

NATIONAL GRID PLC
Form 20-F
June 04, 2018

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 20-F

(Mark One)

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

☐ OR

☐ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended 31 March 2018

☐ OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

☐ OR

☐ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report

For the transition period from to

Commission file number: 001-14958

NATIONAL GRID PLC
(Exact name of Registrant as specified in its charter)
England and Wales
(Jurisdiction of incorporation or organization)
1-3 Strand, London WC2N 5EH, England
(Address of principal executive offices)
Alison Kay
011 44 20 7004 3000
Facsimile No. 011 44 20 7004 3004
Group General Counsel and Company Secretary
National Grid plc
1-3 Strand London WC2N 5EH, England
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Title of each class	Name of each exchange on which registered
Ordinary Shares of 12 204/473 pence each	The New York Stock Exchange*
American Depositary Shares, each representing five Ordinary Shares of 12 204/473 pence each	The New York Stock Exchange
6.625% Guaranteed Notes due 2018	The New York Stock Exchange
Preferred Stock (\$100 par value-cumulative):	
3.90% Series	The New York Stock Exchange
3.60% Series	The New York Stock Exchange

* Not for trading, but only in connection with the registration of American Depositary Shares representing Ordinary Shares pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Securities Exchange Act of 1934: None.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Securities Exchange Act of 1934: None.

The number of outstanding shares of each of the issuer's classes of capital or common stock as of 31 March 2018 was Ordinary Shares of 11 17/43 pence each 3,637,747,827

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes ☐ No ☒

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ☐ No ☒

Note — Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes ☐ No ☒

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files): Yes ☐ No ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or an emerging growth company. See definition of "large accelerated filer" "accelerated filer" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐
Non-accelerated filer ☒ Emerging growth company ☐

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards[†] provided pursuant to Section 13(a) of the Exchange Act. ☐

[†]The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☐
International Financial Reporting Standards as issued by the International Accounting Standards Board ☐
Other ☒

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ☐ Item 18 ☒

Edgar Filing: NATIONAL GRID PLC - Form 20-F

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

This constitutes the annual report on Form 20-F of National Grid plc (the “Company”) in accordance with the requirements of the US Securities and Exchange Commission (the “SEC”) for the year ended 31 March 2018 and is dated 4 June 2018. Details of events occurring subsequent to the approval of the annual report on 16 May 2018 are summarised in section “Further Information” which forms a part of this Form 20-F. The content of the Group’s website (www.nationalgrid.com/uk) should not be considered to form part of this annual report on Form 20-F.

Form 20-F Cross Reference Table

Item	Form 20-F caption	Location in the document	Page(s)
1	Identity of directors, senior management and advisors	Not applicable	—
2	Offer statistics and expected timetable	Not applicable	—
3	Key Information		
	3A Selected financial data	“Additional Information—Summary consolidated financial information” 217 “Strategic Report—Financial review” 22-25 “Financial Statements—Consolidated statement of financial position” 99 “Financial Statements Consolidated statement of financial position—Unaudited commentary on consolidated statement of financial position—Net debt” 100 “Financial Statements—Consolidated cash flow statement—Unaudited commentary on the consolidated cash flow statement—Reconciliation of cash flow to net debt” 102 “Additional Information—Other unaudited financial information—Alternative performance measures/non-IFRS reconciliations” 206-211 “Additional Information—Shareholder information—Exchange rates” 199 “Exchange Rates” “Further Information”	
	3B Capitalization and indebtedness	Not applicable	—
	3C Reasons for the offer and use of proceeds	Not applicable	—
	3D Risk Factors	“Additional Information—Internal control and risk factors—Risk factors” 193-196	
4	Information on the company		
	4A History and development of the company	“Want more information or help?” 223 “Additional Information—The business in detail—Key milestones” 184 “Strategic Report—About National Grid” 2-3 “Strategic Report—Chairman’s statement” 8-9 “Strategic Report—Chief Executive’s review” 10-11 “Strategic Report—Our purpose, vision, values and strategy” 12-13 “Strategic Report—Our business environment” 4-5 “Strategic Report—Progress against our strategy—Capital investment” 16 “Strategic Report—Financial position and capital investment—Capital investment” 24 “Additional Information—Shareholder information—Articles of Association” 197-198 “Additional Information—Other unaudited financial information—Alternative performance measures/non-IFRS reconciliations—Capital investment” 210 “Financial Statements—Consolidated statement of financial position—Unaudited commentary on consolidated statement of financial	

position—Property, plant and equipment”

“Financial Statements—Consolidated cash flow statement—Unaudited
commentary on the consolidated cash flow statement—Net capital 103
investment”

Item	Form 20-F caption	Location in the document	Page(s)
		“Financial Statements—Notes to the consolidated financial statements—2. Segmental analysis—(c) Capital expenditure”	110
		“Financial Statements—Notes to the consolidated financial statements—9. Discontinued operations”	125-126
		“Additional Information—The business in detail—UK Regulation”; “US Regulation” and “—Summary of US price controls and rate plans”	186-191
4B	Business overview	“Additional Information—The business in detail”	185
		“Strategic Report”	1-3
		“Strategic Report—Our purpose, vision, values and strategy”	12
		“Strategic Report—Our business environment”	4-5
		“Strategic Report—Progress against our strategy”	14-17
		“Strategic Report—Financial review”	22-25
		“Strategic Report—Principal operations—UK”; “—US”; and “—NGV and other non-regulated activities”	28-33
		“Financial Statements—Notes to the consolidated financial statements—2. Segmental analysis” and “—unaudited commentary on the results of our principal operations by segment – continuing operations”	108-111
		“Financial Statements—Notes to the consolidated financial statements—16. Derivative financial instruments—(b) Commodity risk”	136-137
		“Additional Information—The business in detail—UK Regulation”; “—US Regulation”; and “—Summary of US price controls and rate plans”	186-191
4C	Organizational structure	“Financial Statements—Notes to the consolidated financial statements—32. Subsidiary undertakings, joint ventures and associates”	166-168
4D	Property, plants and equipment	“Strategic Report—Progress against our strategy—How we assess progress”	16
		“Additional Information—The business in detail” and “—Other disclosures—Property, plant and equipment”	185, 204
		“Financial Statements—Consolidated statement of financial position—Unaudited commentary on consolidated statement of financial position—Property, plant and equipment”	100
		“Additional Information—Other disclosures—Property, plant and equipment”	204
		“Financial Statements—Notes to the consolidated financial statements—12. Property, plant and equipment”	129-130
		“Financial Statements—Notes to the consolidated financial statements—20. Borrowings”	140-141
		“Additional Information—Other unaudited financial information—Capital investment”	210
4A	Unresolved staff comments	“Additional Information—Other disclosures—Unresolved SEC staff comments”	205
5	Operating and financial review and prospects		
5A	Operating results	“Strategic Report—Financial review”	22-25
		“Strategic Report—Our business environment”	4-5
		“Additional Information—The business in detail—UK regulation”; “—US regulation”; and “—Summary of US price controls and rate plans”	186-191

Item	Form 20-F caption	Location in the document	Page(s)
		“Strategic Report—Principal operations—UK”; “—US”; and “—NGV and other non-regulated activities”	28-33
		“Financial Statements—Consolidated income statement—Unaudited commentary on the consolidated income statement”	96
		“Financial Statements—Notes to the consolidated financial statements—2. Segmental analysis—Unaudited commentary on the results of our principal operations by segment – continuing operations”	111
		“Additional Information—Commentary on consolidated financial statements”	215-216
		“Financial Statements—Notes to the consolidated financial statements—30. Financial risk management—(d) Currency risk”	162
		“Additional Information—Internal control and risk factors—Risk factors—Law, regulation and political and economic uncertainty”	194
5B	Liquidity and capital resources	“Strategic Report—Financial review”	22-25
		“Financial Statements—Notes to the consolidated financial statements—1.A Going concern”	104
		“Financial Statements—Consolidated cash flow statement” and “—Unaudited commentary on the consolidated cash flow statement”	101-103
		“Additional Information—Internal control and risk factors—Risk factors—Financing and liquidity—An inability to access capital markets at commercially acceptable interest rates could affect how we maintain and grow our businesses”	196
		“Financial Statements—Notes to the consolidated financial statements—2. Segmental analysis—Unaudited commentary on the results of our principal operations by segment – continuing operations”	111
		“Financial Statements—Notes to the consolidated financial statements—16. Derivative financial instruments”	135-138
		“Financial Statements—Notes to the consolidated financial statements—19. Cash and cash equivalents”	140
		“Financial Statements—Notes to the consolidated financial statements—20. Borrowings”	140-141
		“Financial Statements—Notes to the consolidated financial statements—27. Net debt”	156
		“Financial Statements—Notes to the consolidated financial statements—28. Commitments and contingencies”	157
		“Financial Statements—Notes to the consolidated financial statements—30. Financial risk management—(b) Liquidity risk”	161
		“Financial Statements—Notes to the consolidated financial statements—30. Financial risk management—(d) Currency risk”	162
		“Financial Statements—Notes to the consolidated financial statements—30. Financial risk management—(e) Capital risk management”	163
		“Financial Statements—Notes to the consolidated financial statements—31. Borrowing facilities”	165
5C	Research and development, patents and licenses, etc.	“Additional Information—Other disclosures—Research and development and innovation activity”	204-205
5D	Trend information	“Strategic Report—Financial review”	22-25

Item	Form 20-F caption	Location in the document	Page(s)
		“Strategic Report—Principal operations—UK”; “—US”; and “—NGV and other non-regulated activities”	28-33
		“Strategic Report—Our business environment”	4-5
5E	Off-balance sheet arrangements	“Financial Statements—Unaudited commentary on consolidated statement of financial condition—Off balance sheet items”	100
5F	Tabular disclosure of contractual obligations	“Financial Statements—Notes to the consolidated financial statements—28. Commitments and contingencies”	157
5G	Safe Harbor	“Want more information or help?—Cautionary statement”	224
6	Directors, senior management and employees		
6A	Directors and senior management	“Corporate Governance—Our Board”	42-43
6B	Compensation	“Corporate Governance—Annual statement from the Remuneration Committee chairman” and “Corporate Governance—Directors Remuneration Report—Annual remuneration”	63-70
		“Financial Statements—Notes to the consolidated financial statements—3. Operating costs—(c) Key management compensation”	113
		“Financial Statements—Notes to the consolidated financial statements—23. Pensions and other post-retirement benefits”	142-150
6C	Board practices	“Additional Information—Other disclosures—Conflict of interest”; and “—Director’s indemnity”	200
		“Corporate Governance—Our board”; “—Board Composition”; “—Management committees”; “—Governance Framework Structure and responsibilities”; “—Our Board and its committees”; “—Directors’ induction and training”; “—Performance evaluation”; “—Investor engagement”; “—Audit Committee”; “—Finance Committee”; “—Safety, Environment and Health Committee”; “—Nominations Committee”; “—Our Executive Committee”; and “—Statement of compliance with and application of the UK Corporate Governance Code”	42-62
		“Corporate Governance—Annual statement from the Remuneration Committee chairman”	63-65
		“Corporate Governance Directors’ remuneration policy – approved by shareholders in 2017”	67
		“Corporate Governance—At a glance” and	
		“—Directors Remuneration Policy—Approved policy table – Executive Directors”	66-68
		“Corporate Governance— Directors’ Remuneration Policy—Approved policy table – Non-executive Directors (NEDs)”	69
		“Corporate Governance— Directors Remuneration Policy—Service contracts”; and “—Payments for loss of office (audited information)”	70, 75
		“Additional Information—Shareholder Information—Articles of Association—Directors”	197
6D	Employees	“Financial Statements—Notes to the consolidated financial statements—3. Operating costs—(b) Number of employees”	112
		“Additional Information—Other disclosures—Employees”	203

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Item	Form 20-F caption	Location in the document	Page(s)
	6E Share ownership	“Corporate Governance—Directors Remuneration—Annual report on remuneration —Statement of Directors’ shareholdings and share interests (audited information)” “Corporate Governance— Directors Remuneration Report—Annual report on remuneration” “Additional Information——Shareholder information—Material interests in shares” “Additional Information—Other disclosures—All-employee share plans” “Share ownership”	76 70-79 199 203 “Further Information”
7	Major shareholders and related party transactions		
	7A Major shareholders	“Additional Information—Shareholder information—Material interests in shares” “Material interests in shares” and “Material interest in American Depositary Shares”	199 “Further Information”
	7B Related party transactions	“Financial Statements—Notes to the consolidated financial statements—Related party transactions” “Material interests in shares” “Financial Statements—Notes to the consolidated financial statements—Commitment and contingencies”	29. 158 “Further Information” 28. 157
	7C Interests of experts and counsel	Not applicable	—
8	Financial information		
	8A Consolidated statements and other financial information	“Reports of Independent Registered Public Accounting Firms—Audit opinions for Form 20-F” “Financial Statements—Notes to the consolidated financial statements—Basis of preparation and recent accounting developments” “Financial Statements—Consolidated income statement”; “—Consolidated statement of comprehensive income”; “—Consolidated statement of changes in equity”; “—Consolidated statement of financial position”; and “—Consolidated cash flow statement” “Financial Statements—Notes to the consolidated financial statements—analysis of items in the primary statements” “Financial Statements—Notes to the consolidated financial statements—supplementary information” “Strategic Report—Chairman’s statement” “Strategic Report—Financial Review—Other performance measures—Dividend growth”	“Further Information” 1. 104-107 94-103 104-156 157-177 8-9 25 “Further Information”
	8B Significant changes	“Subsequent Events”	“Further Information”
9	The offer and listing		199-200

Edgar Filing: NATIONAL GRID PLC - Form 20-F

9A Offer and listing details	“Additional Information—Shareholder information—Exchange Rates”; “—Share price”; and “— Price History”	“Further Information”
9B Plan of distribution	Not applicable	
9C Markets	“Additional Information—Shareholder information—Share price”	200
9D Selling shareholders	Not applicable	—

v

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Item	Form 20-F caption	Location in the document	Page(s)
	9E Dilution	Not applicable	—
	9F Expenses of the issue	Not applicable	—
10	Additional information		
	10A Share capital	Not applicable	—
	10B Memorandum and articles of association	“Additional Information—Shareholder Information—Articles of Association”	197-198
		“Additional Information—Other disclosures—Corporate governance practices: differences from New York Stock Exchange (NYSE) listing standards”	203
		“Additional Information—Shareholder information—Share capital”	199
	10C Material contracts	“Additional Information—Other disclosures—Material contracts”	204
	10D Exchange controls	“Additional Information—Shareholder information—Exchange controls”	198
	10E Taxation	“Additional Information—Shareholder information—Taxation”	200-202
	10F Dividends and paying agents	Not applicable	—
	10G Statement by experts	Not applicable	—
	10H Documents on display	“Additional Information—Shareholder information—Documents on display”	198
	10I Subsidiary information	Not applicable	—
11	Quantitative and qualitative disclosures about market risk		
	11A Quantitative information about market risk	“Financial Statements—Notes to the consolidated financial statements—16. Derivative financial instruments”	135-138
		“Financial Statements—Notes to the consolidated financial statements—33. Sensitivities”	169-170
		“Financial Statements—Notes to the consolidated financial statements—30. Financial risk management—(a) Credit risk”; “—(b) Liquidity risk”; “—(c) Interest rate risk”; “—(d) Currency risk”; “—(e) Capital risk management”; and “—(f) Fair value analysis”	159-164
		“Strategic Report—Financial review”	22-25
	11B Qualitative information about market risk	“Financial Statements—Notes to the consolidated financial statements—16. Derivative financial instruments”	135-138
		“Financial Statements—Notes to the consolidated financial statements—30. Financial risk management—(a) Credit risk”; “—(b) Liquidity risk”; “—(c) Interest rate risk”; “—(d) Currency risk”; “—(e) Capital risk management”; and “—(f) Fair value analysis”	159-164
		“Strategic Report—Financial review”	22-25
		“Additional Information—Internal Control and Risk factors—Risk Factors”	193-196
12	Description of securities other than equity securities		
	12A Debt securities	Not applicable	—
	12B Warrants and rights	Not applicable	—
	12C Other securities	Not applicable	—
	12D American depositary shares	“Additional Information—Shareholder information—Description of securities other than equity securities: depositary fees and charges”	198

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Item	Form 20-F caption	Location in the document	Page(s)
		“Additional Information—Definitions and glossary of terms”	218-222
13	Defaults, dividend arrearages and delinquencies	Not applicable	—
14	Material modifications to the rights of security holders and use of proceeds	Not applicable	—
15	Controls and procedures	“Strategic Report—Internal control and risk management—Our internal control process”, “—Reviewing the effectiveness of our internal control and risk management” and “Internal control over financial reporting”	21
		“Additional Information—Internal control and risk factors—Disclosure controls” and “—Internal control over financial reporting”	193
		“Corporate Governance—Audit Committee”	49-55
		“Reports of Independent Registered Public Accounting Firms—Audit opinions for Form 20-F”	“Further Information”
16	16A Audit committee financial expert	“Corporate Governance—Board and committee membership and attendance”	44-45
	16B Code of ethics	“Additional Information—Other disclosures—Code of Ethics”	203
	16C Principal accountant fees and services	“Corporate Governance—Audit Committee—External audit”	54-55
		“Financial Statements—Notes to the consolidated financial statements—Operating costs—(e) Auditors’ remuneration”	3 113
	16D Exemptions from the listing standards for audit committees	Not applicable	—
	16E Purchases of equity securities by the issuer and affiliated purchasers	“Additional Information—Shareholder information—Authority to purchase shares”	199
	16F Change in registrant’s certifying accountant		—
	16G Corporate governance	“Additional Information—Other disclosures—Corporate governance practices: differences from New York Stock Exchange (NYSE) listing standards”	203
	16H Mine safety disclosure	Not applicable	—
17	Financial statements	Not applicable	—
18	Financial statements	“Financial Statements—Company accounting policies”	178-179
		“Financial Statements—Notes to the consolidated financial statements—Basis of preparation and recent accounting developments”	104-107
		“Financial Statements—Consolidated income statement”; “—Consolidated statement of comprehensive income”; “—Consolidated statement of changes in equity”; “—Consolidated statement of financial position”; and “—Consolidated cash flow statement”	94-103
		“Financial Statements—Notes to the consolidated financial statements—analysis of items in the primary statements”	104-156
		“Financial Statements—Notes to the consolidated financial statements—supplementary information”	157-177
		“Reports of Independent Registered Public Accounting Firms—Audit opinions for Form 20-F”	“Further Information”
19	Exhibits	Filed with the SEC	—

Edgar Filing: NATIONAL GRID PLC - Form 20-F

National Grid Annual Report and Accounts Report Annual 2017/18 Annual Report and Accounts 2017/18 Bring Energy to Life

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Contents National Grid Annual Report and Accounts 2017/18 Strategic Report The Strategic Report includes an overview About National Grid 2 of our strategy and business model, the Our business environment 4 principal risks we face and information about our performance. In addition to the financial How we create value for our stakeholders 6 review included within this section, we provide Chairman's statement 8 additional analysis and commentary, including Chief Executive's review 10 the performance of our operating segments, Our purpose, vision, values and strategy 12 within the unaudited commentary sections of the financial statements. This additional Progress against our strategy 14 analysis forms part of our Strategic Report. Internal control and risk management 18 Financial review 22 Viability statement 26 Principal operations 28 Our commitment to being a responsible business 34 Corporate Governance The Corporate Governance report, introduced Corporate Governance contents 40 by our Chairman, contains details about the Directors' Report and other disclosures 62 activities of the Board and its committees during the year. We include reports from Directors' Remuneration Report 64 the Audit; Finance; Safety, Environment and Health; Nominations; and Remuneration Committees. We also include details of our shareholder engagement activities. Financial Statements Our financial statements include: the Financial Statements contents 80 independent auditor's reports; consolidated Introduction to the Financial Statements 81 financial statements prepared in accordance with IFRS as adopted by the EU and as issued Statement of Directors' responsibilities 82 by the IASB; related commentary and notes to Independent auditor's report 83 the consolidated financial statements; and the Report of independent registered Company's financial statements prepared in public accounting firm 92 accordance with FRS 101. Additional information This section includes additional disclosures Additional Information contents 184 and information, definitions and a glossary Definitions and glossary of terms 218 of terms, summary consolidated financial information, and other useful information Want more information or help? 223 for shareholders, including contact details Cautionary statement 224 for more information or help. Front cover Cirhan Truswell, Senior Commercial Analyst, at our carbon weighting project, Burton, UK.

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Strategic Report National Grid plc is an electricity and gas utility focused on transmission and distribution activities in both the United Kingdom and the United States. Business segments include UK Electricity Transmission, UK Gas Transmission, National Grid Ventures and other activities, and US Regulated Gas and Electricity distribution and transmission networks. Group financial highlights Statutory operating profit* Statutory EPS* Value Added £3,493m 103.8 p 57.9 p/share (2016/17: £3,208m) (2016/17: 48.1p) (2016/17: 51.6p/share) Underlying operating profit* Underlying EPS* Capital investment £3,495m 60.4p £4,251m (2016/17: £3,375m) (2016/17: 58.6p proforma) (2016/17: £3,862m) Group return on equity (RoE) 12.3 % (2016/17: 11.7%) For definitions and reconciliations of statutory and non-IFRS performance measures, and regulatory performance measures see pages 206-214. All financial metrics for the current year, which are calculated on a 'per share' basis, reflect a reduction in the weighted average number of shares as of 2 June 2017, following the sale of the UK Gas Distribution business. The weighted average number of ordinary shares outstanding for the period includes the effect of the 11 for 12 share consolidation. Prior year metrics have not been restated, unless specifically identified as such. Operational highlights Group safety performance Greenhouse gas emissions Employee engagement index 0.10 IFR 7.7m tonnes 77% (2016/17: 0.10 IFR) (CO2 equivalent) (2016/17: 77%) (See page 15) (2016/17: 9.1) We use a number of technical terms and abbreviations within this document. For brevity, we do not define terms or provide explanations every time they are used. Please refer to the glossary on pages

218-222 for this information, as well as an important notice in relation to forward-looking statements with our cautionary statement on page 224. *From continuing operations. Our reporting which exclude the impact Online report Further reading Our financial results are reported of exceptional items and The PDF of our Annual Report Throughout this report you can in sterling. We convert our US remeasurements. These are and Accounts 2017/18 includes find links to further detail within business results at the weighted used by management to assess a full search facility. You can this document or online. Please average exchange rate during the underlying performance of find the document by visiting look out for the following icon: the year, which for 2017/18 was the business.

Reconciliations the 'About us' section at \$1.36 to £1 (2016/17 \$1.28 to £1). to statutory financial information www.nationalgrid.com. We use adjusted profit measures, are shown on page 206-214. Inside front cover and page 1 Engineers, Gas Transmission, Aylesbury, UK. Strategic Report | Highlights National Grid Annual Report and Accounts 2017/18 1

Edgar Filing: NATIONAL GRID PLC - Form 20-F

About National Grid We are one of the world's largest investor-owned energy utilities, committed to delivering electricity and gas safely, reliably and efficiently to the customers and communities we serve. Our business model UK Regulated Our business model, set out below, summarises our Company's key drivers, how 44% of Group statutory operating profit we create and preserve value over the longer term, and how we generate cash flows. 44% of Group adjusted operating profit What we do We play a vital role in connecting millions of people to the energy they use through our UK Electricity Transmission regulated utility businesses in the UK and US, with principal operations in electricity We own and operate the electricity and gas transmission and distribution, as well as National Grid Ventures. transmission network in England and Wales, with day-to-day responsibility for balancing Our purpose, vision and values supply and demand. We are also system Our purpose is to Bring Energy to Life. We believe it's crucial to have a clear sense of operator for the Scottish networks, but do what we stand for as a company and what it is that binds us all together. This is what not own them. we call our purpose. In simple terms it's what inspires us to serve our customers as well as we can, and it's what makes us proud about the work we do. Our vision is: we will exceed the expectations of our customers, shareholders 4,474 346 and communities today and make possible the energy systems of tomorrow. Miles (7,200 Substations kilometres) of (2016/17: 342) Our values are: every day we do the right thing and find a better way. overhead line (2016/17: 4,474 miles; Adapting to change 7,20 0 k i l o m e t r e s) We are responding to changes in our business environment, so we can ensure we maintain our position in the industry. We are able to generate short-term profitability and create long-term, sustainable value in an evolving energy landscape, as shown by our performance described in pages 28-33. 969 Our strategic priorities Miles (1,560 Our three strategic priorities are: optimise our operational performance; look for kilometres) of opportunities to grow our core business; and make sure National Grid is better underground cable equipped for the future. (2016/17: 932 miles; 1,500 kilometres) Being a responsible business For us, being a responsible business means being a force for positive environmental and social change. We consider communities in all our operations, so we can fully UK Gas Transmission understand their needs, keep them safe, and make sure they are fairly represented We own and operate the gas National in our decisions and actions. Transmission System (NTS) in Great Britain, with day-to-day responsibility for balancing If we are to achieve our vision, we need to be aware of the needs of all our supply and demand. stakeholders. We need to make sure we deliver value for them every day, and continue to do so as the energy landscape changes. How we make money 4,760 24 Our regulators in the UK and US set the type and level of charges we are allowed Miles (7,660 Compressor to pass on to our customers to simulate market competition. We also make money kilometres) of stations from businesses that operate in markets outside our core regulated businesses. high-pressure pipe (2016/17: 24) (2016/17: 4,760 miles; 7,660 kilometres) Our role as System Operator As Great Britain's System Operator (SO) we make sure Great Britain's gas and electricity is transported safely and efficiently from where it is produced to where it is consumed. We balance supply and demand in real time and we facilitate the connection of assets to the transmission system. Further reading • Our business environment – page 4 • How we create value for our stakeholders – page 6 • Our purpose, vision, values and strategy – page 12 • Financial review – page 22 • Our commitment to being a responsible business – page 34 2 National Grid Annual Report and Accounts 2017/18 Strategic Report | About National Grid

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Strategic Report US Regulated National Grid Ventures Substantial asset 50% of Group statutory operating profit and Other Activities base as at 31 March 2018* (%) 49% of Group adjusted operating profit 6% of Group statutory operating profit 7% of Group adjusted operating profit

US Regulated Electricity National Grid Ventures was formed on We both own and operate transmission facilities 1 April 2017 and brought together our across upstate New York, Massachusetts, businesses that are adjacent to our core New Hampshire, Rhode Island and Vermont. regulated operations to create a new division. We own and operate electricity distribution This operating segment represents our main networks in upstate New York, Massachusetts strategic growth area outside our regulated and Rhode Island. core in competitive markets across the US and the UK. The business comprises all commercial operations in Metering, LNG at the Isle of Grain and electricity

Substantial asset as at 8,881 740 interconnectors, with a focus on investment 1 arc; 2017 Miles (14,293 Distribution and future activities in emerging growth areas. kilometres) of substations 1; electricity; transmission overhead line (2016/17: 763) Our other activities mainly relate to UK 2; Gas transmission 1; (2016/17: 8,835 miles; property development, together with Reulated; 14,219 kilometres) insurance and corporate activities in National Grid ventures and the UK and US. tter Activities *excludes % share of UK Gas Distribution (Cadent) assets. See page 23 for 387 11.1 m further details. Transmission Metering: gas meters For information about the accounting substations implications arising from the announced (2016/17: 377) potential sale of 25% in Cadent, see note 35 on page 177. 3 US Regulated Gas 1,000,000 m We own and operate gas distribution networks LNG: tank space What are transmission across the northeastern US, located in upstate and distribution? New York, New York City, Long Island, Our role in connecting people to Massachusetts and Rhode Island. the energy they use mainly involves 6.4 either transmission or distribution. GW capacity of interconnectors

‘Transmission’ means transporting 35,419 in operation or energy from the location where it is generated or imported, to a Miles (57,001 under construction kilometres) of gas pipeline ‘Distribution’ means transporting (2016/17: 35,265 miles; energy to consumers at a lower 56,753 kilometres) voltage (for electricity) or pressure (for gas) ready for domestic use. Further reading Definitions can be found on pages 218-222 You can find more information about what we do on our website: www.nationalgrid.com Strategic Report | About National Grid National Grid Annual Report and Accounts 2017/18 3

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Our business environment Our environment is shaped by four themes: the impact on consumer bills, energy security, environmental sustainability and technology.

As the energy ecosystem evolves, so do the needs of our stakeholders. Impact on consumer bills Commentary Consumers expect a reliable energy system that delivers gas and electricity when and where it is needed. They pay for the cost of this infrastructure and improvements to it through the part of their energy bills that covers network costs. These costs are subject to regulatory approval. 2017/18 developments Our response £35.48 UK •• Our US and UK regulated businesses continue In the UK, affordability of energy is a critical topic, to strive for greater efficiency, seeking innovative UK transmission network costs as highlighted in the 2017 General Election campaign. ways to reduce both the time and cost to repair per average annual household dual Price caps featured in both the

Conservative and or replace assets. This approach minimises the fuel bill – representing around 3% Labour manifestos and an energy price cap bill costs to consumers. of the total bill is currently progressing through Parliament. The •• In the UK, we have been able to generate • Electricity transmission: £26.16 Labour Party also indicated in its manifesto that £540 million of savings for consumers in the first it was considering renationalising utility networks. five years of the

RIIO arrangements. We have also • Gas transmission: £9.32 The Government commissioned the Cost of Energy volunteered that £480 million of RIIO T1 allowances • These costs cover the transport of Review in the summer of 2017. Its main findings were for electricity transmission investments should energy and maintaining very high that the cost of energy is too high, and that the energy be deferred, which will help ease the impact on levels of reliability policy, regulation and market design are not fit for the consumer bills. purposes of the emerging low-carbon energy market. •• We do not believe that renationalisation of National Grid would be in the best interests of UK US consumers, and we have communicated externally The cost of energy remains a concern for consumers the ways in

which we have created and driven and regulators who expect affordable, reliable and value for customers and society since privatisation. cleaner energy at a low price. Costs of energy as a •• In the US, approval of new electricity and gas percentage of total spending have declined, mainly delivery rates in upstate New York allows us to as a result of low natural gas prices and household continue our new Energy Affordability Program, energy efficiency improvements. Additionally, costs which provides a bill decrease for most of low-carbon technologies such as solar, batteries income-eligible customers. New energy efficiency and energy management systems have fallen, solutions will result in bill decreases for our so they are increasingly being adopted. moderate income customers. Energy

security Commentary The energy system is in a phase of transition from high to low carbon. Coal plants are closing down and being replaced with nuclear, renewables and gas, as well as emerging battery storage. Electricity margins need to be monitored and actively managed as we move to a generation mix with greater volumes of intermittent and distributed generation. 46% 2017/18 developments Our response UK •• National Grid Ventures has made significant (UK capacity) Over the summer of 2017, the majority of the progress in the construction of three new UK's energy supply came from renewable sources. electricity interconnectors from the UK to The UK also saw its first day free of generation from Belgium, France and Norway. coal in April 2017. As the region shifts towards an •• The Grain LNG import terminal received the 32% increasingly decarbonised generation mix, baseload first ever UK LNG cargos from the US and

Peru, electricity prices are expected to increase. UK highlighting our ability to help deliver a more (UK production) wholesale gas prices have been trending upwards diverse gas supply for the UK. as sources of gas storage have decreased with the •• In the UK, we published our System Needs and closure of the Rough gas field and general global Product Strategy report, which sets the scene shifts in preferences from coal to gas. for future requirements, and consults on the 21% future of balancing services products. US •• In the US, approval of new electricity and gas (US capacity) The reliability of energy infrastructure remains delivery rates in upstate New York means we can a concern for consumers, regulators and policy invest \$2.5 billion over three years to modernise makers. Regulators are seeking investment to our electricity and natural gas networks. improve the security and resilience of energy 15 % networks. Natural gas supply has outpaced demand due to technological improvements in shale gas (US production) extraction, and wholesale gas prices have remained at historic low levels. Wholesale electricity prices Electricity generation supply have largely mirrored natural gas pricing due to from renewable sources in 2017 the increasing reliance of the energy industry on natural gas as a fuel. 4 National Grid Annual Report and Accounts 2017/18 Strategic Report | Our Business Environment

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Strategic Report Environmental sustainability Commentary Our world is changing as a result of human activity and its impact on the environment. The Paris Agreement sends a clear signal that the shift to a low-carbon economy is inevitable, and it is now accepted that sustainable business is good business – creating value for people, the environment and businesses. This includes reducing greenhouse gas emissions, managing non-renewable resources, and preserving and protecting habitats and ecosystems. 26% 2017/18 developments Our response (UK) UK • Reducing greenhouse gas emissions forms During 2017, the UK saw a number of records part of the Company's KPIs (see page 16). broken for renewable energy – including the first day • Our environmental strategy, 'Our Contribution', 28.5% when wind, nuclear and solar generated more power focuses on the areas where we can make (US) than gas and coal. The UK Government published the greatest contribution. You can read more 'A Green Future: Our 25-year Plan to Improve about our approach and work on page 35. Percentage of greenhouse gas the Environment', setting out the UK's long-term • National Grid Ventures has been created to focus, emissions attributable to the approach to protecting and enhancing the natural in part, on investments in renewables, including energy sector in the UK and US environment. In July 2017, the Government utility-scale solar, wind and battery storage. announced a ban on the sale of new petrol • We continue to work with BEIS and Ofgem and diesel cars from 2040. on the development of future energy systems as we respond to the shift to low-carbon US energy in the UK. In June 2017, President Trump announced that the • We are working with customers and stakeholders country would cease all participation in the 2015 Paris in the UK to gather insights on the future role of Agreement on climate change mitigation, triggering gas in managing the transition to a low-carbon a three-year exit process. However, state renewable future. energy support eclipses many federal policies. State • Although the US pulled out of the Paris Agreement, regulators continue to support energy innovation we continue to support it and align ourselves with projects through programmes such as New York state and local leaders who share our climate and State's 'Reforming the Energy Vision'. environmental goals. Technology Commentary The energy landscape is being transformed by technologies such as renewable generation, district heating, electric vehicles and battery storage. This transformation is being driven by a range of factors: political and regulatory push, consumer pull and the rapid pace of change in digital technologies. 43% 2017/18 developments Our response Demand for more sustainable energy is accelerating • We created a Group technology and innovation (UK) the pace of change within the energy industry. team to develop our new technology strategy, Faster-than-expected price reductions for key to monitor disruptive technology and business technologies have boosted the speed of model trends, and to act as a bridge for emerging developments in areas such as solar energy, energy technology into the core regulated businesses 29% storage, electric vehicles and distributed generation. and business development teams. We are Battery pack prices have fallen 24% since 2016, also involved in early-stage energy technology (US) electric vehicle growth has continued apace in venture investments. both the UK and US, and UK small scale solar • National Grid Ventures, established in April 2017, Electric vehicle fleet is expected to double by 2025. focuses on business development, technology growth in 2017 and innovation. Digitisation of energy networks from generators to • We are taking advantage of the latest technological households is further changing how people engage innovations to improve our performance. with energy. We face the challenge of adapting our For example, we are using robotics for gas networks to meet new demands, and making sure pipeline inspection, improving asset health we act on the opportunities that will benefit our and lowering costs. customers and other stakeholders. The impact of Brexit issues and have devised scenarios to cover We believe UK-EU cooperation on energy the majority of likely outcomes. Based on is positive for UK and EU consumers in the worst case scenario ('no deal' on free terms of energy security, affordability trade), we have determined that the risk of and decarbonisation. increased costs of tariffs and any possibility that our partners might be compelled to We continue to keep the implications of 'switch off' the interconnectors is low. Brexit under review, especially regarding our access to energy markets and the impacts Throughout the year, we have been on interconnectors' revenues and costs. engaging with our customers and Our interconnector partners share a stakeholders, especially with our regulators, financial interest in the ownership and as we seek to inform them of the Brexit profits from their operation. For the past outcome we believe would be in the best 12 months, we have been assessing these interests of consumers. Strategic Report | Our Business Environment National Grid Annual Report and Accounts 2017/18 5

Edgar Filing: NATIONAL GRID PLC - Form 20-F

How we create value for our stakeholders The long-term success of our business is critically dependent on the way we work with a large number of important stakeholders. We aim to create value for our stakeholders every day – and to continue doing so as the energy landscape changes. The table below sets out our focus for the key relationships that will help us Bring Energy to Life and deliver the energy networks of the future. Our stakeholders Who they are and why they are important How we are creating value over the long term Where you can read more Our customers Our customers are the users of our Our customers want energy that is delivered Progress against our strategy, products and services. safely, reliably, sustainably and affordably. Principal operations In the UK, our key customers are Targeted outcome: Creating or adapting electricity and gas distributors and infrastructure to provide ready access to generators. In the US, we have more clean energy, through smart grids and than seven million retail bill payers. evolving our networks to reflect changing patterns of demand and supply over time. The communities Our operations affect communities By integrating sustainability into our Our commitment to being we work in where we work and live. decision-making, we value the needs a responsible business of communities. Being a responsible and sustainable business is fundamental to the way Targeted outcome: Preserving natural we work. resources and respecting the interests of our communities. Our regulators In the UK, Ofgem regulates our We are heavily engaged with our Business environment, electricity and gas businesses and regulators in debates guiding future Principal operations transmission businesses. energy policy direction. In the US, our retail activities are Targeted outcome: Frameworks within regulated by state utility commissions. which we can meet the changing energy Our wholesale activities (including energy needs of the communities we serve. generation and interstate transmission) Incentives for innovation and performance. are regulated by the Federal Energy Regulatory Commission (FERC). Our suppliers Our suppliers provide us with the goods We are committed to long-term, Our commitment to being and services we rely on to deliver for sustainable and fair working practices a responsible business our customers. with our suppliers, who must work to our Supplier Code of Conduct. They range from substantial multinational companies to small-scale Targeted outcome: Development of local businesses providing bespoke stronger, long-term relationships critical services when they are needed. for the delivery of future projects. Our people Our business is built by our people. We work to make sure we keep our Our commitment to being people as safe as possible. We train a responsible business At 31 March 2018, we had more than them to deliver to the best of their abilities 22,000 employees. and strive to maintain high levels of engagement. In the UK and US, we have inclusion and diversity policies, as well as statistical information, that demonstrate our commitment to providing an inclusive, equal and fair working environment. Targeted outcome: Access to and retention of a high-performing workforce with the capabilities we need, delivering innovation. Our investors Equity investors: We earn financial returns in Our investors desire long-term, sustainable Financial review accordance with our regulatory contracts in growth. the UK and US. These contracts incentivise us to invest in long-term sustainable Targeted outcome: Annual asset growth infrastructure in an efficient and cost- in the range of 5-7%. conscious way. Dividend per share growth at least in line Debt investors: Our debt investors provide with the rate of UK RPI growth each year capital in the form of loans and bonds, for the foreseeable future. allowing us to optimise the way in which we finance our investment. Balance sheet strength reflected in strong credit metrics. 6 National Grid Annual Report and Accounts 2017/18 Strategic Report | How we create value for our stakeholders

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Strategic Report £60m Potential savings over 20 years, helping minimise household energy bills 2,145 Tonnes potential CO2 equivalent savings each year, helping reduce our impact on the environment 1 st Winner of the Innovation Project Award at the 2017 Institution of Gas Engineers and Managers Gas Industry Awards A world first in the pipeline A robot will revolutionise how we Device (GRAID) will give us the inside story maintain our underground high-pressure on the state of the pipes, taking away the gas pipes, while adding value by saving guesswork. And that means better value for money and reducing our impact on the our repair budget. Once GRAID starts work environment, as Project Lead Dave in late 2018, it could save around £60 million Hardman explains. over 20 years. Crucially, such savings help minimise household energy bills. And the Our high-pressure gas pipes help bring carbon emissions we'll cut are equivalent to gas to 23.4 million UK homes. It's vital we the amount 477 homes would use in a year. keep all 4,760 miles (7,660 kilometres) in good condition, which is hard when they're buried It'll need to be tough. Natural gas acts underground. But we're going to change like a liquid at high pressure. It creates five how we check them, using a pioneering robot times the force a submarine faces underwater. being developed with the help of £5.7 million To overcome this challenge, the robot's twin of funding from Ofgem, through its Network chassis design stabilises it while magnetic Innovation Competition. tracks make it cling to the pipes. An engineer will drive GRAID from the surface, making it Currently, the only way we can check our stop, reverse and zoom in on sections of pipe, site pipework is by digging. We choose these measuring thickness and looking for corrosion. locations based on what we know about their age, and when they were last repaired. We're sharing the story with our industry Sometimes there's repair work to do, but and beyond, including rail infrastructure. not always. The Gas Robotic Agile Inspection Pictures shown above GRAID robot developed for use in high-pressure underground gas pipelines. Strategic Report | How we create value for our stakeholders National Grid Annual Report and Accounts 2017/18 7

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Chairman's statement " We remain on course to deliver long-term sustainable growth." Dividend policy In 2017/18 National Grid performed well, Strategy Our dividend policy aims to grow both financially and operationally as a Group, It is the Board's role to set the strategic the ordinary dividend per share at and strategically in evolving our regulated direction of the Company and to scrutinise least in line with the rate of UK RPI US businesses towards achieving higher management's performance in terms of growth each year for the foreseeable growth and better returns. delivering the strategy. This year, the Board was future. Accordingly, the Board pleased with the continued delivery of the core has recommended an increase While the UK continues to be the larger regulated businesses in the UK, the progress of in the final dividend to 30.44 pence contributor to overall operating profit following our strategy to improve the returns and growth per ordinary share (\$2.0606 per the 2017 sale of a 61% stake in our UK Gas opportunities in our US regulated businesses, American Depositary Share). If approved, this will bring the full year Distribution business, the shape and dynamics and the progress made in the development dividend to 45.93 pence per share of the overall business are changing. Our of our interconnectors business. (\$3.0775 per American Depositary operations in the US are larger than our Share), an increase of 3.75% over operations in the UK in terms of employee Culture the 44.27 pence per ordinary share numbers, and the US also now offers stronger In 2017/18, the Board started to implement the in respect of the financial year ended growth prospects over the medium term. recommendations of the Board effectiveness 31 March 2017. The UK continues to be the larger contributor review we undertook the previous year, several of in terms of operating profit. which touched upon culture. The National Grid See note 8 on page 124 for more information on dividends. Board sees one of its key roles as being to We continue to be mindful of the large-scale exemplify the Company's values of 'do the right change that is affecting the energy sector and thing' and 'find a better way'. We have continued Annual General Meeting 2018 are working hard to ensure our strategy and this year to enhance the Board's leadership role The 2018 AGM will be held at 11:30am business model adapt accordingly. in development of the Company's culture. on 30 July 2018 at the ICC, Birmingham. Share price Enhanced transparency I am very conscious that the decline in our Total In light of recent events such as the collapse of In focus Shareholder Return of 18.9% this financial year Carillion, we believe it is even more important we have been disappointing because of the decline provide investors with enhanced transparency in the share price over 2017/18 as a whole. in respect of our assets and liabilities, a part of Our share price performance was driven by a which is discharging our responsibility to make Responsible business combination of factors, including rises in bond the Annual Report and Accounts fair, balanced www.nationalgrid.com/group/ yields and negative sentiment around political and understandable. responsibility-and-sustainability and regulatory uncertainty in the UK. However, for the vast majority of our 3.6 billion shares Some of the technicalities of International Our KPIs in issue, we enjoy a long-term, stable and Financial Reporting Standards (IFRS) make pages 14-17 supportive shareholder base. reporting of performance challenging for regulated utilities like National Grid, so we are Throughout the year, we worked hard to engage providing additional information on page 23 to with investors and to communicate clearly that help inform investors about significant assets National Grid remains on course to continue and liabilities that do not form part of the delivering long-term, sustainable growth. audited accounts. 8

National Grid Annual Report and Accounts 2017/18 Strategic Report | Chairman's statement

Edgar Filing: NATIONAL GRID PLC - Form 20-F

[illegible]

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Chief Executive's review " I believe strongly that society now demands more from business than ever before." Performance highlights In 2017/18 National Grid made significant progress in both the US and the UK, we progress in the execution of our strategic priorities. Moreover, in both the US and the UK, we demonstrated performance highlights 57.9 p/share we not only recognise the imperative to change In both the US and the UK, in 2017/18 we Value Added with the times, but that we also possess the worked hard to create real value for customers (2016/17: 51.6p/share) willingness and expertise necessary to drive and shareholders, and to implement cutting our industry forward. edge innovation. Over the course of the year, we delivered a US 6% number of important projects that aligned with In the US, we enjoyed a good year, characterised Asset growth our strategic priorities of growing the business, by strong growth. We invested a record (2016/17: 5%) optimising operational performance and ensuring \$3.3 billion into infrastructure and we increased the Company is positioned to thrive in the future. Return on Equity to 8.9%, from 8.2% the previous year. Our overall financial performance was good. 12.3 % Our statutory operating profit grew 9% and In line with our strategic priority of growing the Group Return on Equity (RoE) underlying operating profit on a constant business, we filed for updated rate allowances (2016/17: 11.7%) currency basis grew 6% to £3.5 billion. with regulators in key jurisdictions. These allowances dictate the rates we can charge Our Group Return on Equity (RoE) was 12.3%, for the services we provide to customers. up from 11.7% the previous year, and Value We filed new rate cases for gas distribution 77% Added was £2 billion, equivalent to 57.9 pence in Massachusetts and for electricity and gas Employee engagement index per share. distribution in Rhode Island (page 189). (2016/17: 77%) We invested £4.3 billion into the business, We also reached agreement with regulators growing our asset base by 6%. for our Niagara Mohawk rate filing in upstate New York, the first time our rates there had We also performed well against the other key been fully reviewed in five years. metrics by which we benchmark our progress. The successful Niagara Mohawk filing means we In terms of safety, our employee lost time injury are now able to push ahead with infrastructure frequency rate was 0.10, which is consistent projects worth some \$2.5 billion over the next with world class safety performance, evidence three years. These projects will significantly of our continued total commitment to ensuring enhance reliability of gas and electricity supplies no one is harmed as a result of our operations. for homes and businesses across upstate New York. 10 National Grid Annual Report and Accounts 2017/18 Strategic Report | Chief Executive's review

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Strategic Report Other US operational highlights in 2017/18 Over the course of the year, mindful of the Bring Energy to Life included the completion and energisation of the fact we operate within an evolving regulatory During the year I was pleased with the progress first phase of our new \$70 million South Street environment, we also began preparing for we made in raising awareness within the Substation in Providence, Rhode Island, and a new regulatory framework (RIIO T2), which business of our Purpose, which is to Bring the commencement of our Metropolitan Natural will come into effect when the current one Energy to Life, our Values, which are to find Gas Reliability Project to upgrade existing gas expires in March 2021. a better way and to do the right thing, and our distribution infrastructure in Brooklyn. Vision, which is to exceed the expectations To this end, we responded to Ofgem's of the people we serve and to make possible Additionally, we launched a customer Framework Consultation, which aims to the energy systems of tomorrow. experience transformation programme to establish the wider methodology of RIIO T2, improve the way we interact with customers at and we also engaged customers and other I believe our purpose, vision and values are a number of key touch points, from responding interested parties to discover their objectives powerful tools with which to build trust by to telephone enquiries to processing payments from the new period of regulation. demonstrating our commitment to the societies and setting up new connections. we serve is genuine, not only through provision In January 2018, I was disappointed by of our traditional services, but also by championing We also created a single capital delivery Ofgem's initial response to our proposal with the kind of change that facilitates progress and function to manage construction of all future regard to connecting Hinkley Seabank (HSB) meaningfully improves lives. major projects for the US electricity, gas and to the electricity network. Ofgem's response transmission businesses. We anticipate the indicated the regulator is considering ways in Looking ahead new capital delivery function will achieve which to keep returns on investment below a Over the coming year, while continuing to work significant savings by leveraging efficiencies level commensurate with the risk we attach to to improve our safety culture, we will also focus of scale in all areas of construction and the project. We believe this proposal would not on improving our core competencies in terms project management. be in the best interests of consumers or the of operational and customer performance. wider energy sector as it seeks investment in In 2017 we also successfully launched our the future, and we will continue to work with In line with our regulatory strategy, we will work Gas Enablement Programme in Rhode Island Ofgem in the hope of finding a way forward. hard to make sure the outcomes of our rate to optimise the operational performance of filings in the US continue to be successful and our gas business through modernisation of all Exploring new opportunities that our dialogue with Ofgem in the UK ahead aspects of our work, from asset management In April 2017, we established National Grid of RIIO T2 is effective. We will also seek to to customer service. The programme will now Ventures to explore growth opportunities recruit and develop talented people throughout be rolled out across all US geographies in in some of the most exciting areas of our the business to help us deliver our strategy which we operate, as we expect it to deliver industry, including solar, battery storage and vision. significant benefits for customers. and interconnectors. As we grow the business, we will embrace UK National Grid Ventures is managing the opportunities to evolve as a purpose-led In the UK, we faced new political and £1.3 billion construction of three interconnectors organisation, while also continuing to play a regulatory pressures, notably on issues such from the UK to Belgium, Norway and France, leadership role within our industry, particularly as affordability and renationalisation, as Sir Peter and is also studying the commercial viability in the area of energy transformation. mentioned on page 9. In response to these of a fourth to Denmark. pressures, we worked hard throughout the year We will also develop both National Grid Ventures to communicate the many ways in which we Additionally, National Grid Ventures is leading and our existing expertise in increasingly create and drive value for customers and society. National Grid's work to establish partnerships important areas, such as digital technologies, with market leaders in renewable energy, data analytics and artificial intelligence. The speed of progress occurring in our industry for example our partnership with Tesla on was starkly highlighted on 21 April 2017, when a large-scale battery storage project on Thank you Britain had its first working day free of coal the island of Nantucket in the US. I was really proud during the year to be part power generation since the Industrial Revolution. of an organisation, that worked so hard on National Grid Ventures also launched a so many fronts – improving the quality of life Highlights of 2017/18 for National Grid in the Technology and Innovation team to explore of millions of people by providing vital services UK included the start of work to create a legally opportunities to proactively drive value and in an ever more effective way. separate company for the electricity System growth through early stage adoption of Operator and the creation of significant value cutting edge technologies. National Grid faces many challenges, but for consumers through the completion of our performance during the year showcased several other landmark projects that showcased You can read about the exciting work the collective spirit I believe will ensure we our ability to deliver world-class efficiency National Grid Ventures is doing on page 32. go on delivering sustained value for our and innovation. stakeholders and for wider society. People For example, in February 2018, I was honoured National Grid is committed to doing everything Thank you to everyone who worked hard to welcome HRH The Prince of Wales and HRH we can to ensure all members of staff work for National Grid in 2017/18. the Duchess of Cornwall to the opening of the in an environment in which they feel secure ambitious, billion-pound London Power Tunnels and are able to thrive. In 2017/18, in light project. Completed on time and under budget, of widespread news coverage of sexual the London Power Tunnels, which include new harassment in a range of industries, we substations in Highbury and Kensal Green, undertook a fundamental review of our are the most significant investment into the policies on sexual harassment and bullying John Pettigrew UK capital's electricity transmission system to ensure they are fit for purpose. Chief Executive since the 1960s. We also worked hard throughout the year We also continued to invest in innovation to promote careers that STEM subjects throughout 2017/18, notably in the use of can unlock. As one of the world's leading cutting-edge robotics for underground engineering companies, we are fortunate to be pipe inspections (page 7). Additionally, we able to help young people from a diverse range developed far-reaching plans to establish of backgrounds kick-start rewarding careers, a strategic rapid charging network across through apprenticeships or other forms of the UK's motorway system in order to professional training. In 2017/18, for example, facilitate the coming electric vehicle I was delighted we were able to enrol 369 revolution (page 29). people into professional training schemes in the US and the UK. Strategic Report | Chief Executive's review National Grid Annual Report and Accounts 2017/18 11

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Our purpose, vision, values and strategy To make sure National Grid is well positioned to respond to changes in our business environment and within the energy industry, we continue to adhere to and promote our purpose, vision, values and strategy. Our purpose Our purpose Our values Having a clear sense of what we stand for as a We know that how we deliver is as important 'Bring Energy to Life'. company and what it is that binds us all together as what we deliver. If our purpose is the 'why', is vitally important. This is what we call our our values are the 'how'. They help shape our purpose. In simple terms it's what drives our spirit, attitude and what guides us. We have to Our vision desire to serve our customers and makes us adapt and develop our values to align with the 'We will exceed the expectations proud about the work we do. expectations of our customers and communities, without losing sight of the things that make us of our customers, shareholders Essentially, 'Bring Energy to Life' means getting strong today. and communities today and the heat, light and power that customers rely make possible the energy on to their homes and businesses. But 'Life' Our values build on and protect our strong also means supporting the communities that foundations while looking to the future. systems of tomorrow'. we are a part of and live among to support They are aligned to our purpose and help the economic growth and sustainability of our people understand how we expect Our values wider society. to achieve our purpose and vision for our customers and each other. 'Every day we do the right Our vision thing and find a better way'. Our vision describes how we create value – 'Do the right thing' pulls together our not just today, but in the future too. foundational values – keeping each other and the public safe; complying with all the relevant Our strategy The needs of our customers, shareholders and rules, regulations and policies; respecting communities are at the heart of everything we our colleagues, customers and communities; 'We have three strategic do. So, our vision statement clearly describes and saying what we think and challenging priorities for our business the ambitious challenge we have set ourselves constructively. 'Find a better way' challenges – to make sure we deliver value for them us to focus on performance and continuous that will help us achieve every day. improvement for our customers, our our vision: find new ways of shareholders and communities. optimising our operational Our vision also looks to the future, reminding us of the critical role we will play for future performance, look for generations. We continue to see changes in opportunities to grow our our energy system as more renewable and core business, and make decentralised generation is introduced. To be Finding a better way to connect gas relevant in this future, we have to play an active sure National Grid is better It currently takes around three years and role in helping shape the energy landscape, £2 million to connect new gas customers equipped for the future'. and benefiting from what it provides. to the National Transmission System (NTS). For smaller connections, we're working to halve the cost, and reduce the time to under one year through Project CLoCC (Customer Low Cost Connections). We will deliver these savings in three main ways. Firstly, we're developing an online gas connections portal to replace the current paper-based process. Customers will be able to generate indicative quotes within seconds, and will benefit from greater transparency on the status of their applications which they will be able to track from start to finish. Secondly, we've developed a suite of pre-approved and pre-appraised standardised connection designs, ready to order off the shelf. This will save our customers significant time and money. Finally, we're looking at ways to optimise commercial arrangements through changes to relevant gas regime governance. An example of this is the work we have done towards removing the absolute requirement for every new NTS exit connection to include a remotely operable valve (ROV) installation. This governance change, which became effective in January 2018, will reduce costs for customers. The project is running under budget and on schedule to complete later in 2018. 12 National Grid Annual Report and Accounts 2017/18 Strategic Report | Our purpose, vision, values and strategy

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Strategic Report Our strategy We are focused on three strategic priorities for our business, which will set the foundations for our future success. These are described below. 1. Find new ways of optimising 2. Look for opportunities to 3. Make sure National Grid is our operational performance grow our core business better equipped for the future Why it's important Our customers want and need us to To make possible the energy systems We need to future-proof our business be more efficient, so we must find ways of tomorrow requires investment in our against the effects of a changing to improve how we run our business. core and many areas close to our core. energy landscape. The operation of our networks is already affected by changes to the generation mix, while the needs and expectations of our customers are evolving. What this means We have looked at enhancing our We continue to pursue business National Grid Ventures was established productivity and customer experience development opportunities that are in April 2017. National Grid Ventures is through more efficient and customer- close to our core business. In the tasked with creating value and gathering focused processes. Finding new ways of US, we are pursuing opportunities in knowledge through investment in optimising our operational performance electricity and gas transmission. In the adjacent businesses, including will be an important factor in our ability UK, interconnectors will continue to utility-scale projects, distributed energy to compete and grow. It creates the be our focus over the next decade. opportunities and the development of financial capacity and the capability new and evolving technologies. for us to future-proof our business. Associated Operational: safety or environmental Strategic and regulatory: failure to secure satisfactory regulatory agreements; principal risks event; cyber security breach; failure failure to deliver our proposition due to political and economic uncertainty; failure to achieving to predict and respond to significant to adequately anticipate and minimise the adverse impact from disruptive forces our priorities disruption of energy; failure to on our business model. adequately manage data. People: failure to build sufficient capability and leadership capacity required to deliver our vision and strategy. How we measure • Safety performance • Regulated asset base growth • Innovation investment ourselves • Customer satisfaction scores*** • Capital investment • Network reliability*** • Group RoE • Greenhouse gas emissions reduction The metrics below underpin all our strategic priorities: contribution of our corporate responsibility work; skills and capabilities; employee engagement; workforce diversity; adjusted EPS; Value Added Performance in 2017/18** 0.10 6% 59.5 £73m Employee lost time injuries Asset growth Adjusted EPS Contribution of our corporate per 100,000 hours worked (2016/17: 5%) (2016/17: 56.9) responsibility work in a 12-month period (2016/17: £9m) (2016/17: 0.10) 12.3 % 7.7m £4,251m 35,425 Group RoE Tonnes of CO2 equivalent Capital investment Interactions with young (2016/17: 11.7%) (2016/17: 9.1m) (2016/17: £3,862m)* people on STEM subjects (2016/17: 29.6k) 57.9 77% 24.6% 17.9 % Employee Women in workforce Ethnic minority in workforce p/share engagement index (2016/17: 24.1%) (2016/17: 17.3%) Value Added (2016/17: 77%) (2016/17: 51.6p/share) * Includes investments in joint ventures and associates (excluding St. William). ** For reconciliations between statutory and non-IFRS performance measures see pages 206-214. *** Customer satisfaction and network reliability are not measured at a Group level. See pages 14-17 for the business segment performance. Strategic Report | Our purpose, vision, values and strategy National Grid Annual Report and Accounts 2017/18 13

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Progress against our strategy The Board uses a range of financial and non-financial metrics, reported periodically, against which we measure Group performance. These metrics are aligned to our three strategic priorities. In addition there are a number of metrics that underpin all our strategic priorities. Metrics that underpin all three strategic priorities Employee engagement index Value Added For the year ended 31 March 2018, adjusted This is a measure of how engaged our Reflects value to shareholders of dividend EPS increased by 2.6 pence to 59.5 pence, employees feel, based on the percentage and growth in National Grid's assets, net of reflecting a lower number of shares following of favourable responses to certain indicator the growth in overall debt. the return of capital, increased revenue and questions repeated annually in our employee a 39% share of Cadent profits, partly offset engagement survey. Value Added (£bn) by increased costs, including the impact of major US storms. Employee engagement index (%) ��� ��� ��� ��� ��� ��� ��� A target for adjusted EPS is included in the �� �� �� �� �� incentive mechanisms for certain Executive ��� ��� ��� Directors' remuneration within the Annual �� �� �� �� ��� Performance Plan (APP). You can find more ��� ��� information in our Directors' Remuneration Report on pages 63-79. 13/14 14/15 15/16 16/17 17/18 Data not Data not See page 206-214 for reconciliations to available available Value Added per share (pence) our statutory measures. 13/14 14/15 15/16 16/17 17/18 While we have no specific target, our overall Contribution of our corporate We measure employee engagement through aim is to grow Value Added sustainably responsibility work our employee engagement survey. The results over the long term, while maintaining our Working with our communities is important of our 2017/18 survey, which was completed by performance for our other financial KPIs. Value in creating shared value for us as a business, 87% of our employees, have helped us identify Added in the year of £2.0 billion or 57.9 pence the people we serve and the communities specific areas where we are performing well per share was higher than 2016/17 (£1.9 billion where we work. and those areas we need to improve. or 51.6 pence per share), primarily as a result of higher RPI inflation on UK regulated assets We use the London Benchmarking Group This year's employee engagement score (March 2018 RPI of 3.3%, prior year 3.1%) and measurement framework to provide an overall was 77%. improved US performance. Of the £2.0 billion community investment figure which includes Value Added in 2017/18, £1.3 billion was paid to education (but excludes investment in Workforce diversity shareholders as cash dividends and £0.2 billion university research projects). While we have We measure the percentage of women and as share repurchases, with £0.5 billion retained no specific target, our overall aim is to make ethnic minorities in our workforce. We aim to in the business. sure we are creating shared value through develop and operate a business that has an our social purpose activities. inclusive and diverse culture (see page 37). A target for Value Growth, a derivative of Value Added, is included in the incentive mechanisms Contribution of our corporate Workforce diversity (%) for executive remuneration within the Long responsibility work (£m) Term Performance Plan (LTTP). You can find ��� ��� ��� more information in our Directors' Remuneration �� Report on pages 63-79. ��� ��� ��� Adjusted EPS Adjusted earnings represents profit for the year attributable to equity shareholders. This excludes exceptional items and Not Not Data not Data not Data not remeasurements (see page 123). Adjusted measured measured �� �� available available available 13/14 14/15 15/16 16/17 17/18 13/14 14/15 15/16 16/17 17/18 EPS provides a measure of shareholder ���en return that is comparable over time. ��t�nic ��inorities In the UK the overall contribution of our Adjusted EPS from continuing operations corporate responsibility work was valued at just During 2017/18, we continued to increase the (pence) over £66 million. This is a significant increase diversity of our workforce and saw an increase on last year due to the donations we have been over the last 12 months of female and minority ��� ��� ��� ��� making through the Warm Homes Fund. In the ��� ��� groups: from 24.1% to 24.6% females (+0.5% ��� ��� US, our contribution was just under £7 million. increase) and from 17.3% to 17.9% minorities This gives a combined Group-wide contribution (+0.6% increase). The two years' worth of data of just over £73 million. we are showing does not include our UK Gas Distribution workforce. Data prior to 2016/17 would include this data and is no longer being 14/15 15/16 16/17 17/18 shown on the graph. 14 National Grid Annual Report and Accounts 2017/18 Strategic Report | Progress against our strategy

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Strategic Report Find new ways of optimising our operational performance How we assess progress: Our customer satisfaction KPI comprises score for National Grid Ventures. The score i Employee lost time injury frequency rate Ofgem's UK electricity and gas transmission s the average across National Grid Metering This is the number of employee lost time customer satisfaction scores, the US residential Domestic, National Grid Metering I&C (Industrial injuries per 100,000 hours worked in a Customer Trust Advice survey metric and & Commercial), Grain (LNG Primary Shippers, 12-month period (including fatalities). Our National Grid Ventures's Net Promoter Score LNG Road Tanker Operators) and Interconnectors. lost time injury frequency rate for the Group metric. This year our UK Gas Transmission We currently do not have a target score. has been 0.10 or lower throughout the year, score was 0.4 points lower than last year. which is consistent with world-class safety We are also measuring NPS in the core UK performance. The below data does not The US metric measures customers' sentiment business to understand our customers' views include UK Gas Distribution employees. with National Grid by asking customers their and to introduce a benchmark measure. level of trust in our advice to make good energy We will comment more on this next year. Employee lost time injury frequency rate decisions. The metric, which is tied to the (per 100,000 hours worked) value customers feel they receive from National Network reliability Grid, fell below target primarily due to higher Network reliability is measured separately for ���� customer bills and storm-related outages. each of our business areas. The table below ���� represents our performance across all our ���� ���� ���� NPS measures the willingness of customers networks. Our targets are set out in the table to recommend National Grid to others and is for our UK networks, and are set individually a measure of their loyalty. This is the first year for each of our US jurisdictions. 13/14 14/15 15/16 16/17 17/18 we have reported a customer satisfaction Customer satisfaction Network reliability The table below summarises how we measure customer satisfaction and shows our targets Target or base 16/17 17/18 Performance for each business area. % % % against target UK Electricity Customer satisfaction Transmission T 99.9999 99.999964 99.999984 exceeded UK Gas not Methodology Measure Transmission T 100 99.97500 99.996151 achieved UK RIIO-related metrics Score from US Electricity agreed with Ofgem surveys Transmission B 99.9 99.97 99.953 no target US Customer Trust Score from US Electricity Advice metric survey Distribution B 99.9 99.994 99.995 no target NGV Net Promoter Score from Score (NPS)1 survey Key: T – Target B – No target set, as set individually by each jurisdiction. Accordingly, we set a base and report performance above the base. 16/17 17/18 Target UK Electricity Transmission 7.4 7.7 6.92 UK Gas Transmission 8.0 7.6 6.92 US – Residential3 60.7% 56.6% 57.4% NGV – +34 – 1. NPS is a commonly used tool to measure customer experience. It is an index ranging from -100 to +100. 2. Figures represent our baseline targets set by Ofgem for reward or penalty under RIIO (maximum score is 10). 3. Our US customer satisfaction methodology is the Customer Trust Advice survey metric. The survey specifically focuses on the services we provide for our customers and represents their views of us. Strategic Report | Progress against our strategy National Grid Annual Report and Accounts 2017/18 15

Edgar Filing: NATIONAL GRID PLC - Form 20-F

[illegible]

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Strategic Report Make sure National Grid is better equipped for the future Performance highlights How we assess progress: Our Gas Transmission projects have included Innovation using light detection and ranging to carry out We are in the midst of an energy revolution aerial inspections of our pipeline; 3D printing with the economic landscape, developments to allow an asset to be repaired rather than 57.9 p/share in technology, evolving business models replaced; and artificial intelligence to more Value Added and consumer behaviour all changing at efficiently identify and mitigate corrosion (2016/17: 51.6p/share) an unprecedented rate. issues across the network. We are focusing our innovation activities on In the US, we are pre-approved to construct four value themes: up to 20 MW of photovoltaic (PV) facilities in 6% Managing assets – looking for innovative Massachusetts as part of our ‘Solar Phase II’ Growth in our total assets ways to manage the life of our assets. The programme. These sites are designed with (2016/17: 5%) better we understand what affects them, the advanced grid interactive control features, better we can maintain them at the lowest beyond what typical PV facilities are required cost and least disruption to our customers. to provide. We are also engaged with Electric Efficient build – finding ways to reduce Power Research Institute (EPRI) on distributed 12.3 % the cost of building new infrastructure, such energy resources integration, energy storage, Group Return on Equity (RoE) as improving the design of the network and asset management, system operations, (2016/17: 11.7%) trialling equipment that can be used more information and communication technology, flexibly, as well as looking at ways to improve and system planning. the design of the network. Service delivery – we are exploring new Lessons learned from the Worcester Smart 77% ways to provide value for our customers and Energy Solutions pilot in Massachusetts and Employee engagement index consumers as the energy system evolves. the Volt VAR Optimization and Conservation (2016/17: 77%) By understanding the present and future Voltage Reduction pilot in Rhode Island, have expectations of our customers and helped shape larger scale grid modernisation stakeholders, we can develop the right proposals in each of our jurisdictions. kind of products and services. Corporate responsibility – we are constantly Skills and capabilities researching and developing safer working We support developing the skills and practices, including using materials with less capabilities of young people through skills- potential to cause harm to the environment. sharing employee volunteering, especially in science, technology, engineering and Investment in research and development mathematics (STEM) subjects, because it during the year for the Group was £13 million supports our future talent recruitment and our (2016/17: £14 million; 2015/16: £19 million). desire to see young people gain meaningful On pages 204-205, you can read more about employment. While we have no specific target, some of the innovation work we have been our aim is to encourage many young people progressing during 2017/18. to get involved in STEM subjects. For example, in the UK, we have signed Skills and capabilities (Interactions) a £40 million innovation partnership with Siemens to research and develop the ����� use of gas-insulated lines on the electricity ����� transmission network. Within this partnership, we also plan to develop an alternative SF6 free insulating gas mixture that has less than ����� 0.05% of the global warming impact of SF6. On Deeside, we are converting an existing Data not Data not available available substation into a trial facility to test new 13/14 14/15 15/16 16/17 17/18 technologies off network. It will be the first facility in Europe where assets can be tested around the clock. We measure quality (>1 hour) interactions with young people on STEM subjects. In the UK, in Power Potential is a £9.5 million System 2017/18, we have had 2,699 interactions with Operator project in collaboration with UK young people on STEM subjects, and 32,726 Power Networks. £8.0 million of the project is interactions in the US. Overall we have seen a funded through the 2016 Network Innovation total of 35,425 interactions with young people Competition (NIC). The project aims to create on STEM, an increase of 5,834. The 2017/18 a regional reactive power market for distributed data excludes UK Gas Distribution. All figures energy resources and generate additional prior to 2017/18 include UK Gas Distribution. capacity on the network. Strategic Report

I Progress against our strategy National Grid Annual Report and Accounts 2017/18 17

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Internal control and risk management The Board is committed to protecting and enhancing our reputation and assets, while safeguarding the interests of our shareholders. Top down, bottom up assessment Managing our risks to pay fair compensation for the Company's Risk management activities take place National Grid is exposed to a variety of property which will be determined at the time, through all levels of our organisation. uncertainties that could have a material adverse and which could be calculated in a number of Through a 'top down, bottom up' effect on the Group's financial condition, our different ways. We have canvassed a wide range approach, all business areas identify the operational results, our reputation, and the of stakeholders including government officials, main risks to our business model and value and liquidity of our shares. consumers and members of the public to to achieving their business objectives. understand the impact of renationalisation Each risk is assessed by considering The Board oversees the Company's risk on certain stakeholder groups. the financial and reputational impacts, management and internal control systems. and how likely the risk is to materialise. The business area identifies and As part of this role, the Board sets and In addition to the issues above, senior leaders implements actions to manage and monitors the amount of risk the Company and the Board have also considered certain monitor the risks. The risks and actions is prepared to seek or accept in pursuing aspects of the principal risks in more detail, identified are collated in risk registers our strategic objectives (our risk appetite). including cyber security, emerging technology, and reported at functional and regional The Board assesses the Company's principal compliance with new General Data Protection levels of the Company quarterly. The risks and monitors the risk management Regulation, asset safety, US tax reform, most significant risks for the UK and US process through risk review and challenge and Ofgem's 'minded to' consultation on businesses are highlighted in regional sessions twice a year. the delivery model for a project to connect risk profiles and reported to the Group Executive Committee and the Board the Hinkley Point C power station to the twice a year. In addition to these Risk management process electricity network. reports, the Group Executive Overall risk strategy, policy and process are set Committee and the Board may also at the Group-level with implementation owned The principal risks are tested annually to identify and assess principal risks. by the business. Our enterprise risk management establish the impact of the risks on the Group's These risks and any associated process provides a framework through which ability to continue operating and to meet its management actions are cascaded we can consistently identify, assess and prioritise, liabilities over the assessment period. We test through the organisation as manage, monitor and report risks. The process the impact of these risks on a reasonable worst appropriate. is designed to support the delivery of our vision case basis, alone and in clusters, over a five-year and strategy, described on pages 12-13. assessment period. This work informs the viability statement (see page 26). The Board, Our corporate risk profile contains the principal Executive Committee and other leadership risks that the Board considers to be the main teams discuss the results of the annual testing uncertainties currently facing the Group as we of our principal risks at the end of the year. endeavour to achieve our strategic objectives. These top risks are agreed through discussions Changes during the year of the Group's risk profile with the Executive This year, a reassessment of the Company's Committee and the Board. The risks are principal risks and approach to risk appetite reported and debated with the Group Executive was undertaken by the Executive Committee Committee and Board every six months. and the Board. The purpose of the assessment was to validate that we have identified the right A broad range of factors are considered when risks in view of our strategy, priorities, and determining what our principal risks should changing external environment, to identify be. Brexit is not currently one of our principal potential new or emerging risks, and to develop risks but the implications continue to be kept a risk appetite framework that will aid better under review, especially in relation to our decision-making within the business. access to energy markets and the impacts on interconnector revenues and costs. For the The output from these workshops resulted in past 12 months, our Brexit working group has two new principal risks: 'Failure to predict and been assessing these issues and has devised respond to a significant disruption of energy scenarios to cover the likely outcomes. Based that adversely impacts our customers and/or on the worst case scenario ('no deal' on free the public' and 'Failure to deliver any one of trade), we have determined that the risk of our customer, investor and wider stakeholder increased costs of tariffs and any possibility that propositions due to increased political and our partners might be compelled to 'switch off' economic uncertainty'. One risk was removed the interconnectors is low. Throughout the year, from the list of principal risks and several we have been engaged with our customers have been reworded and/or consolidated and stakeholders, especially with our to better reflect the current meaning of the regulators, as we seek to inform them of the risk. The principal risks are presented in the Brexit outcome we believe would be in the table opposite. best interests of consumers. The workshops also resulted in changes The Board has also considered the potential to our risk appetite framework, including an for renationalisation of energy supply networks update to the categories in view of current by the UK Labour Party. Should the UK Labour priorities and the determination of the risk Party come into power, the timing and routes appetite position for each risk appetite category. for energy supply network renationalisation A system of classification of risks into categories generally are currently uncertain, and therefore (Operational, Strategic, Regulatory, People and the impact upon National Grid plc remains Financial) has been implemented in accordance unclear. Renationalisation options we have with the revised risk appetite framework. Risk considered have included acquisition of the categories help to distinguish the management listed plc, the UK business, the transfer of approach to mitigation. During this coming transmission assets to 'regional communities' year, we will embed the new framework and regulatory change. The Government has within the organisation. 18 National Grid Annual Report and Accounts 2017/18 Strategic Report | Internal control and risk management

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Strategic Report Our principal risks and uncertainties operations in our industry, and financial risks, which exist Accepting that it is not possible to identify, anticipate or because of our financing activities. Our principal risks, and eliminate every risk that may arise, and that risk is an inherent a summary of actions taken by management, are provided part of doing business, our risk management process in the table below. We have provided an overview of the aims to provide reasonable assurance that we understand, key inherent risks we face on pages 193-196, as well monitor and manage the main uncertainties that we face in as our key financial risks, which are incorporated within delivering our objectives. This includes considering inherent note 30 to our consolidated financial statements on risks, which exist because of the nature of day-to-day pages 158-164. Operational risks Operational risks relate to the risk of losses resulting from inadequate or failed internal processes, people and systems, or due to external events. These risks normally fall within our low risk appetite level as there is no strategic benefit from accepting the risk and accepting the risk is not in line with our vision and values. Our operational principal risks have a low likelihood of occurring, but have a high level of impact should the event occur without effective prevention and mitigation controls. The risk owners, executive leaders, and their teams develop and monitor actions to control the risks. Operational risks are managed through policy, standards, and procedure-based controls, active prevention and monitoring. The operational risks link to our strategic priority of 'Find new ways of optimising our operational performance'. Principal risk assessment included reasonable worst case scenario testing – i.e. gas transmission pipeline failure, loss of licence to operate, cyber security attack – and the financial and reputation impact should a single risk or multiple risks materialise. External events over this past year – the extreme weather events, the WannaCry cyber security attack, new data privacy legislation – were considered in the assessment and testing, as well as in the development of mitigation actions. Please also refer to page 192 for the discussion of climate-related influences on risk management. Risks Actions taken by management Catastrophic asset failure results in a significant safety and/or We continue to commit significant resources and financial environmental event. investment to maintain the integrity and security of our assets Risk trend: and data. This year, we have continued to focus on risk mitigation actions designed to reduce the risk and help meet our business objectives. Monitoring action status has been incorporated into Major cyber security breach of business, operational technology various business processes and senior leadership meetings. and/or critical national infrastructure (CNI) systems/data. Examples of actions include: Risk trend: •• Our Group-wide process safety management system is in place to make sure a robust and consistent framework of risk Failure to predict and respond to a significant disruption of energy management exists across our higher hazard asset portfolio. that adversely affects our customers and/or the public. •• We have implemented asset management and data management standards with supporting guidelines to provide Risk trend: clarity around what is expected, with a strong focus on what we need in place to keep us safe, secure and legally compliant. Failure to adequately identify, collect, use and keep private the In support of this, we developed a capability framework to make physical and digital data required to support Company operations sure our people have the appropriate skills and expertise to and future growth. meet the performance requirements in these standards. Risk trend: •• We continually invest in strategies that are commensurate with the changing nature of the security landscape. This includes collaborative working with the Department for Business, Energy and Industrial Strategy (BEIS) and the Centre for Protection of National Infrastructure (CPNI) on key cyber risks, as well as development of an enhanced CNI security strategy; and our involvement in the US with developing the National Institute of Standards and Technology Cyberspace Security Framework. •• Business continuity and emergency plans are in place and practised to ensure we quickly and effectively respond to a variety of incidents – storms, physical and cyber-related attacks, environmental incidents and asset failures. •• We have a mature insurance strategy that uses a mix of self-insurance, captives and direct (re)insurance placements. This provides some financial protection in respect of property damage, business interruption and liability risks. Strategic Report | Internal control and risk management National Grid Annual Report and Accounts 2017/18 19

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Internal control and risk management continued Strategic and Strategic risk is the risk of failing to achieve the Company's overall strategic business plans and objectives, as well as failing to have the regulatory risks 'right' strategic plan. We voluntarily accept some risk so we can generate the desired returns from our strategy. Management of strategic risks focuses on reducing the probability that the assumed risk would materialise, and improving the Company's ability to effectively respond to the risk should it occur. The risk owners, executive leaders, and their teams develop and monitor actions to control the risks. These risks link to our strategic priorities of 'look for opportunities to grow our core business' and 'make sure National Grid is better equipped for the future'. The political climate and policy decisions of our regulators this past year were key considerations in assessing our risks. Risks Actions taken by management Failure to influence future energy policy and secure satisfactory In both the UK and the US, we strive to maintain a good regulatory agreements. understanding of the regulatory agenda and emerging issues, Risk trend: so that robust, public interest aligned responses can be selected and developed in good time. Our reputation as a competent operator of important national infrastructure is critical to our ability Failure to deliver our customer, stakeholder and investor proposition to do this. We have plans and governance structures in place to due to increased political and economic uncertainty. address specific issues such as RIIIO-T2 and US rate case filings Risk trend: and continuously work to foster open and effective relationships with our regulators and other stakeholders. Failure to adequately anticipate and minimise the adverse impact from disruptive forces such as technology and innovation on our Processes and resources are in place to review, undertake business model. due diligence and progress new investment opportunities, dispose of existing businesses, and identify and execute on opportunities Risk trend: that provide organic growth. These processes, along with twice-yearly National Grid Board strategy offsite discussions, are reviewed regularly to ensure they continue to support our short and long-term strategy. We regularly monitor and analyse market conditions, competitors and their potential strategies, the advancement and proliferation of new energy technologies, and the performance of our Group portfolio. We created the Group Technology and Innovation team to develop our strategy with regards to new technology, to monitor disruptive technology and business model trends, and to act as a bridge for emerging technology into the core regulated businesses and business development teams. In addition, the partnership with Energy Impact Partners was established in 2015 to gain exposure to emerging start-up companies. The new National Grid Ventures function will further the focus on new strategies, business development and technology and innovation. People It is through the high-quality work of our employees that we will achieve our vision, respond to the changing needs of our stakeholders and create a competitive advantage. Obtaining and fostering an engaged and talented team that has the knowledge, training, skills and experience to deliver our strategic objectives is vital to our success. We must attract, integrate and retain the talent we need at all levels of the business. Risks Actions taken by management Failure to build sufficient capability and leadership capacity Strategic workforce planning has been embedded in our US and (including effective succession planning) required to deliver UK organisations. This process helps to effectively inform financial our vision and strategy. and business planning, as well as human resourcing needs. Risk trend: Our entry-level talent development schemes (graduate training and apprenticeships) are a potential source of competitive advantage in the market place. We are involved in a number of initiatives to help secure the future engineering talent required, including the UK annual residential work experience week and the US Pipeline and Graduate Development Programmes. The rigour of our succession planning and development planning process has been improved over the year, particularly at senior levels, and is now being applied deeper into the organisation. Our Strategic Talent Acquisition team now includes internal executive search capability and market mapping of critical roles. Ongoing attention is required in relation to the ethnic diversity of our management population. There are multiple activities under way to drive this agenda, including 'blind' talent and selection processes, development interventions and a global review of our inclusion and diversity strategy and resources. Financial risks While all risks have a financial liability, financial risks are those which directly relate to financial controls and performance. Financial risk management is a critical process used to make investment decisions and aims to maximise investment returns and earnings for a given level of risk. Our key financial risks, which are incorporated within the notes to our consolidated financial statements, are described in note 30 to our financial statements on pages 159-164. 20 National Grid Annual Report and Accounts 2017/18 Strategic Report | Internal control and risk management

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Strategic Report Our internal control process Fostering a culture of integrity is an important Internal control over financial reporting We have a number of processes to support our element of our risk management and internal The periodic Sarbanes-Oxley (SOX) Act reports internal control environment. These processes controls system. National Grid's values: 'do the on management's opinion on the effectiveness are managed by dedicated specialist teams, right thing' and 'find a better way' provide a of internal control over financial reporting are including: risk management; ethics and framework for reporting business conduct received by the Board in advance of the half and compliance management; corporate audit and issues, educating employees and promoting full year results. They concern the Group-wide internal controls; and safety, environment and a culture of integrity at all levels of the business. programme to comply with the requirements health. Oversight of these activities is provided We have policies and procedures in place to of s404 of the SOX Act and are received through regular review and reporting to the communicate behaviour expected from directly from the Group Controls Team; and appropriate Board committees, as described employees and third parties, and to prevent through the Executive and Audit Committees. in the Corporate Governance section on and investigate fraud and bribery and other A programme is currently under way to identify pages 41-79. business conduct issues. We monitor and and implement process improvements and address business conduct issues through best practices. Monitoring internal control is conducted several means, including a bi-annual review through established boards and committees at by the Audit Committee. We have specific internal mechanisms that different levels of the organisation. Deficiencies govern the financial reporting process and the are reported and corrected at the appropriate Overall compliance strategy, policy and preparation of the Annual Report and Accounts. entity-level. The most significant risk and frameworks are set at the Group-level with Our financial controls guidance sets out the internal controls issues are monitored at the implementation owned by the business. fundamentals of internal control over financial Senior Executive and Board level. The Audit The business is responsible for identifying reporting, which are applied across the Committee is responsible for keeping under compliance issues, continuous monitoring, Company. Our financial processes include a review and reporting to the Board on and developing actions to improve compliance range of system, transactional and management effectiveness of reporting, internal control performance. We monitor and address oversight controls. In addition, our businesses policies, compliance with Sarbanes-Oxley, compliance issues, through several means prepare detailed monthly management reports UK Bribery Act legislation, appropriateness including reviews at US and UK leadership that include analysis of their results, along with of financial disclosures and procedures for meetings and a bi-annual review by the comparisons to relevant budgets, forecasts risk and compliance management, business Audit Committee. and prior year results. These are presented conduct, and internal audit. The Board is also to, and reviewed by, senior management kept informed of issues by the Group Executive A feature of our internal controls system is within our Finance function. Committee, sub-committees of the Board our three lines of defence model. This model through verbal and written reports, the CEO is a way of explaining the relationship between These reviews are supplemented by quarterly updates, and the legal updates from the Group functions and how responsibilities for risk and performance reviews, attended by the CEO and General Counsel and Company Secretary. controls are allocated and monitored. Each Finance Director. The reviews consider historical 'Deep dive' sessions are conducted on business function owns and is responsible for results and expected future performance significant risk issues throughout the year. managing its own particular risk and controls and involve senior management from both (the first line of defence). Central management operational and financial areas of the business. Reviewing the effectiveness of our teams (the second line of defence) act as an Each month, the Finance Director presents a internal control and risk management advisory function on implementing the principal consolidated financial report to the Board. The Board continually monitors and assesses risk assessments and actions taken to mitigate the effectiveness of our internal control systems and manage those risks. Our internal audit As part of our assessment of financial controls and risk management processes covering all function then audits selected controls to provide in previous years, we identified a number of material systems, including financial, operational independent assessments of the effectiveness deficiencies in our financial control framework. and compliance controls, to make sure they of our risk management and internal control We are making progress in remediating these remain robust. The latest review covered the systems (the third line of defence). deficiencies. For more information, including financial year to 31 March 2018 and the period reporting, see the report of the Audit to the approval of this Annual Report and The Certificate of Assurance (CoA) from the CEO Committee on page 49. Accounts. In this review, the Board considered to the Board provides overall assurance around the effectiveness of areas such as the control the effectiveness of our risk management and environment, risk management and internal internal controls systems. The CoA process control activities, including those described operates via a cascade system and takes place below. It noted that no material weaknesses annually in support of the Company's full year had been identified by the review and results. The Audit Committee considers the confirmed that it was satisfied the systems CoA and provides a recommendation to the and processes were functioning effectively. Board in support of its review. Strategic Report | Internal control and risk management National Grid Annual Report and Accounts 2017/18 21

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Financial review We delivered a strong financial performance this year, driven by increased US revenues. We completed our £4 billion return of capital and funded increased investment while maintaining a healthy balance sheet. This section How we create value for our shareholders We are a long-term asset-backed business. The diagram below illustrates how our regulated We explain how we create value businesses create financial value over time in the UK and US. for our shareholders and provide commentary on our key financial performance metrics. For details on how we define our alternative performance measures Revenue Cash flows Investment and regulatory performance measures, and profits refer to pages 206-214. More detailed analysis is located in The vast majority of Our ability to convert We invest efficiently in the Financial Statements as follows: our revenues are set revenue to profit and cash our networks to deliver Consolidated income statement: in accordance with our is important. By managing strong and sustainable page 96. regulatory agreements our operations efficiently, growth in our regulated (see pages 186-191), safely and for the long term, asset base over the Principal operations by segment: and are calculated based we are able to generate long term. page 111. on a number of factors strong sustainable cash including investment flows to finance returns We continually assess, Statement of financial position: in network assets; through dividends, and also monitor and challenge page 100. performance against to provide funds for growth. investment decisions Consolidated cash flow statement: incentives; allowed so we can continue to pages 102-103. returns on equity and deliver safe, reliable, and cost of debt; and cost-effective networks. Borrowings: page 141. customer satisfaction. Commentary on UK and US regulation: pages 186-191. In addition to our regulated operations we own a UK metering business generating income primarily through meter rentals. We also own a diverse and growing portfolio of commercial energy Commentary on our financial performance and position for the year businesses operating in competitive markets across the UK and US. These include our Grain LNG ended 31 March 2017 compared with terminal and electricity interconnectors between the UK and continental Europe, and between the 31 March 2016: pages 215-216. US and Canada. These are generally electricity and gas infrastructure assets with a low risk profile and stable cash flows, underpinned by long-term contracts or regulatory arrangements. We also own a property business, developing and selling surplus land in our portfolio. Capital investment: In order to deliver this value, we: Additions to property, plant and • aim to operate within our regulatory frameworks as efficiently and compliantly as possible; equipment, plus contributions to JVs • perform well against our regulatory incentives, in order to deliver customer benefits and and associates, other than the St good returns; William property JV (contributions to St William are linked to property • manage our cashflow requirements and secure low cost funding; and site transfers). • maintain a disciplined approach to investment in our networks. Our financial performance explained Regulated asset base: In addition to our statutory reporting under IFRS, we believe it is helpful to report a range of alternative performance measures (or non-IFRS measures), and regulatory performance When considering the size of our asset measures, as summarised below. base, we reference our regulated asset base. This represents a measure by our regulators of the invested capital Profitability and earnings from the continuing business on which we are authorised to earn Adjusted results, also referred to as 'headline' results: These exclude the impact of a cash return, and includes our exceptional items and remeasurements that are treated as discrete transactions under IFRS and regulatory asset value in the UK, can accordingly be classified as such. This is a measure used by management that forms part plus our rate base in the US. of the incentive target set annually for remunerating certain Executive Directors. Further details of these items are included in Note 4 to the financial statements. Underlying results: Further adapts our adjusted results to take account of volumetric and other revenue timing differences arising due to the in-year difference between allowed and collected revenues, including revenue incentives, as governed by our rate plans in the US or regulatory price controls in the UK (but excluding totex-related allowances and adjustments). For 2017/18, our underlying results exclude £104 million of timing differences, as well as £142 million of storm costs (which are significant in aggregate this year) where we expect to recover the bulk of the costs incurred through regulatory mechanisms in the US. Prior period pro forma including Cadent overlay: To aid comparability with prior years, we show an estimate of adjusted and underlying results and earnings for the continuing business in 2016/17 and 2015/16, including an estimated contribution from our 39% interest in UK Gas Distribution (now Cadent). 22 National Grid Annual Report and Accounts 2017/18 Strategic Report | Financial review

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Strategic Report Profitability and earnings The table below shows our Group profit after tax and earnings per share for the year to 31 March 2018. Results from continuing operations – at actual exchange rates Group profit after tax from Earnings per share from continuing operations continuing operations 2017/18 2016/17

% 2017/18 2016/17 % £m £m change pence pence change Statutory profit after tax 3,592 1,810 98% 103.8 48.1 116% adjust for: exceptional items and remeasurements (1,531) 331 (44.3) 8.8 Adjusted profit after tax 2,061 2,141 (4)% 59.5 56.9 5% adjust for: timing (62) (279) (1.7) (7.4) adjust for: major storms 91 – 2.6 – Underlying profit after tax 2,090 1,862 12% 60.4 49.5 22% adjust for: Cadent overlay – 167 – 9.1 Underlying profit after tax (pro forma) 2,090 2,029 3% 60.4 58.6 3% On a statutory basis, Group profit after tax from continuing operations was £3,592 million and EPS was 103.8p. Exceptional items and remeasurements principally reflected a £1,510 million tax credit arising from the reduction in the US tax rate, financial derivative remeasurement gains of £119 million pre-tax, and a net £103 million charge arising from our retained investment in Quadgas HoldCo Limited. Adjusted profit after tax (excluding exceptional items and remeasurements) of £2,061 million included £62 million, relating to timing offset by £(91) million as a result of major storms. On an underlying basis, Group profit after tax was £2,090 million, up £61 million (3%) and earnings per share were 60.4p up 1.8p (3%) compared to prior year pro forma (including Cadent overlay). Revenues increased as a result of new US rate plans in New York and Massachusetts, partly offset by lower UK transmission income, reflecting the return of efficiencies and lower delivered outputs. Costs (excluding pass-through costs) were higher, partly as a result of increased workload and additional depreciation related to asset growth. The weaker dollar in 2017/18 reduced operating profit compared to last year. Net financing costs were lower, with higher interest on inflation-linked debt, offset by gains on disposals of financial investments. Tax was lower compared to 2016/17 partly as a result of decreases in both UK and US tax rates. Financial position and capital investment During 2017/18 our net assets under IFRS decreased from £20.4 billion to £18.8 billion, reflecting the £4.0 billion distribution to shareholders, relating to last year's disposal of our UK Gas Distribution business and the impact of the weaker dollar. This was partly offset by pension gains, and the reduction in deferred tax liabilities due to the reduction in the US federal tax rate, and retained profits in the year, further details of which can be found on page 115. The Group's net assets under IFRS, excluding net debt of £23 billion, were £41.9 billion (2017: £39.7 billion excluding net debt of £19 billion). To help readers' assessment of the financial position of the Group, the table below shows an aggregated position for Group, as viewed through a regulatory perspective. The measures included in the table below are calculated in part from financial information used to derive measures sent to and used by our regulators in the UK and US, and accordingly inform certain of the Group's regulatory performance measures, but are not derived from, and cannot be reconciled to, IFRS. There are certain significant assets and liabilities included in our IFRS balance sheet, but which are treated differently in the analysis below, and to which we draw readers' attention. These include the £1.5 billion reduction in IFRS deferred tax liabilities we have recognised in relation to US tax reform this year, which, from a regulatory perspective remains as a future obligation. In addition, under IFRS we recognise liabilities in respect of US environmental remediation costs, and pension and OPEB costs. For regulatory purposes, these are not shown as obligations because we are entitled to full recovery of costs through our existing rate plans. Regulatory IOUs which reflect refunds due to customers in future periods are treated within this table as obligations but do not qualify for recognition as liabilities under IFRS. Asset growth: rate base, RAV and other invested capital At actual exchange rates At constant currency 2018 2017* % 2017/18 2016/17* % Year ended 31 March £m £m change £m £m change UK Electricity Transmission RAV 13,045 12,479 5% 13,045 12,479 5% UK Gas Transmission RAV 6,014 5,755 5% 6,014 5,755 5% US rate base 14,762 15,398 -4% 14,762 13,751 7% National Grid Ventures and Other business invested capital 2,167 2,055 5% 2,167 1,984 9% Total 35,988 35,687 1% 35,988 33,969 6% UK other regulated assets/liabilities (519) (479) (519) (479) US other regulated assets/liabilities 1,921 1,665 1,921 1,487 Other assets and liabilities (343) (241) (343) (260) Total Group regulated and other assets 37,047 36,632 37,047 34,717 * Re-presented for opening balance adjustments following the completion of the UK regulatory reporting pack process in 2017. The UK RAV increased by £0.8 billion, reflecting significant capital expenditure, together with inflation. RPI inflation at 3.3% (April to March) was slightly above our 3% long-term expectation. UK RAV growth also included capitalised efficiencies or 'performance RAV' of £67 million this year. Other UK regulated assets and liabilities principally comprise regulatory IOUs, arising from timing (including totex timing adjustments) and output-related allowance changes, which are expected to be recovered from or refunded to customers in future periods. Excluding foreign exchange impact, Strategic Report | Financial review National Grid Annual Report and Accounts 2017/18 23

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Financial review continued US rate base increased by £1.0 billion (7%) reflecting the step up in US investment, which was 15% higher than in 2016/17. In total, our UK RAV and US rate base increased by £0.2 billion, net of a £1.6 billion reduction due to foreign exchange movements decreasing the rate base reported in sterling. Excluding foreign exchange our UK RAV and US rate base increased by £1.8 billion (6%) in the year to £33.8 billion. The increase reflects the continued high levels of investment in our networks in both the UK and US. US other regulated assets and liabilities principally comprise assets in the course of construction

Net debt: (which will transfer to rate base once commissioned), timing balances and other cost or revenue deferrals, which are expected to be recovered or refunded in future periods. National Grid Net debt is the aggregate of cash Ventures and other business-invested capital comprises the assets and liabilities of the operating and cash equivalents, current financial businesses within National Grid Ventures and Other activities. Other assets and liabilities includes and other

investments, and derivatives our interest in the RAV of Cadent after taking account of debt within the holding structure. (excluding commodity contract derivatives and the fair value of a put option to dispose of a 14% interest in Capital investment Cadent) as defined in note 27 to the For the year ended 31 March 2018, investment of £4,251 million was £389 million higher than last financial statements. year, principally driven by increased investment in our US regulated businesses including higher levels of gas mains replacement. Investment in National Grid Ventures also increased as we Adjusted net debt is principally adjusted

continue to construct the Nemo Link, our second French interconnector and the North Sea Link. for pension deficits and hybrid debt instruments. For a full reconciliation Net debt, cash flow and credit metrics see page 211. During the year we continued to borrow to fund growth in the business. The level of net debt remains appropriate for the size of our business. RCF/adjusted net debt: Net debt and RCF to adjusted net debt metrics A key measure we use to monitor financial

discipline is retained cash 2018 2017 % change flow divided by adjusted net debt. Net debt (£m) 23,002 19,274 (19)% We monitor this metric carefully as Adjusted net debt (£m) 22,777 20,290 (12)% it is a key element of the information used by rating agencies to assess Retained cash flow (£m) 2,199 3,020 (27)% our creditworthiness. See page 211. RCF/adjusted net debt* 9.7% 14.9% (520) bps * RCF/net debt calculated including scrip share buyback costs. Value Added:

During 2017/18, net debt increased by £3.7 billion. This was driven by the return of capital related Our dividend is an important part of returns to shareholders along with to the UK Gas Distribution disposal (£4.0 billion), outflows from interest, ordinary dividends, tax and growth in the value of the asset base other financing flows of £2.2 billion and payments related to discontinued operations of £0.2 billion. attributable to equity investors, net of These were partly offset by cash inflows from operations (net of cash capital investment) of the overall growth in debt. These are £0.8 billion and other non-cash movements such as foreign

exchange and accretion of interest reflected in the Value Added metric reducing net debt by £1.9 billion. used to measure our performance, and that underpins our approach RCF/adjusted net debt (after deducting scrip buyback costs) was 9.7% for the year (2016/17: to sustainable decision-making and 14.9%; 2015/16: 10.5%). The RCF/adjusted net debt metric in 2016/17 was significantly improved long-term incentive arrangements. by the disposal of our UK Gas Distribution

business on 31 March 2017, which reduced closing net debt by £10 billion. Our long-term target for RCF/adjusted net debt is to exceed 9.0%, which is consistent with the A3 rating threshold used by Moody's, the rating agency. We additionally monitor interest cover, which is a measure of the cash flows we generate compared with the net interest cost of servicing our borrowings. Interest cover for the year was 4.4 times (2016/17: 5.0 times; 2015/16: 5.5 times). Our long-term

target is to maintain interest cover in excess of 3.0 times. Other regulatory performance measures Value Added Value Added in the year was £2.0 billion or 57.9 pence per share as set out below: Year ended 31 March 2018 2017 change £bn £bn £bn Total Group regulated and other assets 1 37.0 34.7 +2.3 Net debt 1.2 (23.0)

(21.2) -1.8 Dividend paid 3 +1.3 Share buyback 3 +0.2 Value Added – 2017/18 +2.0 1. £16/17 values presented on a constant currency basis using a closing exchange rate of \$1.40:£1. 2. Net debt at 31 March 2017 adjusted to reflect £4 billion relating to the return of capital following the disposal of our UK Gas Distribution business. 3. Excludes special dividend and share buy back associated with return of capital post UK Gas Distribution sale. Year ended 31 March

(pence) 2018 2017 change % change Value Added per share 57.9 51.6 6.3 12% Value Added in the year was higher than 2016/17 principally as a result of improved underlying profits in our US business and higher inflation on our UK regulated assets. Of the £2.0 billion Value Added in 2017/18, £1,316 million was paid to shareholders as cash dividends and £178 million as scrip repurchases (offsetting the scrip issuance during the year), with £510 million retained in the

business. 24 National Grid Annual Report and Accounts 2017/18 Strategic Report | Financial review

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Strategic Report Returns on equity (RoE) Dividend per share (pence) We measure our performance in generating and dividend per share growth (%) value for our shareholders by dividing our $\frac{\text{Dividend}}{\text{Equity Base}}$; annual return by our equity base. $\frac{\text{UKGT}}{\text{Group RoE}}$ 2017/18 2016/17 change UKET 13.1% 13.6% -50 bps $\frac{\text{UKGT}}{\text{UK Transmission}}$ 10.0% 10.8% -80 bps Group RoE: $\frac{\text{UKGT}}{\text{UK Transmission}}$ 12.1% 12.7% -60 bps $\frac{\text{UKGT}}{\text{US Regulated}}$ 8.9% 8.2% +70 bps 2014 2015 2016 2017 2018 generating value for our shareholders Group 12.3% 11.7% +60 bps by dividing regulated and non-regulated financial performance, after interest and tax, by our measure of Group RoE has increased during the year to National Grid plc, the parent company of the equity investment in all our businesses, 12.3% from 11.7% in 2016/17. During the year Group, is a non-trading investment holding including the regulated businesses, the US regulated business delivered strong company which derives its distributable National Grid Ventures and other performance reflecting a full year of increased reserves from dividends paid by subsidiary activities and joint ventures. revenues from new rate plans in MECO, KEDNY companies. The Directors consider the Group's and KEDLI. Group RoE also benefited from capital structure and dividend policy at least twice a year when proposing an interim and Regulated returns on equity: gains on disposal of financial investments and lower tax rates in both the US and the UK. final dividend and aim to maintain distributable These are measures of how the reserves that provide adequate cover for businesses are performing compared See page 16 for further information. dividend payments, to the assumptions and allowances set by our regulators. UK regulated return on equity The dividend policy is influenced by a number of the principal risks (see pages 18-21) which US and UK regulated returns are On a weighted average basis, UK Transmission RoE has decreased 60 bps to 12.1%. This could adversely affect the performance of calculated using the capital structure the Group. assumed within their respective reduction in RoE reflects a reduction in incentive regulatory arrangements and, in the performance year-on-year, particularly as a case of the UK, assuming 3% RPI result of the decline in legacy revenue incentive In determining the level of dividend in any year inflation. As these assumptions differ recoveries in the Gas Transmission business. in accordance with the policy, the Directors between the UK and the US, RoE UK average totex out-performance was at also consider a number of other factors that measures are not directly comparable a similar level to last year, representing 100 influence the proposed dividend, including: • between the two geographies. In our • the level of retained distributable reserves; performance measures, we compare bps of our out-performance over the 10.1% allowed return. • availability of cash resources; achieved RoEs to the level assumed • the level of dividend cover; when setting base rate and revenue • future cash commitments and investment allowances in each jurisdiction. US regulated return on equity Further details are included on US RoE for 2017/18 increased 70 bps to 8.9%, plans in line with the strategy; and pages 211-213. compared to 2016/17, reflecting the benefit of • potential strategic opportunities. new rate cases and capital trackers on the sizeable investment programme. The 8.9% achieved return compares to an allowed return of 9.4%. Dividend growth The Board is committed to a long-term sustainable dividend policy. Our dividend policy aims to grow the ordinary dividend per share at least in line with the rate of UK RPI growth each year for the foreseeable future. The Company had £4,796 million of distributable reserves at 31 March 2018 available to support the dividend policy. As set out in the Chairman's statement, the Board has recommended an increase in the final dividend to 30.44 pence per ordinary share (\$2.0606 per American Depositary Share). If approved, this will bring the full year dividend to 45.93 pence per ordinary share (\$3.0775 per American Depositary Share). If approved, the final dividend will absorb approximately £1.0 billion of shareholders' funds. Strategic Report | Financial review National Grid Annual Report and Accounts 2017/18 25

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Viability statement The Board's consideration of the longer-term Each principal risk was considered for The reputational and financial impacts for viability of the Company is an extension of inclusion in the testing and, where appropriate, each scenario were considered (to the nearest our business planning process. This includes a reasonable worst case scenario was £500 million). The risk relating to leadership financial forecasting, a robust risk management identified and assessed for impacts on capacity was not tested, as the Board did assessment, regular budget reviews and scenario operations and/or financial performance not feel this would threaten the viability planning incorporating industry trends and over the five-year assessment time period of the Company within the five-year economic conditions. Our business strategy as detailed below: assessment period. aims to enhance our long-term prospects by making sure our operations and finances The Board assessed our reputational and are sustainable. Operational impacts financial 'headroom', and reviewed principal Scenario 1 – A terror-related risk testing results against that headroom. As described on page 18, the Executive cyber attack No principal risk or cluster of principal risks Committee held risk workshops using scenario Scenario 2 – A gas transmission was found to have an impact on the viability of planning techniques. As a result, we have pipeline failure in the US the Company over the five-year assessment refreshed our risk profile adding two new Scenario 3 – A cyber security attack period. Preventative and mitigating controls in principal risks, rewording or consolidating in the UK that results in a financial place to minimise the likelihood of occurrence several risks, and removing one principal risk. penalty of £600 million in accordance and/or financial and reputational impact are The workshop discussions also considered with the directive on security of Network contained within our assurance system. the potential impacts of Brexit and extreme and Information Systems (NIS) weather events on our risk profile and Scenario 4 – Emerging technology In assessing the impact of the principal risks incorporated such concerns as threats leading to significant numbers of on the Company, the Board has considered to the applicable principal risks. people going 'off grid' the fact that we operate in stable markets and the robust financial position of the Group, Over the course of the year, the Board has Performance impacts including the ability to sell assets, raise capital considered the principal risks shown in the Scenario 5 – The breach of personal and suspend or reduce the payment of table below in detail. The Board has discussed data information dividends. It has also considered Ofgem's the potential financial and reputational impact Scenario 6 – The nationalisation legal duty to have regard to the need to of the principal risks against our ability to of the energy sector in the UK fund the licensed activities of National Grid deliver the Company's business plan. Scenario 7 – A breach of compliance Gas plc and National Grid Electricity rules for onshore competition in the UK Transmission plc. The assessment of the potential impact of our principal risks on the longer-term viability Each Director was satisfied that they had of the Company tests the significant solvency In addition to testing individual principal risks, sufficient information to judge the viability of the and liquidity risks involved in delivering our the impact of a cluster of the principal risks Company. Based on the assessment described business objectives and priorities. Although materialising over the assessment period above and on page 18, the Directors have it has considered adopting a longer period, was also considered. Scenarios developed a reasonable expectation that the Company the Board believes that five years is the most to represent reasonable worst-case examples will be able to continue operating and meet appropriate time-frame over which we should of principal risk clusters were assessed for its liabilities over the period to May 2023. assess the long-term viability of the Company. cumulative impact upon our reputation and The following factors have been taken into stakeholder trust. We chose a combination account in making this decision: of risks which, in the opinion of the Board, • we have reasonable clarity over a five-year represented a Reasonable Worst Case Scenario. period, allowing an appropriate assessment of our principal risks to be made; • in order to test the five-year period, the Scenario 8 – A cyber security attack Board considered whether there are or safety/environmental event as a result specific, foreseeable risk events relating to of catastrophic asset failure and data the principal risks that are likely to materialise breach occurring together within the within a five- to ten-year period, and which assessment period might be substantial enough to affect the Company's viability and therefore should be taken into account when setting the assessment period. No risks of this sort were identified; and • it matches our business planning cycle. 26 National Grid Annual Report and Accounts 2017/18 Strategic Report | Viability Statement

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Strategic Report Principal risk Viability scenario Matters considered by the Board Major cyber security breach of business, Scenario 1 – A terror-related The Board received monthly updates in the CEO report and more detailed operational technology and/or Critical cyber attack. quarterly reports on cyber security. The Board has also undertaken cyber Network Infrastructure (CNI) systems/data. security training. We have agreed a structured scorecard for future reports to the Board. Failure to predict and respond to a significant Scenario 3 – A cyber security The Board received biannual updates on network reliability and quarterly disruption of energy that adversely affects attack in the UK that results updates on cyber security. our customers and/or the public. in a financial penalty of £600 million in accordance 'Deep dive' reports on asset health were also provided. with the NIS Directive. Reliability information was provided to the Board through CEO reports.

Catastrophic asset failure resulting in Scenario 2 – A gas Safety is a fundamental priority and is looked at in detail by the Safety, a significant safety and/or environmental event. transmission pipeline Environment and Health Committee who have delegated authority from failure in the US. the Board. The Board receives a report from the Committee Chairman after every meeting. Our Electricity and Gas Engineering Reports to this Committee also provide progress updates on our asset management improvement programs. Failure to adequately identify, collect, use and Scenario 5 – The breach of Quarterly updates of the Company's information systems were reviewed. keep private the physical and IT data required to personal data information. support Company operations and future growth.

An update on the General Data Protection Regulation (GDPR) was given in November, which included the Company's state of readiness of compliance with GDPR. Failure to build sufficient leadership capacity N/A The Board received bi-annual updates related to the make up of the (including succession planning) required to workforce and the leadership team. The updates considered the deliver our vision and strategy. capabilities necessary to support delivery of the strategic priorities. The Nominations Committee considered the structure, size and composition of the Board and its committees and succession planning. Additionally it tracks the development of individuals with the potential to be Directors and members of the executive management team and established the criteria for any new position. Failure to deliver any one of our customer, Scenario 6 – The The Board has been kept updated on political and economic issues that investor and wider stakeholder propositions due nationalisation of the have the potential to affect our stakeholders and our strategy to mitigate to increased political and economic uncertainty. energy sector in the UK. any associated risks. These included: • the impact of Brexit and access to the Internal Energy Market; • the potential threat of nationalisation under a Labour government; • US tax reform; • UK and US regulatory strategy; • bi-annual UK/US/National Grid Ventures customer updates; and • the annual Update on Key Issues on Policy for 2018/19 reviewed issues related to political and economic uncertainty. Failure to influence future energy policy and Scenario 7 – A breach of The Board received updates and reviews of: secure satisfactory regulatory agreements. compliance rules for onshore • US and UK regulatory strategy; competition in the UK. • our response to Ofgem's compensation proposal concerning the Hinkley-Seabank transmission project; • the impact of Brexit; • the role of the System Operator; and • the annual Update on Key Issues on Policy for 2018/19 reviewed issues related to energy policy and regulation. Failure to adequately anticipate and minimise Scenario 4 – Emerging Two Board strategy sessions were held during the year which included the adverse impact from disruptive forces technology leading to consideration of technology and innovation matters. such as technology and innovation on our significant numbers of business model. people going 'off grid'. The Board also received a separate update on technology and innovation. Bi-annual National Grid Ventures strategy overviews were also held. Strategic Report | Viability Statement National Grid Annual Report and Accounts 2017/18 27

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Principal operations – UK This year our UK business has made progress on plans to create a legally separate Electricity System Operator, achieved major project milestones and is finding smarter ways to balance the system. As new sources of energy connect to the network, we need to find smarter ways to balance the system. To help us do this, the System Operator launched its first System Needs and Product Strategy consultation. This consultation gave us a better understanding of the services we will need to procure in future. We had 128 stakeholder responses and used this feedback to shape the Product Roadmap for frequency response and reserve services, which we published in December. Delivering our strategy Highlights We are reducing the number of balancing Our UK business performed well in 2017/18 and services products, simplifying their procurement UK highlights we maintained our focus on safe, customer-led, and improving the products themselves. We are reliable, innovative and efficient operations. also trialling close to real-time procurement to Performance optimisation reflect the rapid growth in renewable generation. • £540 million customer savings In December Ofgem published its RIIO in the first five years of RIIO. transmission annual reports for electricity and The System Operator is also closely involved in • UK RoE 12.1%, allowed return gas. We were pleased that it recognised the far-reaching electricity charging reforms. During 10.1%. fact that network companies continue to 2017/18, together with Ofgem and industry • 99.999984% and 99.996151% – deliver for consumers. partners, we established Charging Futures as our network reliability figures for a platform to coordinate reform on electricity Electricity and Gas transmission Operational performance access and charging. The aim is to ensure respectively. From a safety perspective, for the full year a level playing field for all participants and to • 7.7 and 7.6 – our customer 2017/18 we performed significantly better than recover revenue in a fair way. At the first forum satisfaction figures for Electricity our high potential incidents target, which tracks 64 organisations took part, while more than and Gas Transmission respectively. the events with the potential to cause more 280 stakeholders have also signed up to hear serious harm. We have also worked hard on more about the plans. Growth risk assessments both ahead of work and at • £1,309 million UK capital investment the point of work across our UK business. Our Electricity and Gas Transmission businesses (2017: £1,241 million). have continued to provide reliable services. As well as a continued focus on safety, we are We report on our key performance indicators • Early preparation for RIIO T2 started. constantly looking for other ways to optimise our in detail on pages 14-17. This year the network • 4.5% growth in RAV (2017: 4.3%). operational performance. We met our customer reliability figures for Electricity Transmission satisfaction targets for 2017/18. The figures for and Gas Transmission were 99.999984% our Electricity and Gas Transmission businesses and 99.996151% respectively. were 7.7 and 7.6 respectively. This compares with our agreed baseline of 6.9. The figure for To protect that for the future, this year we have Gas Transmission was lower than in 2016/17 updated some of our back-office systems to when customers gave us a rating of 8.0. improve data and management control. In gas we have made substantial progress in our We have also made positive progress in our asset health data collection efforts. In electricity first year using Net Promoter Score. We are we have rolled out a single view of the plan for gaining more insight into the needs of our all sites ensuring that there is a unified view of customers (and theirs). For example, a all work, outage and resource going forward. continuing theme has been the need for greater transparency from us. We continue to invest in our understanding of asset health in order to ensure high network Here are a few examples of what we have reliability. One example is work we do on done this year to improve transparency: overhead lines to improve how we map the operating environment. This work will enable Our Gas Transmission business has a new us to better assess the likelihood of asset failure online customer connections portal, which and which towers and spans are experiencing is in the testing phase. You can read more the most wear. The work supports our long-term about this project on page 12. strategy to improve the need for overhead line investment. It led to a 'Next Generation' award Our Electricity Transmission business has from the Institute of Asset Management for improved its customer application process, project lead, Jon Hennah. reducing the average time to produce a connection offer. We introduced a series Our Gas Transmission business has made of initiatives that enable us to condense good progress on Project GRAID, which is the application process using a dedicated developing an innovative robotic inspection cross-functional team. Our average historical device for underground pipework. This year lead time was close to 90 days. This is now we have developed the robot for offline trials 60 days. ahead of live site trials later in 2018. For more Picture above Tunnel boring machine for the London details on this work, see page 7. Power Tunnels project which involves building 10 new circuits and 20 miles (32 kilometres) of tunnels under the capital. 28 National Grid Annual Report and Accounts 2017/18 Strategic Report | Principal Operations – UK

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Strategic Report This year we marked the completion of phase one of the London Power Tunnels project which will ensure we can meet London's growing electricity demand. In late February adverse weather affected the UK, leading to high demand for energy on the system. Our networks performed strongly, maintaining secure supplies of electricity and gas. As part of our response we issued a Gas Deficit Warning. This signalled to the market that we required more gas to keep the system running safely and reliably. This is part of our standard approach to balancing supply and demand, and worked effectively. Shaping the future of energy 2017 underlined the speed of change in the energy sector. In April, Great Britain experienced a day without any coal generation, while between June and September low-carbon sources met more than 51% of the nation's electricity generation needs. In focus The changes that we have already introduced Looking ahead in the System Operator including the operation Ahead of the new regulatory framework of a new scheduling algorithm for balancing (RIIO T2) which begins in 2021 we will continue the system have all ensured that we have to engage with stakeholders and work with continued to deliver energy where and when Ofgem to clarify the parameters of T2. Since January 2017 we have raised our customers require it. We continue to £270,000 for Alzheimer's Society, our develop our balancing tools. Next year we will also be working closely with chosen employee charity in the UK. Ofgem on two further landmark developments. This figure exceeded the fundraising We are also finding ways to ensure that target we set ourselves. National Grid is better equipped for the future. We will create a legally separate Electricity We are committed to playing an particularly through innovation. For example, System Operator (ESO) within the National active role in the communities we are investing to ensure we can bring new Grid Group by April 2019. As part of this, where we work. You can read more technologies onto the network. On Deeside, Ofgem has been consulting on the new licence. about the work we are doing in the we are converting an existing substation into a We have developed our separation programme responsible business section on trial facility to test new technologies off network. internally, which is on track and we have started page 38. This year Ofgem approved the substation publishing more details of the plans that the conversion costs of about £11 million. ESO is putting in place. This began with a consultation on its longer-term goals and its plan In July 2017 the UK Government announced for 2018/19, demonstrating how the ESO will take Statutory operating profit plans to ban the sale of new petrol and diesel an enhanced role in facilitating the transition to cars and vans from 2040. Meanwhile, our own a low-carbon energy system. 'Future Energy Scenarios' analysis suggests the potential for rapid growth in electric vehicles (EVs) We will also begin detailed work on our HSB £1,528m through to 2050. This year we have developed project to connect EDF's new Hinkley Point C a proposal for a strategic charging network nuclear power station onto the network from (2016/17: £1,868m) to enable a backbone of charging points at 2024. Ofgem confirmed this year that the motorway service areas and other strategic project is required and proposed a model for locations. This would support the installation delivery, which it has called the Competition of rapid high-capacity chargers and help Proxy Model (CPM). Adjusted operating profit to tackle anxieties people have about the perceived range of EVs. We are engaging We do not believe that this model is in the best with Government and UK car manufacturers interests of consumers and have responded on the way ahead for EVs. robustly to Ofgem's proposal. In our view, CPM, £1,528m as currently proposed, does not replicate the (2016/17: £1,883m) In last year's Annual Report and Accounts outcome of a competitive process, as it does we reported on the launch of Power Potential, not reflect either the actual cost of financing this a joint project between National Grid and project or the risk being taken with construction UK Power Networks. It aims to create a new work of this complexity and scale. We believe Capital investment reactive power market for distributed energy that Ofgem has under-estimated the costs of resources and generate extra capacity on the delivering HSB under the proposed model, network. We are now calling for organisations and as such has come to an unfounded view to participate in the project, which is initially of consumer benefit. being trialled in the south east of the UK. £1,309 m This year we are also building a novel We are committed to working with Ofgem to (2016/17: £1,241m) distributed energy resources management find a solution. However, we are considering all system (DERMS) as a platform to manage options open to us should the regulator decide these resources at scale. to proceed with this model in its current form. Meanwhile, the Power Responsive programme Next year we will continue to focus on safe, continues to encourage growth in demand customer-led, reliable, innovative and efficient side response and storage. The programme is operations. Achieving greater efficiency in facilitated by National Grid and 650 members our businesses will be a priority for us — have joined since April 2017. There are now 2,150 particularly important considering the price Picture top right stakeholders from more than 1,000 organisations cap for supply to consumers that the His Royal Highness The Prince of Wales with John Pettigrew, taking part. Government is seeking to impose. CEO National Grid at the opening of the London Power Tunnels on 7 February 2018. Strategic Report | Principal Operations – UK National Grid Annual Report and Accounts 2017/18 29

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Principal operations – US A look at our US business's operational performance, core business growth, and how we are shaping the future of energy. priorities: find new ways of optimising our operational performance; look for opportunities to grow our core business; and make sure National Grid is better equipped for the future. Below are some examples of what we have done this year under each priority: One way we have been able to optimise our core business performance is through our gas business enablement initiative. This involves standardising and simplifying processes that will help us better manage our assets, deliver our work, and serve our customers. An example of this is a new ability to capture field data and complete work orders via mobile technology. Delivering our strategy

Highlights The US business has performed well during Our new Customer Response Center (CRC) A focus on growth, customer value, 2017/18, focusing on growth, customer value, is also designed to improve our operational and the clean energy transition and the clean energy transition. performance. The CRC opened in May 2017 with the goal of establishing two-way Performance optimisation Overall, our revenue increased by 10% and we communications with customers so we can • rate cases. are growing our rate base by 7%. Our energy better anticipate and respond to customer • customer experience infrastructure spend across our footprint during needs in everyday interactions. transformation. 2017/18 was \$3 billion. And we added around • new energy infrastructure. 65,000 new customer accounts – gas, electric, One example of growing our core business is and distributed generation, combined. the new South Street substation in Providence, • gas mains replacement. We filed two rate cases during the year – new Rhode Island. In late March, we began the base gas distribution rates in Massachusetts first phase of energisation at the \$70 million, Growth and new base electricity and gas distribution state-of-the-art substation that is providing • large-scale renewables. rates in

Rhode Island – where rates had reliable energy to downtown Providence. • electric vehicle charging. remained the same for eight and five years, Safety was our fundamental priority for the respectively. And in upstate New York, we new substation. Employees are not in danger • renewable gas. reached agreement with the NY Public Service of high arc flash incidents, as arcs are • smarter grid. Commission (PSC) for a three-year rate plan. extinguished under vacuum. Although the

United States decided in June to Revitalisation of the former power station, Statutory operating profit pull out of the Paris Climate Agreement, we a historic riverfront building, is generating continue to support the Paris climate deal and educational and economic development in align ourselves with state and local leaders the city and across the state. It has been who share our climate and environmental transformed into space for Brown University goals. One example is the appointment of administration and both Rhode Island College £1,734 m Dean Seavers, National Grid Executive and University of Rhode Island nursing students. (2016/17: £1,278m) Director, US, to co-chair the national Alliance Commission on US Transportation Sector The Metropolitan Natural Gas Reliability Efficiency,

convened by the Alliance to Save Project in Brooklyn, New York, is another way Energy. The commission has said it will develop we are growing our core business. Through Adjusted operating profit recommendations to reduce energy use this project, which started in May 2017, in the US transportation sector by 50% by we are installing approximately 1.7 miles 2050 while meeting future mobility needs. (2.7 kilometres) of 30-inch transmission pipeline operating at 350 psi. £1,698m Operational performance The US business saw a 6% reduction in the Our rate case filings allow us to make sure (2016/17: £1,713m) number of injuries requiring medical attention we are better equipped for the future, as does beyond first aid and a 19% reduction in the our continued work with Grid Modernization number of preventable road traffic collisions in Massachusetts, with Reforming the Energy Capital investment during 2017/18. We implemented safety, health Vision (REV) in New York, and with the Power and environment (SHE) plans at local levels to Sector Transformation in Rhode Island. address current risks and injury trends. We also established our guiding principles of safety Approval this past winter of new electricity which sets out how our people can play a role and gas delivery rates in upstate New York £2,424m in promoting a safer environment for everyone. means we can invest \$2.5 billion over three (2016/17: £2,247m)

We will continue to focus on improving our years to modernise our electricity and natural safety culture to address key risk and gas networks, and promote economic growth hazard mitigation strategies in 2018/19. across upstate and improve customer service. Our key performance indicators are reported in The plan allows us to continue our new Energy detail on pages 14-17. We have worked hard to Affordability Program, which provides a bill find ways of operating more efficiently and with decrease for most income-eligible customers, innovative technology. The work we have done and to introduce new energy efficiency has supported National Grid's three strategic solutions for our moderate-income customers. Picture above Nick Monte repairs an electricity cable, USA. 30 National

Grid Annual Report and Accounts 2017/18 Strategic Report | Principal Operations – US

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Strategic Report An important objective in 2018 is for us to Shaping the future of energy achieve a good outcome in our Massachusetts We are shaping the future of energy by and Rhode Island rate case filings. Together, pursuing four distinctive policy priorities, these companies represent around 30% of as described below: our US rate base. 80%x2050: Massachusetts, New York In Massachusetts, resetting distribution prices and Rhode Island have each adopted targets would help us upgrade an 11,000 mile gas mandating 80% CO2 emission reductions distribution network, improve service quality safety, by 2050 across their entire economies (1990 meet regulatory expectations, and modernise baseline). To balance sustainability and to operations for the benefit of customers across achieve compelling customer outcomes, 116 cities and towns in the state. we are adhering to three design principles: • address the highest emitting fuels and In Rhode Island, new rates will allow us to sectors first; continue improving service quality, provide the • optimise the use of existing networks; and safety and reliability our customers rely on, and • avoid price shocks through strategic pacing pursue new initiatives focused on renewable of the changes. energy, modernising the network and helping income-eligible customers. Programmes to Large-scale renewables (LSRs): We support Governor Gina Raimondo's call for the support state policies to promote renewable Power Sector Transformation Initiative are also energy development in Massachusetts, important elements of our rate filing. New York and Rhode Island. LSRs are interconnected to the transmission system Storm response was a big focus for us this and deliver energy, including hydroelectric past autumn and winter, both within and outside power, to wholesale customers. We expect In December, the Massachusetts Clean our service area. state policy-makers to support these Energy Center awarded energy storage grants resources via contractual agreements. totalling \$4.53 million to five projects supported In September, Hurricane Irma caused massive by National Grid. One grant will assist in damage to the US southeastern area, including Electrify transportation: We are a strong the construction and operation of an energy Florida. At the storm's peak, there were 7.8 million supporter of electrifying on-road transportation storage system that will be deployed alongside outages. More than 130 National Grid US because of its promise to significantly reduce one of our large-scale solar installations located employees responded as part of the Edison greenhouse gas emissions. Across our service in Shirley, Massachusetts. Electric Institute Mutual Assistance network to area, we are helping expand deployment of support restoration activities for Tampa Electric. charging infrastructure, informing customers We received the first-ever National Association about electric transportation options, and of Regulatory Utility Commissioners 'Utility In late September, Hurricane Maria left Puerto preparing for future integration of electric Industry Innovation in Gas Award' for our Rico without electricity. More than 150 National vehicles into the network. Natural Gas Demand Response Program. This Grid employees from New York assisted with uses advanced technology to help commercial restoration over a six-month period, from We have hosted several 'ride and drive' events and industrial customers shift their energy use, November to April. at our facilities to increase employee awareness which will help us manage peak demand about vehicle options, battery performance, during the coldest winter days. Closer to home, in upstate New York, damaging charging types, and cost of ownership. We thunderstorms and tornadoes caused thousands also have sponsored state-wide 'ride and drive' Once again, the three states we service were of outages in May and June 2017. Our response events in collaboration with the Executive ranked among the leading states in the nation earned us Edison Electric Institute's emergency Office of Energy and Environmental Affairs when it comes to energy efficiency, according assistance and emergency recovery award. in Massachusetts. to the American Council for an Energy-Efficient Economy. Massachusetts took first place, In late October, we responded to a storm that hit Future of gas: We support natural gas Rhode Island moved up to third from last the Northeast US particularly hard, with heavy capacity expansion projects in an effort to year's fourth place ranking, and New York rain and wind gusts up to 80 mph. The storm address gas supply demand forecasts, was placed seventh. was much worse than originally forecasted. residential conversions to natural gas, network Across our service area, more than 500,000 reliability and renewable natural gas initiatives, Looking ahead customers lost power. We were grateful for and the reduction of greenhouse gas emissions. Looking ahead, we will stay focused on our mutual aid from other utilities and the quick quest to become a great operating company. mobilisation of construction and tree crews In addition to our operational performance This means developing our employees in a safe to aid restoration efforts. In Massachusetts, work described above, the following workplace, providing our customers affordable we restored 85% of affected customers in programmes, grants, and awards support energy, and enabling strong economies in 48 hours, and in Rhode Island, we restored our policy priorities: our communities. over 90% of peak customers affected in 2½ days. Regulators in both Massachusetts and In November, we joined forces with the Some of the ways we will address these Rhode Island opened an investigation to review Department of Energy's Pacific Northwest goals are by improving both our capital and our storm performance. Although we had National Laboratory to work together operational expenditure efficiency, improving sufficiently prepared for the forecast weather, on research in the areas of transmission our customer metrics, generating operating they felt we should have been better prepared grid modernisation and energy storage profit from new sources, and limiting customer for what actually transpired. We thoroughly technologies. bill increases. reviewed lessons learned and highlighted opportunities to improve our restoration Also in November, we announced plans to We will continually improve our performance by efforts in future weather events. install a 48 megawatt-hour battery energy finding a better way and investing in our growth. storage system (BESS), on the island of In March three consecutive nor'easters caused Nantucket, 30 miles (48 kilometres) off the power outages to more than 800,000 of our Massachusetts coast, to help address the Massachusetts and Rhode Island customers. island's significant growth and demand for Recognising the vital contributions of the electricity. The BESS will be six megawatts volunteers and emergency responders that with an eight-hour duration, which is also supported our customers' needs, we donated described as a 48 megawatt-hour system, \$100,000 to the American Red Cross to and is being provided by Tesla. support disaster relief efforts in both states. Picture top right Line-workers repairing storm-damaged cables. Strategic Report | Principal Operations – US National Grid Annual Report and Accounts 2017/18 31

Edgar Filing: NATIONAL GRID PLC - Form 20-F

National Grid Ventures and Other activities The launch and progress of National Grid Ventures: a new unit to drive growth outside our core regulated businesses in the US and UK. Operational performance Electricity interconnectors: National Grid Ventures is the leading developer and operator of electricity interconnectors from and to Great Britain, with two subsea links in operation and three currently under construction. BritNed is a joint venture between National Grid and TenneT, the Dutch transmission system operator. It owns and operates a 1 GW HVDC link between Great Britain and the Netherlands. BritNed availability was 97.7% in FY17/18. A substantial proportion of the flow over BritNed was in the import direction from the Netherlands to Great Britain. Delivering our strategy Highlights This section relates to National Grid The England-France interconnector (IFA) is a Highlights Ventures, non-regulated businesses and 2 GW HVDC link between the French and British other commercial operations not included transmission systems, with ownership shared Performance optimisation within the business segments. between National Grid and Réseau de Transport • National Grid Ventures +34 d'Electricité (RTE). IFA availability was 92.6% in NPS score. National Grid Ventures was established on FY17/18. As with BritNed, a substantial proportion • IFA 92.6% availability for FY17/18. 1 April 2017. The new unit, which operates of the flow was in the import direction from separately from our core regulated businesses, France to Great Britain. • BritNed 97.7% availability for FY17/18. comprises a broad range of activities in competitive markets in Great Britain and Nemo Link, developed between National Grid • 107,000 smart meters the US, including electricity interconnectors, and Elia, the Belgian transmission system installed by early 2018. Europe's largest liquefied natural gas (LNG) operator, will connect Richborough in Great Growth terminal, and energy metering. Britain and Herdersbrug in Belgium. The subsea cable will be 80 miles (130 kilometres) in length • 3.4 GW of new interconnector National Grid Ventures is also tasked with and will have a capacity of 1 GW. Cable-laying capacity on schedule to be creating value and gathering knowledge work is due to be completed in May 2018, while operational in 2021/22. through investment in adjacent businesses, construction of the converter stations in both Better equipped for the future including utility-scale projects, distributed countries is on track to be completed in October energy opportunities and the development 2018. Overall, the project remains on schedule • Established Technology and of new and evolving technologies. and the interconnector is due to be operational Innovation team to support National Grid Ventures and in the first quarter of 2019. our core businesses. In the last year, National Grid Ventures has made significant progress in the construction North Sea Link (NSL) will connect Blyth in • Targeting investment in new of three new electricity interconnectors from Great Britain and Kvilldal in Norway. Developed and evolving technologies. Great Britain to Belgium, France and Norway. between National Grid and the Norwegian transmission system operator Statnett, NSL The Isle of Grain LNG import terminal received will be the longest subsea cable in the world the first ever Great Britain LNG cargos from the at 447 miles (720 kilometres). The 1.4 GW US and Peru, highlighting our ability to deliver link is expected to be operational in 2021/22. a more diverse gas supply for Great Britain. Construction started in Norway in 2016, while cable laying work will start in Great Britain later National Grid Ventures is committed to this year. providing a high level of service to customers across all of its businesses. It achieved a high Initial construction work has also started on the overall NPS score of +34. 149 mile (240 kilometres) IFA2 interconnector. Developed with RTE, the 1 GW subsea cable will Our 'Other' activities comprise UK Property connect Hampshire in the UK and Normandy in and US non-regulated businesses, which France. The link is expected to be operational include LNG operations and corporate costs. in 2020. The UK Property business generated operating profit of £84 million (2016/17: £65 million). LNG Storage: Isle of Grain LNG is one of three LNG importation facilities in Great Britain. In aggregate, the National Grid Ventures It operates under long-term contracts with and Other segment delivered £231 million customers and provides importation services of underlying operating profit and accounted of ship berthing, temporary storage, ship for £518 million of continuing investment in reloading and re-gasification into the NTS. 2017/18, after corporate costs of £87 million (2016/17: £127 million). Grain LNG's road tanker loading also offers the UK's transport and off-grid industrial sector a more environmentally friendly alternative to diesel or heavy fuel oil. The facility allows road tanker operators to load and transport LNG in bulk across the UK via road or rail. Grain LNG had reloaded 3,950 road tankers by March 2018. Picture above Nemo Link HVDC cable on board vessel for installation. 32 National Grid Annual Report and Accounts 2017/18 Strategic Report | Principal Operations – NG Ventures and Other

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Strategic Report Statutory operating profit Metering: National Grid Metering (NGM) In December 2017, we announced we would provides installation and maintenance services join the Breakthrough Energy Coalition, which to energy suppliers in the regulated market in brings together private investors, global Great Britain. It maintains an asset base of corporations that produce or consume energy around 11.1 million domestic, industrial and in vast quantities, and financial institutions £231m commercial meters. Customer satisfaction with the capital necessary to finance the (2016/17: £62m) scores for NGM remain positive for domestic, world's largest infrastructure projects. industrial and commercial businesses. Looking ahead National Grid Smart (NGS) became operational NEMO Link, IFA2 and North Sea Link are Adjusted operating profit in November 2016, supporting energy suppliers on track to be operational between 2019 in fulfilling their UK smart meter roll-out and 2021/22, giving National Grid Ventures obligations. NGS offers a variety of services a portfolio of more than 6 GW of interconnector from meter asset financing and customer capacity. £231m relationship management through to installation (2016/17: £177m) and maintenance services. NGS installed its In addition to driving growth in existing 107,000th smart meter by early 2018. businesses, National Grid Ventures will look to develop opportunities in new and evolving Shaping the future of energy technologies. In 2018, National Grid Ventures Capital investment The economics for solar and wind generation opened up a new presence in California, are becoming increasingly attractive, and with the establishment of a Technology and the ongoing significant growth in large-scale Innovation team tasked with direct investment renewables is set to continue into the long in expansion and growth stage start-ups m term. 2017 was the 'greenest year ever' for that are ready to partner with our emerging £518 the UK, with over half of electricity generation and core businesses. (2016/17: £374m) last summer coming from renewable sources. Similarly, US states remain committed to Property: National Grid Property deals aggressive CO2 reduction targets. with the management and regeneration of our brownfield surplus estate in the UK. National Grid Ventures is actively engaged Our specialist team works with stakeholders in the renewables space in the US. Through such as Historic England, local authorities the partnership with Sunrun, we have seen and communities to reduce risk across our increased conversion rates, particularly where portfolio and create new healthy, balanced Sunrun has co-branded with National Grid. communities and employment land. In addition, National Grid Ventures manages our stake in Enbala, which develops technology During 2017/18, we disposed of 44 sites and to help utilities optimise increasingly complex exchanged contracts on a further five land sales, electricity grids. National Grid Ventures also to facilitate the delivery of thousands of new manages our stake in Energy Impact Partners, homes across the UK. Our joint venture with a strategic investment firm that invests Berkeley Group, called St William Homes, has in companies improving sustainable entered its fourth year. Around 1,100 homes energy generation. are already under construction, with planning permission secured for a further 1,880 homes. Picture top right NEMO Link team member holding cross-section of HVDC interconnector. Strategic Report | Principal Operations – NG Ventures and Other National Grid Annual Report and Accounts 2017/18 33

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Our commitment to being a responsible business Businesses should be a force for positive social and environmental change. To do this, companies have to act responsibly in everything they do, and in the way that they do it. This belief is fundamental to the way we work at National Grid. Our risk management framework

Our approach volunteering programmes, partnering with Businesses are a key part of the communities charities and civil society, and providing Our risk management process where they work and we believe they should be community groups with financial support. In the provides a framework through which aiming to leave a positive purpose-led legacy US, for example, 650 National Grid employees we can constantly identify, assess, for future generations. At National Grid, we participated in 17 coordinated Earth Day prioritise, manage, monitor and report our risks. Through a 'top down, bottom work hard to bring energy to life and exceed projects in communities across all three states, up' approach, all business areas the expectations of our customers, including clean-up events in public parks, city identify the main risks to our business shareholders and communities. beautification projects, tree plantings, and a model and to achieving their business door-to-door LED lightbulb exchange. objectives. Each risk is assessed We took part in the 2017 UK Social Mobility by considering the financial and Employer

Index and were ranked 34th out of We have policies in place that support our reputational impacts, and how likely the 98 companies that took part. Following approach to being a responsible business. the risk is to materialise. Consideration feedback, we have introduced changes to We report on a number of non-financial

is given to the impact on the external environment and the effect on our our recruitment processes and the data we performance measures relating to these stakeholders. Each business area capture so we can better understand and policies. You can find details about our key identifies and implements actions address social diversity. We are undertaking non-financial performance measures on to manage the risks. a significant piece of work to move the focus pages 14-17, and also on our website, in the of our corporate responsibility activities towards Responsibility and Sustainability section. Monitoring risks and controls is supporting social mobility both in the UK conducted through established boards and US. We will describe the outcomes Our priorities and committees at different levels of from this work in next year's report. Our priorities are shaped by the Company's the organisation. Deficiencies, such as a significant breach of policies, strategic priorities, and a number of other are reported and corrected at the Being a responsible business covers every factors, including the risks we face as a appropriate entity level. The most aspect of our work, both what we do and business, the views of our customers and significant risk and controls issues how we do it. When

we are undertaking major stakeholders, and the challenges faced by are monitored at the Senior Executive infrastructure projects, we work with our the communities where we operate. We are and Board level. customers, stakeholders and communities to signatories to the United Nation's Global gather their views to help inform what we do. Compact and support its Sustainable For example, at our new Highbury substation in Development Goals (SDGs). These goals In focus London we are building retail units and residential promote prosperity while protecting the planet. apartments to help support urban regeneration All 17 goals are important, and there are five in the area, half of which are affordable homes. (see below) that are particularly linked to We support communities through our employee our responsible business focus areas. You can read more about our approach to internal control and risk management on pages 18-21. We describe our purpose, vision and values on page 12. Re-use of resources Rhode Island housing National Grid EmployAbility In focus Environmental sustainability

Communities People We are passionate about We support the communities We are working hard to overcome operating our business in an where we work and live to help some of the biggest energy environmentally responsible way them thrive and be socially challenges of the 21st century Our KPIs are described on page

14-17. and making sure sustainability inclusive. Being a welcomed as generation moves from fossil You can find detailed sustainability shapes our thinking and part of the community helps fuels to renewable sources and performance metrics on our website: decision-making. This helps us to work effectively and transportation moves towards www.nationalgrid.com/group/us to optimise our operational deliver for our customers. electric vehicles. We need to make responsibility-and-sustainability performance, provide value sure we have highly motivated for our customers, and benefit people, with the right skills, the environment. equipping us for the future. Supporting the United Nation's • Goal 7: Ensure access to affordable, Sustainable Development Goals reliable, sustainable and modern Our approach focuses on environmental energy for all sustainability, communities and people, and • Goal 8: Promote inclusive and sustainable helps to

support five of the United Nation's economic growth, employment and decent Sustainable Development Goals. You can work for all find out more about this on our website • Goal 13: Take urgent action to combat in our responsible business section. climate change and its impacts • Goal 4: Ensure inclusive and quality • Goal 15: Sustainably manage forests, education for all and promote combat desertification, halt and reverse lifelong learning land degradation and halt biodiversity loss

34 National Grid Annual Report and Accounts 2017/18 Strategic Report | Our commitment to being a responsible business

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Strategic Report Our contribution to a low-carbon Environmental sustainability economy We know that our business operations have the As a result, we also support the Paris • We reduced Scope 1 and 2 potential to affect the environment. Managing Agreement and have made our own emissions by 15.4% in 2017/18. any risks, whether these are short-term through commitment to reduce our greenhouse gas • We have enhanced the value our physical operations, such as air quality and emissions by 70% by 2030 and 80% by of natural assets at 30 sites. pollution, or long-term through our greenhouse 2050. This aligns with the trajectory required We aim to enhance a total of gas emissions or resource use, is fundamental to meet the goal of the Agreement: to limit 50 sites by 2020. to our approach to environmental sustainability. global warming to a 2°C temperature rise • In 2017 we updated our from 1990 levels. strategy, setting new global Additionally, an environmental event arising from and regional targets: catastrophic asset failure is one of our operational In June 2017, the Financial Stability risks. You can read more about this on page 19, Board released its final report on the -- Reduce carbon intensity of our construction projects. together with our approach to mitigation. recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). -- Implement carbon pricing Our priorities The voluntary framework for disclosure of on major investment projects. Our environmental strategy, Our Contribution, climate-related information in financial filings is -- Drive net gain in environmental was originally developed in 2012 with a wide structured around four themes: governance, value on our major construction range of internal and external stakeholders, strategy, risk management, and metrics and projects. and has been refined over the years to reflect targets. We recognise the importance of changing stakeholder priorities. It focuses on these disclosures and are committed to three areas: climate change, resources and implementing the recommendations. caring for the natural environment. Our strategy In focus is delivered through our environmental policies. We have included information relating to how we are managing our climate impact and how We focus on: our business is evolving in response to the risk • reducing our carbon footprint; and opportunities we see arising from climate You can read more about our approach to environmental sustainability on the • maximising the value of resources and change in various parts of this Report. The Responsibility and Sustainability section reducing the impact on the environment table on page 192 shows how our disclosures of our website. through re-use and recycling; and map against the TCFD recommendations, • using our land holdings in ways that benefit and where relevant information can be found. our business, the environment and the This represents our first set of disclosures. communities in which we live and work. We recognise this will evolve and expand over time. This is all underpinned by maintaining high environmental management standards. This year we were delighted to win Business in the Community's Award for Environmental As a company, we support climate change Leadership. In the US, our Massachusetts science. Reducing greenhouse gas emissions business was named one of the most energy is an important area of focus for us, and is one efficient utilities in America by the American of our KPIs. You can read more about this, Council for an Energy-Efficient Economy. and our performance, on page 16. New life for old IT equipment Our specialist recycling partner collects surplus Max Morgan, from our Information Services equipment from us such as PCs, laptops and team, describes what we do and who benefits mobile phones. Some items they clean and when we reuse or recycle our old IT equipment. refurbish; some they dismantle, salvaging reusable components such as circuit boards and Being at the forefront of information technology hard disks. They break down the rest into raw is crucial for National Grid. It means regularly materials, including precious metals. Nothing is upgrading systems to make sure they can handle wasted. Even the packaging we wrap around the challenges of our changing business. our old IT equipment is used again. When our IT equipment comes to the end Metal, plastic, even glass from the IT equipment of its useful life, we want to dispose of it in a can be put to further use. The money generated responsible way. We have three goals: to make by selling these materials pays for our donations sure we don't harm the environment, to secure to local charities or schools. During 2017/18 our data, and to benefit the communities where we've helped hospices and charities dedicated we work. to healthcare and conservation among others, in both the UK and US. In the first eight months of 2017, working with a recycling specialist, we were successful in Responsible disposal of assets reusing or recycling more than 7,000 pieces of We chose our recycling partner after a IT equipment. Nothing ended up as landfill. competitive tender. We discovered through this process that there are many approaches Circular economy to recycling, not all of which are acceptable We reuse a lot of IT equipment internally, to to us. However, our partner can meet all our equip new starters, for example, or to test the requirements for the responsible disposal latest business applications. It's part of our of our assets. 'circular economy' approach. We recognise that the best way to reuse a laptop, for example, is to continue using it as a laptop, perhaps for a different job. Maintaining equipment for as long as is feasible means we buy less new IT equipment, which reduces the environmental impacts associated with building and transporting it.

Strategic Report | Our commitment to being a responsible business National Grid Annual Report and Accounts 2017/18 35

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Our commitment to being a responsible business continued Health and wellbeing People We have continued to focus our We are working hard to overcome some Safeguarding the future wellbeing efforts on encouraging of the biggest energy challenges of the 21st We continue to raise awareness of the career behavioural change within our century as generation moves from fossil opportunities in the energy utility industry in workforce, through education and training. fuels to renewable sources and transportation both the UK and US. In the UK, the need for moves towards electric vehicles. We need a skilled workforce to develop, deliver and use Our wellbeing programmes have to make sure we have highly motivated new technologies within the energy sector is raised awareness to employees of risks people, with the right skills, working for us, becoming more acute according to the EU associated with modern living, and and helping equip us for the future. Skills Workforce Strategy. STEM skills underpin the impact it can have on their health. our business, so we promote STEM as an Campaigns in 2017 included: diabetes Our focus on people covers our current and exciting career path for young people through awareness, circadian rhythms, body future employees. We aim to have an engaged education outreach activity such as the Big weight, cancer prevention, nutrition, heart health, sleep quality, fatigue and diverse workforce to stimulate innovation, Bang Fair, work experience, and hosting and immunisations. reflect the communities where we work, and school visits to our sites. deliver great customer service. The cornerstone of our mental health In the US we have signed a memorandum of work has been in-depth training The culture we strive for stems from embracing understanding with the State University of New sessions in both the UK and US. our values of everyday we do the right thing York (SUNY), which outlines our commitments These sessions are designed to and find a better way. You can read more to education, internships, and hiring opportunities. provide employees and leaders with about our values on page 12. We also continue to grow our partnerships the knowledge and confidence to notice and respond to mental health through the Center for Energy Workforce issues in the workplace. We also know that building sufficient capability Development (CEWD) and the National and leadership capacity (including effective Energy Education Network (NEEN). Living Wage succession planning) is an important factor in delivering our vision and strategy. You can We are accredited by the Living Wage read more about how we are mitigating the National Grid was the winner of Business Foundation and our commitment to risks of not achieving this on page 20. in the Communities award for Outstanding our direct employees also extends to Employment. This award recognised our contractors and their work on behalf of apprenticeship schemes and the work National Grid. We believe that everyone Engaging our people Through our approach to developing our we do to support hard-to-reach groups should be appropriately rewarded for of young people gain vital skills for work, the vital work they do. We also go people and the wider benefits of working at above the Living Wage requirements National Grid we aim to have an engaged and such as our EmployAbility programme and voluntarily pay our trainees the productive workforce. To attract and retain in the UK. Living Wage. A Living Wage review employees we make sure our remuneration takes place annually to ensure package is both fair and competitive. Through continued alignment and individual a third party company, we also carry out Whistleblowing salaries are increased as required. an annual employee survey to measure We have confidential external whistleblowing engagement levels and to help us address helplines available 24/7 in all the regions In focus areas employees believe we need to improve. where we operate. We publicise the contact Employee engagement forms one of our information to our employees and on our KPIs – you can read more about this and external website so concerns can be reported our performance on page 14. anonymously. Our policies make it clear that For more information about we will support and protect whistleblowers UK gender pay gap, visit our website: The wellbeing of our workforce is also and any form of retaliation will not be tolerated. www.nationalgrid.com/uk/ important. This year our employee lost time understanding-our-uk-gender-pay-gap injury frequency rate remained at 0.10. Our ambition is to achieve a safety performance below 0.10. Empowering people with special deal with people, while her confidence and educational needs to excel self-esteem grew. ‘EmployAbility – Let’s work together’ is an employee-led initiative that aims to bring As her internship was coming to an end, together businesses and local communities two local employers offered her full-time to support individuals with special educational employment. Now Melanie is a valued member needs. Supported internships are provided of the 14Forty team who run our restaurant at to those people who might otherwise struggle Warwick, providing customers with excellent to find meaningful employment. service and supporting her colleagues. Only 6% of people with learning disabilities gain Melanie said: ‘Without National Grid’s In focus paid employment in the UK. At National Grid, EmployAbility scheme, my future looked very we think we can do better – last year, 65% of uncertain. I feel happy and proud that I have our supported interns found employment. achieved so much.’ To find out more about our people, visit: Melanie attended a special educational needs We are working with the Government and www.nationalgrid.com/group/our-people school. She started her supported internship others to encourage more employers to get with us last year and excelled from the involved in this life-changing programme. See also ‘how we add value’ on page 6 beginning. She found a natural ability to 36

National Grid Annual Report and Accounts 2017/18 Strategic Report | Our commitment to being a responsible business

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Strategic Report Promoting an inclusive and diverse workforce In 2017 we implemented inclusion and diversity Following the appointment of a new Non- policies in the UK and the US. The purpose of Non-executive Director on 17 May 2018, the Voluntary voluntary Total the policies is to demonstrate our commitment Board's gender demographic is currently: UK 6.0% 2.2% 8.2% to providing an inclusive, equal and fair working Male 8, Female 4, Total 12 (Male 66.7%, US 5.1% 2.4% 7.5% environment through: Female 33.3%). NGV 5.1% 1.4% 6.5% • driving inclusion and promoting equal 6 opportunities for all; Gender demographic as at 31 March 2018 Total 5.3% 2.3% 7.6% • ensuring the workforce, whether part-time, full-time or temporary, will be treated fairly Our Senior Whole 4. In scope are active, permanent employees. 1 2 3 and with respect; Board management Company Out of scope are temporary employees. Male 8 171 17,36 6 5. Employees recorded in our system as part time; • eliminating discrimination; and or have <1 FTE. • ensuring selection for employment, Female 3 77 5,657 6. Included in 'Total' are Non-executive Directors promotion, training, development, benefit Total 11 248 23,023 and Executive Officers who are not categorised and reward, will be on the basis of merit as UK, US or NGV. Male (%) 72.7 69 75.4 and in line with regional legislation. Female (%) 27.3 31 24.6 Learning days per employee 17.9% of our total workforce have declared From 1 April 2017 to 31 March 2018 the themselves to be of 'minority' racial or 1. 'Board' refers to members as defined on the total number of training days delivered per ethnic heritage. We recognise the value a Company website. employee, (as recorded in our HR systems), 2. 'Senior management' refers to Band A/B employees across the whole of National Grid is 6.5 days. diverse workforce and an inclusive culture bring as well as subsidiary directors. to our business and have many initiatives to 3. This measure is also one of our Company KPIs. encourage and promote this. For example, See page 14 for more information. Promotion rate our UK employee resource groups created our The table below shows the rate of promotion second edition of 'Remarkable', which highlights Total headcount4 within the business. Promotion rate is defined the full diversity of our people. We have The tables below show the breakdown of as number of employees who were promoted implemented a diverse panel interview employees by work pattern and diversity. to a higher grade as a percentage of headcount approach in the UK and US to appoint senior last year. leaders. In the UK, this resulted in an increase Work-pattern in gender diversity and BAME representation Promotion rate % 5 on our Network Capability Electricity leadership Full-time Part-time UK 10.3 team. We have also established development # % # % US 12.4 programmes for women (US) and BAME (UK) UK 5,599 95.1 286 4.9 NGV 7.9 employees to build leadership capability. US 16,352 99.6 62 0.4 Total 11.7 NGV 685 96.5 25 3.5 Our US business achieved 100% in the Human Rights Campaign's Corporate Equality Index; Total 6 22,650 98.4 373 1.6 Keeping our Board and Executive received the Age Smart Award by Columbia Committee updated Our Board and Executive Committee receive University and is noted as a top 50 employer Gender by 'CAREERS and the disABLED' magazine. regular updates on matters relating to our These recognitions reinforce our commitments Male Female people. The Board receives regular updates on four key focus areas for our people and to all our employees. # % # % organisation: our culture, diversity, the people UK 4,365 74.2 1,520 25.8 Our policy is that people with disabilities should we need for the future and efficiency. The US 12,526 76.3 3,888 23.7 be given fair consideration for all vacancies Board also receives updates on our employee against the requirements for the role. Where NGV 466 65.6 244 34.4 opinion survey results and action plans. Additionally, this year the Board has discussed possible, we make reasonable adjustments Total 6 17,366 75.4 5,657 24.6 in job design and provide appropriate training and considered the culture of the Company for existing employees who become disabled. and stakeholder engagement activities We are committed to equal opportunity Ethnicity demographic as at (see page 48 for more details). in recruitment, promotion and career 31 March 2018 development for all employees, including those 'Minority' refers to racial/ethnic heritage The Executive Committee also receives a with disabilities. Our policy recognises the right declarations as recorded in our system. quarterly update on people-related matters. for all people to work in an environment that Those who have not stated their ethnicity In addition to these reports, the Committee is free from discrimination. are excluded from the baseline. receives regular talent updates and considers the remuneration structure for senior Our leaders advocate a diverse workforce. White 18,161 management. It also monitors safety and For example, John Pettigrew gave a keynote Minority 3,965 operational performance and receives reports in relation to matters of business conduct, risk speech at the Women in Energy conference Total 22,126 and compliance matters for review, including 2018. Several of our senior leaders have taken White (%) 82.1 part in our reverse mentoring programme. breaches of 'Always Doing the Right Thing' and Minority (%) 17.9 biannual reports from the US and UK Ethics The gender demographic table that follows and Compliance Committees in conjunction shows the breakdown in numbers of employees Employee turnover with the Ethics and Business Conduct reports by gender at different levels of the organisation. Turnover is defined as employees who have that they receive twice a year. We have included information relating to left in the last 12 months as a percentage of subsidiary directors, as this is required by the headcount last year. Voluntary turnover relates Companies Act 2006 (Strategic Report and to employees who have left through either Directors' Reports) Regulations 2013. We define resignation or retirement. Non-voluntary 'senior management' as those managers who attrition includes any other leave reasons are at the same level, or one level below, our – including dismissal, severance, etc. Executive Committee. It also includes those who are directors of subsidiaries, or who have responsibility for planning, directing or controlling the activities of the Group, or a strategically significant part of the Group, and are employees of the Group. Strategic Report | Our commitment to being a responsible business National Grid Annual Report and Accounts 2017/18

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Our commitment to being a responsible business continued Our role in communities An important part of our vision is to exceed the Supporting communities to thrive In the UK we are part of the Government's expectations of our communities. We do this We don't just supply power to communities, Inclusive Economic Partnership, a partnership by providing a safe and reliable service, and by we are part of them. As a purpose-led between the business sector, Government helping our communities to thrive through our organisation, we believe that helping to build and civil society. We are supporting work in the responsible business activities. We also know strong communities is good for the people vital areas of mental health in the workplace that, from time-to-time, when we are carrying who live there, good for our business and and equipping people to successfully transition out large construction projects that our work good for the wider economy. to the world of work. can have a negative impact on communities. We work with communities to reduce this The overall additional value we bring to Preventing modern slavery impact and to help support their social communities is estimated to be £73 million. We strive to make sure that modern slavery and economic needs. is not taking place anywhere in our business We achieve this by partnering with civil society, or in our supply chain. We rely on our suppliers Safe reliable energy providing communities with one-off grants to to deliver our human rights requirements within Providing a reliable and safe service at as support their social, economic and environmental their own supply chains and we expect all low a cost as possible is important to our development. We encourage our employees suppliers to be compliant with the Modern customers and to us as we work hard to to pursue skills-based volunteering and Slavery Act. Each year we publish our modern exceed their expectations. fundraising opportunities. In the future, we slavery statement on our UK website. will be focusing on helping to address social The safety of our employees, contractors and mobility, both in the UK and US. We work with our suppliers and peers to the public is one of our highest priorities and understand what approach they are taking to this is reflected in our KPIs, described on page We voluntarily set up a £150 million Warm combat modern slavery. In 2017 we completed 15. We have policies, procedures and training Home Fund after the sale of a 61% stake in our a desktop risk assessment of our top 250 in place to make sure we maintain our safety UK Gas Distribution business to help address suppliers. We are now engaging with those performance at the high level that we expect. fuel poverty. To date, we have given out just suppliers that have been identified as potentially over £63 million to improve homes and help high risk and will be working with them to The reliability of our networks is world-class, people across England, Wales and Scotland complete a range of assessment questions running at more than 99.9% availability in both by, for example, enabling them to have central to develop risk mitigation plans for any the UK and US. You can read more about this heating systems for the first time. identified issues. on page 15, as well as how we manage our operational risks on page 19. Our employees also support local schools and We are also developing a framework for our colleges with work experience opportunities buyers so that the sustainability risk criteria, We ask our customers what they think of us and careers advice sessions, as described on including those relating to modern slavery, and we act on their feedback. You can read page 17. Last year we had more than 35,400 can be embedded into the initial stages of about our customer satisfaction performance quality STEM interactions with young people. the sourcing process and integrated into on page 15. the selection criteria. Any risks identified We are partnering with Hudson Valley Community will be reviewed through the contract College in the US to offer entry-level natural gas management process. industry training. This will help meet the challenge of an ageing engineering workforce in the energy £73m industry. Investing in future generations links in The value of our volunteering, with one of our strategic priorities to ensure that fundraising and community National Grid is better equipped for the future. contributions in 2017/18 Affordable housing in Rhode Island Housing for All came out of a United Way We're supporting United Way of Rhode Island summit to find solutions to the root causes of in its affordable housing project, Housing for All. the housing problem in Rhode Island. As one Community and Customer Manager Marisa of the state's energy suppliers, we directly Albanese explains why. touch the lives of people struggling with their household bills. We see the need to be part Affordable housing is a basic need. We know of the discussion and the solution. So we it contributes to the stability and growth of gave United Way \$50,000 to help fund four communities. Yet a shortage of affordable projects to address some of the issues housing is an ongoing problem facing working raised at the summit. families and individuals in some of the communities we serve in Rhode Island. That's We'll be working with United Way to help why United Way of Rhode Island stepped in monitor the work of the four agencies managing with Housing for All, which we support. these projects, to evaluate progress, and to offer our expertise when it's needed. This Our work with United Way takes various by itself won't solve the problem of housing forms. We match donations our people make costs in Rhode Island, but it's a step in the through fund-raising campaigns. Some of right direction. us also volunteer on United Way projects and committees. 38 National Grid Annual Report and Accounts 2017/18 Strategic Report | Our commitment to being a responsible business

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Strategic Report Good business conduct To provide an understanding of the Company's We investigate all allegations of ethical Ethical business conduct development, performance and position, we misconduct thoroughly and, where appropriate, Our Code of Ethical Business Conduct describe our respect for human rights and we take corrective action. We also record trends sets out the standards and behaviours we anti-corruption and anti-bribery matters below. and metrics relating to such allegations – only expect from all employees to meet our values a small percentage of these relate to bribery of Do the Right Thing and Find a Better Way. Human rights or corrupt practices, so we do not consider The document is issued to all employees Respect for human rights is incorporated them to be material for reporting purposes. and is supported by a regular programme into our employment practices and our values, For the seventh successive year, we have been of communications to promote a strong which are integral to our ethical business recognised by the Ethisphere Institute as one ethical culture. Additionally, we provide conduct guide – the way in which we conduct of the World's Most Ethical Companies. briefings for high risk areas of the business, ourselves allows us to build trust with the such as Procurement. people we work with. Governance and oversight We regularly review and update our framework Suppliers We earn this trust by doing things in the right so we can make sure our procedures remain Our Supplier Code of Conduct is issued to way, building our reputation as an ethical proportionate to the principal risks we have our suppliers and sets out our requirements company that our stakeholders want to do identified. that they have in place a programme with business with, and that our employees want procedures to prevent and detect bribery to work for. However, due to the jurisdictions Our UK and US Ethics and Compliance and corruption, in accordance with all in which we operate, the nature of the work Committees (ECC) oversee the Code of Ethical applicable local, state, federal or national we undertake, and our associated supply Business Conduct and associated awareness laws or regulations including the UK Bribery chain, human rights is not considered to programmes. Any cases alleging bribery are Act 2010 and the US Foreign Corrupt be a principal risk to our business. required to be referred immediately to the Practices Act 1977. relevant ECC so the members can satisfy Although we do not have specific policies themselves that cases are investigated We provide specific guidance and briefings relating to human rights, slavery or human promptly and, where appropriate, acted upon, for high risk areas, so contractors, agents and trafficking, our procurement policies integrate including ensuring any lessons learnt are others who are acting on behalf of National sustainability into the way we do business communicated across the business. Grid do not engage in any illegal or improper throughout our supply chain, so that we create conduct. Our Global Procurement team carries value, preserve natural resources and respect The Audit Committee receives an annual report out regular supplier screening to identify any the interests of the communities we serve and on the procedures currently in place to prevent requirements for prosecutions or sanctions from which we procure goods and services. and detect bribery. You can read more about within our supplier base. the Audit Committee's role on page 44. None Through our Supplier Code of Conduct of our investigations over the last 12 months Compliance framework we expect our suppliers to keep to all laws have identified cases of bribery. Each of our business areas is required to relating to their business, as well as adhere consider its specific risks and maintain a to the principles of the United Nations Global Anti-bribery policy compliance framework setting out the controls Compact, the Ethical Trading Initiative Base Our Group Policy Statement – Anti-Fraud and it has in place to prevent bribery. Every six Code, the UK Modern Slavery Act 2015, and Bribery – applies to all permanent employees, months, as part of the compliance procedure, for our UK suppliers, the requirements of the temporary agency staff and contractors. It sets the business is asked to self-assess the Living Wage Foundation. out our zero-tolerance approach to bribery. effectiveness of its controls and provide evidence that supports its compliance. Anti-bribery and corruption To ensure compliance with the UK Bribery Act We have policies and governance in place 2010, we carried out a risk assessment across Each year, all function heads are asked to certify that set and monitor our approach to being the Company so we could highlight higher risk the compliance in their area, and to provide responsible, including our Code of Ethical areas and make sure adequate procedures details of any exceptions. This culminates in Business Conduct (covering bribery and were in place to address them. We introduced presentation of a Certificate of Assurance from corruption). We have a Company-wide an e-learning course for all employees so they the Chief Executive to the Board (following framework of controls designed to prevent can adequately understand the Company's consideration by the Audit Committee). and detect bribery. zero-tolerance approach to fraud, bribery or corruption of any kind. Strategic Report | Our commitment to being a responsible business National Grid Annual Report and Accounts 2017/18 39

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Letter from the Chairman I believe that strong corporate governance supports long-term value creation for shareholders and is key to balancing the interests of our shareholders with those of our wider stakeholders. Your Board recognises the importance of our wider stakeholders and takes its responsibility and duty to them under section 172 of the Companies Act 2006 very seriously. On page 6, we set out who our key stakeholders are, why they are important to us and how we create value for them over the long term. Engagement with our stakeholders continues to be an important priority for us. This year, the Board has reviewed who the Company's key stakeholders are; our current stakeholder engagement activities; the appropriateness Sir Peter Gershon of this engagement; how this engagement is Chairman reported to the Board; the mechanisms used to feedback to our stakeholders; and whether there is a need for greater engagement at Board level. Dear shareholders, You can read about this on page 48. Corporate Governance contents This year the Board has continued to focus on providing effective leadership and oversight of I believe that the Board should choose a Corporate Governance 41 the Company as it seeks to achieve its strategic stakeholder engagement model best suited Board and Committee evaluation 46 priorities and create value for our shareholders to the needs of the Company, and for us Audit Committee 49 during an ongoing period of external regulatory that means it should reflect that more than and political uncertainty. These external changes two-thirds of our employees now work in, Finance Committee 56 have influenced the Board's agenda during the and more than 60% of our capital expenditure Safety, Environment and year, as we considered, among other matters, is in, the US. We will continue to engage Health Committee 57 the impact of US tax reform, Ofgem's 'minded-with our stakeholders in a way that is guided Nominations Committee 58 to' consultation on the delivery model for the by our purpose, vision and values. Diversity 59 Hinkley-Seabank project, Brexit and the threat of renationalisation. Board changes and diversity Management committees 60 As reported last year, Ruth Kelly stepped Statement of compliance with the Risk down from the Board in July 2017. I would UK Corporate Governance Code 61 As a Board we are responsible for determining like to thank Ruth for her significant Index to the Directors' Report the nature and extent of the principal risks we are contribution to the Board and Committees and other disclosures 62 willing to take to achieve our strategic priorities. during her tenure. As previously announced, Directors' Remuneration Report 63 In addition to its usual ongoing oversight of the Andrew Bonfield will step down from the Company's risk management and internal control Board at the conclusion of the 2018 AGM. systems and assessment of our principal risks, Andy Agg, currently Group Tax and Treasury the Board this year undertook a risk management Director, will be appointed as Interim Finance review to revalidate our principal risks and rethink Director pending the appointment of a our risk appetite framework. You can read about permanent Finance Director. Andy will not Structure of the report the outcome of our work on risk during the year join the Board, but will become a member This report sets out how we are governed on page 41. of the Executive Committee. and the Board's key governance activities during the year. Further information on Culture We also announced on 15 May 2018 that Pierre our compliance with the UK Corporate Like risk management, I believe that focusing Dufour will step down from the Board at the Governance Code for 2017/18 is set on the Company's culture is part of doing good conclusion of the 2018 AGM due to ill health. out on pages 61-62. business and is intrinsic to everything we do. We reported last year on the outcome of the On 17 May 2018 we will welcome Amanda Board's previous performance evaluation, Mesler on to the Board as a Non-executive which focused on culture, and it remained a Director. The Nominations Committee oversaw focus area for the Board this year; particularly the rigorous selection process for Amanda's how we oversee, shape and monitor culture. appointment. You can read more about this on You can read more about this on page 47. page 59. Amanda's appointment is part of our ongoing commitment to build and maintain an As Chairman, promoting a culture of openness effective Board which is high quality in terms and debate is one of my key responsibilities and of expertise, diversity and background. As a as a Board we play an important leadership role result, shareholders will continue to benefit in promoting the desired culture throughout from strong governance and stewardship. the organisation and making sure that good governance, which underpins a healthy culture, We remain focused on maintaining an inclusive is established. The right culture and governance and diverse culture. We believe this improves can support us in achieving our purpose and effectiveness, encourages constructive debate, strategic priorities. It is also integral to creating delivers superior performance and enhances sustainable value in a way that is consistent with the success of the Company. At its January our values: every day we do the right thing and meeting, the Nominations Committee approved find a better way. amendments to our Board diversity policy and discussed progress made against our diversity Corporate Governance objectives. You can read more about this on Your Board remains committed to the highest page 59. standards of corporate governance and alignment Special dividend with best practice, and this requires ongoing focus as the corporate governance landscape continues This year we returned some £4 billion to develop. We are cognisant of this changing to shareholders following the sale of a 61% stake in our UK Gas Distribution environment and are an active participant in it – in business, through a combination of a February we responded to the Financial Reporting Sir Peter Gershon share consolidation, a special dividend Council's consultation on its proposed revision Chairman and share buybacks. to the UK Corporate Governance Code. 40 National Grid Annual Report and Accounts 2017/18 Corporate Governance | Letter from the Chairman

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Corporate Governance Matters considered by the Board Examples of Board focus during the year included: Key areas of activity Matters considered Outcome

Business The Board has received regular updates on how our operational businesses have performed • Board review and challenge of business performance and progressed against our strategic priorities, as we find new ways of optimising our performance against the Company's oversight operational performance, look for opportunities to grow our core business and make sure performance targets and strategic priorities. we are better equipped for the future. This included performance updates from our UK and US businesses as well as the inaugural update from our newly created division, National Grid Ventures, as it focuses on the development of new growth opportunities and strengthening our commercial and partnership capabilities. Our strategic focus is predicated on our customers, and the Board was kept up to date with business performance relative to customer expectations and against our customer ambitions throughout the year. As part of this, the Board considered how we could learn from industry leaders to support our US customer transformation initiative and position the US business for future success, while capturing appropriate value for the Company and its shareholders. Strategy The Board has participated in two interactive sessions this year in addition to the time allocated • Board approval of the Company's strategy. during Board meetings. These strategy sessions focused on ensuring the Board remains up to • Board endorsement of the strategic priority date on the changing energy landscape and the implications on the Company's portfolio and areas for management focus for 2018/19. strategy, and the entry and growth strategies for National Grid Ventures so it can help us deliver against our strategic priorities and deliver shareholder value. At its April 2018 meeting the Board considered the external energy landscape further and endorsed the strategic priority areas for management focus for 2018/19. Risk The Board is responsible for determining the nature and extent of the principal risks it is willing • Agreed risk appetite profile and principal to take in achieving the Company's strategic priorities. It reviews the Company's principal risks, including two new principal risks. risks and the management of significant risks as part of its risk management and monitoring • Agreed enhancements to Board reporting, process through bi-annual review and challenge sessions. This year, the Board and Executive utilising risk appetite. Committee, with the assistance of an external risk advisor, have undertaken a risk management • Approved a new risk appetite framework review to revalidate our principal risks and rethink our risk appetite framework. for implementation across the business. • Board approval of the Group risk profile The Board discussed the Group risk profile in September and March and considered any changes and confirmation that a five-year viability to existing risks, any emerging risks, and whether the agreed principal risks were consistent period was appropriate. with the Company's risk appetite levels. The Board also reviewed the testing of the Company's • Approved the Company's viability statement. principal risks and the impact on the Company's viability over a five-year viability period. Political and This year, the Board continued to focus on how to promote the success of the Company • Board input on, support for and monitoring regulatory during further developments in our external environment. Following the UK General Election of the UK and US regulatory strategy. environment in June 2017, the Board discussed the impact of its outcome on the Company and its business • Political sub-group of Executive environment. During the year, the Board also had regular updates on risks and opportunities Committee established to take a more posed by Brexit and our continued engagement activities with our stakeholders on this issue. hands-on approach. The Board also reviewed the impact of US tax reform on the Company, including on our regulatory strategy, and on our US customers. Ahead of our next UK regulatory price control, the Board considered the key elements of Ofgem's RIIO T2 framework review consultation, published in March 2018, and scrutinised the Company's UK regulatory strategy, providing feedback, guidance and support for its ongoing development. The Board also discussed Ofgem's 'minded-to' consultation on the delivery model for the Hinkley-Seabank project and our response to the consultation. At its March 2018 meeting, the Board received an update on the key political, policy and regulatory issues in the UK and US to which the Company was responding. Culture The Board has spent much time this year on how it shapes, monitors and assesses culture • Board endorsement of a culture of the Company, which you can read more about on page 47. This included reviewing and 'scorecard' to support the Board in approving a proposed culture 'scorecard' which could be considered regularly by the Board. shaping, monitoring and assessing culture. The Board reviewed the first culture 'scorecard' at its April 2018 meeting, which showed trends and gave an assessment of areas of strength and areas for further focus. Cyber security The Board continued to focus on the evolving cyber security landscape during the year, with • Board review of and input on cyber security a regular cadence of Board reporting and review in place, supported by engagement with the measurement and reporting, including a Company's Chief Information and Digital Officer. This included review of the external and internal cyber 'scorecard'. cyber threat environment, our key cyber risks and the Company's cyber strategy. The Board was also updated on the activities of the Company's Cyber Operational Research Establishment (CORE), a joint initiative between our UK business and Digital Risk & Security function. The Board has also considered how the Company measures its approach to cyber security and how this is used to manage cyber security risk, and how cyber risk is reported to the Board and Executive Committee. Technology To support our response to the threat and opportunities presented by emerging technology, • Board review and endorsement of the and innovation this year the Board reviewed the organisation and governance of our Technology and Innovation organisation and governance for the Group function. This included how we learn from and leverage innovation that is occurring externally; Technology and Innovation function. how we enhance the effectiveness of internally generated innovation; and how we measure the • Board review of and input on the Company's success of our efforts in this area. Our focus has been on enabling an innovative culture with rapid technology and innovation strategy. decision-making and the acceleration of internally sourced ideas. At its April 2018 meeting, the Board considered, and provided input on, the Company's technology and innovation strategy. Looking forward. The Board's focus for next year is expected to include: • continued regular reviews of safety activities; • technology and innovation; • UK, US and National Grid Ventures operational business overviews; • cyber security updates; • continued detailed review of our strategy for growth and its financing; • results of the 2018 employee engagement survey; • the implications of regulatory and political changes in our business • monitoring and assessing the Company's culture, supported environment on our activities, including Brexit; by our culture 'scorecard'; • our UK and US regulatory strategy and preparation for RIIO T2; • our stakeholder engagement model; and • Ofgem's recommendations and decisions regarding the delivery model • addressing changes to the UK Corporate Governance Code for the Hinkley-Seabank project; and other corporate governance policy developments. Corporate Governance | Corporate Governance National Grid Annual Report and Accounts 2017/18

[illegible]

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Corporate Governance Committee of Jardine Lloyd Thompson Executive Vice President of the Air Liquide Group plc, group with responsibility for all Air Liquide activities across The Americas, Middle East, Skills and competencies: Jonathan has Africa and Asia, wide-ranging financial services, pensions and non-executive director experience, Skills and competencies: Pierre brings and he brings significant and in-depth to the Board a deep understanding and understanding in remuneration and knowledge of safety and engineering financial matters to his role as Chairman from his previous roles. His international of the Remuneration Committee. As a management experience is an asset to the Jonathan Dawson (66) Non-executive Director his contribution Pierre Dufour (63) Board. This, coupled with his record of Non-executive Director; Independent is essential to the successful operation Non-executive Director; Independent successfully delivering large-scale capital of the Board and through his specialisms projects, provides a wider perspective to Appointed: 4 March 2013 he delivers scrutiny, additional challenge Appointed: 16 February 2017 Board debates and strategic discussions. Tenure: 5 years and independent oversight to the Board. Tenure: 1 year Career and experience: Jonathan Career and experience: Pierre started his career in the Ministry of Defence career at SNC Lavalin Group. He joined Air External appointments: Non-executive before moving to Lazard where he spent External appointments: Chairman of Liquide in 1997, later going on to roles such Director of Archer Daniels Midland, Director more than 20 years. He was a Non- River and Mercantile Group PLC, Chairman as Chief Executive of the US operations, of Airgas Inc., an Air Liquide subsidiary and executive Director of Galliford Try plc, of Trustees of the Royal Albert Hall pension chairman of the Board of Air Liquide Canada Director and Chairman of the Environment National Australia Group Europe Limited scheme and Chairman and a founding and several different positions within Air and Society Committee of Air Liquide S.A. and Standard Life Investments (Holdings) partner of Penfida Limited. Liquide where he had responsibility for North Limited. Most recently, Jonathan was American operations, while also overseeing Committees: Member of the Nominations, Chairman of the Remuneration Committee Committees: Chairman of the safety and industrial risk management and Remuneration and Safety, Environment and and Senior Independent Director of Next Remuneration Committee, member of the operations in South America, Africa and the Health Committees. plc and Senior Independent Director Finance and Nominations Committees. Middle East. Pierre then became Senior and Chairman of the Audit & Risk Global Head of Debt Capital Markets, Chairman of AEA Technology Group plc co-head of Banking, Asia Pacific at and Chairman of EngineeringUK. JPMorgan and Global Chairman of the Financial Institutions Group, JPMorgan Skills and competencies: Paul has Chase & Co. a lifelong passion for engineering and innovation, and has spent his career in Skills and competencies: With a the energy, governmental and regulatory distinguished career in the investment sectors. He brings the skills of an banking sector, Therese brings significant experienced Chairman and Chief Executive banking, strategic and international financial to his role as a Non-executive Director. Therese Esperdy (57) management expertise and knowledge of Dr Paul Golby CBE FREng FIET, He adds a valuable perspective to debates Non-executive Director; Independent financial markets to the Board and to her FIMEchE, FEI, FCGI (67) on UK regulatory and strategic issues. role as Chairman of the Finance Committee. Non-executive Director; Independent His deep understanding and specific Appointed: 18 March 2014, and This enables her to contribute a constructive experience in safety and risk management appointed to the Board of National Grid viewpoint to Board debates with her sharp Appointed: 1 February 2012 is crucial to his role as Chairman of the USA from 1 May 2015 and incisive thinking. Tenure: 6 years Safety, Environment and Health Committee. Tenure: 4 years Career and experience: Paul is a Career and experience: Therese started Chartered Engineer with a doctorate her banking career at Lehman Brothers, External appointments: Non-executive in Mechanical Engineering, Fellow of External appointments: Chairman of then moved to Chase Securities in 1997. Director of Imperial Brands PLC, the Royal Academy of Engineering, the Costain Group plc, the UK National Air She subsequently held a variety of senior Institution of Engineering and Technology, Traffic Services, the Engineering and roles at JPMorgan Chase & Co. including Committees: Chairman of the Finance the Institution of Mechanical Engineers, Physical Sciences Research Council Head of US Debt Capital Markets and Committee and member of the Audit and the Energy Institute and City of Guilds, and a member of the Prime Minister's Nominations Committees. He was awarded honorary degrees from Council for Science and Technology. Aston University and Cranfield University. Committees: Chairman of the Safety, Skills and competencies: Mark's role as Paul was an Executive Director of Clayhithe Environment and Health Committee, Senior Independent Director is essential to plc, before going on to join E.ON UK plc member of the Audit and Nominations the successful operation of the Board. He where he was Chief Executive and later Committees. has an excellent understanding of investor Chairman. Paul also held previous expectations and significant experience in appointments as Non-executive managing relationships with investor and financial communities. During the course Group, she was a corporate/commercial of his career, Mark has gained a broad solicitor in private practice. knowledge within the utilities sector as well as extensive city, international and Skills and competencies: Alison is Mark Williamson (60) accounting experience; this makes him responsible for the legal, compliance and Non-executive Director and ideally suited to his role as Chairman of governance framework for the Group. Senior Independent Director the Audit Committee. Mark also brings She is an experienced commercial lawyer the skills of an experienced Chairman and brings a wealth of practical advice Appointed: 3 September 2012 to his role as a Non-executive Director. Tenure: 5 years and guidance to her current role as Group General Counsel and Company Secretary. Alison Kay (54) She also has expertise in regulatory and Career and experience: Mark is a Group General Counsel and contractual law and legal risk management chartered accountant with considerable External appointments: Chairman Company Secretary financial and managerial experience. He has of Imperial Brands PLC and Chairman from her experience at National Grid. Alison provides support and advice to the a deep knowledge of operating within highly of Spectris plc. Appointed: 24 January 2013 regulated industries from his time as the Directors, Board and its Committees. She brings rigour around corporate governance Group Financial Controller of Simon Group Committees: Chairman of the Audit Career and experience: Alison joined and ensures that Board procedures and plc, Chief Financial Officer of International Committee, member of the Nominations National Grid in 1996 and has undertaken policies are complied with. Power plc and Non-executive and Senior and Remuneration Committees. several roles including UK General Counsel Independent Director of Alent plc, and Company Secretary from 2000 to 2008 External appointments: Member and Commercial Director, UK Transmission Vice-Chair of the Association of General from 2008 to 2012. Prior to joining the Counsel and Company Secretaries working in FTSE 100 Companies. Board gender Executive and Non-executive Directors Non-executive Directors' tenure Board members by nationality & & & & & & &en & &cuti& & &ears & &ritis& &en Non& &ecuti& & & &ears & & &inc& & &air&an& & & &ears &anadian & & Corporate Governance | Corporate Governance National Grid Annual Report and Accounts 2017/18 43

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Corporate Governance continued Corporate Governance Board composition While traditional diversity criteria such as gender and The successful delivery of our strategy depends upon ethnicity are important, we also value diversity of skills, attracting and retaining the right talent. This starts with having experience, knowledge and thinking styles. You can a high-quality Board. Balance is an important requirement read about our Board diversity policy in the Nominations for the composition of the Board, not only in terms of the Committee report on page 58. number of Executive and Non-executive Directors, but also in terms of expertise, diversity and backgrounds. Our Board We will welcome Amanda Mesler on to the Board is comprised of a majority of independent Non-executive as a Non-executive Director from 17 May 2018. Directors whose diverse skills and experience are vital to Andrew Bonfield and Pierre Dufour will step down constructive challenge, debate and for the robust scrutiny from the Board at the conclusion of the 2018 AGM. of management performance and proposals.

Governance structure Governance framework: Structure and responsibilities The schedule of matters Board The role of the Board reserved for the Board Our Board is collectively responsible for the effective oversight of the Company and its businesses. It determines the is available on the Company's strategic direction and objectives, business plan, viability and governance structure that will help achieve Corporate Governance long-term success and deliver sustainable shareholder value. The Board recognises that to promote success over section of our website, the long term we must earn and keep the trust and confidence of our employees, customers, the communities in together with the terms which we operate and wider stakeholders. of reference for each Board committee: The Board sets the risk appetite and determines the principal risks for the Company and takes the lead in areas such www.nationalgrid.com as safeguarding the reputation of the Company and its financial policy, as well as making sure we maintain a sound system of internal control and risk management (see pages 18-21). The Board also plays a key role in setting and Reports from each of leading the Company's culture. For more information see page 47. the Board committees, together with details of Board Audit Nominations Remuneration Finance Safety, Environment their activities are set out committees Committee Committee Committee Committee and Health Committee on the following pages. oversees the considers the responsible for sets policy, approves reviews the strategies, Company's financial structure, size recommending strategy and grants policies, initiatives, reporting and and composition to the Board the authority for financing risk exposure, targets internal controls and of the Board and remuneration decisions (including and performance of the their effectiveness, committees and policy for Executive treasury, tax and Company and, where together with the succession planning. Directors and other pensions), credit appropriate, of its suppliers procedures for It identifies and members of the exposure, hedging and contractors in relation identifying, assessing proposes individuals Executive Committee and foreign exchange to safety, environment and reporting risks. to be Directors and for the Chairman; transactions, and health. It also oversees the and executive and for implementing guarantees and services provided management, and this policy. indemnities. by the external establishes the auditors and their criteria for any remuneration. new position. Management Executive Committee committees Disclosure Committee; Investment Committee; Share-schemes Sub-Committee In focus Our Board and its committees Management committees In order that it can operate efficiently and give the right level To help make sure we allocate time and expertise of attention and consideration to relevant matters, the Board appropriately, the Company has a number of management delegates authority to its Board committees. Committee committees, including the Executive Committee and Details of the agendas and schedules of items to be discussed at future Disclosure Committee. You can read more about these management meetings are prepared in accordance with the terms of committees on page 60. committees can be reference of each committee and take account of other found on page 60 topical and ad hoc matters. Board and committee membership and attendance The table overleaf sets out the Board and committee In addition to the vertical lines of reporting, the committees attendance during the year to 31 March 2018. Attendance communicate and work together where required. For is shown as the number of meetings attended out of example, the Finance Committee and the Audit Committee the total number of meetings possible for the individual both review the going concern assumptions and provide Director during the year. recommendations to the Board. If any Directors are unable to attend a meeting, they are At Board committee meetings, items are discussed and, encouraged to communicate their opinions and comments as appropriate, endorsed, approved or recommended to on the matters to be considered via the Chairman of the Board, by the committee. Following Board committee the Board or the relevant committee chairman. The one meetings, the chairman of each committee provides instance of non-attendance during the year was considered the Board with a summary of the main decisions and and determined as being reasonable due to individual discussion points and the minutes of committee meetings circumstances; Paul Golby was unable to attend an Audit are made available so the non-committee members Committee meeting due to the meeting being called at are kept up to date with the work undertaken by each short notice and him having a prior commitment. Board committee. 44 National Grid Annual Report and Accounts 2017/18 Corporate Governance | Corporate Governance

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Corporate Governance Board and committee membership and attendance continued Safety, Environment Director Board Audit Finance Nominations Remuneration and Health Sir Peter Gershon 8 of 8 -- 7 of 7 -- John Pettigrew 8 of 8 - 4 of 4 -- -- Andrew Bonfield 1 8 of 8 - 4 of 4 -- 1 of 1 Dean Seavers 8 of 8 -- -- -- Shaw 8 of 8 -- -- -- Nora Mead Brownell 8 of 8 -- 7 of 7 6 of 6 4 of 4 Jonathan Dawson 8 of 8 - 4 of 4 7 of 7 6 of 6 - Pierre Dufour 8 of 8 -- 7 of 7 6 of 6 4 of 4 Therese Esperdy 8 of 8 6 of 6 4 of 4 7 of 7 -- Paul Golby 2 8 of 8 5 of 6 - 7 of 7 2 of 2 4 of 4 Ruth Kelly 3 2 of 2 2 of 2 2 of 2 2 of 2 -- Mark Williamson 8 of 8 6 of 6 - 7 of 7 6 of 6 - 1. Andrew Bonfield stepped down from the Safety, Environment and Health Committee on 21 April 2017. 2. Paul Golby stepped down from the Remuneration Committee on 15 May 2017. 3. Ruth Kelly stepped down from the Board and relevant Board committees with effect from 31 July 2017. Directors' induction and training Directors' induction programme To strengthen the Directors' knowledge and understanding Following new appointments to the Board, the Chairman, of the Company, Board meetings regularly include updates Chief Executive and Group General Counsel & Company and briefings on specific aspects of the Company's activities. Secretary arrange a comprehensive induction programme. In January the Board participated in its second EU Market The programme is tailored based on experience and Abuse Regulation training session to ensure it remained background and the requirements of the role. Consideration up to date with market abuse obligations and emerging is given to committee appointments and where relevant, best practice. Examples of other topics on which Board tailored training can be undertaken. members received training during the year included: remuneration and corporate governance developments; A tailored induction programme will be created for culture; and corporate reporting. Amanda Mesler and monitored accordingly. Updates on corporate governance and regulatory matters Director development and training are also provided at Board meetings, along with details As our internal and external business environment of training and development opportunities available to our changes, it is important to make sure that Directors' skills Directors. Additionally, the Non-executive Directors are and knowledge are refreshed and updated regularly. expected to visit at least one operational site annually. The Chairman is responsible for the ongoing development During the year, site visits were made by Board members of all Directors and agrees any individual training and to a range of the Company's projects and sites in the UK development needs with each Director. and US, such as to our London Power Tunnels project and our Long Island Gas Control Centre. Pierre Dufour - Non-executive Director induction Safety Pierre, appointed in February 2017, underwent a tailored • Met employees throughout the business and induction programme covering a range of areas of the in key safety roles to discuss safety matters. business, some examples of which are detailed below. • Undertook a number of site visits in the UK and This included matters pertinent to his role on the Safety, US which enabled Pierre to become familiar Environment and Health Committee. with our approach to safety and safety culture. • Received a briefing on our Process Safety Governance and remuneration Management System. • Received a briefing from our legal advisors which included company law and directors' Stakeholder matters duties; corporate governance; the Market Abuse • Engaged with employees across the business, Pierre Dufour Non-executive Director Regulation; and listing and disclosure obligations. including during multiple site visits in the UK • Met key employees in our Reward team to and US. understand our reward strategy, remuneration • Met with the Group HR Director. policy and current market practice. • Met key employees in the UK and US in regulatory roles. Business and functions • Met with the Director of Procurement and • Met employees across the UK, US and National discussed our key suppliers and how we Grid Ventures businesses and undertook site engage with them. visits, such as to our Isle of Grain LNG site. • Met with the Group Head of Assurance and discussed the key risk and compliance issues. • Met with the Director of Investor Relations. Corporate Governance | Corporate Governance National Grid Annual Report and Accounts 2017/18 45

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Corporate Governance continued Performance evaluation Board and Committee evaluation This was the third year of our three-year performance cycle, as shown in the diagram below. We undertook an internal Board performance evaluation, led by Mark Williamson, Senior Independent Director. Review cycle: Evaluation

[illegible]

Board members completed a structured questionnaire conducted by the chairman of each of the Board committees, with a series of questions designed to understand the process broadly followed that conducted by the Board. Board members' views on: with each committee using a tailored questionnaire. • the right skills, capabilities and expertise needed in the Boardroom; Actions were identified as appropriate and agreed • the effectiveness of Board meetings in terms reached that the committees continued to operate of frequency, Board papers and content; effectively. Progress against the action plans will be • the effective use of risk in Board decision- monitored throughout the year by the respective making processes; committee and the Board. • the agreed Company strategy and progress on strategy execution; 6. Individual performance • the Board's priorities; and The Chairman held performance meetings with each • other actions to improve Board effectiveness. Board member to discuss their individual contribution and performance over the year and their training and 2. Results collated, evaluated and reported development needs. Following these meetings, the The individual responses to the performance evaluation Chairman confirmed to the Nominations Committee questionnaire were reviewed and analysed by the that he considered that each Director demonstrated Senior Independent Director together with the Group commitment to the role and that their performance General Counsel and Company Secretary. A confidential continued to be effective, and non-attributable report was then compiled with recommended improvement actions for discussion Following recommendations from the Nominations by the Board. Committee, the Board determined that all Directors continue to be effective, committed to their roles and 3. Board review of outcome have sufficient time available to perform their duties. The Board discussed the findings of the year's evaluation and agreed a number of actions for the coming year as 7. Chairman's performance set out below. The Board also discussed its performance As part of our annual evaluation process, Mark Williamson, generally and agreed that the Board had worked well as Senior Independent Director, led a review of the Chairman's together as a unit, discharged its duties and responsibilities performance. At a private meeting, the Non-executive effectively, and worked effectively with the Board committees. Directors, with input from the Executive Directors, assessed his ability to fulfil his role as Chairman and considered the 4. Action plan agreed for 2018/19 arrangements he has in place to fulfil his role, given he is • Increase the opportunities for the Board to engage also chairman of the Aircraft Carrier Alliance Management with external experts on key strategic topics Board and of the Join Dementia Research (JDR) Partnership Responsibility: Chairman/Group General Counsel Board, Trustee of The Sutton Trust and the Education and Company Secretary Endowment Foundation and a board member of the • Consider Board agendas and, in particular, whether Investor Forum. It was concluded that the Chairman more time can be devoted to strategic issues showed effective leadership of the Board and his actions Responsibility: Chairman/Group General Counsel continued to positively influence the Board and wider and Company Secretary organisation. Mark Williamson discussed the feedback • Review whether enhancements could be made to and areas for development with the Chairman. how risk appetite is incorporated into Board papers where a decision is required Responsibility: Chairman/Group General Counsel and Company Secretary • Improve the efficiency and speed of Board decision-making by continuously assessing the quality of Board papers Responsibility: Chief Executive/Group General Counsel and Company Secretary 46 National Grid Annual Report and Accounts 2017/18 Corporate Governance |

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Corporate Governance Progress against actions from 2016/17 – culture Company Secretary and the Chairman. A commentary Last year's internally facilitated evaluation focused on regarding the Board's work in this area and reviewing the Company's culture, as well as the role of the Board in progress against each action from last year's review is set shaping, monitoring and overseeing the culture and a clear out below. Progress against actions arising from last year's action plan was agreed. Throughout the year, the Board has Board Committee evaluation has also been monitored discussed the progress of the actions identified, which have throughout the year. also been monitored by the Group General Counsel and Actions Commentary Develop a common definition of 'culture' for the The Board discussed and agreed a common definition of 'culture' for the Board and Executive Committee. Company, which reflects that culture results from the purpose, values, beliefs and behaviours that characterise our Company and guide our practices. Responsibility: Culture is evidenced and promoted by behaviours and actions of employees Chief Executive/Group General Counsel and at all levels. Company Secretary/Human Resources. As a purpose-led organisation, we are guided by our purpose and vision, which set out why we exist and how we create value for our shareholders, customers and wider society, and by our values, which shape how we expect to achieve our purpose and vision. Additionally, our leadership qualities build upon our values and are the common expected behaviours of our leaders. Ensuring clarity of these expectations and that the behaviours and actions of our employees are aligned to these expectations is a continuous focus for us. Determine the Board's role in guiding the culture The Board considered the importance of the leadership role it plays in of the Company. influencing and monitoring the Company's culture, setting the standards of good behaviour that align with our values, reinforcing these formally in Responsibility: the Boardroom and supporting management to embed our values, beliefs Chairman/Chief Executive/Group General Counsel and behaviours throughout the organisation. and Company Secretary/Human Resources/ Corporate Affairs. The Board also reviewed the work that had already been undertaken during the current and previous financial year in relation to culture, including embedding the articulation of our purpose and the evolution of our vision and values across the Company. The Board discussed and agreed areas of focus for how it could specifically help to set the right tone from the top and support our culture, both within and outside the Boardroom, including how our Chairman's Awards and other formal and informal engagement events could be used to achieve this. The Board discussed the areas where the Board plays a key role in shaping and overseeing our culture and agreed an action plan to target these areas (set out below). The Board also considered the importance of remuneration strategy and diversity in supporting the desired culture, being areas where the Board has a clear role. Develop a method for the Board to track culture The Board reviewed and endorsed a scorecard that would be used to monitor within National Grid. and assess culture and which would be regularly reviewed by the Board. The measurement system will highlight where our culture is currently, using both Responsibility: internal and external data, and generate insights that can lead to action. Executive Directors/Human Resources. Assist with the establishment of a desired culture Following agreement of the role and areas of focus for the Board to influence throughout the National Grid businesses. and monitor culture, the Board has targeted these actions to set the tone at the top: Responsibility: Executive Directors/Group General Counsel Visible leadership on culture and open communication about the and Company Secretary. Board's priorities, activities and the tone set from the top •• continue with Board dinners to informally engage with the business leaders; •• actively promote the Chairman's Awards as the values-based recognition system; and •• conduct on-site employee interactions aligned to Board meeting agendas and more informal engagement as appropriate. Alignment of the recruitment and appointment of Board and Executive Committee members with the desired culture •• evaluate and recommend candidates for Board and Executive Committee roles on cultural fit, based on values and leadership qualities (balanced with technical qualifications and diversity). In addition, the Board considered how specific business areas, such as the core businesses and National Grid Ventures, should be encouraging our culture in a consistent and targeted way to achieve strategic priorities. Corporate Governance | Corporate Governance National Grid Annual Report and Accounts 2017/18 47

Corporate Governance continued Investor engagement We believe it is important to maintain effective channels of our investors during the year regarding the resolutions of communication with our debt and equity institutional put to shareholders at the 2017 Annual General Meeting investors and individual shareholders.

This engagement in relation to the approval of the Company's remuneration helps us to understand their views about the Company policy and Remuneration Report, and allows us to make sure they are provided with timely and appropriate information on our strategy, performance, The Board receives regular feedback on investor objectives, financing and other developments. perceptions and opinions about the Company. Specialist In focus advisors and the Director of Investor Relations provide Institutional investors updates on market sentiment. Additionally, each year, the We carry out a comprehensive engagement programme Board receives the results of an independent audit of investor for institutional investors and research analysts, providing perceptions. Interviews are carried out with investors to 368 the opportunity for our current and potential investors to establish their views on the performance of the business meetings held with meet with executive and operational management. and management. The findings and recommendations institutional and private of the audit are then reviewed by the Board. investors during the This includes: year in 11 countries • meetings, presentations and webinars; Debt investors • attendance at investor conferences across the world;

Over the last year, senior group treasury representatives • holding road shows in major investor centres, mainly have met debt investors in the UK, continental Europe and in the UK, Europe and the US; and the US to discuss various topics, such as our full year results • offering the opportunity for individual and upcoming US rate case filings. We also hosted debt stewardship meetings. investors in New York at our teach-in event for our New York Further details on: business and met with debt investors at various conferences investors.nationalgrid.com In the last year, our engagement programme has over the course of the year. focused on updating investors on the progress of our US rate case filings, raising the profile of the US business, We also communicated with our debt investors through

Effective and communicating the value presented by the UK regular announcements and the debt investor section of communications business against the challenging UK political and our website. This contains bond information, credit ratings with engaged regulatory backdrop. and materials relating to the subsidiary year-end reports, shareholders – dividend and information about our long-term debt maturity profile, reunification In July 2017, we held a governance and stewardship so investors can see our future refinancing needs. programme event designed to update major investors on our activities over the year and future plans.

It provided the opportunity Individual shareholders During 2017 we for attendees to ask questions and meet Non-executive Engagement with individual shareholders, who represent undertook a dividend members of the Board and for our Non-executive more than 95% of the total number of shareholders on reunification programme Directors to further develop their understanding of our share register, is led by the Group General Counsel to reunite our our shareholders' views. and Company Secretary. shareholders with unclaimed dividend payments and to also During the year, we also held a teach-in event for our Shareholders are invited to learn more about the find shareholders who New York business, hosting investors and analysts in Company through our shareholder networking programme. had lost contact with us. London and New York. This event was designed to update The programme includes visits to UK operational sites, Through the programme, investors and analysts on our rate filing progress in New presentations by senior managers and employees over two we were able to reunite York and provide context for the growth and opportunities days and an opportunity to engage with Board members. our shareholders with in the New York regulated business. Following the success almost £2.5 million of of the engagement programme over the last year, we will In November, Sir Peter Gershon hosted members of the unclaimed dividends be hosting similar events this year, with an investor teach-in UK Shareholders' Association for presentations given during the year. about our UK business, scheduled for September 2018. by John Pettigrew, Chief Executive, and Aarti Singhal, A copy of our event presentations and associated materials Director of Investor Relations, on our business operations; are available in the Investors section of our website. purpose, vision and values; and financial performance. In his capacity as Chairman of the Remuneration For information on the 2018 Annual General Meeting, Committee, Jonathan Dawson engaged with a number please see page 62. Stakeholders Engagement with our stakeholders continues to be an In addition to existing stakeholder engagement and important priority for us; it supports us in achieving our reporting of this to the Board, a review of our current purpose and vision and is informed by our values. stakeholder

engagement activities was undertaken and reviewed by the Board in April 2018. The review considered: The needs of our customers, shareholders and communities • who the Company's key stakeholders are; are at the heart of everything we do, and our vision statement • our engagement activities with each key stakeholder clearly describes the challenge we have set ourselves – we and the appropriateness of this engagement; will exceed the expectations of our customers, shareholders • the information the Board receives on our stakeholders, and communities today and make possible the energy including as to the outcome of engagement activities; systems of tomorrow. • that stakeholder engagement is a two-way process and whether appropriate stakeholder feedback loops As the owner and operator of regulated utilities and other are in place; and large-scale infrastructure assets, we have a significant • whether there was a need for greater engagement number of important stakeholders and you can read about with any stakeholders at Board level. In focus who our key stakeholders are, why they are important to us and how we create value for them over the long-term During 2018/19, the Board will further consider the on page 6. Company's stakeholder engagement model and any appropriate enhancements to strengthen the views of our 2018 Annual The Board continues to be very mindful of the need to stakeholders in the Boardroom, including in relation to General Meeting: create value for our shareholders within a framework of employees. Following the Government's announcement that For more information high standards of corporate governance, and recognises it will be taking steps to strengthen stakeholder engagement on the 2018 AGM, please see page 62, our responsibilities to our wider stakeholders. and the development of a new UK Corporate Governance and the Investor Code, the Board will also review the final legislative and section of our website: Code changes and report on our activities accordingly.

investors.nationalgrid.com 48 National Grid Annual Report and Accounts 2017/18 Corporate Governance | Corporate Governance

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Corporate Governance Audit Committee The Committee also received regular updates on preparations for and the impact of the new accounting standards which will come into effect in 2018 and 2019 – IFRS 9 (Financial Instruments), IFRS 15 (Revenue from contracts) and IFRS 16 (Leases). An additional meeting was held in January 2018 in advance of the year end to provide an update on the Group's implementation of IFRS 9 and IFRS 15 and a summary of the key matters where judgement, complexity or a change in the basis of accounting had been identified. Use of Alternative Performance Measures ('APMs' or 'non-IFRS measures') The

Committee has played a key role in reviewing and challenging the APMs presented by management. At the September meeting we discussed the Company's response Mark Williamson to a comment letter received from the SEC in relation to the Committee Chairman 2016/17 Annual Report, recognising the need to maintain a careful balance between the ongoing scrutiny on the use of non-IFRS measures and the Company's ability to articulate The Statutory Review of the year the performance of the business and our results under Audit Services for This report provides an insight into the work of the IFRS. Planned enhancements to disclosures agreed by Large Companies Audit Committee over the year in relation to the UK and US the Company have been implemented for the 2017/18 Market Investigation businesses, the external auditors, and our role overseeing Annual Report. (Mandatory Use the Company's internal assurance functions, as well as the of Competitive Tender Processes significant issues relating to the financial statements which Looking forward and Audit Committee were debated by the Committee during the year. Internal controls relating to financial reporting Responsibilities) The Committee will remain focused on ensuring that Order 2014 – In November 2017 and January 2018, the Group Chief management delivers the planned internal control statement of Information and Digital Officer attended our meeting improvements in respect of IT access controls. compliance. to discuss cyber risk and improvements being made The Company confirms to access controls across all financial systems. Also in New IFRS accounting standards that it complied with January 2018, I visited the UK Finance team, principally The changes introduced by IFRS 9 and IFRS 15 were the provisions of the to better understand the progress being made in implemented with effect from 1 April 2018. We will receive Competition and improving the control environment in the UK. reports from both management and Deloitte with regard Markets Authority's to the effectiveness of the changes to processes, controls, Order for the financial Continued focus on internal controls relating and systems that have been implemented as a result of year under review. to financial reporting the new requirements. We have continued to focus on improvements to the Group's financial controls, receiving regular reports from IFRS 16, which will be implemented with effect from both management and Deloitte throughout the year. As 1 April 2019 brings its own challenges around transition noted in last year's Annual Report and Accounts, during the to the new standard, specifically that US GAAP and IFRS second half of 2016/17 the Group launched a comprehensive are not identical. Management's implementation timeline review of the design, operation and documentation in respect for this standard sees significant activity during 2018/19 of its key controls relating to financial reporting, the SOX and we will receive further updates in the coming year. refresh programme (the Sarbanes-Oxley Act 2002 (SOX)). Climate-related financial disclosures As part of the SOX refresh, we have focused on improving Following the publication of the final recommendations the Group's IT access controls and controls in the UK of the Financial Stability Board's Task force on Climate- finance environment. We have considered the impact of related Financial Disclosures (Task Force, TCFD) a these on the year-end attestation relating to the effectiveness management working group has been meeting regularly to of internal controls in respect of financial reporting required develop our roadmap to implementing the recommendations, under SOX. You can read more about these significant as well as keeping abreast of other relevant developments. issues on the following pages. While the recommendations are not binding, they are seen as highly desirable and the Company has publicly committed Auditor transition to implement the recommendations, although there is a clear Following a formal tender process, Deloitte were expectation that organisations will take time to implement the appointed as our external auditors at the 2017 AGM. recommendations in full. We received progress reports from We have received regular updates from management and management in September 2017 and March 2018 and we will Deloitte on the transition process, including observations continue to receive updates in the coming year. The related around the Company's processes, controls and accounting financial disclosures included on page 192 are our first steps judgements. Management have worked closely with in the implementation of the recommendations. Deloitte through the transition and are establishing a strong transparent relationship. We welcome and encourage the insight and challenge Deloitte bring. In focus IFRS reporting matters We spent time considering the impact of US tax Mark Williamson reform, the Group's accounting in respect of its retained Committee Chairman interest in the UK Gas Distribution business, and the Terms of Reference: judgements and methodologies applied by management You can view the in selecting discount rates in relation to long-term Audit Committee Terms environmental provisions and for defined benefit of Reference on the Corporate Governance pension scheme accounting. section of our website: www.nationalgrid.com Corporate Governance | Audit Committee National Grid Annual Report and Accounts 2017/18 49

Corporate Governance continued Areas of focus Matters considered Outcome and action Significant issues The most significant issues the Committee considered in relation to the financial statements are set out in the table below. In addition to commentary in these areas, the independent auditor's report (pages 83-91) also includes other areas of focus, including net pension obligations, environmental provisions, revenue recognition, classification of capital costs and treasury derivative transactions which were also considered by the Committee during the year. Internal controls The Committee received reports at the May 2017, September 2017 The Committee asked management to explain the incremental relating to financial and March 2018 meetings on the key findings and observations arising increases in the number of processes and IT systems considered reporting, including from the SOX refresh programme. The most significant findings related to be in scope for SOX purposes, the year-end SOX to IT access controls across the Group and specific observations in attestation respect of certain business controls in UK Finance. Further details The Committee challenged management on its progress on are provided below. mitigating control observations as they arose and requested additional insight into areas which were subject to shorter-term The Committee has continued to receive updates from management fixes. The Committee sought additional context from management on the progress to remediate the control deficiencies identified in the on its assessment of the severity of the matters identified (in US financial controls environment (building on previous years). The particular the IT control matters noted below), the identification Committee noted that good progress had been made in the US Finance of mitigating controls and the impact on the year-end aggregation team to recruit new talent to add further strength and depth to the team. exercise for SOX purposes. At year end the Committee was pleased to note the historical US control deficiencies had been remediated. Following the update in September, the Committee asked management to look to lessons learned from the US finance The SOX refresh programme had resulted in observations across transformation plan and improvements in the US financial control a number of key UK processes and included a focus on the reliance environment and how these could be applied to the UK financial placed on the data used in controls and on third-party reports, and control environment. the precision of key review controls. The Committee noted the outcome of management's exercise In response, the UK Executive leadership defined a comprehensive to assess the impact of the control matters identified individually multi-year control programme to identify and implement solutions to and in aggregate, and the conclusions of the relevance of these optimise the UK business control environment while continuing to focus to the year-end SOX attestation (as described further on page 52). on the real-time need of addressing the findings of the SOX refresh programme in the short term. The Committee was pleased to note in May 2018 that there were no business control findings. After careful consideration the In September 2017, the UK CFO presented an update to the Committee Committee concurred with management's overall assessment on key developments in the UK Finance team, with a particular focus that the Group's internal control over financial reporting is effective. on financial controls. The Committee considered all the above matters as part of its final SOX conclusions. IT controls A number of improvements were identified as necessary by management At its November meeting the Committee challenged management and Deloitte in respect of access to the Group's financial systems. on the number of outstanding control improvement actions in the The Committee was provided with a specific update by the Group Chief IT control environment. Information & Digital Officer in January 2018 which focused on the key themes arising and management's action plans. Further updates were The Committee noted that to ensure appropriate and immediate provided to the Committee in March and May. focus on the matters identified, management had established governance mechanisms across the IS and Finance leadership. The extent of improvements required was more pronounced in the UK, primarily as a result of the UK's complex legacy IT infrastructure At its March meeting the Committee requested that a short and coupled with the US having benefited from a focus on the financial longer-term remediation plan to deliver sustainable IT-related control environment in recent years. controls, in particular user access, be presented to the Committee in May. The IT control findings related primarily to six key focus areas: privileged access, segregation of duties, user access management, user access Recognising the risk and criticality of executing the outstanding reviews, third-party general IT controls, and the quality of the information actions, the Committee continues to monitor progress closely used in the control. This year, in conjunction with testing performed by and has requested regular updates from management. Deloitte, the Company observed access control improvements required in the infrastructure layer relating to our finance administrative systems which are administered by outsourced service providers. US tax reform On 22 December 2017 the Tax Cuts and Jobs Act (US tax reform) The Committee noted the report received from management was signed into law, taking effect from 1 January 2018. The Committee on the impact of this change on the Company. received an update in March on the main impact on the Company's IFRS financial results: The Committee challenged the appropriateness of the recognition of a \$2 billion exceptional credit to income, in view of the fact that Exceptional gain from rate reduction: The principal impact under IFRS the Company will, over time, be required to return this benefit concerned the impact of the reduction in the headline federal tax rate to customers. from 35% to 21%. The change in the tax rate has given rise to a circa \$2 billion exceptional gain as deferred tax assets and liabilities are The Committee was satisfied that the treatment applied was remeasured downwards accordingly. in line with IFRS and requested that management ensure that adequate disclosures of the Company's commercial and Reduction in US effective tax rate: The reduction in the federal tax rate regulatory arrangements be included in the Annual Report and has also resulted in a reduction in the statutory, adjusted and underlying Accounts to allow users of the financial statements to understand effective tax rates this year, as a blended headline federal tax rate is the economic impact of tax reform on the Company. applied to the US business's IFRS earnings. Carrying value On 30 April 2018, the Group signed an agreement with Quadgas Bidco The Committee reviewed and concurred with the accounting of interests Holdings Limited (the vehicle through which the Consortium hold their undertaken by management, noting that after accounting for our in Quadgas 61% interest in Quadgas HoldCo Limited) in relation to the potential sale share of profits, and all other movements, the aggregate carrying HoldCo Limited of our remaining 25% interest (the Remaining Acquisition Agreement). value of our interests was £2.1 billion at 31 March 2018, consistent with management's initial determination of the fair value of the At its May 2018 meeting the Committee considered the implications of interests as at 31 March 2017. this arrangement on the 2017/18 financial statements and, in particular, the £110 million derivative fair value gain recognised in relation to the Further Acquisition Agreement, and the £213 million impairment charged against the carrying value of the Group's equity interests in Quadgas HoldCo Limited. 50 National Grid

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Corporate Governance Areas of focus Matters considered Outcome and action Other areas of focus External auditors The Committee is responsible for reviewing and monitoring the Deloitte's audit plan for the Group audit, including the identification appropriateness of the provision of non-audit services by the external of significant audit risks and key areas of focus, was formally auditors in the context of reviewing the auditors' independence. You can approved by the Committee in September 2017 and minor read more about how the independence and objectivity of the external amendments to the plan in January and March 2018. auditors is safeguarded on page 54 and the non-audit services provided by the external auditors on page 55. In May 2018, the Committee considered an assessment by the Corporate Audit team of controls in place to ensure that our The Committee is also responsible for the external auditors selection external auditors, Deloitte, are independent from National Grid. procedure and making recommendations regarding the appointment The controls testing did not find any items that would impact and re-appointment of the external auditors to the Board for shareholder the auditors' objectivity and independence. approval. For further details of how the external auditors' performance was reviewed and the outcome, see page 54. The Committee Chairman also provided an oral update to the May Board meeting on the outcome of the audit and explained how the audit had contributed to the integrity of the year-end financial statements and the Committee's role in that process. Financial reporting The Committee monitors the integrity of the Group's financial information The Committee noted that the change in the calculation and other formal documents relating to its financial performance and performed to determine the discount rate and other assumptions makes appropriate recommendations to the Board before publication. applied to the UK pension obligations had resulted in a material reduction in the liabilities and had increased the net asset position An important factor in the integrity of financial statements is making sure reported for the UK pension schemes. that suitable and compliant accounting policies are adopted and applied consistently on a year-on-year basis and across the Group. Following consideration of the appropriateness of the change in pension assumptions, the Committee concurred with While there have been no new significant corporate transactions in management's approach. the year, and no new accounting standards are yet applicable, there were a number of changes to the basis of accounting compared with The Committee discussed whether the results of NGV should the 2016/17 financial statements that the Committee considered: be reported as a separate segment. The Committee noted that • changes in pension assumptions since 31 March 2017; for the time being, management had chosen not to voluntarily • the presentation of the results of National Grid Ventures (NGV); and report the results of NGV as a reportable segment, and that • the adoption of a 'three column' approach for our consolidated NGV would continue to be aggregated with 'Other activities' Income Statement showing results before and after exceptional for segment disclosure purposes. The Committee agreed items and remeasurements. with management's approach. Under its Terms of Reference, the Committee is required to review the Additional disclosures have been added in the footnotes to Annual Report and Accounts and any other report filed with the SEC the operating segment note (see pages 109-110) to show containing financial statements, and make recommendations to the how NGV has contributed to revenue, operating profit and Board with respect to the disclosures contained therein. capital expenditure. Alongside its consideration of the Annual Report and Accounts 2017/18, The Committee approved management's proposal to amend the when reviewing the draft Form 20-F the Committee considered what way in which the consolidated Income Statement was presented information would be disseminated to the SEC at year-end, the basis to adopt a three column approach showing results before and of the preparation of the Form 20-F and the principal SEC disclosure after exceptional items and remeasurements. The Committee matters considered this year. noted that this would provide a more user-friendly approach to presenting results. The Committee recommended the Annual Report and Accounts 2017/18 and the Form 20-F for approval by the Board at its meeting in May 2018. Fair, balanced and At its May 2018 meeting, the Committee considered the requirement The Committee discussed and provided input to management on understandable of the Code to ensure that the Annual Report and Accounts, taken the disclosure and presentation of APMs and non-IFRS measures. as a whole, is fair, balanced and understandable in the context of the The Committee noted the challenges faced by management applicable accounting standards and that it provides the information in reflecting the economic performance of the Company within necessary for shareholders to assess the Company's position and the confines of IFRS. This needed to be in the context of the performance, business model and strategy. regulations and guidance issued by the FRC, ESMA and the SEC concerning the need to ensure at least equal prominence When considering this requirement the Committee took into between IFRS and non-IFRS measures. consideration the viability statement, going concern statement and an update on significant accounting matters from management. The Committee Chairman in his oral report to the Board in May confirmed that the Committee considered that the Annual Report and Accounts, taken as a whole, was fair, balanced and understandable. Viability statement The Code requires the Board to confirm that it has undertaken a robust The Committee reviewed and challenged the clarity and assessment of the principal risks facing the Company. The impact of completeness of the viability statement to be included in the these risks over the assessment period was tested to determine whether Annual Report and Accounts at its meetings in March and May or not there was a reasonable expectation that the Company would be 2018 and provided comments for management to address. able to continue to operate and meet its liabilities as they fall due during that period. This review then informed the wording of the viability The Committee Chairman in his oral report to the Board in May statement in the Annual Report and Accounts. recommended the statement to the Board for approval. You can find the viability statement on page 26. The Committee received a draft viability statement in March and May 2018 for its review and comment in advance of the Board's consideration of the statement in May. In support of this review the Committee also received an update on the process and a summary of the outcome of the annual testing of our principal risks. Corporate Governance | Audit Committee National Grid Annual Report and Accounts 2017/18 51

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Corporate Governance continued Areas of focus Matters considered Outcome and action Going concern At half and full year the Board is required to consider whether the The Committee reviewed the paper and confirmed that it statement going concern assumption is appropriate in preparing the Group's considered it appropriate to adopt the going concern basis financial statements. in the half and full-year financial statements. In support of this, at its November and May meetings, the Committee The Committee Chairman made recommendations in this respect received a report on the Group's short-term liquidity and capital to to the November and May Board meetings. The Board considered assist in the going concern determination for the half and full-year and approved the Committee's recommendation. financial information. The Company's going concern statement is set out on page 104, note 1A. Sarbanes-Oxley Act The Sarbanes-Oxley Act requires the Company to undertake an In May the Committee noted and agreed with the conclusions 2002 (SOX) testing annual assessment of the effectiveness of internal control over financial of the review of the effectiveness of internal control over financial and attestations reporting. The Committee received regular updates on the status of reporting as required under s.302 and s.404 of the Sarbanes- testing as well as the identified deficiencies (including those discussed Oxley Act and the Disclosure and Transparency Rules and in the significant issues above). management's opinion on the effectiveness of these controls. The Committee Chairman reported this conclusion to the Board The Committee received updates on the SOX control findings in at its May meeting at which the effectiveness of the internal September, March and May. See page 21 for the Company's statement control and risk management processes were considered. on the effectiveness of internal control over financial reporting. Disclosure The Committee receives a report from the Disclosure Committee on The Committee took into consideration the oral report received Committee matters relevant to the half and full-year announcements in November from the secretary to the Disclosure Committee when reviewing reports and May. the half and full-year announcements. In November 2017 and May 2018, the Disclosure Committee reviewed The Committee noted that the Disclosure Committee considered the half and full-year results statement and the planned presentations, that the Company's disclosure controls had operated effectively having regard to the European Securities and Markets Authority (ESMA) over the year. guidance and SEC guidance in relation to the presentation of statutory and adjusted measures. The Disclosure Committee also reports the results of its evaluation of the effectiveness of the Company's disclosure controls to the Audit Committee. See page 60 for more information on the role of the Disclosure Committee. Corporate Audit The Committee received regular controls updates from the Corporate When considering the updates from the Head of Corporate Audit team. As set out above, this year there has been significant Audit during the year, the Committee challenged management control remediation activity relating to SOX controls, driven by the in relation to the progress made in closing the outstanding refresh programme. These efforts have focused heavily on the UK actions identified by Corporate Audit, in particular in relation finance and IS control environment and the audit findings highlighted to remediation of the significant issues as set out above. the same focus areas. Management has prioritised the actions on controls required as part of SOX remediation as well as continuing work on the Corporate Audit have been supporting management's remediation plans broader key strategic initiatives. in a number of ways, for example several audits provided direct insight around how to improve the control environment and by providing The Committee considered and approved the proposed advisory support (subject to retaining independence). changes to the audit plan. In March 2018, risk driven changes to the audit plan were proposed: The Committee considered the charter to be appropriate audits added to the audit plan; audits merged due to linkage of business and noted that no changes were proposed. process; audits removed due to a reduced risk profile; and audits deferred to the following financial year due to business change. When assessing the effectiveness of Corporate Audit the Committee noted the annual self-assessment of the function In accordance with best practice, the Corporate Audit Charter was against the IIA standards had resulted in a 'generally conforms' reviewed against the Institute of Internal Auditors (IIA) international rating, the highest achievable, and that all the External Quality standards and the IIA model charter. The purpose of the review is Assessment actions raised last year had been implemented. to assess if the purpose, authority and responsibility, as defined in

The Committee confirmed that it was satisfied that the the charter, are sufficient to enable the Corporate Audit function to Corporate Audit function had the quality, experience and complete its objectives. No changes to the charter were proposed. expertise appropriate for the business. As part of its annual review of the effectiveness of risk management and Additionally, in accordance with the Committee's Terms of internal controls, the Committee assesses the effectiveness of Corporate Reference, the Committee considered and approved the Audit and satisfies itself that the function has the quality, experience and appointment of the Head of Corporate Audit in September. expertise appropriate for the business. The Committee also met privately with the Head of Corporate See page 55 for more details on the work of the Corporate Audit team. Audit during the year. 52 National Grid Annual Report and Accounts 2017/18 Corporate Governance | Audit Committee

Corporate Governance Areas of focus Matters considered Outcome and action Risk management The Committee has been delegated responsibility by the Board The Committee noted that the planned enhancements continued and internal control for monitoring and assessing the effectiveness of our risk to be developed and embedded into business processes management processes. to strengthen the management of our most important risks. For example risk classification had been added to the risk In support of this responsibility, the Committee received regular updates identification process. This classification system helps to identify on the risk management processes and any changes as well as updates accumulations of similar risks and which strategies, tactics and on other risk management activities within the business. operations are most vulnerable, and guides the approach to risk mitigation. When undertaking its review of the effectiveness of the risk management and internal control processes (which included financial, operational and Following consideration of the significant aspects of the internal compliance controls) the Committee noted the sources of assurance control and risk management systems and processes for the and various controls that had operated during the last 12 months and year under review, the Committee confirmed that the processes the matters raised in the CEO's Certificate of Assurance (CoA), provided sufficient assurance and that the sources of assurance had sufficient authority, independence and expertise. The In September the Committee received a proposal from management Committee Chairman reported to the May Board meeting on the to change the frequency of the CoA process from bi-annual to annual. outcome of its annual review and confirmed that management's The CoA provides a 'top-down' assurance process, which complements process for monitoring and reviewing internal control and risk the core compliance and risk management procedures. Removing the management processes are functioning effectively. requirement for the half yearly CoA process would enable the business to focus that time and resource on core compliance and risk The Committee approved the change in frequency of the CoA management procedures and initiatives. process to annual. When making this decision the Committee took into consideration the significant improvements made to You can read more about our risk management process and the review the risk and compliance management processes over the last of effectiveness of our internal control and risk management on pages couple of years and the increased focus on risk and compliance 18-21. Details of our internal control systems, including those relating in the business. The Committee will continue to receive to the financial reporting process, can be found on page 21.

regular reports and updates on the core risk and compliance management procedures. Cyber security A report providing insight into the cyber risk control environment of the The Committee noted the progress made by management during risk management Company was presented to the Committee in September and March. the year on the cyber security strategy and that Corporate Audit The reports provided insight into the cyber risk control environment continued to deliver a balanced programme of audits across cyber within the Company based on the findings of Corporate Audit. risk. In relation to the matters identified by the audits, management had been remediating these issues and managing the associated Additionally, following the Committee's discussion on cyber risk at the risks, in line with the agreed action plans. March 2017 meeting, Deloitte was asked to comment on the reporting Audit Committees receive on this subject at other complex companies. In respect of the report from Deloitte, the Committee noted The report from Deloitte was presented to the Committee in November that reporting to the Board and Audit Committee was aligned along with a paper from management commenting on the findings of with current market practice in terms of frequency and content. the report. Reporting to the Executive Committee was a potential area for improvement which management was reviewing. Compliance The Committee receives bi-annual reports on compliance with external Despite the increase in incidents, the Committee noted management legal obligations and regulatory commitments. In September management that significant improvements had been made in compliance reported that there had been a significant increase in issues compared with performance as indicated by the overall reduction of new issues the previous period. The majority of these issues were related to control during the year, increased closure of issues, progress of action framework and data issues as a result of preparing for compliance with the plans, and overall continued engagement on compliance issues new EU General Data Protection Regulation (GDPR) that would come into within the business. effect in May 2018.

Management would continue to improve and embed compliance obligations into the business to ensure that robust control The Committee also noted that the majority of action plans were frameworks are in place, understood and adhered to by the business. on track to resolve the identified compliance issues. Business National Grid Gas's Gas Transportation Licences require business The Committee considered the reports received and noted that separation separation between UK Gas Transmission and UK Gas Distribution to a high level of compliance was being maintained and no material compliance prevent any unfair advantage being obtained by the UK Gas Distribution business separation issues had been reported during the period. business over other independent distribution networks. Reporting on this matter continues to be required as Ofgem considers that the Company's The Committee approved the proposal to include the business continued minority shareholding in Quadgas HoldCo Limited (Cadent) separation compliance reports in the wider compliance reports gives rise to a potential conflict of interest. noting that the compliance reports already covered business separation and that any specific incidents which the Committee Business separation compliance reports were submitted to the should be aware of would continue to be reported on an Committee twice in the year, in May 2017 and November 2017. In March exceptional basis, as at present. 2018 management set out a proposal to the Committee that, instead of sending separate reports, the reports on business separation compliance be combined with the wider compliance reports which are provided to the Committee in March and September. Business conduct Ethics and business conduct programmes are part of the internal controls In March the Committee received a business conduct report in place to ensure business conduct issues are identified and effectively for consideration which also included the whistleblowing report. managed. The Committee receives a bi-annual ethics and business conduct This was following a request from the Committee earlier in the report so that it can monitor the management and mitigation of business year that these reports be combined. The Committee noted conduct issues as part of the wider control framework. The reports provide the ethics and business conduct updates and concurred a summary of significant cases and draw out any underlying themes and with management's view that the whistleblowing procedures action plans to mitigate future occurrences. continued to be effective. The Committee reviews the reporting and whistleblowing procedures The Committee noted the procedures currently in place for annually to make sure that complaints are treated confidentially and that the prevention and detection of bribery and that none of the a proportionate, independent investigation is carried out in all cases. The investigations over the last 12 months had identified cases Committee also received annual reports on the Company's anti-bribery of bribery. procedures and reviewed their adequacy. Committee The Committee received updates on the action plan agreed following The Committee considered its performance over the year performance the 2016/17 Committee performance evaluation at its November 2017 generally and determined that it had operated effectively evaluation and March 2018 meetings and noted the progress made against the through the year. actions identified. The recommended actions from the 2017/18 evaluation The 2017/18 Board and committee evaluation was conducted were considered and agreed by the Committee in March. internally, see page 46 for more details. The Committee will monitor progress against the action plan over the year. Corporate Governance | Audit Committee National Grid Annual Report and Accounts 2017/18 53

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Corporate Governance continued External audit The Committee is responsible for overseeing relations with • an annual review by Corporate Audit of the independence the external auditors, including the proposed external audit of the external auditors. They review compliance against plan, the approval of fees, and makes recommendations to the non-audit services policy and the recruitment of the Board on their appointment or reappointment. Details employees from the external auditors by National Grid of total remuneration paid to auditors for the year, including into financial reporting oversight roles. Testing did not audit services, audit-related services and other non-audit identify any items that would impact the objectivity and services, can be found in note 3(e) of the consolidated independence of the external auditors. financial statements on page 113. Audit quality Following a formal tender process concluded in November How the external auditors have demonstrated an 2015, Deloitte was appointed by shareholders as the appropriate mindset, the degree of challenge to Group's statutory auditors at the AGM in July 2017. management and the communication of contentious issues are all critical to delivering a high-quality audit. The Company confirms that it complied with the provisions of the Statutory Audit Services for Large Companies To maintain audit quality the Committee reviews and Market Investigation (Mandatory Use of Competitive challenges the proposed external audit plan, including its Tender Processes and Audit Committee Responsibilities) scope and materiality prior to approval, to make sure that Order 2014 for the financial year under review. Deloitte has identified all key risks and developed robust audit procedures and communication plans. Auditor transition Deloitte's transition plan focused on developing a deeper Deloitte's audit plan was formally approved by the understanding of the Group's businesses, processes and Committee in September 2017 and minor amendments controls, and leveraging the experience and knowledge of were approved in January and March 2018. PwC during the shadowing period. Deloitte shadowed PwC during the 2016/17 year-end close process and attended The Committee noted that Deloitte would engage specialists Audit Committee meetings in January, March and May 2017. to assist in their audit of the Group IT systems, derivative They also undertook a review of the PwC audit files in the financial instruments, pension obligations, discount rates, UK and US and held meetings with key management. tax balances, as well as utilising employees within the core audit team who have significant experience of regulated Auditor independence and objectivity utilities in the UK and US. Mindset, integrity and objectivity enable auditors to undertake their role with professional scepticism while On a continuous basis throughout the year, the Committee maintaining effective working relationships with those looks at the quality of the auditors' reports and considers subject to audit i.e. management and other employees. their response to accounting, financial control and audit issues as they arise. In assessing the mindset, professional scepticism and degree of challenge to management, the Committee took The Committee also meets with Deloitte regularly without in to account the observations, recommendations and management present, providing the external auditors with conclusions drawn by Deloitte, in particular in relation to the opportunity to raise any matters in confidence and the findings arising from the SOX refresh and concluded provides the opportunity for open dialogue. This also gives that the performance of Deloitte reflected the relevant the Committee the opportunity to monitor the performance skills, rigour, perseverance and robustness expected. of the lead engagement partner both in and outside Committee meetings. The independence of the external auditors is essential to the provision of an objective opinion on the true and fair view Auditor performance presented in the financial statements. Auditor independence In assessing auditor performance this year, the Committee and objectivity are safeguarded by a number of control considered: the quality of planning, delivery and execution measures, including: of the audit; quality and knowledge of the audit team; • limiting the nature and value of non-audit services effectiveness of communications between management performed by the external auditors in accordance with and the audit team; robustness of the audit including the the Company's policy on the provision of non-audit audit team's ability to challenge management as well as services. The Committee receives updates to each demonstrate professional scepticism and independence; regular meeting on all non-audit services approved quality of the reports received; views of management to and confirmed in May 2018 that it is satisfied that the gauge the quality of the audit team and their knowledge non-audit fees do not impair the auditors' independence. and understanding of the business. • ensuring that employees of the external auditors who have worked on the audit in the past one year (two years Since Deloitte are in the first year of their appointment, the for a partner of the audit team) are not appointed to roles Committee did not take length of tenure into account when with financial reporting oversight within the Company assessing their independence and objectivity. In forming in line with our internal code. its conclusions, the Committee solicited views from the • monitoring the changes in legislation related to senior finance team members most directly involved in auditor objectivity and independence to help ensure the year-end audit. we remain compliant. • providing a business conduct helpline that employees A more detailed feedback process involving a wider range can use to report any concerns, including those relating of individuals from within the Company will take place in to the relationships between Company personnel and summer 2018. The feedback from this process will be the external auditors. taken into account in Deloitte's planning for the 2018/19 • the rotation of the lead engagement partner at least audit cycle. every five years. Douglas King, the current lead partner, will be required to rotate off in 2022. Auditor appointment • consideration of Deloitte's annual independence letters. Following consideration of the auditors' independence and • independent reporting lines from Deloitte to the objectivity, the audit quality and the auditors' performance, Committee and the opportunity to meet with the the Committee was satisfied with the effectiveness, Committee privately. The Committee chairman has independence and objectivity of Deloitte and recommended regular meetings with the auditors to discuss agenda to the Board their reappointment for the year ended 31 items and other matters of importance. March 2019. A resolution to re-appoint Deloitte and giving authority to the Directors to determine their remuneration will be submitted to shareholders at the 2018 AGM. 54

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Corporate Governance The Statutory Auditors and Third Country Auditors Following the appointment of Deloitte as external auditor, Regulations 2016 require that the external audit contract all existing projects were carefully considered through is put out to tender at least every 10 years and that the our independence processes throughout the auditor auditors are changed at least every 20 years. The audit will transition period. In particular, the Committee requested be put out to tender in accordance with the requirements. confirmation from both management and Deloitte that there are no valuation services or other prohibited services

Non-audit services provided by the external auditors being provided, and no reliance is placed on analysis Last year the Committee approved changes to the provided by Deloitte for any assessments in respect of Company's policy on the provision of non-audit services asset carrying values for financial reporting purposes. by the auditors to take account of the implementation of These processes have continued throughout the year the EU Audit Regulation and Directive on non-audit services. and the same confirmations have been provided for The revised policy includes a cap on the financial value each service procured. of non-audit services to 70% of the average annual audit fees paid in the last three financial years. The cap will be Total audit and audit-related fees include the statutory fee implemented once we have three years of history of fees and fees paid to Deloitte for other services that the external charged by Deloitte, and so will be effective for the financial auditors are required to perform, such as regulatory audits year ending in March 2021. and SOX attestation. Non-audit fees represent all other services provided by Deloitte not included in the above. During the year the Committee approved amendments to the non-audit service policy. The Committee continues to Internal (corporate) audit be responsible for all non-audit service approvals but it The corporate audit function provides independent, now allows pre-approval for certain specified services. objective assurance to the Audit, Safety, Environment and Health and Executive Committees on whether our Services that have fees of less than £50,000 and are on existing control and governance frameworks are operating a defined list are considered to fall within the 'clearly trivial' effectively in order to meet our strategic priorities. In the concept used by the FRC. For any services which do not provision of independent assurance, corporate audit reports meet these criteria, no threshold is applied and approval functionally to the Chairman of the Audit Committee and will be sought from the Committee in advance of the work represents the third line of defence within our three lines of being performed. defence model (see page 21). Assurance work is conducted and managed in accordance with the IIA international The services for which pre-approval can be sought relate to: standards for the Professional Practice of Internal Auditing • audit, review or attest services. These are services that and Code of Ethics. generally only the external auditors can provide, in connection with statutory and regulatory filings. They To keep the Committee informed of trends identified from include comfort letters, statutory audits, attest services, the assurance work and to update on progress against the consents and assistance with review of filing documents; corporate audit plan, the Head of Corporate Audit reports • ongoing work with the UK property team on the review of to the Committee at least twice each year. These reports its commercial property portfolio, which was approved present information on specific audits, as appropriate, and continues to evolve. Our history with Deloitte means summarise common control themes arising from the work that they are the clear choice for relevant expertise. of the team and update on progress with implementing Such work does not include valuation work, or any management actions. other prohibited services; and • other areas such as training or provision of access In order to meet the objectives set out in the Corporate to technical publications. Audit Charter, audits of varying types and scopes are conducted as part of the annual corporate audit plan. Our policy requires that a list of all approved non-audit The audit plan is based on a combination of risk-based work requests is presented to the Committee at each cyclical reviews, reviews of emerging risks and business meeting (other than ad hoc meetings), as well as annually change activity, together with a small amount of work in aggregate to ensure the Committee is aware of all that is mandated, typically by US regulators. The audit non-audit services provided. plan is agile and regularly reviewed to prioritise audits relevant to the needs of and to reflect evolving risks Approval for the provision of non-audit services is given on and changes to the business. the basis the service will not compromise independence and is a natural extension of the audit, or if there are

Inputs to the audit plan include principal risks, risk registers, overriding business or efficiency reasons making the corporate priorities, external research of emerging risks and external auditors most suited to provide the service. trends, and discussions with senior management to make Certain services are prohibited from being performed sure the plan aligns with the Committee and Company's by the external auditors. view of risk. The audit plan is considered and approved by the Committee annually and progress against the plan is Total billed non-audit services provided by Deloitte monitored throughout the year. during the year ended 31 March 2018 were £1.9 million, representing 14% of total audit and audit-related fees. To ensure that the audit plan remains agile and focused In 2016/17, PwC billed £17.3 million for non-audit services on key risks facing the business we have undertaken (87% of total audit and audit-related fees), a substantial periodic reviews of our planned audit assurance activities. proportion of which related to work associated with the Our reviews take into account changes to risk registers, disposal of the UK Gas Distribution business. hot spots and emerging risks in the industry and changes based on engagement with the business. The most significant element of non-audit services provided by Deloitte relates to services provided to the UK property Any in-year change to our audit plan therefore ensures business, principally evaluating possible options for the Corporate Audit adds greater value to the business and use of property assets and support in the preparation can provide greater assurance to the Audit Committee. and submission of planning applications and responses As a result of our reviews since the year end there have to resulting questions. The Company's relationship with only been minor changes to the audit plan approved by Deloitte Real Estate in the UK dates back several years the Committee in March 2017. and Deloitte were advisors to the Company in 2014 on the establishment of the Group's St William joint venture (in partnership with the Berkeley Group), through which Deloitte have developed a detailed understanding of our UK property portfolio. Corporate Governance |

Audit Committee National Grid Annual Report and Accounts 2017/18 55

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Corporate Governance continued Finance Committee Following the appointment of a new Group Head of Pensions, the Committee received a report covering his proposed focus areas across the Company. At subsequent meetings, we have focused on scheme valuations, potential future risk management strategies and a review of organisational changes within the Pensions team. As noted on page 145, the Committee also received a summary of the proposed longevity swap in relation to the UK Electricity pension scheme and this was successfully enacted in March 2018. The Committee continued to review the Company's insurance strategy and received updates on the captive optimisation programme, which was a key priority for the business this year. In order to ensure that we remained informed about insurance market conditions, we received a briefing from senior representatives of a global insurance Therese Esperdy broker on the current position and outlook for the wider Committee Chairman insurance market for the coming year. Examples of other key matters the Committee considered Review of the year during the year included: Following the successful sale of a majority interest in the • funding requirements for the US, UK and National Grid UK Gas Distribution business, this year the Committee Ventures businesses; focused on supporting the reshaped Group in achieving • engagement sessions with UK and US its key business and strategic objectives. This included finance employees; reviewing the Company's financing strategy and its interest • preparations for the next UK regulatory price control; rate risk management approach, to ensure they would • financial and treasury controls, including continue to support the Company's earnings and dividend Sarbanes-Oxley controls; policy. The Committee also remained cognisant of changes • credit ratings of Group companies; in the external regulatory and political environment, including • treasury performance updates; Brexit, tax reform in the US, and the ongoing debate around • publication of our tax strategy; renationalisation, focusing on any resulting financial risk. • the draft going concern statement for the half and full year results prior to consideration by the Board; and The Committee has continued to oversee key financial • US energy procurement and UK energy trading activities. aspects of optimising our core business performance. In July, we reviewed the capital structure of our US operating companies, including how this benchmarked externally and how it is managed to reflect our regulatory filings. We received updates on the significant funding activity across our US business, with new long-term bonds Therese Esperdy issued across a number of different operating companies. Committee Chairman During the year, the Committee received a report from external advisors in relation to feedback from debt investors on Company performance and other factors that could impact the Company's funding programme. Management continue to undertake an extensive debt investor 2017/18 key areas of focus engagement programme, more details of which can • Oversight of financial risk be found on page 48. Outcome: enhanced Committee oversight of financial risk and increased assurance over management In its role of monitoring financial risk, during the year and at decision-making and execution within the agreed its last meeting in April 2018, the Committee discussed and financial risk appetite. approved enhancements to how it assesses financial risk and how it gains assurance as to management decision- • US tax reform making and execution within the agreed financial risk Outcome: scrutiny and shaping of management's appetite set by the Board. The Committee discussed the proposed response to US tax reform. potential financial risks to the Company created by Brexit; the possible impact of Brexit on the Company's risk • Pensions management activities; and the proposed actions to Outcome: review of future pension strategy be taken in preparation for the outcome of the Brexit and approval of scheme valuations. negotiation process. • Insurance In April 2017 and January 2018, the Committee also Outcome: supervision of delivery of the Company's considered the potential impact of the upcoming UK insurance captive optimisation programme and bank ring-fencing reforms on the Company's risk monitoring of implementation of the insurance In focus management activities. renewal programme. Following final approval in December 2017 of the US Tax Cuts 2018/19 key areas of focus and Jobs Act, and prior to wider consideration by the Board, • The potential financial implications of the next Terms of Reference: the Committee reviewed the potential impact on the Company UK regulatory price control; You can review the and its financing activities of tax reform, together with the • Financing strategy for ongoing capital programme; Finance Committee actions being considered by management in response to the • Oversight and assurance around potential Brexit Terms of Reference on the Corporate legislative changes. Our review included an assessment of financial risks and response; Governance section the potential impacts on credit ratings across the Group as • The implications of US tax reform; and of our website: part of our ongoing focus in this area given the importance • Update of our long-term pension funding strategy. www.nationalgrid.com to the Company of maintaining appropriate ratings. 56 National Grid Annual Report and Accounts 2017/18

Corporate Governance | Finance Committee

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Corporate Governance Corporate Governance Safety, Environment and Health Committee of risk for major hazard assets, including key US LNG plants and the Company's US gas pipeline safety compliance programme. In relation to the environment, the Committee continues to review the Company's strategy and approach to sustainability, as well as its external reporting of environmental performance, including greenhouse gas emissions (GHG). The Committee has been pleased to see progress against the Company's continued ambition to reduce GHG while also challenging the businesses on GHG reduction activities. The Committee approved a Group target of a 70% reduction in GHG emissions by 2030, including those from electricity system energy losses, to provide a clear milestone between the 2020 and 2050 Company targets. The Company continues to drive this reduction through mains replacement programmes, reductions in SF6 leakage and energy efficiency measures and the Paul Golby Committee will continue to monitor progress. Committee Chairman In terms of health, the Committee has seen a continued focus by the Company in this area, particularly around mental health. Review of the year health where the Committee noted that 12% of the workforce During the year, the Committee has seen the Company are now trained in mental health first aid. Interest and support make progress in improving its safety culture throughout in this area remains strong throughout the Company. the businesses, with specific focus on two key areas. Firstly, the simplification of key procedures, where we have Examples of other matters the Committee reviewed during encouraged the proposed development of new Business the year included: Management Systems (BMS) Standards to provide simple • compliance and risk reporting for safety, environment and fit for purpose procedures in relation to safety, process and health matters; safety, environmental sustainability and wellbeing and • consideration of the introduction of new EU legislation health. Secondly, the Company has undertaken work to on EU Security of Gas supply regulations which came develop and encourage key safety leadership behaviours into force in September 2017; across the Group. We have ensured that time and attention • Engineering Assurance Committee Reports on is being focused on incidents with high potential for harm Electricity and Gas; and and the Committee will continue to monitor the progress • review of the Company's environmental strategy. in this area. (You can read about the Company's response to the recommendations of the Financial Stability Board's Task The Group employee lost time injury frequency rate at Force on Climate-related Financial Disclosures on page 192.) 0.10 remains in line with last year. However, November marked a year since the death of an employee working in our UK Electricity Transmission business. Since my report last year, the Committee has spent considerable time with the business to understand the cause of this fatality, to consider the findings of investigations and to monitor the implementation across the Company of the lessons learnt Paul Golby from this incident. The Committee received a closeout Committee Chairman report on the progress at its April 2018 meeting. The Committee has reviewed the impact of culture on safety and the behaviours underpinning this. For example, 2017/18 key areas of focus whether employees feel able to speak out where there • US Gas Pipeline Safety: might be safety concerns. We found that while our people Outcome: Supervision of delivery of the Company's are generally good at speaking out, encouragement of US gas pipeline safety compliance programme. positive behaviour still needs to be increased. To further understand this issue, in September, the Committee held • Carbon Reduction: a workshop with external behavioural safety experts, which Outcome: The Committee approved a Group target considered how to promote a positive and engaging safety of 70% reduction in GHG emissions by 2030. culture across the Company. The Committee is pleased to note that this workshop has been cascaded to all senior • Health and wellbeing: leadership across the Company. Outcome: Monitoring of the Company's move from its previous five year programme structure to a rolling one The US business continues to focus on switching errors, year analysis of the health challenges in the business. which although slightly improved from last year, still remains at an unacceptable level. I previously reported that the US • Engineering Assurance: business had engaged an external consultant to review Outcome: Monitoring measures being taken to these issues and through this five key categories have been mitigate risks at major hazard sites, including key identified to drive improvements. The Committee continues US LNG plants. In focus to monitor progress in this area. 2018/19 key areas of focus The process safety management systems of the Company • Monitoring the implementation of key Safety, remain an area of focus for the Committee. In January, the Environment and Health BMS Standards Terms of Reference: Committee members received a briefing and reviewed the • Development of leading indicators of safety You can view the Safety, process safety management systems currently in place. • Monitoring action plan to achieve long-term Environment and Health carbon reduction targets Committee Terms of Areas for simplification and improvement were identified and the Committee will receive further updates to demonstrate • Analysis and understanding of near miss incidents Reference on the • Monitoring the progress of switching error Corporate Governance the implementation of the new BMS Standards in this area. section of our website: The Committee has also continued to receive updates on improvements in the US business www.nationalgrid.com the measures being taken to address and mitigate levels Corporate Governance | Safety, Environment and Health Committee National Grid Annual Report and Accounts 2017/18 57

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Corporate Governance continued Nominations Committee The succession pipeline to the Executive Committee and health of the talent pool further down the organisation is discussed at quarterly Executive Global Talent Pool meetings. Each member of the Executive Committee has specific talent and succession targets. The Board has also met with high-potential employees both in the UK and the US on several occasions during the year. Diversity The creation of an inclusive and diverse culture supports the attraction and retention of talented people, improves effectiveness, delivers superior performance and enhances the success of the Company. While traditional diversity criteria such as gender, age and ethnicity are important, we also value diversity of thought, Sir Peter Gershon skills, experience, knowledge and expertise including Committee Chairman educational and professional backgrounds. Our Board diversity policy sets out our approach to Review of the year diversity on the Board and senior management of National Succession planning has remained the main area of Grid. You can read more about our Board diversity policy focus for the Committee this year. It is important for the and progress towards our objectives opposite. Board to anticipate and prepare for the future and to ensure that the skills, experience and knowledge at Director and senior management level reflect the changing demands of the business. Board composition We recognise that the success of the Company begins with a high-quality Board and senior management team. Sir Peter Gershon Key to this is the make up of the individual members. Committee Chairman During the year a formal process was undertaken by the Committee to find an appropriate new Non-executive Director, to strengthen the experience and skills on the Board and its Committees. Following a thorough and rigorous process, Amanda Mesler 2017/18 key areas of focus was appointed as a Non-executive Director to the Board • Board succession planning with effect from 17 May 2018. Amanda brings a wealth of • Non-executive Director search and appointment experience in different sectors to National Grid's Board, in • Review of Executive Committee succession particular in the area of the application of technology. • Updates on the external reviews on diversity • Review of the Chairman's performance, led by Amanda's appointment is part of our ongoing commitment Mark Williamson, the Senior Independent Director to build and maintain an effective Board which is high- • Review of Director independence and quality in terms of expertise, diversity and background. potential conflicts In focus On appointment Amanda will join the Audit, Finance and Nominations Committees. See opposite for more details 2018/19 key areas of focus on the search and appointment process. • Board succession planning to optimise the regeneration of the Board while maintaining a Terms of Reference: Talent pipeline degree of continuity of knowledge and experience You can view the During the year the Committee received an update on the through the next UK regulatory review Nominations Committee current strength of the pipeline to our Executive Committee • Executive Committee succession planning and the Terms of Reference on the Corporate roles and specific actions to mitigate succession risk development of high potential internal candidates Governance section including development of internal candidates and the • Meeting high potential employees below Executive of our website: viability of external hiring as part of the longer-term Committee level www.nationalgrid.com succession plan. 58 National Grid Annual Report and Accounts 2017/18 Corporate Governance | Nominations Committee

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Corporate Governance Non-executive search and appointment process Board diversity policy Spencer Stuart were appointed to undertake a search As reported last year, in April 2017 the Committee for a new Non-executive Director, together with a small approved updates to the Board diversity policy and US boutique firm specialising in technology, Hobbs & the associated objectives. Towne, Inc. In January 2018, the Nominations Committee approved • The Committee reviewed and agreed the Non- a few minor updates to the policy including valuing diversity executive Director candidate profile which was of age and educational and professional backgrounds, formulated taking into account the current skills expanding the remit of the policy to include the Executive matrix of the Board members. Committee and its direct reports, and adding a new item • The search agencies conducted initial searches in relation to the development of the talent pipeline to the and produced a list of potential candidates which Board and the senior management team in support of was reduced to a shortlist by the Chairman. the two objectives approved last year. • At the November 2017 Committee meeting it was agreed that the Chairman would interview the shortlisted The policy applies to the Board, the Executive Committee candidates and a sub-group of the Nominations and direct reports to the Executive Committee. It does Committee (John Pettigrew, Therese Esperdy, not apply directly to diversity in relation to the remaining Mark Williamson and Jonathan Dawson) would employees of National Grid as this is covered by other interview the final candidate(s). policies and the National Grid Inclusion Charter. • At the January 2018 Committee meeting, the shortlisted candidates from Spencer Stuart were reviewed and the As set out in our Board diversity policy: Committee members gave feedback on the prospective • All Board appointments will be made on merit, candidates they had met. in the context of the skills and experience that are • Following discussion, it was agreed one candidate needed for the Board to be effective. would progress to the next stage of the process to • We will only engage executive search firms who meet with the Nominations Committee sub-group. have signed up to the UK Voluntary Code of Conduct • Subsequent to the January meeting, one further on Gender Diversity. Hobbs & Towne, Inc., a small candidate from Spencer Stuart and two candidates US firm, is not a signatory to the UK Voluntary Code from Hobbs & Towne, Inc. were selected to meet of Conduct on Gender Diversity (but they did provide with the Chairman in March. us with a number of diverse candidates). This deviation • At the March 2018 Committee meeting, Committee from the policy was felt to be appropriate to ensure members and the Chairman gave feedback on the a comprehensive search of the marketplace in the initial shortlisted candidates. The Chairman met with niche area of technology and innovation. Our new the preferred candidate shortly after the March Committee Non-executive Director, Amanda Mesler, was a meeting to further test the candidate's credentials and candidate from Spencer Stuart. ensure that the majority of requirements set out in the • We will continue to make key diversity data, both specification would be met by the appointment. about the Board and our wider employee population, • The Committee agreed the preferred candidate and available in the Annual Report and Accounts. made a recommendation to the Board in April 2018. • The Board approved the recommendation and We will continue to review our progress against the Board Amanda Mesler was appointed to the Board with diversity policy annually and report on our progress against effect from 17 May 2018. the policy and our objectives in the Annual Report and Accounts along with details of initiatives to promote gender and other forms of diversity among our Board, Executive Committee and other senior management. Examples of the initiatives to promote and support inclusion and diversity throughout our Company are set out below and on page 37. Objectives Progress The Board aspires to meet the target of 33% of Board and Objective ongoing Executive Committee positions, and direct reports to the Executive Following the departure of Ruth Kelly from the Board in July 2017 Committee, to be held by women by 2020. the percentage of women on the Board has fallen to 27.3%. Following the recent appointment of Amanda Mesler to the Board there will be 33.3% women on the Board. In our Executive and Non-executive Director searches we take this into consideration, however all appointments are made on merit. We currently have 33% women on our Executive Committee and 31% women direct reports to the Executive Committee. We are undertaking the following actions to help achieve our target: • All senior external recruitment requires a diverse list of candidates to be considered as part of the selection process. • All talent meetings have inclusion and diversity moments at the start to ensure an inclusive mind set when discussing talent moves and promotions. • All Executive Directors have diversity targets. The Board aspires to meet the Parker Review target for FTSE Objective met 100 boards to have at least one director from a non-white ethnic We currently have one Director from a non-white ethnic minority minority by 2021. on the Board. Additionally, our mandatory requirement for a diverse candidate pool should ensure that we continue to have the opportunity to recruit further persons from non-white ethnic minorities in the future. Corporate Governance | Nominations Committee National Grid Annual Report and Accounts 2017/18 59

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Corporate Governance continued Our Executive Committee Membership Key Member of the Board and Executive Committee Full biographies on page 42 Secretary to the Board and member of the Executive Committee Full biography on page 43 John Pettigrew Andrew Bonfield Chief Executive and Finance Director Member of Executive Committee Committee Chairman Dean Seavers Nicola Shaw Alison Kay Executive Director, US Executive Director, UK Group General Counsel and Company Secretary Badar Khan Mike Westcott George Mayhew Adriana Karaboutis Group Director, Corporate Development Group Human Resources Director and Group Corporate Affairs Director Group Chief Information and and National Grid Ventures Group Commercial Property Director Digital Officer Badar joined the Company in 2017. He is Mike is responsible for setting and delivering George is responsible for setting and Adriana is responsible for the development responsible for competitive businesses the global HR agenda and driving long-term delivering the Group's public policy, of a Group-wide digital strategy, delivery globally including interconnectors, LNG, sustainable value from our surplus property legislative and communications strategy. of information systems and services, metering, renewables and distributed portfolio. Previously, he worked for Diageo Prior to joining National Grid, he worked digital security and risk as well as overall energy. He also leads group strategy plc for 14 years in a number of senior HR at BAE Systems plc, Centrica plc and security. Previously, she worked as an and technology & innovation globally. roles, including HR Director at Diageo Granada Media Group undertaking innovative technology executive and a Previously, he worked at Centrica plc for International Markets and HR Director a number of corporate and public business leader for Biogen, Dell, Ford, 14 years in the UK and US, including for North America. affairs roles. and General Motors. 4 years as CEO of Direct Energy, the North American subsidiary which provides External Appointments: Board External Appointments: None. External Appointments: Board of electricity, natural gas and home services. of Trustees at SportsAid and Board Directors of Perrigo Company plc and of Centrepont. of Advance Auto Parts. External Appointments: None. Examples of key areas of focus Led by the Chief Executive, the Executive during 2017/18 Committee oversees the safety, operational Disclosure Committee and financial performance of the Company. The Disclosure Committee assists the Chief Executive • Progress towards a generative It is responsible for making day-to-day and the Finance Director in fulfilling their responsibility safety culture. management and operational decisions it for overseeing the accuracy and timeliness of • Delivering improved considers necessary to safeguard the interests disclosures made – whether in connection with operational performance. of the Company and to furthering the strategy, our presentations to analysts, financial reporting • Delivering successful business objectives and targets established obligations, or other material stock exchange regulatory outcomes. by the Board. It approves expenditure and announcements, including the disclosure of price • Building capacity and capability other financial commitments within its authority sensitive information. The Committee is chaired by to enable future growth and levels and discusses, formulates and approves the Finance Director and its members are the Group deepening succession cover. proposals to be considered by the Board. General Counsel and Company Secretary, the Group Tax and Treasury Director, the Group Financial • Progressing the execution of our corporate strategy. The nine Committee members have a broad Controller, the Director of Investor Relations and range of skills and expertise, which are updated the Head of Corporate Audit. Others attended through training and development. Some as appropriate. members also hold external non-executive Examples of key areas of focus directorships, giving them valuable board This year the Committee met to consider the for 2018/19 experience. As previously announced, Andrew announcements for the full and half-year results as • Continue progress towards Bonfield will be stepping down from his role on well as the announcement relating to completion of a generative safety culture. the Board and the Committee at the end of the the sale of the UK Gas Distribution business and the 2018 AGM. Andy Agg, currently Group Tax and issue of the notice of the General Meeting to approve • Drive our operational and Treasury Director, will be appointed as Interim the return of cash following the sale. The Committee customer performance. Finance Director pending the appointment reported on relevant matters to the Audit Committee. • Deliver on our regulatory strategy. of a permanent Finance Director and will • Develop and source talent and become a member of the Committee. The Committee reports the results of its evaluation leaders to deliver our strategy of the effectiveness of the Company's disclosure and vision. The Committee officially met 12 times this year, controls to the Audit Committee. • Position National Grid as a purpose- but the members interact much more regularly. led business and as a leading voice Those members of the Committee who are not in energy transformation. Directors regularly attend Board and committee meetings for specific agenda items. This means that knowledge is shared and all members are kept up to date with business activities and developments. 60 National Grid Annual Report and Accounts 2017/18 Corporate Governance | Our Executive Committee

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Corporate Governance Statement of compliance with and application of the UK Corporate Governance Code For the year ended 31 March 2018, the Board considers that for the period under review it has complied in full with the provisions of the UK Corporate Governance Code 2016 (the Code), available in full at www.frc.org.uk. Our statement of compliance below, together with the rest of the Corporate Governance report, explains the main aspects of the Company's governance structure to give a greater understanding of how the Company has applied the principles and complied with the provisions in the Code. The Corporate Governance report also explains compliance with the Disclosure Guidance and Transparency Sourcebook. The index on page 62 sets out where to find each of the disclosures required in the Directors' Report in respect of Listing Rule 9.8.4. A. Leadership Around each of the eight scheduled Board B.3 Time commitment A.1

The role of the Board meetings, the Chairman held meetings with Non-executive Directors are advised of the Our Board is collectively responsible for the the Non-executive Directors without the time commitment and travel, expected from effective oversight and long-term success of Executive Directors present. them on appointment. The time commitment the Company. It also determines the strategic of each Director is kept under review by direction, business plan, objectives, principal B. Effectiveness the Nominations Committee. External risks, viability of the Company and governance B.1 The composition of the Board commitments, which may impact existing structure that will help achieve the long-term The Board believes it operates effectively time commitments, must be agreed with the success of the Company and deliver sustainable with an appropriate balance of independent Chairman. Details of external appointments shareholder value.

Non-executive and Executive Directors who are set out in the biographies on pages 42-43. have the right balance of skills, experience, As part of the evaluation of the Chairman, The Board sets the risk appetite and principal independence and knowledge of the Company. the Non-executive Directors, with input from risks for the Company and takes the lead in Details of our Board, their individual biographies the Executive Directors, assessed his ability areas such as safeguarding the reputation of and committee membership are set out on to fulfil his role as Chairman, taking into the Company and its financial policy, as well pages 42-43. Board and committee attendance account other significant appointments. as making sure we maintain a sound system during the year to 31 March 2018 is set out of internal control and risk management on page 45. The size and composition of the With the agreement of the Board, Executive (see pages 18-21). Board and its committees is kept under review Directors gain experience of other companies' by the Nominations Committee to ensure operations, governance frameworks and

There is a clear schedule of matters reserved for the appropriate balance of skills, experience, boardroom dynamics through non-executive the Board and a schedule of delegation, which independence and knowledge. The appointments. The fees for these positions are were both reviewed and updated in January independence of the Non-executive Directors retained by the individual. For further details 2018. The schedule of matters reserved for the is considered at least annually along with about the Directors' service contracts and Board is available on our website, together with their character, judgement, commitment letters of appointment, see page 70 of the other governance documentation. and performance on the Board and Board Directors' Remuneration Report. committees. The

Board took into consideration A.2 A clear division of responsibilities the Code and indicators of potential non- B.4 Development The Board supports the separation of the independence, including length of service. All new Directors are provided with a full and roles of the Chairman and Chief Executive. Following due consideration, the Board tailored induction programme when they are The key responsibilities are clearly documented determined that all the Non-executive appointed to the Board. Details of Director and reviewed when appropriate. The Chief Directors were independent in character induction and ongoing

development can Executive is responsible for the executive and judgement. As such the Board confirmed be found on page 45. leadership and day-to-day management of that with the exception of the Chairman, the Company and the Group's businesses, whose independence is only determined B.5 Information and support to ensure the delivery of the strategy agreed on appointment, all Non-executive Directors The Group General Counsel and Company by the Board. The Chairman manages and leads remained independent throughout the year Secretary makes sure that appropriate and the Board (see below for more information). as defined in the Code. timely information is provided to the Board and its committees and is responsible for A.3 Role of the Chairman B.2 Appointments to the

Board advising and supporting the Chairman and The Chairman, who was independent on The Nominations Committee, which comprises the Board on all governance matters. All appointment, is responsible for the leadership the Chairman and Non-executive Directors, Directors have access to the Group General and management of the Board and its leads the process for Board appointments Counsel and Company Secretary and may governance. He makes sure the Board is effective and makes recommendations to the Board. take independent professional advice at the in its role by promoting a culture of openness and The

Nominations Committee also considers Company's expense in conducting their duties. debate, facilitating the effective contribution of all Board succession planning and the leadership To support discussion and decision-making, Directors and helping to maintain constructive needs of the Company. As they will have

Board and committee members receive relations between Executive and Non-executive been Board members for more than six years papers sufficiently in advance of meetings Directors. The Chairman sets the Board's agenda by the time of the 2018 AGM, a particularly so that they can prepare for and consider making sure consideration is given to the rigorous review of Sir Peter Gershon, agenda items. Additionally, the Chairman main challenges and opportunities facing

Paul Golby and Nora Mead Brownell was holds a short meeting with the Non-executive the Company, and adequate time is available undertaken, taking into account the need Directors before each Board meeting to to discuss all agenda items, including for progressive refreshing of the Board. discuss the focus of the upcoming meeting strategic issues. as well as afterwards to share feedback from Further details of the formal, rigorous and the meeting. Similarly, the Chief

Executive A.4 Role of the Non-executive Directors transparent appointment processes for holds a short meeting with the Executive Independent of management, our Non- Amanda Mesler and the role of the Nominations Directors and the Group General Counsel executive Directors bring diverse skills and Committee can be found on page 59. Spencer and Company Secretary after each meeting experience, vital to constructive challenge Stuart, Hobbs & Towne, Inc and Korn Ferry and shares the feedback from these meetings and debate. Exclusively, they form the Audit, provided external search consultancy services with the Chairman. A clear

set of guidelines Nominations and Remuneration Committees, in relation to the appointment of a new is in place to assist the Executive Directors and and their views are actively sought when Non-executive Director. Hobbs & Towne, management on the content and presentation developing proposals on strategy. The Inc

does not have any other connections of papers to the Board and committees; and Non-executive Directors monitor the delivery of with the Company. Spencer Stuart provided the quality of Board and committee reporting the agreed strategy and objectives within the risk other recruitment services to the Company's is an area of continuous focus for management and governance framework set by the Board. subsidiaries and Korn Ferry provided other to ensure the Board receives timely, clear HR-related services for example, the employee and accurate information. Our Senior Independent Director (SID) acts as engagement survey and consultancy services a sounding board for the Chairman and serves to the Company and its subsidiaries. as an intermediary for the other Directors, as well as shareholders when required. Corporate Governance | Statement of compliance with the UK Corporate Governance Code National Grid Annual Report and

Accounts 2017/18 61

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Corporate Governance continued B.6 Evaluation The activities of the Audit Committee, which E.2 Constructive use of General Meetings The 2017/18 performance evaluations of assists the Board with its responsibilities in The AGM provides a key opportunity for the Board, Board Committees and individual relation to risk and assurance, are set out the Board to communicate with and meet Directors were carried out internally. Led by the on pages 49-55. shareholders. Shareholders are able to learn SID, and with input from the Executive Directors, more about the Company through exhibits the Non-executive Directors reviewed the C.3 Audit Committee and auditors and can ask questions directly of the Board Chairman's performance. See pages 46-47 The Audit Committee is comprised entirely both formally and informally. Company for more information on this year's Board, of independent Non-executive Directors. representatives and our Registrar are also on Committee, individual Director and Chairman In accordance with the Disclosure and hand to answer any questions shareholders performance evaluations. Transparency Rules and the Code, the might have. composition and competence of the Audit Following the evaluation process, it was agreed Committee was considered by the Nominations Our AGM will be held on Monday, 30 July 2018, that the Board and its Committees continue Committee at its April meeting. The Board at The International Convention Centre in to operate effectively and that each Director, confirmed the recommendations of the Birmingham, and broadcast via our website. including the Chairman, contributes effectively Nominations Committee: that all members The Notice of Meeting for the 2018 AGM, and demonstrates commitment to their role. of the Committee are independent (including available on our website, sets out in full the the chairman of the Committee), that Mark resolutions for consideration by shareholders, In line with the Corporate Governance code, Williamson as a chartered accountant is together with explanatory notes and further the Board expects that the 2018/19 Board considered to have competence in accounting, information on the Directors standing for performance evaluation will be carried out and that the Committee as a whole has election and re-election. externally. competence relevant to the sector in which it operates. In reaching a determination B.7 Election/re-election regarding the Committee's competence, Index to Directors' Report Each Director is subject to election at the the skills and experience of the Committee and other disclosures first AGM following their appointment, and members were considered. re-election at each subsequent AGM. Following AGM 62 recommendations from the Nominations The report on pages 49-55 sets out Articles of Association 197 Committee, the Board considers all Directors details of how the Committee has discharged Audit information 82 continue to be effective, committed to their roles its duties during the year, matters reviewed by Board of Directors 42 and have sufficient time available to perform the Committee and how it ensures the auditors' their duties. Therefore, in accordance with the objectivity, effectiveness and continued Business model 2 Code, Amanda Mesler will seek election and all independence. Change of control provisions 203 other Directors (with the exception of Andrew Code of Ethics 203 Bonfield and Pierre Dufour) will seek re-election D. Remuneration at the 2018 AGM. D.1 The level and components Conflicts of interest 203 of remuneration Contractual and other C. Accountability The Remuneration Committee, comprised arrangements 186 C.1 Financial and business reporting entirely of independent Non-executive Directors, Directors' indemnity 203 The requirement for Directors to state that they is responsible for recommending to the Board Directors' service contracts consider the Annual Report and Accounts, taken the remuneration policy for Executive Directors and letters of appointment 70 as a whole, is fair, balanced and understandable, and other members of the Executive Committee remains a key consideration in the drafting and and for the Chairman, and for implementing this Directors' share interests 76 review process. The coordination and review of policy. The aim is to align remuneration policy to Diversity 37 the Annual Report and Accounts is conducted Company strategy and key business objectives Dividends 8 in parallel with the formal audit process and make sure it reflects our shareholders', undertaken by the external auditors and customers' and regulators' interests. Events after the reporting period 198 the review by the Board and its committees Financial instruments 135 (of relevant sections). The Remuneration Report on pages 63-79 Future developments 4 sets out key aspects of the remuneration Greenhouse gas emissions 16 The drafting and assurance process supports policy as approved by shareholders at the the Audit Committee's and Board's assessment 2017 AGM and outlines the activities of the Human rights 204 of the overall fairness, balance and clarity of the Committee during the year. Important events affecting Annual Report and Accounts and the statement the Company during the year 10 of Directors' responsibilities as set out on page D.2 Procedure Internal control 18 82. The independent auditor's report is on For further information on the work of the Internal control over pages 83-91 and the Company's business Remuneration Committee and Directors' financial reporting 21 model is on page 2. remuneration packages, see the Directors' Remuneration Report on pages 63-79. Listing Rule 9.8.4 R C.2 Internal control and risk management cross reference table 204 The Board has carried out a robust assessment E. Relations with shareholders Material interests in shares 199 of the nature and extent of the principal risks E.1 Dialogue with shareholders People 36 facing the Company in achieving its objectives The Board as a whole is responsible for including those that would threaten the making sure that satisfactory dialogue Political donations business model, future performance, solvency with shareholders takes place, and members and expenditure 204 or liquidity. Further details can be found on take an active role in engaging with Research and development 204 pages 19-20. shareholders. We believe that effective Risk management 18 channels of communication with the Share capital 199 The Board also sets the Company's risk Company's debt and equity institutional appetite, internal controls and risk management investors and individual shareholders are processes. The Board monitors the Company's very important. More information about our risk management and internal control systems approach to relations with shareholders and undertakes a review of their effectiveness can be found on page 48. annually. Further details are set out on pages 18-21. 62 National Grid Annual Report and Accounts 2017/18 Corporate Governance | Statement of compliance with the UK Corporate Governance Code

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Corporate Governance Annual statement from the Remuneration Committee Chairman salary. Other UK-based Executive Directors must hold at least four times their pre-tax salary in National Grid's shares, which is equivalent to around seven times their post-tax salary. For the US-based Executive Director, the minimum shareholding requirement is also four times his pre-tax salary, which is equivalent to around six times his post-tax salary. This requirement ensures that executives have a longer-term view in their decision-making, are rewarded for achieving success over the long term, and have interests aligned to our private and institutional shareholders – gaining if the share price increases, and sharing in the consequences of share price falls. The largest element of our incentive pay, the LTTP, is measured against the two components through which National Grid earns returns for our shareholders. These are RoE, which measures management's ability to grow the business profitably; and Value Growth, which comprises growth in assets, less net debt plus dividends paid. The two measures are designed to provide a balance, deterring excessive debt-financed asset growth, while incentivising management to maintain an efficient balance sheet. Jonathan Dawson Remuneration Committee Chairman Consistent with our approach for aligning executive interests to the long term, LTTP awards are determined after a three-year performance period. Furthermore, the shares introduced that are then allocated to Executive Directors have to be Last year, our shareholders approved National Grid's held for at least a further two years. remuneration policy for the period 2017 to 2020, with over 97% in favour. At the same time, more than 87% 2. Achievement of short-term (APP) and long-term approved the annual Remuneration Report. The (LTTP) incentive opportunities are linked to National Remuneration Committee and the whole Board are Grid financial performance grateful to shareholders for their support for our policy. We focus largely on visible financial measures to assess and our implementation of it. This year, through the the level against which incentive payouts are determined. annual advisory shareholder vote, we are seeking Over 90% of John Pettigrew's potential incentive pay is shareholder support for the implementation of the calculated on that basis. approved remuneration policy during 2017/18. 3. Discretion and independent judgement is applied National Grid has had another successful year, delivering As a committee, we are willing to exercise discretion when on all our key measures. Underlying operating profit was approving remuneration outcomes for Executive Directors. up by around 6% in constant currency terms to around We reflect on whether the Company's overall performance £3.5 billion and underlying EPS was up by more than 3% is correctly represented by the financial measures we to 60.4p despite adverse movements in exchange rates. have set, and we shall take account of the performance Strong Return on Equity (RoE) was achieved at 12.3% and of non-financial measures, and the demonstration of dividends were increased in line with policy. Value Added leadership qualities and living our values, before of £2 billion was achieved in the year and contributed agreeing APP awards. to the three-year measure of Value Growth of 11.8%. Value Growth is an internal equivalent to Total Shareholder Last year, for example, we reduced senior executives' Return (TSR). We also invested £4.3 billion into the APP awards to acknowledge the importance of maintaining business this year, growing our asset base by 6%. a strong safety culture following the tragic fatality of one of National Grid's employees in the UK. Also last year, What is our remuneration policy seeking to achieve? we included within the LTTP a portion of the Value Our objective in developing our remuneration policy Added from the sale of a majority interest in the UK Gas is to ensure we pay our senior executives in a way that Distribution business to reflect the Executive Directors' incentivises stretching performance, is fully aligned to role in crystallising shareholder value from the Gas the way National Grid earns its returns for shareholders, Distribution sale. and actively supports our strategy and values. This year, the Committee has not exercised discretion either The main features of our remuneration policy are as follows: positively or negatively. I also wish to confirm that the LTTP and APP plans both state that the Committee has absolute 1. Significant weighting towards business discretion to determine whether exceptional circumstances performance over the long term exist which justify whether any or all of an award should Nearly three quarters of John Pettigrew's variable pay be forfeited, even if already paid. Examples of exceptional opportunity is represented by the Long Term Performance circumstances include, but are not limited to, material Plan (LTTP). We emphasise this over the Annual Performance misstatement, misconduct of the participant, a significant Plan (APP) because National Grid is a long-term business. environmental or health and safety issue, failure of risk We want to make sure investment decisions are made, and management, and if certain other facts emerge after operating efficiencies achieved, against this background. termination of employment. We would not hesitate to use this ability to clawback incentive awards paid to Most of senior executives' variable pay is settled in National executives where we determine that the payment Grid's shares. For Executive Directors, some 85% of their levels were unjustified given new information. variable pay opportunity is delivered in shares. To summarise, in setting Executive Director pay, we take We also require senior executives to maintain very high account of a wide range of factors to inform decisions that shareholdings in National Grid. As CEO, John Pettigrew has as fair given each executive's accountabilities, individual to hold at least five times his pre-tax salary in National Grid's contribution, business performance, and the wider shares, which is equivalent to around nine times his post-tax workforce pay outcomes. We illustrate this overleaf. Corporate Governance | Directors' Remuneration Report National Grid Annual Report and Accounts 2017/18

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Directors' Remuneration Report How our variable pay is determined Financial measures + Individual objectives + Committee discretion + Malus/clawback

Specific financial performance Other performance considered measures considered Objectives are set on Return on Equity APP an individual basis, 1-year dependent on role Value Added performance period remit and requirements. Committee considers wider (up to 125% of salary) Includes wider business Adjusted EPS business performance Committee has absolute measures as appropriate as well as individual discretion to apply malus/ demonstration of leadership clawback in exceptional qualities and values, and will circumstances adjust as appropriate LTPP Return on Equity 3-year performance period n/a (up to 350% of salary for Value Growth CEO, 300% for other EDs) How do we report on Directors' remuneration? Executive Director alignment Our aim is to be highly transparent so shareholders As I stated above, a key element in our remuneration can assess whether remuneration paid to executives strategy is to require senior executives to have a substantial is appropriate, given both the financial and operational shareholding in the Company. The purpose of this is to performance of the Company and executives' individual make sure executives share the benefit of any growth in the performance. We have reviewed feedback from last year's share price and the effects of any fall. The last year has seen report and have further enhanced how we analyse and a decline in our share price. We have examined carefully describe executives' individual performance. whether this was a consequence of executives' performance or the result of other factors. We concluded that the decline in A particular focus has been to provide further detail of the share price over the period was driven by a combination their individual objectives, as set out on pages 71-73. This of factors, including rises in bond yields and negative includes an explanation both on positive aspects and on sentiment around political and regulatory uncertainty in the areas where we consider performance fell short of stretch UK. Additionally, we noted the continued strong operational targets. We continue to include full retrospective disclosure and financial performance of the Company. This includes of performance against the financial targets we set last year Group RoE and Value Growth, which are key performance in respect of the APP, as set out on page 71. indicators for the Company and key measures of value creation for shareholders. Review of performance for the year APP We also noted that during the year, the value of John APP payouts for Executive Directors comprise 70% based Pettigrew's shareholding, taking account of the value of on the achievement of Company financial measures and shares after the share consolidation exercise and shares 30% based on the achievement of individual objectives. As vested in the year, fell by some £750,000 – equivalent to in prior years, technical adjustments are made to the EPS around 160% of his post-tax salary. This serves to illustrate outturn to account for the impact of timing and storms, and powerfully what we mean by alignment of interest with to target to reflect the net effect of currency adjustments, shareholders and why we regard it as a central feature certain actuarial assumptions on pensions, scrip dividend of our remuneration strategy. uptake, and to ensure consistency of accounting treatment. Thus, the reported figure was adjusted down from 59.5p Annual salary review to 58.0p and the target was reduced from 57.7p to 57.0p. As I have stated in the last two remuneration reports, the Technical adjustments have also been made to Group RoE Committee decided not to award John Pettigrew and Nicola which has resulted in an increase to target of 0.2% primarily Shaw salaries at our assessment of the appropriate levels to reflect the net effect of currency adjustments and to for their roles when they were initially appointed. Instead, ensure consistency of accounting treatment. This year I wrote that over time we would make increases in excess there have been no discretionary adjustments made by of the managerial salary increase budget, subject to their the Committee to any of the APP financial results. individual performance. This approach is consistent with that for the wider employee population, where employees The performance of the respective financial measures has may begin a role at up to 20% below our assessment of resulted in outturns ranging from 58.7% to 85.0% of the market levels, but subsequently may receive significantly maximum for the financial portion. The performance against larger salary increases than budget when justified by individual objectives has resulted in outturns ranging from individual performance. 74.0% to 81.0% of the maximum for the individual portion. Taking both financial and individual performance together, Last year, following a review of both John Pettigrew's and the overall APP awards to Executive Directors on the Board Nicola Shaw's performance in their respective roles, the at 31 March 2018 range from 63% to 83% of the maximum Committee increased their base salaries by 9% (comprising award which amounts to payments of between 79% and the UK budget of 2.6% and a further 6.4%). I indicated that 104% of salary. Details of the APP payouts are presented on we would follow a similar approach this year, and we have pages 71-73, including the full range of performance levels therefore considered John Pettigrew's and Nicola Shaw's for each of the financial measures and also commentary individual performance during the year to assess whether on each of the Executive Directors' performance against this approach continues to be justified. individual objectives. In John Pettigrew's case, the Committee concluded that in LTPP his second year as CEO he had continued to build on his The 2015 LTPP awards vest in July 2018. The three-year strong first year in the role. We considered, taking account performance period ended on 31 March 2018 and vesting also of the employee opinion survey, that he had made outcomes ranged from 66.3% to 86.0%. As with last year, robust progress in developing National Grid as both a this year's LTPP vesting also benefitted from the inclusion purpose and performance-led organisation. He has focused of a portion of the value arising from the sale of a majority the US business on advancing its strategy, with successful interest in the UK Gas Distribution business in 2016/17 in new rate case filings and new capital delivery and gas the Value Growth measure, as this event occurred within enablement capabilities. the 2015-2018 performance period measured. 64 National Grid Annual Report and Accounts 2017/18

Corporate Governance | Directors' Remuneration Report

Edgar Filing: NATIONAL GRID PLC - Form 20-F

[illegible]

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Directors' Remuneration Report continued At a glance Performance A comparison of the total 2017/18 single figure of remuneration with the maximum remuneration if variable pay had vested in full is set out below for the four Executive Directors in office for the full year. For Dean Seavers a depreciation in 2015

LTPP value is shown due to a reduction in ADS price between the grant price, \$66,9618 and the estimated vesting price of \$55,1600. Total remuneration £'000

Executive Director	2017/18 single figure	Executive Maximum if variable pay 2017/18 single figure
Andrew Bonfield	4,345,384	4,345,384
John Pettigrew	3,945,351	3,945,351
Dean Seavers	3,952,303	3,952,303
Nicola Bonfield	1,247,102	1,247,102

Key features of remuneration policy Annual report on remuneration for 2017/18

- Target broadly mid-market against FTSE 11-40 for UK Directors
- Salary increases of 2.6% for Andrew Bonfield and 2.5% for and general industry and energy services companies with similar Dean Seavers. These increases (June 2017) being in line with Salary revenue for US Directors the respective budgets for UK and US managerial employees
- Salary increases of 9.0% for each of John Pettigrew and Nicola Shaw (June 2017). These higher increases were awarded to help reduce the gap and bring their pay closer to appropriate levels for their roles and based on assessment of strong individual performance
- Maximum opportunity is 125% of salary
- 70% based on financial measures and 30% based on Annual
- 50% paid in cash, 50% paid in shares which must be retained individual objectives Performance until later of two years and meeting shareholding requirement
- Financial metrics for CEO and Finance Director comprise Plan (APP)
- Subject to both clawback and malus 35% adjusted EPS and 35% Group RoE
- Financial metrics for Executive Director, US and Executive Director, UK comprise 35% US/UK Value Added respectively and 35% US/UK RoE respectively
- Individual objectives cover putting our customers first, optimising the performance of our core business, seeking out growth opportunities in a disciplined way and evolving the business for the future
- Maximum award level is 350% of salary for CEO and 300% for other Executive Directors
- 2017 LTPP award, 50% Group RoE and 50% Value Growth Long Term for other Executive Directors
- 2015 LTPP vesting in 2018, 50% RoE and 50% Value Growth Performance
- Vesting subject to long-term performance conditions over -- 50% Group RoE for CEO and Finance Director Plan (LTPP) a three-year performance period -- 25% Group RoE and 25% US/UK RoE for Executive Director
- Shares must be retained until later of two years from vesting US and Executive Director, UK respectively and meeting shareholding requirement
- Subject to both clawback and malus
- Eligible to participate in defined contribution (or defined) UK cash allowance (Andrew Bonfield, John Pettigrew Pension and benefit if already a member) and Nicola Shaw): 30% of pensionable pay other benefits
- Pensionable pay is salary only in UK and salary and APP
- US defined contribution (Dean Seavers): 9% of pensionable in US in alignment with market pay with additional match of up to 4%
- Other benefits as appropriate
- Other benefits include private medical insurance, life assurance, and for UK-based Executive Directors either a fully expensed car or a cash alternative, and a car and driver when required
- 500% of salary for CEO
- Andrew Bonfield has a shareholding of 632% and has met Shareholding
- 400% of salary for other Executive Directors his shareholding requirement requirement
- John Pettigrew, Dean Seavers and Nicola Shaw have not yet met their shareholding requirement due to their relatively short time in role; their shareholdings are 326%, 144% and 13% respectively

66 National Grid Annual Report and Accounts 2017/18 Corporate Governance | Directors' Remuneration Report

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Corporate Governance Directors' remuneration policy – approved by shareholders in 2017 Key aspects of the Directors' remuneration policy, along with elements particularly applicable to the 2017/18 financial year are shown on pages 67 to 69 for ease of reference only. This policy was approved for three years from the date of the 2017 AGM, held on 31 July 2017. A shareholder vote on the remuneration policy is not required in 2018. A copy of the full remuneration policy is available within the 2016/17 Annual Report and Accounts on the Company's investor website (investors.nationalgrid.com). From time to time, the Committee may consider it appropriate to apply some judgement and discretion in respect of the approved policy. This is highlighted where relevant in the policy, and the use of discretion will always be in the spirit of the approved policy. Our peer group The Committee reviews its remuneration policy against appropriate peer groups annually to make sure we remain competitive in the relevant markets. The primary focus for reward market comparisons is the FTSE 11-40 for UK-based Executive Directors

and general industry and energy services companies with similar levels of revenue for US-based Executive Directors. These peer groups are considered appropriate for a large, complex, international and predominantly regulated business. Approved policy table – Executive Directors Salary Purpose and link to strategy: to attract, motivate and retain high-calibre individuals, while not overpaying. Performance metrics, weighting and time Operation Maximum levels period applicable Salaries are targeted broadly at mid-market level. No prescribed maximum annual increase. Not applicable. They are generally reviewed annually.

Salary reviews take into account: Any increases are generally aligned to salary • business and individual contribution; increases received by other Company employees • the individual's skills and experience; and to market movement. Increases in excess of • scope of the role, including any changes this may be made at the

Committee's discretion in responsibility; and in circumstances such as a significant change in • market data in the relevant comparator group. responsibility, progression in the role and alignment to market level. Benefits Purpose and link to strategy: to provide competitive and cost-effective benefits to attract and retain

high-calibre individuals. Performance metrics, weighting and time Operation Maximum levels period applicable Benefits provided include: Benefits have no predetermined maximum, as the Not applicable. • company car or a cash alternative (UK only); cost of providing these varies from year to year. • use of a car and driver when required; • private medical insurance; Participation in tax approved all-employee share plans • life assurance; is subject to limits set by the relevant tax authorities • personal accident insurance; from time to time. • opportunity to purchase additional benefits under flexible benefits schemes available to all employees;

and • opportunity to participate in the following HMRC (UK) or Internal Revenue Service (US) tax-advantaged all-employee share plans: Sharesave: UK employees may make monthly contributions from net salary for a period of three or five years. The savings can be used to purchase shares at a discounted price, set at the launch of each plan period. Share Incentive Plan (SIP): UK employees may use gross salary to purchase shares. These shares are placed in trust.

Incentive Thrift Plans (401(k) plans): US employees may participate in these tax-advantaged savings plans. They are DC pension plans in which employees can invest their own and Company contributions. Employee Stock Purchase Plan (ESPP) (423(b) plan): eligible US employees may purchase ADSs on a monthly basis at a discounted price. Other benefits may be offered at the discretion of the Committee. Corporate Governance | Directors' Remuneration Report National Grid

Annual Report and Accounts 2017/18 67

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Directors' Remuneration Report continued Pension Purpose and link to strategy: to reward sustained contribution and assist attraction and retention. Performance metrics, weighting and time Operation Maximum levels period applicable Pension for an Executive Director will reflect whether UK DB: a maximum pension on retirement, at age 60, Not applicable. they were internally promoted or externally appointed. of two thirds final capped pensionable pay or up to one sixtieth accrual. On death in service, a lump sum If internally promoted: of four times pensionable pay and a two thirds • retention of existing DB benefits without dependant's pension is provided. enhancement, with capping of pensionable pay increases following promotion to the Board; or UK DC: annual contributions of up to 30% of salary. • retention of existing UK DC benefits with discretion Life assurance provision of four times pensionable to enhance contribution rate to up to 30%; or salary and a dependant's pension equal to one third • cash in lieu; or of the Director's salary are provided on death in • retention of existing US DC benefits plus 401(k) service. plan match, provided through 401(k) plan and non-qualified plans. Cash in lieu: annual payments of up to 30% of salary. Life assurance and dependant's pension in line with If externally appointed: UK DC (or UK DB where the Director was previously • UK DC benefits or equivalent cash in lieu; or a member of a UK DB scheme). • US DC benefits plus 401(k) plan match. US DB: an Executive Supplemental Retirement Plan In line with market practice, pensionable pay for provides for an unreduced pension benefit at age 62. UK-based Executive Directors includes salary only For retirements at age 62 with 35 years of service, the and for US-based Executive Directors it includes pension benefit would be approximately two thirds of salary and APP award. pensionable pay. Upon death in service, the spouse would receive 50% of the pension benefit (100% if the participant died while an active employee after the age of 55). US DC: annual contributions of up to 9% of base salary plus APP with additional 401(k) plan match of up to 4%. Annual Performance Plan Purpose and link to strategy: to incentivise and reward the achievement of annual financial and strategic business targets and the delivery of annual individual objectives. Performance metrics, weighting and time Operation Maximum levels period applicable Performance metrics and targets are agreed at the The maximum award is 125% of salary. A majority of the APP is based on performance start of each financial year and are aligned with against corporate financial measures, with the strategic business priorities. Targets are set with remainder based on performance against individual reference to the budget. Awards are paid in June. objectives. Individual objectives are role-specific. 50% of awards are paid in shares, which (after any The Committee may use its discretion to set measures sales to pay associated income tax) must be retained that it considers appropriate in each financial year until the shareholding requirement is met, and in any and reduce the amount payable, taking account of event for two years after receipt. significant safety or customer service standard incidents, environmental and governance issues. Awards are subject to clawback and malus provisions. The payout levels at threshold, target and stretch performance levels are 0%, 50% and 100%, respectively. Long Term Performance Plan Purpose and link to strategy: to drive long-term performance, aligning Executive Director incentives to key strategic objectives and shareholder interests. Performance metrics, weighting and time Operation Maximum levels period applicable Awards of shares may be granted each year, with The maximum award for the CEO is 350% For awards from 2017, the performance measures are vesting subject to long-term performance conditions. of salary and it is 300% of salary for the Value Growth and Group RoE for all Executive Directors. other Executive Directors. The performance metrics have been chosen as All are measured over a three-year period. the Committee believes they reflect the creation of long-term value within the business. Targets are set The weightings of these measures may vary year to each year with reference to the business plan. year, but would always remain such that the Value Growth metric would never fall below a 25% weighting Participants may receive ordinary dividend equivalents and never rise above a 75% weighting. Only 20% of on vested shares at the discretion of the Committee. the award vests at threshold. Awards are subject to clawback and malus provisions. Notwithstanding the level of award achieved against the performance conditions, the Committee may use its discretion to reduce the amount vesting, and in particular will take account of compliance with the dividend policy. Participants must retain vested shares (after any sales to pay tax) until the shareholding requirement is met, and in any event for a further two years after vesting. 68 National Grid Annual Report and Accounts 2017/18 Corporate Governance | Directors' Remuneration Report

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Corporate Governance Approved policy table – Non-executive Directors (NEDs) Fees for NEDs Purpose and link to strategy: to attract NEDs who have a broad range of experience and skills to oversee the implementation of our strategy. Performance metrics, weighting and time Operation Maximum levels period applicable NED fees (excluding those of the Chairman) are There are no maximum fee levels. Not applicable. set by the Executive Committee in conjunction with the Chairman; the Chairman's fees are set The benefits provided to the Chairman are not by the Committee. subject to a predetermined maximum cost, as the cost of providing these varies from year to year. Fee structure: •• Chairman fee; •• basic fee, which differs for UK- and US- based NEDs; •• committee membership fee; •• committee chair fee; and •• Senior Independent Director fee. Fees are reviewed every year taking into account those in companies of similar scale and complexity. NEDs do not participate in incentive, pension or benefit plans. However, they are eligible for reimbursement for all Company-related travel expenses. In instances where these costs are treated by HMRC as taxable benefits, the Company also meets the associated tax cost to the Non-executive Directors through a PAYE settlement agreement with HMRC. Additionally, the Chairman is covered by the Company's private medical and personal accident insurance plans and receives a fully expensed car or cash alternative to a car, and the use of a car and driver, when required. NEDs who also sit on National Grid subsidiary boards may receive additional fees related to service on those boards. There is no provision for termination payments. NEDs stand for re-election every year. Shareholding requirement The requirement of Executive Directors to build up and hold a relatively high value of National Grid shares ensures they share a significant level of risk with shareholders and aims to align their interests. Executive Directors are required to build up and retain shares in the Company. The level of holding required is 500% of salary for the CEO and 400% of salary for the other Executive Directors. Unless the shareholding requirement is met, Executive Directors will not be permitted to sell shares, other than to pay income tax liabilities on shares just vested or in exceptional circumstances approved by the Remuneration Committee. Corporate Governance | Directors' Remuneration Report National Grid Annual Report and Accounts 2017/18 69

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Directors' Remuneration Report continued Annual report on remuneration Statement of implementation of remuneration policy in 2017/18 Role of Remuneration Committee The Committee is responsible for recommending to the Board the remuneration policy for Executive Directors, the other members of the Executive Committee and the Chairman, and for implementing this policy. The aim is to align remuneration policy to Company strategy and key business objectives, and ensure it reflects our shareholders', customers' and regulators' interests. The members of the Remuneration Committee in 2017/18 were Nora Mead Brownell, Jonathan Dawson (chair), Pierre Dufour, and Mark Williamson. The Committee's activities during the year Meeting Main areas of discussion April 2016/17 individual objectives scoring for Executive Committee Approval of 2017/18 objectives for Executive Committee Discussion on 2016/17 expected incentive plan outturns May 2016/17 APP financial outturns and confirmation of awards for Executive Committee Approval of 2017/18 objectives for new Executive Committee appointment Annual salary review and LTPP proposals for Executive Committee Review of Chairman's fees June Items related to new Executive Committee appointment January Review of 2018/19 APP financial measures March Market data review for Executive Committee remuneration Discussion of measures and targets for 2018 LTPP First review of 2018/19 individual objectives of Executive Committee Review first draft of Committee Chairman's Annual Statement and Directors' Remuneration Report Service Contracts In line with our policy, all Executive Directors have service contracts which are terminable by either party with 12 months' notice. Appointment of Non-executive Directors are subject to letters of appointment. The Chairman's appointment is subject to six months' notice by either party; for other Non-executive Directors, notice is one month. Both Executive Directors and Non-executive Directors are required to be re-elected at each

AGM. Single Total Figure of Remuneration – Executive Directors The following table shows a single total figure in respect of qualifying service for 2017/18, together with comparative figures for 2016/17: Salary Benefits in kind APP LTPP Pension Other Total £'000 £'000 £'000 £'000 £'000 £'000 £'000 17/18 16/17 17/18 16/17 17/18 16/17 17/18 16/17 17/18 16/17 17/18 16/17 Andrew Bonfield 768 749 69 60 787 684 1,993 4,154 230 225 – – 3,847 5,872 John Pettigrew 887 825 85 497 919 762 1,362 2,291 266 248 – – 3,519 4,623 Dean Seavers 771 800 24 25 740 694 1,361 1,553 142 145 – – 3,038 3,217 Nicola Shaw 484 338 14 23 383 315 – – 145 101 – 485 1,026 1,262 Total 2,910 2,712 192 605 2,829 2,455 4,716 7,9 9 8 783 719 – 485 11,430 14,974 Notes: Salary: Base salaries were last

increased on 1 June 2017. The decrease in Dean Seavers' salary is due to exchange rate fluctuations (\$1.3578:£1 for 2017/18 and \$1.2767:£1 for 2016/17). Benefits in kind: Benefits in kind include private medical insurance, life assurance and for UK-based Executive Directors, either a fully expensed car or a cash alternative to a car and the use of a car and a driver when required. For John Pettigrew the 2016/17 figure (as disclosed last year) includes reimbursement for costs relating to his relocation to London on appointment as CEO. Nicola Shaw's 2016/17 benefits in kind figure has been restated to include a Sharesave option award granted on 22 December 2016. There were no Sharesave options granted to any of the Executive Directors during 2017/18. LTPP: The 2015 LTPP is due to vest in July 2018.

The average share price over the three months from 1 January 2018 to 31 March 2018 of 787.8 pence (\$55.16 per ADS) has been applied. The 2016/17 LTPP figure includes both the 2013 LTPP award and the 2014 LTPP award due to a change in the vesting period of four years to three years between the 2013 LTPP and 2014 LTPP awards. The 2016/17 LTPP figures have been restated because last year they were estimated using the average share price (January-March 2017) and they now include the actual share price on vesting at 1 July 2017 and all dividend equivalent shares. Due to a lower share price at vesting of 954.0 pence versus the

estimate of 963.0 pence, the actual value at vesting was £18,911 and £13,146 lower than the estimate (last year) for Andrew Bonfield and John Pettigrew, respectively. Due to a higher ADS price at vesting of \$62.40 versus the estimate of \$59.84, the actual value at vesting was £52,065 higher than the estimate (last year) for Dean Seavers. Other: The 2016/17 'Other' figure for Nicola Shaw of £485,000 was disclosed last year and is a cash payment to compensate her for the forfeiture of short-term and long-term incentive cash awards at her former employer that were due to vest in June 2016. Nicola Shaw: Nicola Shaw joined on 1 July 2016 and therefore the 2016/17 figures stated for salary, benefits in kind, APP and pension are all prorated based on her start date. Additionally, Nicola did not receive a 2015 LTPP award. 70 National Grid Annual Report and Accounts 2017/18 Corporate Governance | Directors' Remuneration Report

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Corporate Governance Performance against targets for APP 2017/18 APP awards are earned by reference to the financial year and paid in June. Financial measures determine 70% of the APP and individual objectives determine 30% of the APP. Payment of the APP award is made in shares (50% of the award) and cash (50%). Shares (after any sales to pay income tax) must be retained until the shareholding requirement is met, and in any event for two years after receipt.

Threshold, target and stretch performance levels for the financial measures are pre-determined by the Committee and pay out at 0%, 50% and 100% of the maximum potential for each part and on a straight-line basis in between threshold and target performance and target and stretch performance. Target and stretch performance levels for the individual objectives are also pre-determined by the Committee and an assessment of the performance relative to the target and stretch performance levels and outturns is made at the end of the performance year on each objective. The outcomes of APP awards earned for financial and individual performance in 2017/18 are summarised in the table below:

Proportion of Performance measure	max opportunity	Threshold	Target	Stretch	Actual
max achieved CEO and Finance Director Adjusted EPS (p/share)	35%	54.5	57.0	59.5	58.0
Group RoE (%)	35%	11.2	11.6	12.0	12.32
Executive Director, UK UK Value Added (£m)	35%	1,566	1,619	1,672	1,629
UK RoE (%) (Percentage points above average allowed regulatory return)	35%	1.75	2.00	2.25	2.04
Executive Director, US US Value Added (\$m)	35%	1,463	1,513	1,562	1,513
US RoE (%)	35%	8.5	8.7	8.9	8.92

All Executive Directors Individual objectives (%) 30% Detail expanded in tables below 74%-81% Notes: Adjusted EPS: Technical adjustments have been made reducing adjusted EPS actual by 1.5 pence to account for the impact of timing and storms, and reducing the target by 0.7p to reflect the net effect of currency adjustments, certain actuarial assumptions on pensions, scrip dividend uptake, and to ensure consistency of accounting treatment. Group RoE: Technical adjustments have been made to increase the target by 0.2% primarily to reflect the net effect of currency adjustments and to ensure consistency of accounting treatment. UK RoE and Value Added: No adjustments have been made. US RoE and Value Added: No adjustments have been made to US RoE. The target for US Value Added has been increased by \$109m to ensure consistency of accounting treatment. For 2017/18, the individual objectives of the Executive Directors when taken together were designed to deliver against each of our business priorities. Performance against these objectives is set out in the tables below and overleaf. As

with the financial measures, the achievement of 'stretch' performance and 'target' performance results in 100% and 50% respectively of the maximum payout. Andrew Bonfield Individual objective & performance commentary Weighting Optimising the performance of our core UK business 30% • Financing workstream has been a key input to RIIO-T2 regulatory framework development • UK Business Services launched during the year • £4 billion of capital was returned to investors following the partial sale of UK Gas Distribution Evolving the business for the future 25% • Operating model successfully revised and new Business Excellence function and communities of practice developed and implemented, resulting in third party cost reductions • New Business Management System (BMS) and business reporting process implemented to ensure effective and efficient controls across the company • Improvement on identification and development of high potential talent. Further strides yet to be made in relation to employee enablement Optimising the performance of our core US business 20% • Facilitated successful rate case filings for Massachusetts Gas and Rhode Island Gas during the year • Financing successfully executed with cost savings against budget • Responded quickly to US tax reform, updating rates for jurisdictions with rate filings underway Optimising the performance of the Group 15% • Sarbanes-Oxley refresh has been completed • Further work is required on delivering more efficient controls and in improving employee enablement Seeking out growth opportunities in a disciplined way 10% • Board approved a finance strategy for growth with stakeholder communication plan developed Summary Andrew Bonfield has provided excellent support to the US and UK businesses on regulatory agreements this year. Strong management of the balance sheet has been exhibited, as has a focus on driving efficiency. Additionally, Andrew has delivered on business initiatives key to delivering on National Grid's business strategy for the future. Further work is required on ensuring controls are efficient and in improving employee enablement. As a result, the proportion of maximum achieved is 75%. Corporate

Governance | Directors' Remuneration Report National Grid Annual Report and Accounts 2017/18 71

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Directors' Remuneration Report continued John Pettigrew Individual objective & performance commentary Weighting Evolving the business for the future 30% • Clear articulation of long-term drivers of success for leadership teams and external stakeholders: Customer first; Performance Optimisation; Growth; Evolve for the Future • Clear succession plans in place, improvement in identification and development of high potential talent • Implemented revised operating model and new Business Excellence function • Further work remains on strengthening employee enablement and to implement outcomes of a talent strategy review that was conducted Optimising the performance of our core US business 25% • Guided on the development of new regulatory strategy. NIMO rate filing completed with allowed RoE of 9% and capex allowance of \$2.5 billion over three years • Established new Capital Delivery function taking learnings from UK, to deliver construction projects more efficiently • Developed organisation structure and processes that benefit from synergies of scale. US jurisdictions reinforced with stronger and more focused operational support Optimising the performance of our core UK business 25% • Drove strong focus on performance optimisation, a key theme for all senior leadership engagement • Supported UK with positive management of key stakeholder engagement and debate on regulatory frameworks, e.g. SO legal separation, RIIIO-T2, though there is more work to be done to achieve an acceptable position on Hinkley-Seabank • Ensured recognition of the Group's significant customer-led investment and strong operational performance Seeking out growth opportunities in a disciplined way 20% • New National Grid Ventures team set up to support evolution of National Grid and drive incremental growth opportunities with similar risk/ reward profile • Established National Grid's voice as a leader in the energy industry, with National Grid Ventures now fully recognised internally and externally giving National Grid more visibility and leadership on the energy transition agenda • Further progress to be made in emerging technologies Summary John Pettigrew has had a strong year, cementing himself as a leader to the Company and in the industry, developing National Grid as both a purpose and performance led organisation, successfully engaging with regulatory and political change, and achieving significant milestones across the individual businesses, including the creation of a new business in National Grid Ventures. Further work is to be done on Hinkley-Seabank arrangements, implementing our talent strategy and emerging technologies. As a result, the proportion of maximum achieved is 78%. Dean Seavers Individual objective & performance commentary Weighting Optimising the performance of our core US business 40% • Achieved new rates for 80% of the core US business, including Niagara Mohawk, Massachusetts Gas, and Rhode Island Gas • Capital Delivery function implemented • Improvements have been made in relation to safety, with a reduction in switching errors year on year, although there remains more to do on injury rates • Material work order issues were addressed during the year, although further process efficiencies are still to be implemented Evolving the business for the future 35% • An advanced analytics team has been set up and a refreshed US strategy was developed and agreed • Filings made on Electric Vehicles in all jurisdictions • New agile reporting process has improved ability to assess and manage performance against key indicators • Employees' understanding of the Company's purpose, vision and values has been embedded, as evidenced by results from employee surveys • Succession plans were delivered; however, further improvements are needed in relation to employee enablement and driving a performance culture through continuous feedback Putting our customers first 25% • In-year milestones for the Gas Enablement programme met to improve customer service • Implementation of a pilot programme to significantly improve end-to-end customer experience • While operational model changes have been introduced, more needs to be done to fully embed them Summary Dean Seavers has delivered strong results in the execution of a sustainable improvement plan, driven by the advancement of the regulatory strategy and successful rate filings. In addition to achievement of his objectives, Dean led a strong response to major winter storms with good restoration times for the vast majority of our customers. Further work is needed on process efficiency implementation and in embedding the operational model changes. As a result, the proportion of maximum achieved is 81%. 72 National Grid Annual Report and Accounts 2017/18 Corporate Governance | Directors' Remuneration Report

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Corporate Governance Nicola Shaw Individual objective & performance commentary Weighting Optimising the performance of our core UK business 50% • A continued focus on efficiency and removing unnecessary processes contributed to savings in the year • New electricity balancing system delivered, though some implementation aspects have taken time to resolve • The safety action plan was implemented in line with the agreed milestones and focus on a ‘generative’ safety culture was good during the year; however, there remains more to do in this area • Cadent performing in line with expectation and risk managed appropriately

Putting our customers first 20% • Customer satisfaction scores have been strong and customer journeys have been mapped, albeit slightly behind planned timescales • There has been a constructive approach to RIIO-T2 with Ofgem, with our focus of putting consumers at the centre of the process in line with Ofgem's proposals. There is more work to be done to achieve an acceptable position on Hinkley-Seabank, despite the work of the UK regulation team • The new regime for

System Operator incentives has been agreed with Ofgem and work on the legal separation of the electricity System Operator has progressed in line with expectation Evolving the business for the future 20% • Strategic initiatives are on track, employees' understanding of the Company's purpose, vision and values is strong based on employee survey results, and strides have been made in the identification and development of high potential talent in the organisation • Further work remains in relation to realising the potential of emerging technologies to enhance the effectiveness of our operations and strengthening employee engagement and enablement Seeking out growth opportunities in a disciplined way 10% • Gas Transmission published the 'Future of Gas' as well as developing an asset health plan to the agreed timescales, with implementation on track Summary Nicola Shaw has led the UK business strongly this year. There has been strong progress on key initiatives relating to safety and focus on our customers, with good progress too on regulatory topics other than Hinkley-Seabank. Further work is to be done in certain areas, e.g. improving employee engagement and enablement. As a result, the proportion of maximum achieved is 74%. 2017/18 APP as a proportion of base salary The overall APP award and its composition based on financial performance and individual performance for each Executive Director is shown as a proportion of salary.

	Actual	Target	Weighted Average
Financial Performance	74%	74%	74%
Individual Performance	74%	74%	74%
Total	74%	74%	74%

The overall APP award and its composition based on financial performance and individual performance for each Executive Director is shown as a proportion of salary.

	Actual	Target	Weighted Average
Financial Performance	74%	74%	74%
Individual Performance	74%	74%	74%
Total	74%	74%	74%

The overall APP award and its composition based on financial performance and individual performance for each Executive Director is shown as a proportion of salary.

	Actual	Target	Weighted Average
Financial Performance	74%	74%	74%
Individual Performance	74%	74%	74%
Total	74%	74%	74%

The overall APP award and its composition based on financial performance and individual performance for each Executive Director is shown as a proportion of salary.

	Actual	Target	Weighted Average
Financial Performance	74%	74%	74%
Individual Performance	74%	74%	74%
Total	74%	74%	74%

The overall APP award and its composition based on financial performance and individual performance for each Executive Director is shown as a proportion of salary.

	Actual	Target	Weighted Average
Financial Performance	74%	74%	74%
Individual Performance	74%	74%	74%
Total	74%	74%	74%

The overall APP award and its composition based on financial performance and individual performance for each Executive Director is shown as a proportion of salary.

	Actual	Target	Weighted Average
Financial Performance	74%	74%	74%
Individual Performance	74%	74%	74%
Total	74%	74%	74%

The overall APP award and its composition based on financial performance and individual performance for each Executive Director is shown as a proportion of salary.

	Actual	Target	Weighted Average
Financial Performance	74%	74%	74%
Individual Performance	74%	74%	74%
Total	74%	74%	74%

The overall APP award and its composition based on financial performance and individual performance for each Executive Director is shown as a proportion of salary.

	Actual	Target	Weighted Average
Financial Performance	74%	74%	74%
Individual Performance	74%	74%	74%
Total	74%	74%	74%

The overall APP award and its composition based on financial performance and individual performance for each Executive Director is shown as a proportion of salary.

	Actual	Target	Weighted Average
Financial Performance	74%	74%	74%
Individual Performance	74%	74%	74%
Total	74%	74%	74%

The overall APP award and its composition based on financial performance and individual performance for each Executive Director is shown as a proportion of salary.

	Actual	Target	Weighted Average
Financial Performance	74%	74%	74%
Individual Performance	74%	74%	74%
Total	74%	74%	74%

The overall APP award and its composition based on financial performance and individual performance for each Executive Director is shown as a proportion of salary.

	Actual	Target	Weighted Average
Financial Performance	74%	74%	74%
Individual Performance	74%	74%	74%
Total	74%	74%	74%

The overall APP award and its composition based on financial performance and individual performance for each Executive Director is shown as a proportion of salary.

	Actual	Target	Weighted Average
Financial Performance	74%	74%	74%
Individual Performance	74%	74%	74%
Total	74%	74%	74%

The overall APP award and its composition based on financial performance and individual performance for each Executive Director is shown as a proportion of salary.

	Actual	Target	Weighted Average
Financial Performance	74%	74%	74%
Individual Performance	74%	74%	74%
Total	74%	74%	74%

The overall APP award and its composition based on financial performance and individual performance for each Executive Director is shown as a proportion of salary.

	Actual	Target	Weighted Average
Financial Performance	74%	74%	74%
Individual Performance	74%	74%	74%
Total	74%	74%	74%

The overall APP award and its composition based on financial performance and individual performance for each Executive Director is shown as a proportion of salary.

	Actual	Target	Weighted Average
Financial Performance	74%	74%	74%
Individual Performance	74%	74%	74%
Total	74%	74%	74%

The overall APP award and its composition based on financial performance and individual performance for each Executive Director is shown as a proportion of salary.

	Actual	Target	Weighted Average
Financial Performance	74%	74%	74%
Individual Performance	74%	74%	74%
Total	74%	74%	74%

The overall APP award and its composition based on financial performance and individual performance for each Executive Director is shown as a proportion of salary.

	Actual	Target	Weighted Average
Financial Performance	74%	74%	74%
Individual Performance	74%	74%	74%
Total	74%	74%	74%

The overall APP award and its composition based on financial performance and individual performance for each Executive Director is shown as a proportion of salary.

	Actual	Target	Weighted Average
Financial Performance	74%	74%	74%
Individual Performance	74%	74%	74%
Total	74%	74%	74%

The overall APP award and its composition based on financial performance and individual performance for each Executive Director is shown as a proportion of salary.

	Actual	Target	Weighted Average
Financial Performance	74%	74%	74%
Individual Performance	74%	74%	74%
Total	74%	74%	74%

The overall APP award and its composition based on financial performance and individual performance for each Executive Director is shown as a proportion of salary.

	Actual	Target	Weighted Average
Financial Performance	74%	74%	74%
Individual Performance	74%	74%	74%
Total	74%	74%	74%

The overall APP award and its composition based on financial performance and individual performance for each Executive Director is shown as a proportion of salary.

	Actual	Target	Weighted Average
Financial Performance	74%	74%	74%
Individual Performance	74%	74%	74%
Total	74%	74%	74%

The overall APP award and its composition based on financial performance and individual performance for each Executive Director is shown as a proportion of salary.

	Actual	Target	Weighted Average
Financial Performance	74%	74%	74%
Individual Performance	74%	74%	74%
Total	74%	74%	74%

The overall APP award and its composition based on financial performance and individual performance for each Executive Director is shown as a proportion of salary.

	Actual	Target	Weighted Average
Financial Performance	74%	74%	74%
Individual Performance	74%	74%	74%
Total	74%	74%	74%

The overall APP award and its composition based on financial performance and individual performance for each Executive Director is shown as a proportion of salary.

Remuneration Report National Grid Annual Report and Accounts 2017/18 73

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Directors' Remuneration Report continued 2017/18 LTPP performance The LTPP value included in the 2017/18 single total figure relates to vesting of the conditional LTPP awards granted in 2015. 2015 LTPP The 2015 award is determined by performance over the three years ending 31 March 2018 of RoE (50% weighting) and Value Growth (50% weighting), which will vest on 1 July 2018. LTPP vesting is based upon the position held at the award date. For the UK and US Executive Directors in position at the award date, the RoE component is split equally between Group RoE and UK and US RoE respectively. For the Chief Executive Officer and the Finance Director in position at the award date, the entire RoE component is based on Group RoE. The performance achieved against the 2015 LTPP award performance targets was: Threshold – Maximum – Actual/expected Actual/expected proportion of Performance measure 20% vesting 100% vesting maximum achieved Group RoE (50% weighting for the 11.0% 12.5% or more 12.1% 78.7% CEO and Finance Director, 25% weighting for the Executive Director, UK and the Executive Director, US) UK RoE (25% weighting for the RoE is 1 percentage point RoE is 3.5 percentage points 2.7 percentage points above 75.5% Executive Director, UK) above the average allowed or more above the average the average allowed regulatory return allowed regulatory return regulatory return US RoE (25% weighting for the 90% of the average 105% of the average 88% of the average 0.0% Executive Director, US) allowed regulatory return allowed regulatory return allowed regulatory return Value Growth (50% weighting) 10.0% 12.0% or more 11.83% 93.3% The Value Growth outturn includes an amount to reflect the value added from the sale of a majority interest in the UK Gas Distribution business in 2016/17 as this event occurred within the 2015-2018 performance period measured. The amounts expected to vest under the 2015 LTPP for the performance period ended on 31 March 2018 and included in the 2017/18 single total figure are shown in the table below. The valuation is based on the average share price over the three months from 1 January 2018 to 31 March 2018 of 787.80 pence (\$55.16 per ADS). Total value of awards Original number vesting and dividend of share awards Overall vesting Number of Number of dividend equivalent shares in 2015 LTPP percentage awards vesting equivalent shares (£'000) Andrew Bonfield 259,668 86.0% 223,314 29,697 1,993 John Pettigrew 179,072 85.2% 152,569 20,289 1,362 Dean Seavers (ADSs) 44,801 66.3% 29,714 3,786 1,361 Note: Nicola Shaw was appointed in July 2016 and therefore did not receive any share awards under the 2015 LTPP. Total pension benefits Andrew Bonfield, John Pettigrew and Nicola Shaw received a cash allowance in lieu of participation in a pension arrangement. Dean Seavers participated in a defined contribution pension arrangement in the US. There are no additional benefits on early retirement. The values of these benefits, received during this year, are shown in the single total figure of remuneration table. In addition, John Pettigrew has accrued defined benefit (DB) entitlements. He opted out of the DB arrangement on 31 March 2016 with a deferred pension and lump sum payable from the normal retirement date. At 31 March 2018, John Pettigrew's accrued DB pension was £153,761 per annum and his accrued lump sum was £461,285 payable at the normal retirement date of 26 October 2031. There have been no increases to these benefits over the period, other than an increase for inflation due under the Scheme rules and legislation. Under the terms of the Scheme, were he to satisfy the Scheme's ill health requirements, an unreduced pension would be payable or he may receive an unreduced pension from age 50 if made redundant. A lump sum death in service benefit may also be payable. 74 National Grid Annual Report and Accounts 2017/18 Corporate Governance | Directors' Remuneration Report

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Corporate Governance Single total figure of remuneration – Non-executive Directors The following table shows a single total figure in respect of qualifying service for 2017/18, together with comparative figures for 2016/17: Fees Other emoluments Total £'000 £'000 £'000 2017/18 2016/17 2017/18 2016/17 2017/18 2016/17
 Nora Mead Brownell 98 96 8 9 106 105 Jonathan Dawson 106 102 0 1 106 103 Pierre Dufour 99 11 13 – 112 11 Therese Esperdy 136 133 15 12 151 145 Sir Peter Gershon 511 499 74 68 585 567 Paul Golby 100 105 4 8 104 113 Ruth Kelly 28 84 – 0 28 84 Mark Williamson 128 124 6 5 134 129 Total 1,206 1,154 120 103 1,326 1,257 Notes: Therese Esperdy: Fees for 2017/18 include £25,000 in fees for serving on the National Grid USA Board. Sir Peter Gershon: Other emoluments comprise private medical insurance, cash in lieu of a car and the use of a car and driver when required. Ruth Kelly: Ruth Kelly stepped down at the 2017 AGM.

Other emoluments: In accordance with the Company's expenses policies, Non-executive Directors receive reimbursement for their reasonable expenses for attending Board meetings. In instances where these costs are treated by HMRC as taxable benefits, the Company also meets the associated tax cost to the Non-executive Directors through a PAYE settlement agreement with HMRC. Amounts for travel expenses relating to both 2017/18 and 2016/17 have been provided in the table above (the figures for 2016/17 have been restated to include these). Nora Mead Brownell, Pierre Dufour and Therese Esperdy are US-based

Non-executive Directors. The total emoluments paid to Executive and Non-executive Directors in the year was £12.8 million (2016/17: £19.5 million). The 2016/17 figure includes both the 2013 and 2014 LTPP award for Executive Directors. 2017 LTPP (conditional award) granted during the financial year The face value of the awards is calculated using the volume weighted average share price at the date of grant (28 June 2017) (£9.738 per share and \$63.94 per ADS) and is used to determine the value of the awards granted. Proportion vesting at Performance period Basis of award Face value '000 threshold performance Number of shares end date Andrew Bonfield 300% of salary £2,314 20% 237,610 31 March 2020 John Pettigrew 350% of salary £3,147 20% 323,205 31 March 2020 Dean Seavers (ADSs) 300% of salary \$3,152 20% 49,294 (ADSs) 31 March 2020 Nicola Shaw 300% of salary £1,471 20% 151,109 31 March 2020 Note: The 2017

LTPP grant will vest on 1 July 2020. Performance conditions for LTPP awards granted during the financial year Conditional share awards granted – 2017 Weighting Threshold Maximum Performance measure for all Executive Directors 20% vesting 100% vesting Group RoE 50% 11.0% 12.5% or more Group Value Growth 50% 10.0% 12.0% or more Payments for loss of office (audited information) There were no payments made for loss of office during 2017/18. Corporate

Governance | Directors' Remuneration Report National Grid Annual Report and Accounts 2017/18 75

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Directors' Remuneration Report continued Payments to past Directors Steve Holliday stepped down from the Board and retired from the Company on 22 July 2016. Mr Holliday held awards over shares that were prorated for time served. Nick Winsor stepped down from the Board at the 2014 AGM and left the Company on 31 July 2015. Tom King stepped down from the Board and left the Company on 31 March 2015. Both Mr Winsor and Mr King held awards over shares and ADSs, respectively, that were prorated according to their departure. The vesting of all these awards will occur at the normal vesting dates subject to satisfaction of their specified performance conditions at that time. Total value of awards vesting and dividend Prorated number of Overall vesting Number of Number of dividend equivalent shares Past Director share awards percentage awards vesting equivalent shares (£'000) Steve Holliday 2013 LTPP (RoE portion) 57,711 50.00% 28,855 5,553 328 2014 LTPP 271,425 84.89% 230,412 33,066 2,514 Tom King (ADSs) 2014 LTPP 11,917 67.44% 8,036 1,206 452 Nick Winsor 2013 LTPP (RoE portion) 19,451 50.00% 9,725 1,871 111 Note: The 2013 LTPP (RoE portion) is the remaining 25% of the 2013 LTPP award which vested on 1 July 2017. The 2014 LTPP fully vested on 1 July 2017. Shareholder dilution Where shares may be issued or treasury shares reissued to satisfy incentives, the aggregate dilution resulting from executive share-based 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 Committee reviews dilution against these limits regularly and under these limits the Company, as at 31 March 2018, had headroom of 3.95% and 7.73% respectively. Statement of Directors' shareholdings and share interests The Executive Directors are required to build up and hold a shareholding from vested share plan awards. The following table shows how each Executive Director complies with the shareholding requirement and also the number of shares owned by the Non-executive Directors, including connected persons (as Non-executive Directors do not have a shareholding requirement). The shareholding is as at 31 March 2018 and the salary used to calculate the value of the shareholding is the gross annual salary as at 31 March 2018. Andrew Bonfield has met his shareholding requirement of 400% of base salary. As John Pettigrew, Dean Seavers and Nicola Shaw are relatively new in post, they have not yet met the requirement, but are expected to do so in 2021, 2021 and 2023 respectively. They will not be allowed to sell shares until this requirement is met. The normal vesting dates for the conditional share awards subject to performance conditions are 1 July 2018, 1 July 2019 and 1 July 2020 for the 2015 LTPP, 2016 LTPP and 2017 LTPP respectively. In April 2018, a further 18 shares were purchased on behalf of each of Andrew Bonfield, John Pettigrew and Nicola Shaw and again in May 2018. These shares were purchased via the Share Incentive Plan (an HMRC approved all-employee share plan), thereby increasing their beneficial interests. There have been no other changes in Directors' shareholdings between 1 April 2018 and 16 May 2018. Conditional share awards subject to Number of shares performance Share ownership owned outright Value of shares held Number of options conditions requirements (including connected as a multiple of granted under the (LTPP 2015, 2016 Directors (multiple of salary) persons) current salary Sharesave Plan & 2017) Executive Directors Andrew Bonfield 400% 6,078,810 632% 3,230 718,161 John Pettigrew 500% 358,897 320% 4,286 785,087 Dean Seavers (ADSs) 400% 26,764 144% – 138,542 Nicola Shaw 400% 8,270 13% 4,070 273,273 Non-executive Directors Nora Mead Brownell (ADSs) – 4,583 n/a – – Jonathan Dawson – 36,705 n/a – – Pierre Dufour (ADSs) – 3,700 n/a – – Therese Esperdy (ADSs) – 1,508 n/a – – Sir Peter Gershon – 90,128 n/a – – Paul Golby – 2,291 n/a – – Mark Williamson – 47,460 n/a – – Notes: Andrew Bonfield: On 31 March 2018 Andrew Bonfield held 3,230 options granted under the Sharesave Plan. 1,208 options were granted at a value of 745 pence per share and they can be exercised at 745 pence per share between April 2019 and September 2019. 2,022 options were granted at a value of 749 pence and they can be exercised at 749 pence per share between April 2020 and September 2020. For Andrew Bonfield, the number of conditional share awards subject to performance conditions is as follows: 2015 LTPP: 259,668; 2016 LTPP: 220,883; 2017 LTPP: 237,610. However, in consequence of his resignation only the 2015 LTPP is now eligible for vesting in July 2018. John Pettigrew: On 31 March 2018 John Pettigrew held 4,286 options granted under the Sharesave Plan. 1,252 options were granted at a value of 599 pence per share and they can be exercised at 599 pence per share between April 2019 and September 2019. 3,034 options were granted at a value of 749 pence per share and they can be exercised at 749 pence per share between April 2020 and September 2020. The number of conditional share awards subject to performance conditions is as follows: 2015 LTPP: 179,072; 2016 LTPP: 282,810; 2017 LTPP: 323,205. Dean Seavers: The number of conditional share awards subject to performance conditions is as follows: 2015 LTPP: 44,801; 2016 LTPP: 44,447; 2017 LTPP: 49,294. Nicola Shaw: On 31 March 2018 Nicola Shaw held 4,070 options granted under the Sharesave Plan. 4,070 options were granted at a value of 737 pence per share and they can be exercised at 737 pence per share between April 2022 and September 2022. The number of conditional share awards subject to performance conditions is as follows: 2016 LTPP: 122,164; 2017 LTPP: 151,109. Dean Seavers, Nora Mead Brownell, Pierre Dufour and Therese Esperdy: Holdings and, for Dean Seavers, awards are shown as ADSs and each ADS represents five ordinary shares. 76 National Grid Annual Report and Accounts 2017/18 Corporate Governance | Directors' Remuneration Report

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Corporate Governance External appointments and retention of fees The table below details the Executive Directors who served as non-executive directors in other companies during the year ended 31 March 2018: Company Retained fees (£) Andrew Bonfield Kingfisher plc £83,917 John Pettigrew Rentokil Initial (from 1 January 2018) £15,000 Nicola Shaw Ellevio AB (until 31 December 2018) £34,398 (SEK 377,434) International Consolidated Airlines Group S.A. £26,498 (Euros 30,000) (from 1 January 2018) Relative importance of spend on pay This chart shows the relative importance of spend on pay compared with other costs and disbursements (dividends, tax, net interest and capital expenditure). Given the capital-intensive nature of our business and the scale of our operations, these costs were chosen as the most relevant for comparison purposes. All amounts exclude exceptional items and remeasurements and amounts relating to the UK Gas

[illegible]

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Directors' Remuneration Report continued Chief Executive's pay in the last nine financial years Steve Holliday was CEO throughout the seven-year period from 2009/10 to 2015/16. John Pettigrew became CEO on 1 April 2016. Steve Holliday John Pettigrew 2009/10 2010/11 2011/12 2012/13 2013/14 2014/15 2015/16 2016/17 2017/18 Total single figure of remuneration (£'000) 3,931 3,738 3,539 3,170 4,801 4,845 5,151 4,623 3,519 APP (proportion of maximum awarded) 95.33% 81.33% 68.67% 55.65% 77.94% 94.80% 94.60% 73.86% 82.90% PSP/LTPP (proportion of maximum vesting) 100.00% 65.15% 49.50% 25.15% 76.20% 55.81% 63.45% 90.41% 85.20% Notes: Total single figure 2017/18: The figure for 2017/18 for John Pettigrew is explained in the single total figure table for Executive Directors. Total single figure 2016/17: The 2016/17 single figure includes both the 2013 LTPP and the 2014 LTPP and has been restated to reflect actual share price at 1 July 2017, consistent with comparative figures shown in this year's single total figure of remuneration table. Vesting: The vesting outcome for 2016/17 of 90.41% reflects the combined (actual) vesting performance outcomes for the 2013 LTPP (90.00%) and the 2014 LTPP (90.58%) as stated last year.

PSP/LTPP plans: Prior to 2014, LTPP awards were made under a different LTI framework which incorporated a four-year performance period for the RoE element of the awards. The last award under this framework was made in 2013 and was fully vested in 2017. Awards made from 2014 are subject to a three-year performance period, the first of these awards vested in 2017. Percentage change in CEO's remuneration The table below shows how the percentage change in the CEO's salary, benefits and APP between 2016/17 and 2017/18 compares with the percentage change in the average of each of those components of remuneration for non-union employees in the UK and the US. The Committee views this group as the most appropriate comparator group, as this group excludes employees represented by trade unions whose pay and benefits are negotiated with each individual union. Salary Taxable benefits APP £'000 £'000 £'000 £'000 £'000

	2017/18	2016/17	Change	2017/18	2016/17	Change	2017/18	2016/17	Change
John Pettigrew	887,825	7.5%	85,497	-82.9%	919,762	20.6%			
Non-union employees (average increase)	2.8%	3.9%	1.9%						

Notes: Chief Executive Officer: Taxable benefits for John Pettigrew in 2016/17 include a one-time relocation benefit.

Non-union employees: Pay data for US employees have been converted at \$1.3578:£1. Statement of implementation of remuneration policy in 2018/19 The remuneration policy adopted at the 2017 AGM will be implemented during 2018/19 as described below. Salary increases, subject to individual performance, will normally be in line with the increase awarded to other employees in the UK and US, unless there is a change in role or responsibility. In line with the policy on recruitment remuneration, salaries for new directors may be set below market level initially and aligned to market level over time (provided the increase is merited by the individual's contribution and performance). From 1 June 2018 From 1 June 2017 Increase

	2018/19	2017/18	Change
Andrew Bonfield	£771,285	£771,285	n/a
John Pettigrew	£953,205	£899,250	6.0%
Dean Seavers	\$1,082,144	\$1,050,625	3.0%
Nicola Shaw	£519,930	£490,500	6.0%

Note: Andrew Bonfield: Andrew will be leaving at the end of July 2018 and therefore is not eligible to receive a 1 June 2018 salary increase. APP measures for 2018/19 The APP targets are considered commercially sensitive and consequently will be disclosed in the 2018/19 Directors' Remuneration Report. John Pettigrew Weighting Dean Seavers and Nicola Shaw Weighting Adjusted EPS 35% UK or US Value Added 23.3% Group RoE 35% UK or US RoE 23.3% Individual objectives 30% UK or US Operating Profit 23.3% Individual objectives 30.0%

78 National Grid Annual Report and Accounts 2017/18 Corporate Governance | Directors' Remuneration Report

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Corporate Governance Performance measures for LTPP to be awarded in 2018 Weighting Threshold Maximum for all Executive Directors 20% vesting 100% vesting Group RoE 50% 11.0% 12.5% or more Value Growth 50% 10.0% 12.0% or more Fees for NEDs Committee chair fees are in addition to committee membership fees. Therese Esperdy was appointed as Non-executive Director to the National Grid USA Board in 2015 with an annual fee of £25,000 in addition to her current NED fees. From 1 June 2018 From 1 June 2017 Role £'000 £'000 Increase Chairman 525.0 513.0 2.3% Senior Independent Director 22.5 22.0 2.3% Board fee (UK-based) 67.5 66.0 2.3% Board fee (US-based) 79.7 78.0 2.2% Committee membership fee 10.5 10.3 1.9% Chair Audit Committee 19.8 19.4 2.1% Chair Remuneration Committee 19.8 19.4 2.1% Chair (Other Board Committees) 12.8 12.5 2.4% Advisors to the Remuneration Committee The Committee received advice during 2017/18 from independent consultants as follows: firstly, New Bridge Street (NBS), a trading name for Aon Hewitt Ltd (part of Aon plc), provided advice until stepping down on 31 July 2017; secondly, following a competitive tendering process, Willis Towers Watson was selected by the Committee to become its independent advisor from 23 October 2017. Willis Towers Watson is a member of the Remuneration Consultants Group and have signed up to that group's code of conduct. The Committee is satisfied that any potential conflicts were appropriately managed. Work undertaken by NBS and Willis Towers Watson in their role as independent advisors to the Committee included providing market information for the Executive Directors and other senior employees and governance matters. This work has incurred fees of £14,063 for NBS, and of £136,283 for Willis Towers Watson. The Committee also received legal advice from Linklaters LLP and this has incurred fees of approximately £15,000. The Committee reviews the objectivity and independence of the advice it receives from its advisors each year. It is satisfied that they all provided credible and professional advice. The Committee considers the views of the Chairman on the performance and remuneration of the CEO, and of the CEO on the performance and remuneration of the other members of the Executive Committee. The Committee is also supported by the Group General Counsel and Company Secretary who acts as Secretary to the Committee, the Group HR Director, the Group Head of Reward, and as required the Group Head of Pensions and Group Financial Controller. No other advisors have provided significant services to the Committee in the year.

Voting on 2016/17 Directors' Remuneration Policy at 2017 AGM The voting figures shown refer to votes cast at the 2017 AGM and represent 61.62% of the issued share capital. In addition, shareholders holding 9.4 million shares abstained. For Against Number of votes 2,060,765,320 52,015,518 Proportion of votes 97.54% 2.46% Voting on 2016/17 Directors' Remuneration Report at 2017 AGM The voting figures shown refer to votes cast at the 2017 AGM and represent 61.18% of the issued share capital. In addition, shareholders holding 24.5 million shares abstained. For Against Number of votes 1,828,221,066 269,507,926 Proportion of votes 87.15% 12.85% The Directors' Remuneration Report has been approved by the Board and signed on its behalf by: Jonathan Dawson Committee Chairman 16 May 2018 Corporate Governance | Directors' Remuneration Report National Grid Annual Report and Accounts 2017/18 79

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Financial Statements Contents 81 Introduction to the Financial Statements Notes to the consolidated financial statements – supplementary information Directors’ statement and independent auditor’s reports 157 Note 28 – Commitments and contingencies 82 Statement of Directors’ responsibilities 158 Note 29 – Related party transactions 83 Independent auditor’s report 158 Note 30 – Financial risk management 92 Report of independent registered public accounting firm 165 Note 31 – Borrowing facilities 166 Note 32 – Subsidiary undertakings, joint ventures and associates Consolidated financial statements under IFRS 169 Note 33 – Sensitivities Primary statements 171 Note 34 – Additional disclosures in respect of guaranteed securities 94 Consolidated income statement 177 Note 35 – Post balance sheet events 97 Consolidated statement of comprehensive income 98 Consolidated statement of changes in equity Company financial statements under FRS 101 99 Consolidated statement of financial position Basis of preparation 101 Consolidated cash flow statement 178 Company accounting policies Notes to the consolidated financial statements – Primary statements analysis of items in the primary statements 180 Company balance sheet 104 Note 1 – Basis of preparation and recent accounting developments 181 Company statement of changes in equity 108 Note 2 – Segmental analysis 112 Note 3 – Operating costs Notes to the Company financial statements 114 Note 4 – Exceptional items and remeasurements 182 Note 1 – Fixed asset investments 116 Note 5 – Finance income and costs 182 Note 2 – Debtors 117 Note 6 – Tax 182 Note 3 – Creditors 123 Note 7 – Earnings per share (EPS) 183 Note 4 – Derivative financial instruments 124 Note 8 – Dividends 183 Note 5 – Investments 125 Note 9 – Discontinued operations 183 Note 6 – Borrowings 127 Note 10 – Goodwill 183 Note 7 – Share capital 128 Note 11 – Other intangible assets 183 Note 8 – Shareholders’ equity and reserves 129 Note 12 – Property, plant and equipment 183 Note 9 – Parent Company guarantees 130 Note 13 – Other non-current assets 183 Note 10 – Audit fees 131 Note 14 – Financial and other investments 132 Note 15 – Investments in joint ventures and associates 135 Note 16 – Derivative financial instruments 139 Note 17 – Inventories and current intangible assets 139 Note 18 – Trade and other receivables 140 Note 19 – Cash and cash equivalents 140 Note 20 – Borrowings 142 Note 21 – Trade and other payables 142 Note 22 – Other non-current liabilities 142 Note 23 – Pensions and other post-retirement benefits 151 Note 24 – Provisions 153 Note 25 – Share capital 154 Note 26 – Other equity reserves 155 Note 27 – Net debt 80 National Grid Annual Report and Accounts 2017/18 Financial Statements | Contents

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Financial Statements Introduction to the Financial Statements Throughout these financial statements we have provided explanations of the disclosures and why they are important to the understanding of our financial performance and position. In places we have also highlighted 'Our strategy in action', drawing out the key elements of our business model (set out in the Strategic Report on page 2), and showing how the disclosures reflect this strategy. Unaudited commentary Audit opinions We have presented with the financial statements certain analysis We have two audit opinions on our financial statements, reflecting as part of the Strategic Report of our Annual Report and Accounts. our listing on both the London Stock Exchange and the New York This approach provides a clearer narrative, a logical flow of Stock Exchange. Due to the different reporting requirements for information and reduces duplication. We have created a combined each listing, our auditors are required to confirm compliance with financial review, including a commentary on items within the primary each set of standards in a prescribed format. The audit opinion statements, on pages 94-103. Unless otherwise indicated, all analysis as required under our UK listing (starting on page 83) continues to provided in the financial statements is on a statutory IFRS basis. provide more detail as to how our auditors have planned and All information in ruled boxes styled in the same manner as this one conducted their audit, as well as their views on significant matters does not form part of the audited financial statements. This has been they have noted and that were discussed by the Audit Committee. further highlighted by including the word 'unaudited' at the start of each box header. Unaudited commentary boxes appear on pages Notes 96-98, 100, 102-103, 111, 121-122, 124, 131 and 141. Notes to the financial statements provide additional information required by statute, accounting standards or other regulations to assist in a more detailed understanding of the primary financial statements. In many notes we have included an accounting policy that describes how the transactions or balance in that note have been measured, recognised and disclosed. The basis of preparation section (see note 1) provides details of accounting policies that apply to transactions and balances in general. There are also additional specific disclosure requirements due to our US listing which are included in the notes. Financial Statements | Introduction to the Financial Statements National Grid Annual Report and Accounts 2017/18 81

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Statement of Directors' responsibilities The Directors are responsible for preparing the Annual Report and and individual basis, and to enable them to ensure that the consolidated Accounts, including the consolidated financial statements and the financial statements comply with the Companies Act 2006. They are also

Company financial statements in accordance with applicable law responsible for safeguarding the assets of the Parent Company and its and regulations.

subsidiaries and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. Company law requires the Directors to prepare financial statements for each financial year. Under that law the directors are required to prepare The Directors are responsible for the maintenance and integrity of

the the Group financial statements in accordance with International Financial Company's website. Legislation in the United Kingdom governing the Reporting

Standards (IFRSs) as adopted by the European Union and preparation and dissemination of financial statements may differ from Article 4 of the IAS Regulation

and have elected to prepare the Parent legislation in other jurisdictions. Company financial statements in accordance with United Kingdom Generally Accepted

Accounting Practice (United Kingdom Accounting Having made the requisite enquiries, so far as the Directors in office Standards and applicable law), including

FRS 101 'Reduced Disclosure at the date of the approval of this Report are aware, there is no relevant Framework'. Under company law the directors must not

approve the audit information of which the auditors are unaware and each Director accounts unless they are satisfied that they give a true and fair view of has

taken all reasonable steps to make themselves aware of any the state of affairs of the Group and Parent Company and of the profit relevant audit information and to

establish that the auditors are aware or loss of the Group and Parent Company for that period. of that information. In preparing the Group financial statements,

International Accounting Each of the Directors, whose names and functions are listed on pages Standard 1 requires that directors: 42 and 43, confirms that: •

properly select and apply accounting policies; • to the best of their knowledge, the consolidated financial statements • present information, including accounting

policies, in a manner and the parent company financial statements, which have been that provides relevant, reliable, comparable and understandable prepared in

accordance with IFRSs as issued by the IASB and IFRS as information; adopted by the European Union and UK GAAP FRS 101 respectively, • provide additional

disclosures when compliance with the specific give a true and fair view of the assets, liabilities, financial position and requirements in IFRSs are insufficient to

enable users to understand profit of the Company on a consolidated and individual basis; the impact of particular transactions, other events and conditions • to the

best of their knowledge, the Strategic Report contained in on the entity's financial position and financial performance; and the Annual Report and Accounts

includes a fair review of the • make an assessment of the Group's ability to continue as a development and performance of the business and the position of going

concern. the Company on a consolidated and individual basis, together with a description of the principal risks and uncertainties that it faces; and In preparing the

Parent Company financial statements, the Directors • they consider that the Annual Report and Accounts, taken as a whole, are required to: are fair, balanced and

understandable and provides the information • select suitable accounting policies and then apply them consistently; necessary for shareholders to assess the

Company's position and • make judgments and accounting estimates that are reasonable performance, business model and strategy. and prudent; • state whether

applicable UK Accounting Standards have been This responsibilities statement was approved by the Board and signed followed, subject to any material departures

disclosed and explained on its behalf. in the financial statements; and • prepare the financial statements on the going concern basis unless it is Directors' Report

inappropriate to presume that the Company will continue in business. The Directors' Report, prepared in accordance with the requirements of the Companies Act

2006 and the UK Listing Authority's Listing Rules, The Directors are responsible for keeping adequate accounting records and Disclosure Rules and Transparency

Rules, comprising pages 2–79 that are sufficient to show and explain the Group and Parent Company's and 184–217, was approved by the Board and signed on its

behalf. transactions and disclose with reasonable accuracy at any time the financial position of the Group and Parent Company on a consolidated Strategic Report

The Strategic Report, comprising pages 2–39, was approved by the Board and signed on its behalf. By order of the Board Alison Kay Group General Counsel &

Company Secretary 16 May 2018 Company number: 4031152 82 National Grid Annual Report and Accounts 2017/18 Financial Statements | Statement of

Directors' responsibilities

Consolidated income statement
for the years ended 31 March

2018	Notes	Before exceptional items and remeasurements £m	Exceptional items and remeasurements (see note 4) £m	Total £m
Continuing operations				
Revenue	2(a)	15,250	—	15,250
Operating costs	3,4	(11,793	)36	(11,757)
Operating profit	2(b)	3,457	36	3,493
Finance income	5	154	—	154
Finance costs	4,5	(1,128	)229	(899)
Share of post-tax results of joint ventures and associates	15,4	167	(207	)(40)
Profit before tax	2(b),4	2,650	58	2,708
Tax	4,6	(589	)1,473	884
Profit after tax from continuing operations	4	2,061	1,531	3,592
Loss after tax from discontinued operations	9	—	(41	)(41)
Total profit for the year (continuing and discontinued)		2,061	1,490	3,551
Attributable to:				
Equity shareholders of the parent		2,060	1,490	3,550
Non-controlling interests ¹		1	—	1
Earnings per share (pence)				
Basic earnings per share (continuing) 7				103.8
Diluted earnings per share (continuing) 7				103.3
Basic earnings per share (continuing and discontinued) 7				102.6
Diluted earnings per share (continuing and discontinued) 7				102.1

1. The non-controlling interests for the year ended 31 March 2018 relate to continuing operations.

2017 ¹	Notes	Before exceptional items and remeasurements £m	Exceptional items and remeasurements (see note 4) £m	Total £m
Continuing operations				
Revenue	2(a)	15,035	—	15,035
Operating costs	3,4	(11,262	)(565	)(11,827)
Operating profit	2(b)	3,773	(565	)3,208
Finance income	5	53	—	53
Finance costs	4,5	(1,082	)(58	)(1,140)
Share of post-tax results of joint ventures and associates	15	63	—	63
Profit before tax	2(b),4	2,807	(623	)(2,184
Tax	6	(666	)292	(374)
	4	2,141	(331	)1,810

Profit after tax from continuing operations				
Profit after tax from discontinued operations	9	606	5,378	5,984
Total profit for the year (continuing and discontinued)		2,747	5,047	7,794
Attributable to:				
Equity shareholders of the parent		2,747	5,048	7,795
Non-controlling interests ²		—	(1	)(1)
Earnings per share (pence)				
Basic earnings per share (continuing)	7			48.1
Diluted earnings per share (continuing)	7			47.9
Basic earnings per share (continuing and discontinued)	7			207.1
Diluted earnings per share (continuing and discontinued)	7			206.2

1. Comparatives have been re-presented to reflect the change to a columnar format (see note 1).

2. The non-controlling interests for the year ended 31 March 2017 relate to discontinued operations.

2016 ¹	Notes	Before exceptional items and remeasurements £m	Exceptional items and remeasurements (see note 4) £m	Total £m
Continuing operations				
Revenue	2(a)	13,212	—	13,212
Operating costs	3,4	(9,998	)11	(9,987)
Operating profit	2(b)	3,214	11	3,225
Finance income	5	22	—	22
Finance costs	4,5	(878	)(99	)(977)
Share of post-tax results of joint ventures and associates		59	—	59
Profit before tax	2(b),4	2,417	(88	)2,329
Tax	6	(604	)177	(427)
Profit after tax from continuing operations	4	1,813	89	1,902
Profit after tax from discontinued operations	9	576	116	692
Total profit for the year (continuing and discontinued)		2,389	205	2,594
Attributable to:				
Equity shareholders of the parent		2,386	205	2,591
Non-controlling interests ²		3	—	3
Earnings per share (pence)				
Basic earnings per share (continuing)	7			50.4
Diluted earnings per share (continuing)	7			50.2
Basic earnings per share (continuing and discontinued)	7			68.7
Diluted earnings per share (continuing and discontinued)	7			68.4

1. Comparatives have been re-presented to reflect the change to a columnar format (see note 1).

2. The non-controlling interests for the year ended 31 March 2016 relate to both continuing and discontinued operations.

Consolidated income statement continued

Unaudited commentary on the consolidated income statement

The consolidated income statement shows income earned and expenditure for the year, with the difference being the overall profit for the year.

The commentary below relates to continuing operations only.

Revenue

Revenue for the year ended 31 March 2018 increased by £215 million to £15,250 million. This increase was driven by higher revenues in our US Regulated and NGV and Other businesses, partially offset by lower revenues in our UK Electricity Transmission business. US Regulated revenues were £341 million higher year-on-year including increased pass-through costs, the impact of new rate plans and the benefit of capital trackers, partially offset by an unfavourable impact from foreign exchange. UK Electricity Transmission revenues decreased by £285 million, including a reduction in pass-through costs, the absence of last year's recovery of outstanding timing balances and higher adjustments this year to return the benefits of efficiencies and lower required outputs to customers. Revenue from NGV and Other businesses increased by £63 million, primarily driven by support services provided to Cadent.

Operating costs

Operating costs for the year ended 31 March 2018 of £11,757 million were £70 million lower than the prior year. This decrease in costs included a £601 million decrease in exceptional items and remeasurements, which is discussed below. Excluding exceptional items and remeasurements, operating costs were £531 million higher, principally due to higher pass-through costs in the US, £142 million of major storm costs incurred in the US and higher depreciation as a result of continued asset investment, partially offset by the impact of movement in exchange rates.

Net finance costs

For the year ended 31 March 2018, net finance costs before exceptional items and remeasurements were £55 million lower than 2016/17 at £974 million, mainly as a result of the impact of the weaker US dollar, higher gains on the sale of financial assets and lower pension interest expense due to a reduction in pension deficits, partially offset by the impact of higher UK RPI inflation. Net finance costs in 2017/18 included remeasurement gains of £119 million on derivative financial instruments used to hedge our borrowings, compared to £58 million of remeasurement losses in 2016/17. In addition, during 2017/18 we had a £110 million remeasurement gain on a derivative financial instrument relating to the put/call option over a 14% interest in Quadgas HoldCo Limited.

Share of post-tax results of joint ventures and associates

Share of post-tax results of joint ventures and associates before exceptional items and remeasurements was £104 million higher at £167 million, primarily due to the inclusion of our 39% share of the results of Cadent this year.

Tax

The tax charge on profits before exceptional items and remeasurements of £589 million was £77 million lower than 2016/17. This was primarily due to lower UK and US corporate tax rates partially offset by lower tax credits in respect of prior years.

Exceptional items and remeasurements

Operating costs for the year ended 31 March 2018 included a £26 million gain on settlement of outstanding balances related to the LIPA Management Services Agreement, together with a net £10 million gain on remeasurement of commodity contracts. In the previous year, operating costs included £565 million of exceptional costs primarily associated with environmental charges and gas holder decommissioning.

Finance costs for the year ended 31 March 2018 included a gain of £229 million on financial remeasurements of derivative financial instruments, including a £110 million gain on the put option to dispose of a 14% interest in Cadent. For the previous year ended 31 March 2017, we incurred a loss of £58 million on financial remeasurements.

Share of post-tax results of joint ventures and associates for the year ended 31 March 2018 included a £207 million exceptional loss, principally relating to an impairment of the carrying value of our investment in Cadent following the agreement to potentially dispose of our remaining 25% holding.

Exceptional items and remeasurements relating to taxation for 2017/18 comprised a credit of £1,473 million, which primarily related to a decrease in net deferred tax liabilities due to the reduction in the US corporate tax rate.

Adjusted earnings and adjusted EPS from continuing operations

Adjusted earnings and adjusted EPS, which exclude exceptional items and remeasurements, are provided to reflect results of the Group on a 'business performance' basis, described further in note 4. The following chart shows the five-year trend in adjusted profit attributable to equity shareholders of the parent (adjusted earnings) and adjusted earnings per share. See note 7 for a reconciliation of adjusted basic EPS to EPS.

Adjusted earnings and adjusted EPS from continuing operations¹

1. Adjusted earnings and adjusted EPS are attributable to equity shareholders of the parent.

The above earnings performance translated into adjusted EPS growth in 2017/18 of 2.6p (5%).

Exchange rates

Our financial results are reported in sterling. Transactions for our US operations are denominated in dollars, so the related amounts that are reported in sterling depend on the dollar to sterling exchange rate. The table below shows the average and closing exchange rates of sterling to US dollars.

	2017/18	2016/17	% change
Weighted average (income statement)	1.36	1.28	6 %
Year-end (statement of financial position)	1.40	1.25	12 %

The movement in foreign exchange during 2017/18 has resulted in a £536 million reduction in revenue, a £98 million reduction in adjusted operating profit, and a £73 million reduction in operating profit.

Consolidated statement of comprehensive income
for the years ended 31 March

	Notes	2018 £m	2017 £m	2016 £m
Profit after tax from continuing operations		3,592	1,810	1,902
Other comprehensive income from continuing operations				
Items from continuing operations that will never be reclassified to profit or loss:				
Remeasurement gains of pension assets and post-retirement benefit obligations	23	1,313	423	410
Share of other comprehensive income of associates, net of tax ¹		142	—	—
Tax on items that will never be reclassified to profit or loss	6	(530)	(277)	(95)
Total items from continuing operations that will never be reclassified to profit or loss		925	146	315
Items from continuing operations that may be reclassified subsequently to profit or loss:				
Exchange adjustments		(505)	346	69
Net gains in respect of cash flow hedges		19	70	88
Transferred to profit or loss in respect of cash flow hedges		(3)	(6)	26
Net (losses)/gains on available-for-sale investments		(30)	81	43
Transferred to profit or loss on sale of available-for-sale investments		(73)	(25)	—
Share of other comprehensive income of associates, net of tax ¹		5	—	—
Tax on items that may be reclassified subsequently to profit or loss	6	33	(34)	(39)
Total items from continuing operations that may be reclassified subsequently to profit or loss		(554)	432	187
Other comprehensive income for the year, net of tax from continuing operations		371	578	502
Other comprehensive income for the year, net of tax from discontinued operations	9	—	42	71
Other comprehensive income for the year, net of tax		371	620	573
Total comprehensive income for the year from continuing operations		3,963	2,388	2,404
Total comprehensive income for the year from discontinued operations	9	(41)	6,026	763
Total comprehensive income for the year		3,922	8,414	3,167
Attributable to:				
Equity shareholders of the parent				
From continuing operations		3,963	2,389	2,403
From discontinued operations		(41)	6,026	761
		3,922	8,415	3,164
Non-controlling interests				
From continuing operations		—	(1)	1
From discontinued operations		—	—	2
		—	(1)	3

The share of other comprehensive income of associates relates to items of other comprehensive income of Cadent (investment through Quadgas HoldCo Limited), comprising £142 million (2017: £nil; 2016: £nil) remeasurement gains on pension assets and post-retirement benefit obligations and a £5 million (2017: £nil; 2016: £nil) net gain in respect of cash flow hedges. Both items are shown net of tax.

Unaudited commentary on consolidated statement of comprehensive income

The consolidated statement of comprehensive income records certain items as prescribed by the accounting rules. For us, the majority of the income or expense included here relates to movements in actuarial assumptions on defined benefit pension schemes and the associated tax impact. These items are not part of profit for the year, yet are important to allow the reader to gain a more comprehensive picture of our performance as a whole.

Remeasurement gains of pension assets and post-retirement benefit obligations

We had a net gain after tax of £925 million (2016/17: £146 million; 2015/16: £315 million) on our pension assets and other post-retirement benefit obligations which is due to changes in key assumptions made in the valuation calculation of pension liabilities and differences between the expected and actual pension asset returns.

Exchange adjustments

Adjustments are made when we translate the results and net assets of our companies operating outside the UK, as well as debt and derivative transactions designated as a net investment hedge of our foreign currency operations. The net movement for the year resulted in a loss of £505 million (2016/17: £346 million gain; 2015/16: £69 million gain).

Net gains in respect of cash flow hedges

The value of derivatives held to hedge cash flows is impacted by changes in expected interest rates and exchange rates. The net gain for the year was £19 million (2016/17: £70 million; 2015/16: £88 million).

Financial Statements | Consolidated statement of comprehensive income National Grid Annual Report and Accounts 2017/18 97

Consolidated statement of changes in equity
for the years ended 31 March

	Share capital £m	Share premium account £m	Retained earnings £m	Other equity reserves ¹ £m	Total shareholders' equity £m	Non- controlling interests £m	Total equity £m
At 31 March 2015	443	1,331	14,870	(4,682	) 11,962	12	11,974
Profit for the year	—	—	2,591	—	2,591	3	2,594
Other comprehensive income for the year	—	—	414	159	573	—	573
Total comprehensive income for the year	—	—	3,005	159	3,164	3	3,167
Equity dividends	—	—	(1,337	)—	(1,337	)—	(1,337)
Scrip dividend-related share issue ²	4	(5	)—	—	(1	)—	(1)
Purchase of treasury shares	—	—	(267	)—	(267	)—	(267)
Issue of treasury shares	—	—	16	—	16	—	16
Purchase of own shares	—	—	(6	)—	(6	)—	(6)
Other movements in non-controlling interests	—	—	—	—	—	(5	) (5)
Share-based payments	—	—	22	—	22	—	22
Tax on share-based payments	—	—	2	—	2	—	2
At 31 March 2016	447	1,326	16,305	(4,523	) 13,555	10	13,565
Profit/(loss) for the year	—	—	7,795	—	7,795	(1	) 7,794
Other comprehensive income for the year	—	—	84	536	620	—	620
Total comprehensive income/(loss) for the year	—	—	7,879	536	8,415	(1	) 8,414
Equity dividends	—	—	(1,463	)—	(1,463	)—	(1,463)
Scrip dividend-related share issue ²	2	(2)—	—	—	—	—
Purchase of treasury shares	—	—	(189	)—	(189	)—	(189)
Issue of treasury shares	—	—	18	—	18	—	18
Purchase of own shares	—	—	(6	)—	(6	)—	(6)
Other movements in non-controlling interests	—	—	—	—	—	7	7
Share-based payments	—	—	35	—	35	—	35
Tax on share-based payments	—	—	3	—	3	—	3
At 31 March 2017	449	1,324	22,582	(3,987	) 20,368	16	20,384
Profit for the year	—	—	3,550	—	3,550	1	3,551
Other comprehensive income/(loss) for the year	—	—	925	(553	) 372	(1	) 371
Total comprehensive income/(loss) for the year	—	—	4,475	(553	) 3,922	—	3,922
Equity dividends	—	—	(4,487	)—	(4,487	)—	(4,487)
Scrip dividend-related share issue ²	3	(3)—	—	—	—	—
Purchase of treasury shares	—	—	(1,017	)—	(1,017	)—	(1,017)

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Issue of treasury shares	—	—	33	—	33	—	33
Purchase of own shares	—	—	(5	)—	(5	)—	(5)
Share-based payments	—	—	16	—	16	—	16
Tax on share-based payments	—	—	2	—	2	—	2
At 31 March 2018 ³	452	1,321	21,599	(4,540	) 18,832	16	18,848

1. For further details of other equity reserves, see note 26.

2. Included within the share premium account are costs associated with scrip dividends.

3. Refer to note 7 for the effect of the share consolidation and the special dividend.

Unaudited commentary on consolidated statement of changes in equity

The consolidated statement of changes in equity shows additions and reductions to equity. For us, the main items are profit earned and dividends paid in the year.

Dividends

The Directors are proposing a final dividend of 30.44 pence per share, bringing the total dividend for the year to 45.93 pence per share, a 3.7% increase on 2016/17. The Directors intend to target increasing the annual dividend per share by at least the rate of RPI inflation for the foreseeable future.

Special dividend

Following completion of the sale of the majority interest in UK Gas Distribution, the Company paid a special interim dividend on 2 June 2017 of 84.375 pence per existing ordinary share (\$5.4224 per existing American Depositary Share). This returned approximately £3,170 million to shareholders.

Consolidated statement of financial position
as at 31 March

	Notes	2018 £m	2017 ¹ £m
Non-current assets			
Goodwill	10	5,444	6,096
Other intangible assets	11	899	923
Property, plant and equipment	12	39,853	39,825
Other non-current assets	13	115	69
Pension assets	23	1,409	603
Financial and other investments	14	899	1,100
Investments in joint ventures and associates	15	2,168	2,083
Derivative financial assets	16	1,319	1,567
Total non-current assets		52,106	52,266
Current assets			
Inventories and current intangible assets	17	341	403
Trade and other receivables	18	2,798	2,728
Current tax assets		114	317
Financial and other investments	14	2,694	8,741
Derivative financial assets	16	405	246
Cash and cash equivalents	19	329	1,139
Total current assets		6,681	13,574
Total assets		58,787	65,840
Current liabilities			
Borrowings	20	(4,447)	(5,496)
Derivative financial liabilities	16	(401)	(1,147)
Trade and other payables	21	(3,453)	(3,345)
Current tax liabilities		(123)	(107)
Provisions	24	(273)	(416)
Total current liabilities		(8,697)	(10,511)
Non-current liabilities			
Borrowings	20	(22,178)	(23,142)
Derivative financial liabilities	16	(660)	(1,246)
Other non-current liabilities	22	(1,317)	(1,370)
Deferred tax liabilities	6	(3,636)	(4,479)
Pensions and other post-retirement benefit obligations	23	(1,672)	(2,536)
Provisions	24	(1,779)	(2,172)
Total non-current liabilities		(31,242)	(34,945)
Total liabilities		(39,939)	(45,456)
Net assets		18,848	20,384
Equity			
Share capital	25	452	449
Share premium account		1,321	1,324
Retained earnings		21,599	22,582
Other equity reserves	26	(4,540)	(3,987)
Total shareholders' equity		18,832	20,368
Non-controlling interests		16	16
Total equity		18,848	20,384

1. Comparative amounts have been represented to reflect the reclassification of commodity derivative contracts from trade and other receivables and payables, and from other non-current assets and liabilities to derivative financial

assets and derivative financial liabilities (see note 16).

The consolidated financial statements set out on pages 94 to 177 were approved by the Board of Directors on 16 May 2018 and were signed on its behalf by:

Sir Peter Gershon Chairman
Andrew Bonfield Finance Director

National Grid plc
Registered number: 4031152

Financial Statements | Consolidated statement of financial position National Grid Annual Report and Accounts
2017/18 99

Consolidated statement of financial position continued

Unaudited commentary on consolidated statement of financial position

The consolidated statement of financial position shows all the Group's assets and liabilities at the year end. As a capital-intensive business, we have significant amounts of physical assets and corresponding borrowings.

Goodwill and other intangible assets

Goodwill and other intangibles decreased by £676 million to £6,343 million as at 31 March 2018. This decrease primarily relates to foreign exchange movements of £707 million with software additions of £173 million mostly offset by software amortisation of £138 million.

Property, plant and equipment

Property, plant and equipment remained steady, showing a £28 million increase to £39,853 million as at 31 March 2018. This was principally due to additions of £3,901 million primarily related to capital expenditure on the renewal and extension of our regulated networks less depreciation of £1,392 million in the year, disposals of £45 million and the impact of foreign exchange movements of £2,428 million. See note 2 for further details of our capital expenditure.

Investments and other non-current assets

Investments in joint ventures and associates, financial and other investments and other non-current assets (including the non-current corporate tax asset) have decreased by £70 million to £3,182 million. This is primarily due to the net effect of the sale of our shares in Dominion driving a decrease of £173 million in the year; additions to our joint ventures and associates of £129 million partially offset by a net reduction in our investment in Quadgas HoldCo Limited of £17 million as a result of the impairment recorded, the actuarial gains in the pension scheme and dividends received largely offsetting profits; and the recognition of a non-current corporation tax asset of £51 million in respect of tax repayments due in the US.

Inventories and current intangible assets and trade and other receivables

Inventories and current intangible assets and trade and other receivables have increased by £286 million, excluding £278 million of foreign exchange, to £3,139 million as at 31 March 2018. The increase in trade receivables reflects the colder winter, higher gas costs and Balancing Services Incentives Scheme cost recoveries. This is partly offset by a decrease in inventories following lower levels of gas on hand held at 31 March 2018 due to the increased demand at that time and to lower current intangible assets of £30 million following the settlement of outstanding emissions credits.

Current tax balances

The net current tax liability of £9 million as at 31 March 2018 has changed by £219 million from a net current tax asset of £210 million as at 31 March 2017. This is primarily due to the current tax charge in the year.

Deferred tax balances

Deferred tax balances have decreased by £843 million to £3,636 million as at 31 March 2018. This is primarily due to the deferred tax credit arising on the reduction in the US corporate tax rate partially offset by the deferred tax charge on actuarial gains in reserves.

Trade and other payables

Trade and other payables have increased by £313 million, excluding foreign exchange of £209 million, to £3,453 million. This is principally due to an increase in storm accruals in the US.

Provisions and other non-current liabilities

Provisions and other non-current liabilities decreased by £324 million, excluding foreign exchange of £265 million, to £3,369 million as at 31 March 2018.

This primarily relates to provisions, which decreased by £341 million in the year excluding the impact of foreign exchange. The underlying movements included £93 million utilisation and reversal of unused provisions for costs associated with the sale of UK Gas Distribution and £75 million utilisation of the environmental provision. In 2016/17 we recognised a provision of £150 million relating to a voluntary distribution to be made for the benefit of energy customers from the proceeds arising from the sale of UK Gas Distribution. During the year we paid out £33 million, and the remaining balance of £117 million is now classified within trade and other payables, reflecting our Funding Agreement with Affordable Warmth Solutions.

Net debt

Net debt is the aggregate of cash and cash equivalents, current financial and other investments, borrowings, and all derivative financial assets and liabilities excluding commodity contract derivatives and excluding the Further Acquisition Agreement derivative. See further analysis with the consolidated cash flow statement on page 101 and further breakdowns and analysis within note 27.

Net pension and other post-retirement obligations

A summary of the total UK and US assets and liabilities and the overall net IAS 19 (revised) accounting deficit is shown below:

Net plan surplus/(deficit)	UK £m	US £m	Total £m
As at 1 April 2017	(156)	(1,777)	(1,933)
Exchange movements	—	175	175
Current service cost	(49)	(144)	(193)
Net interest cost	(3)	(62)	(65)
Curtailments and other	(15)	(20)	(35)
Actuarial gains/(losses)			
– on plan assets	103	465	568
– on plan liabilities	1,074	(329)	745
Employer contributions	150	325	475
As at 31 March 2018	1,104	(1,367)	(263)
Represented by:			
Plan assets	15,330	8,528	23,858
Plan liabilities	(14,226)	(9,895)	(24,121)
	1,104	(1,367)	(263)

The principal movements in net obligations during the year include net actuarial gains of £1,313 million and employer contributions of £475 million. Actuarial gains include gains of £568 million arising on plan assets resulting from actual asset returns being greater than assumed returns which are based upon the discount rate at the start of the year. Actuarial gains on plan liabilities of £745 million arose primarily as a consequence of an increase in the real UK discount rates giving an actuarial gain of £604 million combined with updated UK demographic assumptions reducing liabilities by £565 million and a decrease in the US nominal discount rate resulting in actuarial losses of £430 million.

Further information on our pension and other post-retirement obligations can be found in note 23 to the consolidated financial statements.

Off balance sheet items

There were no significant off balance sheet items other than the commitments and contingencies detailed in note 28.

Through the ordinary course of our operations, we are party to various litigation, claims and investigations. We do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on our results of operations, cash flows or financial position.

100 National Grid Annual Report and Accounts 2017/18 Financial Statements | Consolidated statement of financial position

Consolidated cash flow statement
for the years ended 31 March

	Notes	2018 £m	2017 £m	2016 £m
Cash flows from operating activities				
Total operating profit from continuing operations	2(b)	3,493	3,208	3,225
Adjustments for:				
Exceptional items and remeasurements	4	(36)	565	(11)
Depreciation, amortisation and impairment		1,530	1,481	1,311
Share-based payments charge		16	32	21
Gain on exchange of associate for available-for-sale investment		—	—	(49)
Changes in working capital		118	151	416
Changes in provisions		(206)	(181)	(58)
Changes in pensions and other post-retirement benefit obligations		(239)	(768)	(293)
Cash flows relating to exceptional items		26	(36)	(40)
Cash generated from operations – continuing operations		4,702	4,452	4,522
Tax recovered/(paid)		8	(132)	(230)
Net cash inflow from operating activities – continuing operations		4,710	4,320	4,292
Net cash (used in)/inflow from operating activities – discontinued operations	9	(207)	909	1,076
Cash flows from investing activities				
Acquisition of investments		(2)	—	—
Investments in joint ventures and associates		(129)	(76)	(116)
Loans to joint ventures and associates		(68)	(61)	—
Disposal of investments		134	—	—
Disposal of UK Gas Distribution	9,15	(20)	5,454	—
Purchases of intangible assets		(173)	(223)	(196)
Purchases of property, plant and equipment		(3,738)	(3,296)	(2,855)
Disposals of property, plant and equipment		10	18	4
Dividends received from joint ventures and associates		213	99	72
Interest received		57	51	23
Net movements in short-term financial investments ¹		5,953	(5,600)	(391)
Net cash flow from/(used in) investing activities – continuing operations		2,237	(3,634)	(3,459)
Net cash flow used in investing activities – discontinued operations		—	(680)	(577)
Cash flows from financing activities				
Purchase of treasury shares		(1,017)	(189)	(267)
Proceeds from issue of treasury shares		33	18	16
Purchase of own shares		(5)	(6)	(6)
Proceeds received from loans		1,941	2,463	2,726
Repayment of loans		(2,156)	(1,616)	(896)
Net movements in short-term borrowings and derivatives		(772)	90	(730)
Interest paid		(853)	(839)	(711)
Dividends paid to shareholders		(4,487)	(1,463)	(1,337)
Net cash flow used in financing activities – continuing operations		(7,316)	(1,542)	(1,205)
Net cash flow (used in)/from financing activities – discontinued operations		(231)	1,611	(123)
Net (decrease)/increase in cash and cash equivalents	27(a)	(807)	984	4
Disposal of bank overdraft in UK Gas Distribution		—	15	—
Exchange movements		(3)	16	4
Net cash and cash equivalents at start of year		1,139	124	116
Net cash and cash equivalents at end of year ¹	19	329	1,139	124

1. Net of bank overdrafts of £nil (2017: £nil; 2016: £3 million).

Consolidated cash flow statement continued

Unaudited commentary on the consolidated cash flow statement

The consolidated cash flow statement shows how the cash balance has moved during the year. Cash inflows and outflows are presented to allow users to understand how they relate to the day-to-day operations of the business (Operating activities); the money that has been spent or earned on assets in the year, including acquisitions of physical assets or other businesses and the disposal of UK Gas Distribution (Investing activities); and the cash raised from debt, share issues or share buybacks, restructuring of borrowings for the disposal of UK Gas Distribution and other loan borrowings or repayments (Financing activities).

Reconciliation of cash flows to net debt

	2018	2017
	£m	£m
Cash generated from continuing operations	4,702	4,452
Cash generated from discontinued operations	(207)	)987
	4,495	5,439
Net capital investment – continuing operations	(4,098)	)(3,638)
Net capital investment – discontinued operations—		(605)
	(4,098)	)(4,243)
Business net cash flow	397	1,196
Net interest paid – continuing operations	(796)	)(788)
Net interest paid – discontinued operations	—	(1,167)
	(796)	)(1,955)
Tax recovered/(paid) – continuing operations	8	(132)
Tax paid – discontinued operations	—	(78)
	8	(210)
Ordinary dividends paid and scrip buybacks	(1,494)	)(1,652)
Return of capital	(4,010))—
Disposal of UK Gas Distribution	(20)	)11,344
Other cash movements	239	110
Non-cash movements	1,948	(2,782)
(Increase)/decrease in net debt	(3,728)	)6,051
Opening net debt	(19,274)	(25,325)
Closing net debt	(23,002)	(19,274)

Cash generated from continuing operations

Cash generated from continuing operations (£m)

Cash flows from our operations are largely stable when viewed over the longer term. Our electricity and gas transmission operations in the UK are subject to multi-year rate agreements with regulators. In the UK, we have largely stable cash flows. However, in the US our short-term cash flows are dependent on the price of gas and electricity and the timing of customer payments. The regulatory mechanisms for recovering costs from customers can result in significant cash flow swings from year to year. Changes in volumes in the US, for example as a consequence of abnormally mild or extreme weather can affect revenues, and hence cash flows, particularly in the winter months.

For the year ended 31 March 2018, cash flows from continuing operations increased by £250 million to £4,702 million. The outflow of £239 million from changes in pensions and other post-retirement obligations was £529 million lower than 2016/17 due to higher levels of contributions into the UK and US schemes in the prior year.

Cash flows from discontinued operations decreased by £1,194 million to a £207 million outflow in 2017/18. Discontinued operations in 2016/17 included the cash flows of the UK Gas Distribution business. In 2017/18, discontinued operations included cash outflows for residual transaction costs related to the disposal.

102 National Grid Annual Report and Accounts 2017/18 Financial Statements | Consolidated cash flow statement

Unaudited commentary on the consolidated cash flow statement continued

Net capital investment

Net cash capital investment for continuing operations in the year of £4,098 million comprising investments and loans to joint ventures and associates of £197 million (including St William) and purchases of intangibles and property, plant and equipment (net of disposals) of £3,901 million was £460 million higher than the prior year. This was a result of higher spend in our US Regulated and UK Gas Transmission businesses, along with increased levels of investment in interconnectors, offset by exchange movements of £133 million and lower spend in UK Electricity Transmission.

Net interest paid (including exceptional interest)

Net interest paid for continuing operations was £796 million, £8 million higher than 2016/17 with increased payments at constant currency mostly offset by the impact of exchange rates on our US dollar denominated finance costs. Net interest paid and exceptional finance costs for discontinued operations in 2016/17 were £1,167 million, primarily due to £1,052 million of debt buyback costs incurred as part of the Group's liability management programme in relation to the disposal of the UK Gas Distribution business.

Tax recovered/paid

Tax recovered for continuing operations in the year to 31 March 2018 was £8 million. This was primarily due to refunds in the US and UK of tax previously overpaid of £46 million and £67 million respectively, offset by UK tax payments which were lower than 2016/17 as a result of tax deductible costs incurred in respect of the disposal of UK Gas Distribution.

Dividends paid and scrip buybacks

Ordinary dividends paid in the year ended 31 March 2018 amounted to £1,316 million. This was £147 million lower than 2016/17 reflecting the decrease in the number of shares following the share consolidation, offset by an increase in the final dividend paid in August 2017. Share buybacks of £178 million, related to the repurchase of the scrip uptake, were £11 million lower than 2016/17.

Return of capital

A total cash outflow of £4,010 million related to the return to shareholders of proceeds from the disposal of the UK Gas Distribution business. This comprised a £3,171 million outflow related to the special dividend on 2 June 2018 (accompanied by an 11 for 12 share consolidation) and £839 million of share buybacks.

Disposal of UK Gas Distribution

The inflow in 2016/17 reflects the cash proceeds received of £5,454 million and the £5,890 million of net debt deconsolidated on disposal of UK Gas Distribution (see note 27). The outflow of £20 million in 2017/18 relates to the completion account settlement in November 2017.

Other cash movements

Other cash flows principally arise from the disposal of a financial investment in Dominion for £126 million and dividends from joint ventures and associates of £213 million (£114 million higher than 2016/17), partly offset by movements in treasury shares.

Non-cash movements

The non-cash movements are predominantly due to the weakening of the US dollar against sterling, resulting in movements in foreign exchange arising on net debt held in US dollars. In the year, the dollar weakened from \$1.25 at 31 March 2017 to \$1.40 at 31 March 2018. Other non-cash movements primarily arise from changes in fair values of financial assets and liabilities and interest accretions and accruals.

Net debt

Net debt at 31 March (£m)

Financial Statements | Consolidated cash flow statement National Grid Annual Report and Accounts 2017/18 103

Notes to the consolidated financial statements
– analysis of items in the primary statements

1. Basis of preparation and recent accounting developments

Accounting policies describe our approach to recognising and measuring transactions and balances in the year. Accounting policies applicable across the financial statements are shown below. Accounting policies that are specific to a component of the financial statements have been incorporated into the relevant note.

This section also shows areas of judgement and key sources of estimation uncertainty in these financial statements. In addition, we summarise new IASB and EU endorsed accounting standards, amendments and interpretations and whether these are effective in 2019 or later years, explaining how significant changes are expected to affect our reported results.

National Grid's principal activities involve the transmission and distribution of electricity and gas in Great Britain and northeastern US. The Company is a public limited liability company incorporated and domiciled in England and Wales, with its registered office at 1–3 Strand, London WC2N 5EH.

The Company, National Grid plc, which is the ultimate parent of the Group, has its primary listing on the London Stock Exchange and is also quoted on the New York Stock Exchange.

These consolidated financial statements were approved for issue by the Board on 16 May 2018.

These consolidated financial statements have been prepared in accordance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and related interpretations as issued by the IASB and IFRS as adopted by the EU. They are prepared on the basis of all IFRS accounting standards and interpretations that are mandatory for periods ended 31 March 2018 and in accordance with the Companies Act 2006 applicable to companies reporting under IFRS and Article 4 of the EU IAS Regulation. The comparative financial information has also been prepared on this basis.

The consolidated financial statements have been prepared on a historical cost basis, except for the recording of pension assets and liabilities, the revaluation of derivative financial instruments and certain commodity contracts and investments classified as available-for-sale.

These consolidated financial statements are presented in pounds sterling, which is also the functional currency of the Company.

The notes to the financial statements have been prepared on a continuing basis unless otherwise stated.

Our income statement and segmental analysis separately identify financial results before and after exceptional items and remeasurements. The Directors believe that presentation of the results in this way is relevant to an understanding of the Group's financial performance. Presenting financial results before exceptional items and remeasurements is consistent with the way that financial performance is measured by management and reported to the Board and Executive Committee and aids the comparability of reported financial performance from year to year in this context.

Further, this year we have adopted a columnar presentation as we consider it improves the clarity of the presentation, and is consistent with the way that financial performance is measured by management and reported to the Board and Executive Committee, and better enables users of the financial statements to understand the results. The inclusion of total profit for the period from continuing operations before exceptional items and remeasurements forms part of the incentive target set annually for remunerating certain Executive Directors. Accordingly we believe it is important for users of the financial statements to understand how this compares to our results on a statutory basis and year-on-year.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period (see accounting policy E).

A. Going concern

The Directors considered it appropriate to prepare the financial statements on a going concern basis, having considered the Company's cash flow forecasts with respect to business planning and treasury management activities. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements are signed.

B. Basis of consolidation

The consolidated financial statements incorporate the results, assets and liabilities of the Company and its subsidiaries, together with a share of the results, assets and liabilities of joint operations. The Group accounts for joint ventures and associates using the equity method of accounting, where the investment is carried at cost plus post-acquisition changes in the share of net assets of the joint venture or associate, less any provision for impairment.

A subsidiary is defined as an entity controlled by the Group. Control is achieved where the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the power to affect those returns through its power over the entity.

Losses in excess of the consolidated interest in joint ventures and associates are not recognised, except where the Company or its subsidiaries have made a commitment to make good those losses.

Where necessary, adjustments are made to bring the accounting policies used in the individual financial statements of the Company, subsidiaries, joint operations, joint ventures and associates into line with those used by the Group in its consolidated financial statements under IFRS. Intercompany transactions are eliminated.

The results of subsidiaries (other than relating to UK Gas Distribution as described in C below), joint operations, joint ventures and associates acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Acquisitions are accounted for using the acquisition method, where the purchase price is allocated to the identifiable assets acquired and liabilities assumed on a fair value basis and the remainder recognised as goodwill.

C. Disposal of UK Gas Distribution

As described further in note 9, on 8 December 2016 the Group entered into a sale and purchase agreement to dispose of a 61% controlling stake in the UK Gas Distribution business. The disposal completed on 31 March 2017 and the Group has retained a 39% interest in the business. As a result, all assets and liabilities of UK Gas Distribution were deemed to be disposed of and a 39% interest reacquired. The 39% retained interest is classified as an associate on the basis that the Group retains significant influence over the business through its retained stake. The Group has the ability to appoint 4 of the 12 directors on the board of Quadgas HoldCo Limited.

In addition, the Group entered into a Further Acquisition Agreement (FAA) over a further 14% interest. Refer to note 15 for further details.

The Group classified UK Gas Distribution as held for sale as of 8 December 2016, when it became highly probable that the value of the business to the Group would be recovered through sale rather than continuing ownership. As UK Gas Distribution represents a separate major line of business, the business was classified as a discontinued operation in the 2016/17 consolidated income statement. This continues to be reflected in the consolidated income statement and

the consolidated statement of comprehensive income, as well as earnings per share (EPS) split between continuing and discontinued operations.

In the current year, any true-ups relating to the disposal of the controlling stake are recorded within discontinued operations.

104 National Grid Annual Report and Accounts 2017/18 Financial Statements | Notes to the consolidated financial statements

1. Basis of preparation and recent accounting developments continued

D. Foreign currencies

Transactions in currencies other than the functional currency of the Company or subsidiary concerned are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at closing exchange rates. Non-monetary assets are not retranslated unless they are carried at fair value.

Gains and losses arising on the retranslation of monetary assets and liabilities are included in the income statement, except where the application of hedge accounting requires inclusion in other comprehensive income see note 16.

On consolidation, the assets and liabilities of operations that have a functional currency different from the Company's functional currency of pounds sterling, principally our US operations that have a functional currency of US dollars, are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period where these do not differ materially from rates at the date of the transaction. Exchange differences arising are recognised in other comprehensive income and transferred to the consolidated translation reserve within other equity reserves see note 26.

E. Areas of judgement and key sources of estimation uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Information about such judgements and estimations is contained in the notes to the financial statements, and the key areas are summarised below.

Areas of judgement that have the most significant effect on the amounts recognised in the financial statements are as follows:

- categorisation of certain items as exceptional items and the definition of adjusted earnings see notes 4 and 7.

Key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

- valuation of liabilities for pensions and other post-retirement benefits see note 23; and
- the discount rate and cash flows applied in determining the environmental provisions see note 24.

In order to illustrate the impact that changes in assumptions could have on our results and financial position, we have included sensitivity analyses in note 33.

F. Accounting policy choices

IFRS provides certain options available within accounting standards. Choices we have made, and continue to make, include the following:

Presentational formats: we use the nature of expense method for our income statement and aggregate our statement of financial position to net assets and total equity. In the income statement, we present subtotals of total operating profit, profit before tax and profit after tax from continuing operations, together with additional subtotals excluding exceptional items and remeasurements as a result of the three columnar layout described earlier. Exceptional items and remeasurements are presented in a separate column on the face of the income statement.

-

Customer contributions: contributions received prior to 1 July 2009 towards capital expenditure are recorded as deferred income and amortised in line with the depreciation on the associated asset.

Financial instruments: we normally opt to apply hedge accounting in most circumstances where this is permitted. For net investment hedges, we have chosen to use the spot rate method, rather than the alternative forward rate method.

New IFRS accounting standards effective for the year ended 31 March 2018

The Group has adopted the following amendments to standards: