

**NATIONAL GRID plc  
REMUNERATION COMMITTEE  
TERMS OF REFERENCE**

Reference to the “Company” shall mean National Grid plc.  
Reference to the “Committee” shall mean the Remuneration Committee.  
Reference to the “Board” shall mean the Board of Directors of the Company.  
Reference to the "Group" shall mean the Company and its subsidiaries.  
Reference to the “Code” shall mean the UK Corporate Governance Code.

**1. Membership**

- 1.1 The Committee shall be appointed by the Board on the recommendation of the Nominations Committee and shall comprise at least 4 members, who shall be independent Non-executive directors in accordance with UK and US regulations and best practice. A member of the Audit Committee shall be a member of the Committee.
- 1.2 The Board on the recommendation of the Nominations Committee shall appoint the Chair of the Committee who shall have served on a remuneration committee for at least 12 months prior to the appointment as Chair. The Chair of the Board shall not be the Chair of the Committee.
- 1.3 The Board shall determine the period for which the Chair and the other Committee members shall hold office.
- 1.4 If a regular member is unable to act due to absence, illness or any other cause, the Chair of the Committee may appoint another independent Non-executive Director of the Company as approved by the Nominations Committee to serve as an alternate member on a short term basis.
- 1.5 In the absence of the Chair of the Committee and an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting who would qualify under these terms of reference to be appointed to that position by the Board.
- 1.6 The Chairman of the Board, Chief Executive, Group General Counsel & Company Secretary, Chief Human Resources Officer, Global Head of Reward and any other individual may attend for all or part of the meetings of the Committee at the request of the Chair of the Committee as and when considered appropriate by the Committee.

**2. Secretary**

- 2.1 The Group General Counsel & Company Secretary or his or her nominee shall act as the Secretary of the Committee.

### **3. Quorum and Voting**

- 3.1 The quorum necessary for the transaction of business shall be two members of the Committee. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested or exercisable by the Committee.
- 3.2 If any conflicts of interest exist with a particular member of the Committee on any particular issue then such member of the Committee shall not participate or vote on the issue that gave rise to such conflict of interest.

### **4. Meetings**

- 4.1 The Committee shall meet at least three times a year or as required.

### **5. Notice of Meetings**

- 5.1 Meetings of the Committee shall be convened by the Secretary of the Committee at the request of the Chair of the Committee or any of its members.
- 5.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed and supporting papers, shall be circulated, or made available electronically, to each member of the Committee and any other person required to attend no fewer than four working days prior to the date of the meeting, or otherwise as agreed between the Chair of the Committee and the Secretary, to enable proper consideration of the relevant issues.

### **6. Minutes of Meetings**

- 6.1 The Secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and others in attendance.
- 6.2 The Secretary should ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 6.3 Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, following approval of the Committee Chair, to other members of the Board, and as appropriate, to attendees.
- 6.4 The Chair of the Committee or, in his or her absence, another member of the Committee shall, as appropriate, keep the Board advised of matters resolved, recommended and/or reviewed by the Committee.

## 7. Shareholder Engagement

The Chair of the Committee shall:

- 7.1 attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities and engage as required with the Company's major shareholders and report to the Committee and the Board on shareholder views and voting policies on remuneration matters;
- 7.2 review and note following the Annual General Meeting (and at any other relevant time) the views given by shareholders and the results of the shareholder votes on executive pay. Agree how the views of shareholders will be taken into account in determining executive remuneration; and
- 7.3 ensure that the Committee meets all other disclosure information requirements in accordance with regulations and with the Code.

## 8. Duties

The Committee shall:

- 8.1 determine and recommend to the Board the framework or broad policy and setting of the remuneration of the Chairman of the Board, Chief Executive, other Executive Directors (the 'Board Directors'), Group General Counsel & Company Secretary and other members of the executive management reporting directly to the Chief Executive, but not for the Non-executive Directors. The remuneration of Non-executive Directors shall be a matter for the Executive Directors of the Board with the guidance of the Chair of the Board, after taking appropriate external advice. No individual shall be involved in any decisions as to his or her own remuneration;
- 8.2 in determining such policy, consider the business strategy of the Group and how remuneration policy reflects and supports the business strategy and take into account all other factors which it deems necessary including the Company's risk appetite, policies and systems and the views of shareholders and other external stakeholders such as the Investment Association and proxy voting agencies. When setting the Remuneration Policy for the executive management, the Committee should review and note workforce remuneration and related policies and the alignment of incentives and awards with culture and take into account employee engagement feedback. The objective of such policy shall be to ensure members of the Company's executive management are provided with remuneration that promotes the long-term success of the company, reflects and supports the business strategy of the Group as well as appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their

- individual contributions to the success of the Company, without paying more than is necessary;
- 8.3 incorporate provisions within remuneration schemes to ensure there is adequate provision for the withholding and recovery of awards to protect against reward for failure and recommend to the Board for approval;
- 8.4 in respect of the Board Directors, determine a "remuneration policy" which shall be subject to a binding shareholder vote obtained in General Meeting and with which all future Board Directors' remuneration shall be consistent. Any changes to the overall policy, or exceptions to it, must be approved by shareholders;
- 8.5 liaise with the Nominations Committee to ensure the remuneration of newly appointed executives is within the Company's overall policy. If any part of the remuneration proposed for a newly appointed Board Director is outside the policy then it may only be implemented following a binding shareholder vote approving such remuneration being obtained in General Meeting;
- 8.6 review periodically (but at least every three years) the overall appropriateness and relevance of the Company's remuneration policy;
- 8.7 determine the policy for and scope of pension arrangements (taking into consideration the wider workforce), service agreements, termination payments and compensation commitments for the individuals set out in 8.1 mindful that a significant proportion of the remuneration package for the Board Directors should be linked to individual and Company performance, focussed on long-term delivery;
- 8.8 within the terms of the approved policy, and having regard to the pay and conditions of all employees of the Group, determine for the Board Directors and other individuals set out in 8.1 within the remit of the Committee:
- 8.8.1 measures and targets for any performance related pay schemes operated by the Company (asking the Board, when appropriate, to seek shareholder approval for any long term incentive arrangements) ensuring such measures and targets are transparent, stretching and rigorously applied; and
- 8.8.2 the total individual remuneration package of each individual including, where appropriate, bonuses, incentive awards and payments and share options;
- 8.9 ensure that contractual terms on termination, and any payments made, are within the terms of the approved policy, fair to the individual, the Company and shareholders, that failure is not rewarded and that the duty to mitigate loss is

fully recognised and to the extent they are Board Directors, take into account the requirement for a binding vote to be obtained in General Meeting for any termination payments (comprising base pay, pension, benefits, bonus and long-term incentive) in excess of 12 months' salary;

- 8.10 in determining such packages and arrangements, give due regard to the principles and provisions of the Code, the UK Listing Authority's Listing Rules and associated guidance and including to the extent deemed appropriate, the rules of the New York Stock Exchange and any other exchange on which the Company's equity securities are listed;
- 8.11 review the design and implementation of all share incentive plans for approval by the Board, the corresponding vesting and additional holding periods (both during and post-employment), including unvested shares, and the minimum shareholding requirement of any of the Executive Directors;
- 8.12 determine each year whether awards will be made under the Company's share incentive plans, indicate where appropriate the overall amount of such awards, determine the individual awards to Board Directors and other individuals within the remit of the Committee set out in 8.1 above and the performance targets to be used and to what extent, if at all, clawback and malus will be invoked, and for Board Directors, take into account the requirement for any determinations not falling within the existing shareholder approved policy, to be subject to shareholder approval;
- 8.13 determine and review at least annually the most appropriate way to assess business performance and the linkage between executive remuneration and achievement of the Group's corporate strategy and objectives, and carry-out an assessment of the linkage ensuring that it can be clearly understood by shareholders;
- 8.14 review and note annually the remuneration trends across the Group and have oversight of and be informed of any major changes to employee pay and benefit structures including bonuses and performance related plans in the Company and any of its subsidiaries to ensure alignment throughout the Company;
- 8.15 review annually a summary of the Committee's consultants' fees for the year, scope of the work carried out and the consultants' policy and procedures on removing any potential conflicts of interest to ensure it is comfortable with them. The consultants shall seek the approval of the Chair of the Committee to tender for or undertake any new work for the Company and such approvals shall be reported to the Committee;
- 8.16 obtain reliable, up-to-date information about remuneration policies and practices in other companies in its peer group

and industrial sector of comparable scale and complexity and commission reports or surveys when it considers them necessary;

- 8.17 review and authorise the reimbursement of any claims for expenses from the Chair provided that the Committee may delegate this to the Finance Director;
- 8.18 authorise for those individuals set out in 8.1 who are eligible their participation in employee share plans from time to time operating in the Company;
- 8.19 in the case of authorising subsidiary companies to participate in existing all employee share plans, delegate authority to the Group General Counsel & Company Secretary and the relevant Executive Director;
- 8.20 make recommendations to the Board with respect to the establishment of, and changes to, the rules of employee equity participation arrangements and administer these arrangements where their rules specify the involvement of the Committee or any other Committee of the Board, unless the Board decides otherwise;
- 8.21 review on a regular basis but no less than annually its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and make recommendations to the Board where improvement or action is needed (the Board should also review the Remuneration Committee's effectiveness annually); and
- 8.22 In carrying out its duties, the Remuneration Committee shall have regard to the Principles and Provisions set out in the Code.

## **9. Committee Interface with Other Committees**

- 9.1 The Committee shall interface with:
  - 9.1.1 the Nominations Committee with respect to the pay and conditions upon appointment of Directors and direct reports to the Chief Executive recruited on the recommendation of the Nominations Committee;
  - 9.1.2 the Share Schemes Sub-Committee with respect to the matters delegated to it, as required; and
  - 9.1.3 Via a member of the Audit Committee being a member of the Committee, the Committee shall receive knowledgeable input on setting financial measures and assessing outturns including adjustments and judgements considered by the Audit Committee.

## 10. Authority

- 10.1 Subject to any restrictions imposed by law, the Committee is authorised by the Board to seek any information it requires from any employee of the Company and its subsidiaries in order to perform its duties and all employees are directed to cooperate with any request made by the Committee.
- 10.2 The Committee is authorised by the Board to call any Director or employee to be present at a meeting of the Committee as and when required.
- 10.3 The Committee is authorised by the Board to access sufficient resources and professional advice, as is reasonable at the Company's expense, in order to carry out its duties, including access to the Company Secretariat team for assistance as required.
- 10.4 Members shall be provided with training as appropriate, both in the form of an induction programme for new members and on an ongoing basis for all members.
- 10.5 The Committee shall have the authority to establish the Share Schemes Sub-Committee comprising any two Directors and either the Chief Human Resources Officer or the Group General Counsel & Company Secretary and to delegate to it all the powers, authorities and discretions given to the Committee in relation to the operation and/or administration of the employee equity participation arrangements to that Sub-Committee (and for further sub-delegation where appropriate) save in respect of any matters relating to those individuals set out in 8.1 (other than giving effect to decisions made by the Committee) or any other matters specifically reserved by the Committee.
- 10.6 Save as expressly provided herein, the Committee shall not be entitled to sub-delegate all or any of the powers and authorities delegated to it.

## 11. Remuneration consultants and other advisers

- 11.1 Pursuant to 10.3 above, the Committee may appoint and obtain advice from independent remuneration consultants (who should be a member of the Remuneration Consultants' Group), to secure the attendance of external advisers at its meetings if it considers this necessary, and to obtain reliable, up-to-date information about remuneration in other companies. The Committee shall have full authority to commission any reports or surveys which it deems necessary to help it fulfil its obligations. If a decision is made to engage such advisers or consultants, the Committee shall have the sole authority to retain and terminate them, and to approve their fees and other retention terms. It must satisfy itself and be able to

demonstrate the advice received is independent and objective and confirm to the Board that it has done so.

- 11.2 The Committee should review annually the performance of its external consultants and advisers.

## 12. Reporting responsibilities

The Committee shall:

- 12.1 ensure all statutory and regulatory provisions regarding disclosure of remuneration, including pensions, (as listed in The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the Companies Act 2006), are fulfilled; and
- 12.2 produce an annual report of the Company's executive remuneration that comprises three sections: an introductory statement by the Chair of the Committee, a section on policy for the future and a separate section on how policy has been implemented in the preceding year and to ensure it contains all such matters as may be required by law, regulation and best practice and includes all matters as set out in the Code. To ensure the section on future policy is put to a binding shareholder vote (at least every three years) and the section on the preceding year to an advisory shareholder vote every year at the Annual General Meeting.