitted revenues for our businesses and 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 and regulatory environment' sections for each of the Group's business segments.

**Breaches of or changes in environmental or health and safety laws or regulations could expose us to 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 lines and the transmission and distribution of natural gas. Electricity and gas utilities also typically use and generate in their operations hazardous and potentially hazardous products and by-products. In addition, there may be other aspects of our operations which 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. We are also subject to laws and regulations governing health and safety matters protecting the public and our employees. 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 'Operating Responsibly' section of our website at [www.nationalgrid.com](http://www.nationalgrid.com).

**Network failure or the inability to carry out critical non-network operations may have significant adverse impacts on both our financial position and our 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 of our control such as the impact of weather or unlawful acts of third parties. Weather conditions can affect financial performance, particularly in the US, and severe weather that causes outages or damages infrastructure will adversely affect operational and potentially business performance. Terrorist attack, sabotage or other intentional acts may also physically damage our businesses or otherwise significantly affect corporate activities and as a consequence adversely impact 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 better efficiency targets set by Ofgem and other regulators. From time to time, we also publish cost and efficiency savings targets for our businesses in the UK and the US. To meet these targets, we must continue to improve operational performance. In the US, under our state rate plans, earnings from our regulated businesses will be affected by our ability to deliver integration and efficiency savings. Earnings from our regulated businesses in both the UK and the US also depend on meeting service quality standards set by regulators. To meet these standards, we must improve service reliability and customer service. If we do not meet these targets and standards, both our results of operations and our reputation may be harmed.

**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 of 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 even if this disruption is outside our control.**

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 system safely, which in extreme circumstances may require us to disconnect consumers.

**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.**

In February 2006, we announced the acquisitions of KeySpan Corporation and the Rhode Island gas distribution business of Southern Union Company. These transactions are subject to a number of conditions precedent, in particular, approvals from relevant regulators and, in the case of the acquisition of KeySpan, the approval of both its and our shareholders. These approvals may not be received or they may be granted but on terms that are different than anticipated. We have also announced that we expect to achieve certain levels of synergy and efficiency savings from these transactions, but these may not subsequently be achievable. For further details concerning these transactions, see the 'Acquisitions and disposals' section of the Operating and Financial Review on page 21.

**Fluctuations in exchange rates, interest rates and commodity price indices, in particular, in the US dollar could have a significant impact on our results of operations because we have substantial business interests in the US and because of the significant proportion of our borrowings, derivative financial instruments and commodity contracts that may potentially be affected by such fluctuations.**

We currently have significant operations in the US and the proportion of our activities located there will substantially increase following the completion of the acquisition of KeySpan and the Rhode Island gas distribution business of Southern Union Company. These businesses are subject to the risks normally associated with foreign operations, including the need to translate US assets and liabilities, and income and expenses, into sterling, our primary reporting currency. Our results of operations may be similarly impacted 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 about this, see the 'Financial position and financial management' section of the Operating and Financial Review.

**The nature and extent of our borrowings means that an increase in interest rates could have an adverse impact on our financial position and business results.**

A significant proportion of our borrowings are subject to variable interest rates which may fluctuate with changes to prevailing interest rates. Increases in these interest rates could therefore increase our costs and diminish our profits. For further information about this, see the 'Financial position and financial management' 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 effective tax rates.**

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 which 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. 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. The effective rate of tax we pay may be influenced by a number of factors including changes in law and accounting standards, the proportion of our business operations which are located in the US and our overall approach to tax planning, the results of which could increase that rate.

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

We participate in a number of pension schemes which together cover substantially all of our employees. In both the UK and the US, the principal schemes are defined benefit schemes where the scheme assets are held independently of Group finances. 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 by the UK, US or international accounting standard setting boards and other relevant bodies could have an adverse effect on the Group's reported financial results.**

With the adoption of International Financial Reporting Standards (IFRS), as adopted by the European Union, changes in the accounting treatment of replacement expenditure, regulatory assets, pension and post-retirement benefits, derivative financial instruments and commodity contracts have significantly affected the way we report our financial position and results of operations. New standards, rules or interpretations may be issued which could also have significant effects. In addition, as a body of practice develops, the application of accounting principles to our particular circumstances may change.

# Directors' Report

## Business Review

Accompanying this Directors' Report are an Operating and Financial Review (OFR), Corporate Governance section and Directors' Remuneration Report. The OFR has been prepared in accordance with 'Reporting Statement: Operating and Financial Review', issued by the UK Accounting Standards Board, and the Directors therefore consider that this will fulfil the requirement for a Business Review. The OFR also includes information in respect of financial risks under the heading 'Liquidity and treasury management' on pages 56 to 59 and employee involvement and employment practices principally on page 26.

## Principal activity

The Company's principal activity is as the ultimate holding company of a group of companies involved in the transmission and distribution of energy, the provision of wireless infrastructure and other related businesses in related markets.

## Directors

Biographical details of Directors serving as at the date of this report are included on pages 18 and 19. Details of the remuneration of all Directors serving during the period, along with information on shares held, are included in the Directors' Remuneration Report on pages 79 to 89.

The Company arranges Directors' and Officers' liability insurance cover, which the Board regards as appropriate and adequate. A qualifying third party indemnity provision was granted in favour of Directors of the Company in accordance with sections 309A-B of the Companies Act 1985 following changes in the Group's memorandum and articles of association which were approved at the Company's Annual General Meeting in 2005. Copies of individual Deeds of Indemnity are available for inspection by shareholders at the Company's registered office at 1-3 Stand, London WC2N 5EH.

At no time during the year did any Director have any material interest in a contract within the Group, being a contract of any significance in relation to the Group's business.

## Code of Ethics

The Board has adopted a Code of Ethics for senior financial professionals. This code is available on the Group website at [www.nationalgrid.com](http://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.

## Dividends

An interim dividend of 10.2 pence per ordinary share (\$0.8816 per American Depositary Share) was paid on 25 January 2006 to shareholders on the register on 2 December 2005. The Directors are recommending that a final dividend of 15.9 pence per ordinary share (\$1.5115 per American Depositary Share) be paid on 23 August 2006 to shareholders on the register on 9 June 2006.

## Political donations

The Group 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's political action committees, funded entirely by voluntary employee contributions, gave \$46,490 (£25,972) to US state and national political and campaign committees in 2005/06.

## Charitable donations

During 2005/06 the Group invested some £7.7 million (2004/05: £7.3 million) in support of community initiatives and relationships across its operations. The London Benchmarking Group model was used to assess this overall community investment. Within this figure, direct donations to charitable organisations amounted to £2.7 million in the UK (2004/05: £1.3 million) and £2.1 million (\$3.8 million) in the US (2004/05: £1.8 million (\$3.4 million)). In addition to our charitable donations, substantial financial support was provided for our Affordable Warmth Programme, education programme, university research and our 'Young Offender Into Work Programme'.

## Research and development

Expenditure on research and development during the year was £7 million, compared with £9 million in 2004/05.

## Purchase of own ordinary shares

The Company has authority from shareholders to repurchase up to 10% of its own ordinary shares. This authority was not used during the year, nor in the period up to 17 May 2006. The Board intends to seek shareholder approval to renew the authority at this year's Annual General Meeting.

Companies are permitted to hold repurchased shares as treasury shares rather than cancelling them. The Board has no current intention to hold repurchased shares as treasury shares, other than as required for employee share schemes.

## Return of cash – B shares

During the year, the Company returned £2 billion of value to shareholders by way of a B share scheme. Shareholders received one B share for every existing ordinary share they held. Shareholders then had choices in respect of the B shares and the return of cash: (1) single B share dividend, (2) initial repurchase offer and (3) future repurchase offers. Details were set out in the Circular to Shareholders, dated 6 June 2005.

At the same time that the B shares were issued, the ordinary shares were consolidated to reflect the return of cash. Shareholders received 43 new ordinary shares (of 11<sup>17</sup>/<sub>43</sub> pence nominal value per share) for every 49 existing ordinary shares (of 10 pence nominal value per share).

Following the consolidation, shareholders may have ended up with fractional entitlements to a new ordinary share. These fractional entitlements were all aggregated and sold and the proceeds distributed pro rata to the relevant shareholders. Where an individual's fractional entitlement was less than £1, this was not distributed but was retained by the Company. These retained fractional entitlements amounted to about £145,000 and will be donated to charities selected by the Company.

The elections were split as follows: 1,226,547 shareholders elected for the single B share dividend; 96,845 shareholders elected for the initial repurchase offer; and 50,753 shareholders elected to retain B shares.

Elections for the initial repurchase were received in relation to over 843,811,272 B shares, which were purchased at 65 pence per share, free of all dealing expenses and commissions, on 22 August 2005. National Grid purchased all of these B shares, which had initially been repurchased by JPMorgan Cazenove, for the same consideration. All the B shares repurchased were subsequently cancelled.

A second repurchase of B shares is due to take place on 8 August 2006. Details will be sent to shareholders who opted to retain B shares setting out what they should do to accept the offer. The offer will again be carried out by a broker and approval will be sought at the Annual General Meeting for the agreement to repurchase shares from the broker. The Company will also seek authority to renew its own authority to make market purchases of up to 10% of the remaining B shares.

In accordance with the Company's articles the 2,162,099,630 unlisted deferred shares, which were created following the conversion of B shares upon the payment of the single B share dividend, were transferred to the Company for an aggregate 1 pence, following which all of the deferred shares were cancelled.

### Policy on payment of creditors

It is the Company's policy to include in contracts, or other agreements, terms of payment with suppliers. Once agreed, the Company aims to abide by these terms of payment.

The average creditor payment period at 31 March 2006 for the Group's principal operations in the UK was 20 days (28 days at 31 March 2005).

### Substantial shareholders

As at 17 May 2006, the Group has been notified of the following beneficial interests in 3% or more of its issued share capital:

	% of issued share capital
The Capital Group Companies, Inc.	5.86
Barclays plc	4.60
Legal and General Investment Management Ltd	4.21
Credit Suisse First Boston group	3.41

No further notifications have been received.

### Employee share ownership

The Group facilitates share ownership among its UK employees by the operation of both sharesave and share incentive plans. In the US, employees are able to invest in the Group through employee incentive thrift plans.

In the UK, approximately 83% of employees participate in sharesave schemes. There are also about 3,000 participants in the current share incentive plan, holding shares purchased monthly. In the US, approximately 77% of employees held ADSs in the employee incentive thrift plans at 31 March 2006.

### Annual General Meeting

National Grid's 2006 Annual General Meeting will be held on Monday 31 July 2006 at The ICC in Birmingham. Details are set out in a separate Notice of Annual General Meeting.

### Extraordinary General Meeting

On 27 February 2006 National Grid announced its acquisition of KeySpan Corporation for approximately \$7.3 billion (£4.2 billion) in cash (enterprise value approximately \$11.8 billion (£6.8 billion)). The acquisition is subject to a number of consents and approvals. KeySpan is a major US energy delivery company. It is the largest distributor of natural gas in the northeastern US and the fifth largest in the US, with approximately 2.6 million customers in New York, Massachusetts and New Hampshire. It also operates an electricity transmission and distribution system serving approximately 1.1 million customers in New York, under a contract with the Long Island Power Authority. KeySpan also owns and operates 6.7 GW of generation capacity in New York. Its other assets include investments in natural gas pipeline and storage assets.

National Grid will seek shareholder approval for the acquisition at an Extraordinary General Meeting (EGM), which is expected to be held immediately after the Annual General Meeting. Separate documentation will be sent to shareholders about the EGM.

### Audit information

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 such 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.

On behalf of the Board

#### Helen Mahy

Group Company Secretary and General Counsel  
17 May 2006

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 2005/06. Our policy of relating pay to the performance of the Group continues to be a strong principle underlying the Remuneration Committee's consideration of executive remuneration.

Last year we thoroughly reviewed our remuneration policies. As a result, we have established revised performance criteria for the Performance Share Plan (our long-term incentive plan) and introduced a Deferred Share Plan as part of the annual bonus plan. We no longer operate the Share Matching Plan. We believe this reflects best practice and aligns executive incentive plans as closely as possible with the Group's strategic objectives and our shareholders' interests generally.

Our main focus in 2005/06 has been to review pension arrangements to take account of UK legislative changes effective from April 2006. The modifications to pension provision are outlined below.

Overall, we believe that salary levels and the mix between fixed and variable compensation are appropriate and we will continue to review the remuneration package to ensure it remains so.

We are confident that our approach continues to align Executive Directors' remuneration with the interests of shareholders generally, while maintaining the motivation and engagement of the team leading the Group.

Joint statement from chairmen, Remuneration Committee

**John Grant**

(1 April 2005 to 28 February 2006)

**John Allan**

(From 1 March 2006)

## Remuneration Committee

The Remuneration Committee members are John Grant, John Allan, Ken Harvey, Stephen Pettit and George Rose. The Remuneration Committee chairman was John Grant until February 2006. John Allan became Remuneration Committee chairman in March 2006. Each of these Non-executive Directors is regarded by the Board as independent and served throughout the year except John Allan who was appointed to the Board with effect from 1 May 2005.

The Group Human Resources Director and Group Head of Compensation & Benefits provide advice on remuneration policies and practices and are usually invited to attend meetings, along with the Chairman and the Group Chief Executive. No Director or other attendee participates in any discussion on his or her own remuneration.

The Remuneration Committee is responsible for developing Group policy on executive remuneration and for determining the remuneration of the Executive Directors and executives below Board level who report directly to the Group Chief Executive. It also monitors the remuneration of other senior employees of the Group and provides direction over the Group'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 outside independent remuneration consultants. It is solely responsible for their appointment, retention and termination, and for approval of their fees and other terms.

In the year to 31 March 2006, the following advisors provided services to the Remuneration Committee:

- Ernst & Young LLP, independent remuneration advisors until July 2005. They also provide taxation and financial advice to the Group;
- Deloitte & Touche LLP, independent remuneration advisors from November 2005. They also provide taxation and financial advice to the Group;
- Alithos Limited, provision of Total Shareholder Return calculations for the Performance Share Plan and Executive Share Option Plan;
- Linklaters, advice relating to Directors' service contracts as well as providing other legal advice to the Group; and
- Mercer Human Resource Consulting Limited, advice relating to pension taxation legislation. They also provide general advice with respect to human resource issues across the Group.

## Remuneration policy

The Remuneration Committee determines remuneration policies 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 Group 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;
- 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 personal performance; and long-term shareholder value creation, consistent with our Framework for Responsible Business which can be found at [www.nationalgrid.com/responsibility/managementandgovernance](http://www.nationalgrid.com/responsibility/managementandgovernance);
- for higher levels of performance, rewards should be substantial but not excessive; and
- incentive plans, performance measures and targets should be structured to operate soundly throughout the business cycle. They should be prudent and aligned as closely as possible with shareholders' interests.

It is currently intended to continue these policies in subsequent years.

### Executive Directors' remuneration

Remuneration packages for Executive Directors consist of the following elements:

- salary;
- annual bonus including the Deferred Share Plan;
- long-term incentive, the Performance Share Plan;
- all-employee share plans;
- pension contributions; and
- non-cash benefits.

#### Salary

Salaries are reviewed annually and targeted broadly at the median position in the relevant market. In determining the relevant market, the Remuneration Committee takes account of the regulated nature of the majority of the Group's operating activities along with the size, complexity and international scope of the business. For UK-based Executive Directors a UK market is used and a US market is used for the US-based Executive Director. In setting individual salary levels, the Remuneration Committee takes into account business performance, the individual's experience in the role and the employment and salary practices prevailing for other employees in the Group.

#### Annual bonus including the Deferred Share Plan

Annual bonuses are based on achievement of a combination of demanding Group, individual and, where applicable, divisional targets. The principal measures of Group performance are adjusted earnings per share (EPS) and cash flow; the main divisional measures are divisional operating profit and divisional cash flow. Individual targets are set in relation to key operating and strategic objectives and include overriding measures of safety and customer service performance. 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.

Performance against Group and divisional financial targets for this year is shown in the table below:

Financial measures	Level of performance achieved in 2005/06 as determined by the Remuneration Committee	
	Group targets	Divisional targets
Adjusted EPS	Stretch	
Cash flow	Stretch	
Operating profit		Stretch
Cash flow		Stretch (i)
Earnings (ii)		Stretch

- (i) Except US Distribution, where threshold was not achieved.  
(ii) US Distribution financial measure only.

In 2005/06, all Executive Directors participated in the annual bonus arrangements with a maximum bonus opportunity of 100% of base salary. One half of any bonus earned is automatically deferred into National Grid shares (ADSs for the US-based Executive Director) through the Deferred Share Plan. The shares (or ADSs) 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.

The Remuneration Committee believes that requiring Executive Directors to invest a substantial amount of their bonus in National Grid shares increases the proportion of rewards linked to both short-term performance and longer-term total shareholder returns. This practice also ensures that Executive Directors share a significant level of personal risk with the Group's shareholders.

In line with US market practice, the US-based Executive Director's bonus is pensionable.

The US-based Executive Director also participates in the USA Goals Program, a bonus plan covering a large number of US-based employees that can pay up to 5.7% of salary on the achievement of certain earnings and performance targets.

#### Long-term incentive

##### Performance Share Plan (PSP)

Executive Directors and approximately 350 other senior employees who have significant influence over the Group's ability to meet its strategic objectives 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 constituting an award (as a percentage of salary) may vary by grade and seniority subject to a maximum, for Executive Directors, of 125% of salary. Awards were made at the maximum percentage to Executive Directors in the year 2005/06. Shares vest after three years, subject to the satisfaction of the relevant performance criteria. Vested shares must then be held for a further year (the retention period) after which they are released. During the retention period, the Remuneration Committee has discretion to pay an amount, equivalent in cash or shares, to the dividend which would have been paid on the vested shares.

Under the terms of the PSP, the Remuneration Committee may allow shares to vest early to a departing Executive Director 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 Executive Director's date of departure.

Awards made in June 2003 and June 2004 were based on the Group's Total Shareholder Return (TSR) performance over a three-year period relative to the TSR performance of the following group of comparator companies:

Ameren Corporation	Iberdrola SA
AWG plc	International Power plc
Centrica plc	Kelda Group plc
Consolidated Edison, Inc.	Pennon Group plc
Dominion Resources, Inc.	RWE AG
E.ON AG	Scottish Power plc
Electrabel SA	Scottish & Southern Energy plc
Endesa SA	Severn Trent plc
Enel SpA	The Southern Company, Inc.
Exelon Corporation	Suez SA
FirstEnergy Corporation	United Utilities plc
FPL Group, Inc.	Viridian Group plc
Gas Natural SDG SA	

In calculating TSR for the 2003 and 2004 awards, it is assumed all dividends are reinvested. No shares will be released if the Group's TSR over the three-year period, when ranked against that of each of the comparator companies, falls below the median. For TSR at the median, 30% of the shares awarded will be released; 100% of the shares awarded will be released for TSR ranking at the upper quartile or above. For performance between median and upper quartile, the number of shares released is calculated on a straight-line basis.

The performance condition for the June 2005 award was amended, following consultation with our major shareholders, so that 50% of any award is based on the Group's TSR performance when compared to the FTSE 100 (as at 27 June 2005) and 50% is based on the annualised growth of the Group's EPS.

These measures were chosen because the Remuneration Committee believes they offer an improved 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 new PSP performance conditions to be at least as challenging as the previous single performance criterion.

In calculating TSR for the 2005 award, it is assumed that all dividends are reinvested. No shares will be released under the TSR part of the award if the Group'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 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. Where annualised growth in EPS (excluding exceptional items and including continuing operations only) 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 6% (upper target).

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

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

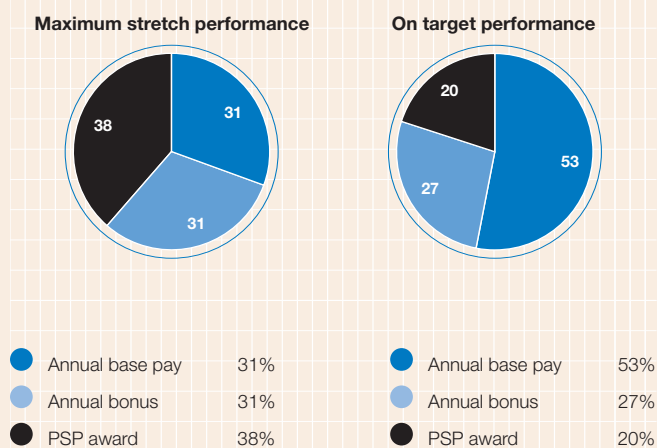
No re-testing of performance is permitted for any of the PSP awards that do not vest after the three-year performance period and any such awards lapse.

### Executive Directors' remuneration package

Illustrated below is the remuneration package of Executive Directors (excluding pensions, all-employee share plans and non-cash benefits) for both 'maximum stretch' performance and assuming 'on target' performance of 50% for the bonus plan; and TSR and EPS performance such that 37.5% of PSP awards are released to participants at the end of the performance period and subsequent retention period.

### Executive Directors' remuneration package

2005/06 UK & US



Note: Excludes Mike Jesanis's participation in the USA Goals Program.

### All-employee share plans

■ Sharesave: Employees resident in the UK, including Executive Directors, are eligible to participate in HM Revenue and 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 the 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 taken 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 Plan: Employees resident in the US, including the US-based Executive Director, are eligible to participate in the Thrift Plan, a tax-advantaged savings plan (commonly referred to as a 401(k) plan) provided for employees of National Grid's US companies. This is a defined contribution pension plan that gives participants the opportunity to invest a maximum of 50% of salary (pre-tax) and/or up to 15% of salary (post-tax) up to applicable Federal salary limits (US\$210,000 for calendar year 2005 and US\$220,000 for 2006). The Company then 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. Employees may invest their own and Company contributions in Group shares or various mutual fund options.

### Pensions

Current UK-based Executive Directors are provided with final salary pension benefits. The pension provisions for the UK-based Executive Directors are designed to provide a pension of one thirtieth of final salary at age 60 for each year of service subject to a maximum of two thirds of final salary, including any pension rights earned in previous employment. Within the pension schemes, the pensionable salary is normally the base salary in the 12 months prior to leaving the Company. Life assurance provision of four times pensionable salary and a spouse's pension equal to two thirds of the Executive Director's pension are provided on death.

UK-based Executive Directors who joined the Company after 31 May 1989 have been able to participate in an unfunded scheme in respect of those benefits earned on pay above the HM Revenue and Customs Earnings Cap. An appropriate provision in respect of the unfunded scheme has been made in the Company's balance sheet.

In response to the new pensions taxation legislation which came into force on 6 April 2006 (A Day), the Remuneration Committee ensured the pension policy post A Day did not provide the Executive Directors with additional benefit accrual as a result of the change in pensions taxation. The current UK-based Executive Directors have elected to participate in the unfunded scheme in respect of any benefits in excess of the Lifetime Allowance or their Personal Lifetime Allowance. These Executive Directors are able to cease accrual in the pension schemes and take a 30% cash allowance in lieu of pension if they so wish in the future. These choices are in line with those offered to current senior employees in the Company, except the cash allowance varies depending upon organisational grade.

Mike Jesanis participates 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 supplemental 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 consecutive years. In line with many US plans, the calculation of benefits under the arrangements takes into account salary, bonuses and incentive share awards (the Deferred Share Plan) but not share options or the PSP awards. The normal retirement age under the qualified pension plan is 65. The executive supplemental plan, however, provides unreduced pension benefits from age 55. On the death of the participating Executive Director, the plans also provide for a spouse's pension of at least 50% of that accrued by the participating Executive Director. Benefits under these arrangements do not increase once in payment.

### Non-cash benefits

The Group provides competitive benefits to Executive Directors, such as a fully expensed car or a cash alternative in lieu of car and fuel, use of a driver when required, private medical insurance and life assurance. UK-based Executive Directors with fewer than five years' continuous service, who were previously Executive Directors of National Grid Group plc, are provided with long-term ill-health insurance. Business expenses incurred are reimbursed in such a way as to give rise to no benefit to the Director.

### Flexible Benefits Plan

Additional benefits may be purchased under the Flexible Benefits Plan (the Plan), 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. One Executive Director, Steve Lucas, participates in this Plan and details of the impact on his salary are shown in table 1A on page 84.

A similar plan is offered to US-based employees. However, it is not a salary sacrifice plan and therefore does not affect salary values. Mike Jesanis participates in this plan.

### Share ownership guidelines

Executive Directors are encouraged to build up and retain a shareholding of at least 100% of annual salary. As a minimum, this should be achieved by retaining 50% of the after-tax gain on any options exercised or shares received through the long-term incentive or all-employee share plans.

### 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 10-year period. Dilution resulting from all incentives, including all-employee incentives, will not exceed 10% in any 10-year period. The Remuneration Committee reviews dilution against these limits regularly and under these limits, the Company currently has headroom of 3.97% and 5.73% respectively.

### Executive Directors' service contracts

Service contracts for all Executive Directors provide for one year's notice by either party. The Remuneration Committee operates a policy of mitigation of losses in the event of an Executive Director's employment being terminated by the Group. If this occurs, the departing Executive Director would be expected to mitigate any losses incurred as a result of the termination. Therefore, entitlement to the payment of 12 months' remuneration on early termination is not automatic, but instead is based on the circumstances of the termination. The Remuneration Committee, in determining any other such payments, will give due regard to the comments and recommendations of the UK Listing Authority's Listing Rules, the Combined Code and associated guidance, and other requirements of legislation, regulation and good governance.

	Date of contract	Notice period
<b>Executive Directors</b>		
Roger Urwin	17 November 1995	12 months
Steve Holliday	6 March 2001	12 months
Steve Lucas	13 June 2002	12 months
Nick Winser	28 April 2003	12 months
Mike Jesanis	8 July 2004	12 months
Edward Astle	27 July 2001	12 months

### 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. The table below details the Executive Directors who served as non-executive directors in other companies during the year ended 31 March 2006.

	Company	Retained fees (£)
<b>Executive Directors</b>		
Roger Urwin	Utilico Investment Trust plc	20,250
Steve Holliday	Marks and Spencer Group plc	50,000
Steve Lucas	Compass Group PLC	66,875

### 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 (£35,000) 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 (£3,000). An additional fee is payable for chairmanship of a Board Committee and for holding the position of Senior Independent Director (£12,500). The Audit Committee chairman receives a chairmanship fee of £15,000 to recognise the additional responsibilities commensurate with this role. The Chairman is covered by the Company's personal accident and private medical insurance schemes and the Company provides him with life assurance cover, a car (with driver when appropriate) and fuel expenses. Non-executive Directors do not participate in the annual bonus plan or in any long-term incentive scheme, nor do they receive any pension benefits from the Group.

### Non-executive Directors' letters of appointment

The Chairman's letter of appointment provides for a period of six months' notice to give the Group 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.

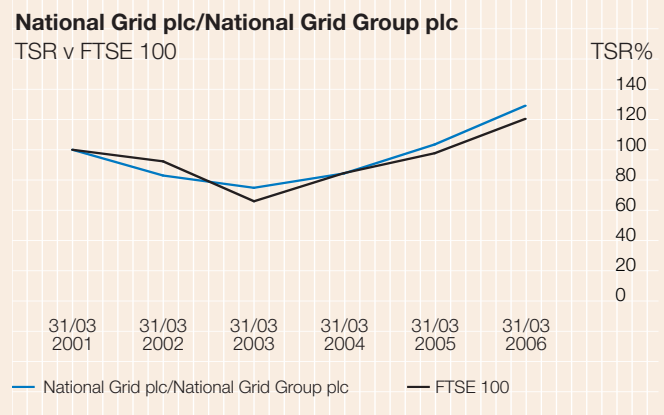
	Date of letter of appointment	End of period of appointment
<b>Non-executive Directors</b>		
Sir John Parker (Chairman)	12 January 2004	2006 AGM
Ken Harvey	5 June 2003	2006 AGM
John Allan	3 November 2005	2008 AGM
John Grant	14 November 2005	2006 AGM
Paul Joskow	3 November 2005	2008 AGM
Stephen Pettit	5 June 2003	2006 AGM
Maria Richter	30 September 2003	2007 AGM
George Rose	5 June 2003	2008 AGM

### Performance graph

The graph below represents the comparative TSR performance of the Group from 31 March 2001 to 31 March 2006. For the period before the merger of National Grid Group plc and Lattice Group plc, the TSR shown is that of National Grid Group plc.

This graph represents the Group'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.



Source: Datastream

## Remuneration outcomes during the year ended 31 March 2006

Sections 1, 2, 3, 4, 5 and 7 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 an analysis of the pre-tax emoluments during the years ended 31 March 2006 and 2005, including bonuses but excluding pensions, for individual Directors who held office in National Grid during the year ended 31 March 2006.

**Table 1A**

	Year ended 31 March 2006				Year ended 31 March 2005	
	Salary £000s	Annual bonus £000s	Benefits in kind (i) (cash) £000s	Benefits in kind (non-cash) £000s	Total £000s	Total £000s
<b>Executive Directors</b>						
Roger Urwin	765	734	–	19	1,518	1,125
Steve Holliday (ii) (iii)	425	425	–	20	870	660
Steve Lucas (iv)	417	407	–	24	848	648
Nick Winsor	385	366	–	20	771	531
Mike Jesanis (v) (vi)	469	385	7	13	874	446
Edward Astle	400	336	12	11	759	622
<b>Total</b>	<b>2,861</b>	<b>2,653</b>	<b>19</b>	<b>107</b>	<b>5,640</b>	<b>4,032</b>

- (i) Benefits in kind comprise benefits such as a fully expensed car, driver, private medical insurance and life assurance.  
(ii) Steve Holliday's salary was increased to £600,000 on 1 April 2006, on appointment to Deputy Group Chief Executive.  
(iii) The total for 2005 for Steve Holliday includes, as disclosed last year, an additional ex gratia bonus of £80,000 paid on completion of the sales of four of the UK gas distribution networks.  
(iv) Steve Lucas participates in the Flexible Benefits Plan which operates by way of salary sacrifice, therefore his salary is reduced by the value of the benefits he has purchased. The value of these benefits (£3,050) is included in the benefits in kind (non-cash) figure.  
(v) Mike Jesanis's values use an exchange rate averaged over the year 1 April 2005 to 31 March 2006 of US\$1.79:£1. The exchange rate for the previous year was US\$1.87:£1.  
(vi) Mike Jesanis's bonus includes a payment worth £4,787 in respect of his participation in the USA Goals Program (described on page 80).

**Table 1B**

	Year ended 31 March 2006			Year ended 31 March 2005	
	Fees £000s	Other emoluments £000s	Total £000s	Total £000s	Total £000s
<b>Non-executive Directors</b>					
Sir John Parker (i)	400	45	445	406	406
Ken Harvey	67	–	67	58	58
John Allan (ii)	45	–	45	–	–
John Grant	67	–	67	65	65
Paul Joskow	74	–	74	73	73
Stephen Pettit	68	–	68	58	58
Maria Richter	61	–	61	66	66
George Rose	67	–	67	61	61
<b>Total</b>	<b>849</b>	<b>45</b>	<b>894</b>	<b>787</b>	<b>787</b>

- (i) Sir John Parker's other emoluments comprise benefits in kind such as a fully expensed car, driver, private medical insurance and life assurance.  
(ii) John Allan's appointment to the Board was effective from 1 May 2005 and he became Chairman of the Remuneration Committee on 1 March 2006.

## 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.

	Additional benefit earned during the year ended 31 March 2006 £000s	Accrued entitlement as at 31 March 2006 £000s	Transfer value of accrued benefits as at 31 March (i)		Increase in transfer value less Director's contributions £000s	Additional benefit earned in the year ended 31 March 2006 (excluding inflation) £000s	Transfer value of increase in accrued benefit in the year ended 31 March 2006 (excluding Director's contributions and inflation) £000s
			2006 £000s	2005 £000s			
<b>Table 2</b>							
Roger Urwin	59	516	11,291	9,016	2,229	47	990
Steve Holliday (ii)	17	71	1,161	679	466	16	247
Steve Lucas	18	160	2,725	2,261	452	14	224
Nick Winser (iii)	24	132	2,000	1,281	696	21	283
Mike Jesanis (iv)	82	279	2,497	1,687	810	82	583
Edward Astle	16	61	1,086	639	431	15	253

- (i) The transfer values shown at 31 March 2005 and 2006 represent the value of each Executive Director's accrued benefits based on total service completed to the relevant date. The transfer values for the UK-based Executive Directors have been calculated in accordance with guidance note 'GN11' issued by the Institute of Actuaries and the Faculty of Actuaries. The transfer values for the US-based Executive Director have been calculated using discount rates based on high yield US corporate bonds and associated yields at the relevant dates.
- (ii) In addition, as a result of transferring in retained pension benefits during the year, there was an increase in accrued pension of £17,000 per annum and an increase in transfer value at the year-end of £324,000. The transfer in also provides an accrued lump sum entitlement of £50,000.
- (iii) The above information allows for the accrual of a pension benefit of two thirds of salary at age 60 taking into account standard benefits earned prior to 1 September 1998. This means that, as well as the pension stated above, there is an accrued lump sum entitlement of £217,000 as at 31 March 2006. The increase to the accumulated lump sum including inflation was £28,000 and excluding inflation was £23,000 in the year to 31 March 2006. The transfer value information above includes the value of the pension equivalent of the lump sum.
- (iv) Through participation in the Thrift Plan in the US, the Group also made contributions worth £6,058 to a defined contribution pension arrangement. The exchange rate as at 31 March 2006 was US\$1.74:£1. The exchange rate as at 31 March 2005 was US\$1.89:£1.

## 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 and Sharesave schemes.

Table 3	Options held at 1 April 2005	Options exercised or lapsed during the year	Market price at date of exercise (pence)	Options granted during the year	Options held at 31 March 2006	Exercise price per share (pence)	Normal exercise period	
<b>Roger Urwin</b>								
ESOP	169,340	–	–	–	169,340	280.50	Sep 2000	Sep 2007
	91,656	–	–	–	91,656	375.75	June 2001	June 2008
	22,098	–	–	–	22,098	455.25	June 2002	June 2009
	33,867	–	–	–	33,867	531.50	June 2003	June 2010
	133,214	133,214 (i)	–	–	–	563.00	June 2004	June 2011
	186,915	62,305 (ii)	–	–	124,610	481.50	June 2005	June 2012
Share Match	4,047	4,047 (iii)	528.00	–	–	100 in total	June 2001	June 2005
	3,884	3,884 (iii)	528.00	–	–	100 in total	Jan 2002	June 2006
	3,859	3,859 (iii)	528.00	–	–	100 in total	Jan 2002	June 2007
	5,635	5,635 (iii)	528.00	–	–	100 in total	June 2004	June 2008
	18,644	–	–	–	18,644	100 in total	June 2005	June 2012
	25,000	–	–	–	25,000	100 in total	June 2006	June 2013
	30,762	–	–	–	30,762	nil	May 2007	May 2014
	–	–	–	25,570	25,570	nil	June 2008	June 2015
Sharesave	2,910	–	–	–	2,910	317.00	Apr 2007	Sep 2007
<b>Total</b>	<b>731,831</b>	<b>212,944</b>		<b>25,570</b>	<b>544,457</b>			
<b>Steve Holliday</b>								
ESOP	150,000	150,000 (i)	–	–	–	540.00	Mar 2004	Mar 2011
	71,936	71,936 (i)	–	–	–	563.00	June 2004	June 2011
	101,246	33,749 (iv)	–	–	67,497	481.50	June 2005	June 2012
Share Match	10,350	–	–	–	10,350	100 in total	June 2005	June 2012
	14,083	–	–	–	14,083	100 in total	June 2006	June 2013
	18,713	–	–	–	18,713	nil	May 2007	May 2014
	–	–	–	9,983	9,983	nil	June 2008	June 2015
Sharesave	4,692	–	–	–	4,692	350.00	Mar 2008	Aug 2008
<b>Total</b>	<b>371,020</b>	<b>255,685</b>		<b>9,983</b>	<b>125,318</b>			

## 3. Directors' interests in share options (continued)

Table 3 (continued)	Options held at 1 April 2005	Options exercised or lapsed during the year	Market price at date of exercise (pence)	Options granted during the year	Options held at 31 March 2006	Exercise price per share (pence, except*)	Normal exercise period	
<b>Steve Lucas</b>								
ESOP	54,404	–	–	–	54,404	434.25	Dec 2005	Dec 2012
Share Match	16,909	–	–	–	16,909	nil	May 2007	May 2014
	–	–	–	14,778	14,778	nil	June 2008	June 2015
Sharesave	2,700	2,700	603.00	–	–	350.00	Mar 2006	Aug 2006
<b>Total</b>	<b>74,013</b>	<b>2,700</b>		<b>14,778</b>	<b>86,091</b>			
<b>Nick Winser</b>								
ESOP	10,633	10,633	610.50	–	–	375.75	June 2001	June 2008
	47,236	47,236	610.50	–	–	455.25	June 2002	June 2009
	19,755	–	–	–	19,755	531.50	June 2003	June 2010
	24,156	24,156 (i)	–	–	–	563.00	June 2004	June 2011
	37,383	37,383	598.00	–	–	481.50	June 2005	June 2012
Share Match	2,509	2,509 (v)	598.00	–	–	100 in total	June 2005	June 2012
	3,937	–	–	–	3,937	100 in total	June 2006	June 2013
	14,059	–	–	–	14,059	nil	May 2007	May 2014
	–	–	–	11,581	11,581	nil	June 2008	June 2015
<b>Total</b>	<b>159,668</b>	<b>121,917</b>		<b>11,581</b>	<b>49,332</b>			
<b>Mike Jesanis</b>								
ESOP	77,861	–	–	–	77,861	566.50	Mar 2003	Mar 2010
	51,169	51,169 (i)	–	–	–	563.00	June 2004	June 2011
	66,099	–	–	–	66,099	481.50	June 2005	June 2012
<b>Total (shares)</b>	<b>195,129</b>	<b>51,169</b>		<b>–</b>	<b>143,960</b>			
Phantom ADSs (vi)	666	–	–	33	699	US\$39.590*	–	–
	2,857	–	–	143	3,000	US\$34.270*	–	–
	3,288	–	–	164	3,452	US\$32.320*	–	–
	2,895	–	–	144	3,039	US\$39.376*	–	–
	–	–	–	4,730	4,730	US\$47.762*	–	–
<b>Total (Phantom ADSs)</b>	<b>9,706</b>	<b>–</b>		<b>5,214</b>	<b>14,920</b>			
<b>Edward Astle</b>								
ESOP	193,952	193,952 (i)	–	–	–	479.50	Sep 2004	Sep 2011
	101,246	33,749 (vii)	–	–	67,497	481.50	June 2005	June 2012
	112,262	112,262 (vii)	594.50	–	–	434.25	Dec 2005	Dec 2012
	131,086	–	–	–	131,086	400.50	June 2006	June 2013
Share Match	6,553	–	–	–	6,553	100 in total	June 2005	June 2012
	13,812	–	–	–	13,812	100 in total	June 2006	June 2013
	15,716	–	–	–	15,716	nil	May 2007	May 2014
	–	–	–	14,637	14,637	nil	June 2008	June 2015
Sharesave	2,392	2,392	527.00	–	–	397.00	Sep 2005	Feb 2006
<b>Total</b>	<b>577,019</b>	<b>342,355</b>		<b>14,637</b>	<b>249,301</b>			

- (i) For Executive Share Options granted in 2001, the performance condition was not satisfied at the end of the first three years of the performance period. It has subsequently been re-tested on 31 March 2004 and 2005 and as a result the options have lapsed in full.
- (ii) For Executive Share Options granted in 2002, the performance condition was partly satisfied at the end of the first three years of the performance period. As a result 62,305 shares of the original 186,915 grant have lapsed.
- (iii) Roger Urwin exercised Share Match awards over 17,425 shares. The market price at the date of exercise was 528p and he was required to pay 100p per award. He also received £15,704 in respect of a cash payment in lieu of dividends on exercise of the four Share Match awards.
- (iv) For Executive Share Options granted in 2002, the performance condition was partly satisfied at the end of the first three years of the performance period. As a result 33,749 shares of the original 101,246 grant have lapsed.
- (v) Nick Winser exercised a Share Match award over 2,509 shares. The market price at the date of exercise was 598p and he was required to pay 100p in total. He also received £1,976 in respect of a cash payment in lieu of dividends on exercise of the Share Match award.
- (vi) In place of participation in the Share Matching Plan, Mike Jesanis elected to defer the ADS component of his bonus into a deferred compensation plan. For a Phantom award under the deferred compensation plan, the ADS market value is tracked, additional value is accrued for dividends and the value is delivered, net of normal US deductions, depending on the participant's election ie: in 10 years, on a specified age date from 55 to 75, or on leaving, including retirement. The closing market price of ADSs at 31 March 2006 was US\$49.63 (each ADS represents five ordinary shares).
- (vii) For Executive Share Options granted in 2002, the performance condition was partly satisfied at the end of the first three years of the performance period. As a result 33,749 shares of the original 101,246 granted in June have lapsed and a further 37,421 of the original 112,262 granted in December have lapsed. During the year, Edward Astle exercised the remaining options granted in December 2002.

### 3. Directors' interests in share options (continued)

#### 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 Group's TSR is in the top quartile.

#### Grants made in 2000 and 2001

The performance condition attached to options granted in June 2000 is tested annually throughout the lifetime of the option. These options remain unvested.

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

For options granted in June and September 2001, the performance condition could only be re-tested in years four and five. The final re-test was undertaken in March 2006 and as the performance criterion was not met, all the shares comprised in these awards have lapsed.

#### Grants made in 2003

Edward Astle received a grant of Executive Share Options on the basis of 1.5 times base salary at that time, as a one-off award, in June 2003 to fulfill an existing contractual commitment made on his recruitment. He was the only participant to receive such an award in 2003. The comparator group used for this award is unaudited and was the same group as that used for the 2003 PSP award (see page 81). The first test of the performance criterion was undertaken in March 2006. The performance criterion was not met and therefore it may be re-tested twice, in March 2007, and if required, in March 2008. If the performance criterion has not been met by March 2008, the award will lapse.

No alteration to the advantage of the participant may be made without prior approval of shareholders.

#### 4. Directors' interests in the PSP

The table below gives details of the Executive Directors' holdings of conditional shares awarded under the National Grid PSP. Under the PSP, Executive Directors receive a conditional award of shares, up to a maximum of 125% of salary, which is subject to performance criteria over a three-year performance period (see pages 80 and 81 for further details). Shares are then released following a further one-year retention period.

<b>Table 4</b>	Conditional shares at 31 March 2005	Awards exercised/lapsed during year	Awards granted during year	Market price at award (pence, except*)	Date of award	Vested in year	Lapsed without vesting in year	Conditional shares at 31 March 2006	Release date
Roger Urwin	195,866	–	–	405.25	June 2003	–	–	195,866	June 2007
	198,587	–	–	424.875	June 2004	–	–	198,587	June 2008
	–	–	181,442	527.03	June 2005	–	–	181,442	June 2009
<b>Total</b>	<b>394,453</b>	<b>–</b>	<b>181,442</b>			<b>–</b>	<b>–</b>	<b>575,895</b>	
Steve Holliday	115,669	–	–	405.25	June 2003	–	–	115,669	June 2007
	117,681	–	–	424.875	June 2004	–	–	117,681	June 2008
	–	–	100,801	527.03	June 2005	–	–	100,801	June 2009
<b>Total</b>	<b>233,350</b>	<b>–</b>	<b>100,801</b>			<b>–</b>	<b>–</b>	<b>334,151</b>	
Steve Lucas	115,669	–	–	405.25	June 2003	–	–	115,669	June 2007
	116,210	–	–	424.875	June 2004	–	–	116,210	June 2008
	–	–	99,615	527.03	June 2005	–	–	99,615	June 2009
<b>Total</b>	<b>231,879</b>	<b>–</b>	<b>99,615</b>			<b>–</b>	<b>–</b>	<b>331,494</b>	
Nick Winsor	92,535	–	–	405.25	June 2003	–	–	92,535	June 2007
	98,558	–	–	424.875	June 2004	–	–	98,558	June 2008
	–	–	91,314	527.03	June 2005	–	–	91,314	June 2009
<b>Total</b>	<b>191,093</b>	<b>–</b>	<b>91,314</b>			<b>–</b>	<b>–</b>	<b>282,407</b>	
Mike Jesanis	41,871	–	–	405.25	June 2003	–	–	41,871	June 2007
	ADSs 19,987 (i)	–	–	US\$39.40*	June 2004	–	–	ADSs 19,987	June 2008
	–	–	ADSs 21,634 (i)	US\$48.534*	June 2005	–	–	ADSs 21,634	June 2009
<b>Total</b>	<b>Shares 41,871</b>	<b>–</b>	<b>–</b>			<b>–</b>	<b>–</b>	<b>Shares 41,871</b>	
	<b>ADSs 19,987</b>	<b>–</b>	<b>ADSs 21,634</b>			<b>–</b>	<b>–</b>	<b>ADSs 41,621</b>	
Edward Astle	107,958	–	–	405.25	June 2003	–	–	107,958	June 2007
	110,326	–	–	424.875	June 2004	–	–	110,326	June 2008
	–	–	94,872	527.03	June 2005	–	–	94,872	June 2009
<b>Total</b>	<b>218,284</b>	<b>–</b>	<b>94,872</b>			<b>–</b>	<b>–</b>	<b>313,156</b>	

(i) Mike Jesanis received awards over ADSs in June 2004 and 2005. Each ADS represents five ordinary shares.

#### 5. Directors' interests under the Lattice Long-Term Incentive Scheme (LTIS)

	Original award date	Award held at 1 April 2005 including dividend reinvestment shares	Adjusted market price for award at rollover	Shares resulting from dividend reinvestment in year	Award released during year	Market price at date of release (pence)	Award held 31 March 2006	Date award released
Steve Lucas	Nov 2001	98,201	388.24	2,856	101,057	511.53	–	Nov 2005
<b>Total</b>		<b>98,201</b>		<b>2,856</b>	<b>101,057</b>		<b>–</b>	

No awards have been made under the LTIS since November 2001. Under the terms of the LTIS, notional allocations of shares were made to key individuals. The allocations were subject to a performance condition over three years and a further retention period of one year. The number of shares actually released to participants depended on the Group's TSR compared with that of other regulated utility companies operating in a similar environment.

The 2001 LTIS award held by Steve Lucas was released from trust on 2 November 2005.

## 6. Directors' beneficial interests

The Directors' beneficial interests (which include those of their families) in National Grid ordinary shares of 11<sup>17</sup>/<sub>43</sub>p each are shown below.

	Ordinary shares at 31 March 2006 (i)	Ordinary shares at 1 April 2005	Options/awards over ordinary shares at 31 March 2006 (iv)	Options/awards over ordinary shares at 1 April 2005
Sir John Parker	55,832	52,229	–	–
Roger Urwin (ii) (iii) (v)	247,630	249,517	1,253,566	1,126,284
Steve Holliday (iii) (v)	28,063	25,843	531,405	604,370
Steve Lucas (ii) (iii) (vi) (vii) (viii)	159,379	102,063	417,585	404,093
Nick Winser (ii) (iii)	56,687	36,515	355,895	350,761
Mike Jesanis	3,281	3,557	445,105	336,935
Edward Astle (iii)	28,428	21,118	756,409	795,303
Ken Harvey (ii)	3,399	3,874	–	–
John Allan	2,000	–	–	–
John Grant	8,775	10,000	–	–
Paul Joskow	4,385	5,000	–	–
Stephen Pettit	2,632	3,000	–	–
Maria Richter	1,755	2,000	–	–
George Rose (ii)	4,409	5,025	–	–

- (i) There has been no other change in the beneficial interests of the Directors in ordinary shares between 1 April 2006 and 17 May 2006, except in respect of routine monthly purchases under the SIP (see note (v) below).
- (ii) Following the Return of Cash and subsequent ordinary share consolidation and issue of B shares in August 2005 (see pages 77 and 78 for further details), the following Directors held B shares at 31 March 2006: Roger Urwin (281,977), Steve Lucas (318), Nick Winser (20,787), Ken Harvey (3,874) and George Rose (5,025).
- (iii) Each of the Executive Directors, with the exception of Mike Jesanis, was for Companies Act purposes deemed to be a potential beneficiary under the National Grid 1996 Employee Benefit Trust and thereby to have an interest in 47 ordinary shares held by the 1996 Employee Benefit Trust as at 31 March 2006.
- (iv) Includes the PSP awards detailed in table 4 above.
- (v) Beneficial interest includes shares purchased under the monthly operation of the SIP in the year to 31 March 2006. Further shares were purchased in April and May 2006 on behalf of Steve Holliday (22 shares) and Roger Urwin (22 shares).
- (vi) Steve Lucas was, for Companies Act purposes, deemed to be a potential beneficiary in the 21,015 ordinary shares and 23,948 B shares held by Lattice Group Trustees Limited as trustee of the Lattice Group Employee Share Ownership Trust, as at 31 March 2006.
- (vii) Beneficial interest includes shares acquired pursuant to the Lattice All Employee Share Ownership Plan.
- (viii) Includes the LTIS award detailed in table 5 above.

## 7. National Grid share price range

The closing price of a National Grid share on 31 March 2006 was 572.5p. The range during the year was 613.50p (high) and 489.25p (low). Please note that the Register of Directors' Interests contains full details of shareholdings and options/awards held by Directors as at 31 March 2006.

On behalf of the Board

**Helen Mahy**

Group Company Secretary and General Counsel  
17 May 2006