2.
Corporate Governance

Letter from the Chairman

Sir Peter Gershon
Chairman

Dear shareholders,

I am pleased to present to you our Corporate Governance Report for 2019/20. The report provides an insight into the activities of the Board and its Committees over the year including how it has evaluated its effectiveness and how it provides appropriate and effective stewardship to the Company to ensure it achieves its strategic priorities. It also discusses how we create value for shareholders and wider stakeholders during an ongoing period of external economic, regulatory and political uncertainty.

Towards the end of the year we have seen the acceleration of the COVID-19 pandemic. This is having a profound effect on how companies around the world operate during these unprecedented times and we recognise the increased importance of good governance at a time when effective engagement and collaboration with our stakeholders has never been more important. As a Board we are closely monitoring the developments of COVID-19 and the impact of this on all areas of the Company. Please see overleaf for information on our response to COVID-19.

Over the year there have been a number of other key events such as the brief power outage experienced on 9 August 2019 in the UK and the gas connection supply challenges in downstate New York in the US. Other external factors which have influenced the Board agenda include: the regulatory environment in the UK and the RIIO-2 business plan submissions; the increased gas regulation in the US, in particular New England; the increased political uncertainty leading up to the December 2019 UK General Election; Brexit; and the impact of the legal separation of the ESO. All of which have had, and some will continue to have, an impact on the way we work and operate.

UK Corporate Governance Code 2018 and stakeholder engagement

We are pleased to report that we are fully compliant with the requirements of the new UK Corporate Governance Code (the Code); see page 86 for information on how we have adapted our practices to ensure compliance and transparent reporting against the Code.

Our stakeholders are very important to us and we remain committed to maintaining regular open dialogue and effective communication with them. With the global restrictions in place due to COVID-19 this is requiring us to consider alternative methods to ensure we maintain the same level of engagement.

During the year, our discussions around RIIO-2, gas supply contingency planning in the US, the brief power outage on 9 August 2019 in the UK and payment of the final dividend are examples of how the Board has had regard to section 172 of the Companies Act 2006. We have considered the broader implications of our decisions, not just for shareholders but for a wider group of stakeholders and the likely consequences of our decisions in the longer term. On page 44 we set out our key stakeholders and how we have engaged with them to ensure that their views are being captured in the boardroom, to assist us in maintaining focus on creating the right culture for the Company. We continue to provide details throughout the Directors' Report of the stakeholder matters that are considered in our decision-making. We will continue to engage with our stakeholders in a way that is guided by our purpose to Bring Energy to Life, our vision and values and the Company's culture.

This year the Board has continued with its chosen approach to workforce engagement under the Code: to build on and enhance the extensive existing range of engagement activities and employee communication channels to properly consider workforce views in relevant decision-making processes; see page 73 for further information. Following the success of our employee engagement sessions with Non-executive Directors in 2018/19, we have continued to utilise and evolve these sessions throughout the year to ensure key topics, discussions and potential areas of concern amongst the workforce are considered. The Board has been able to identify key trends and topical issues, such as gender pay, culture, and safety. Where trends have been identified and Board action taken, employees have been kept informed through internal communications. Our chosen approach allows for the sharing of responsibility, and interaction amongst all Board members, which we believe ultimately drives a greater focus on the 'true employee voice' in Board decisions. We will continue to review and adapt our approach to ensure that we are utilising this vital engagement both in and out of the boardroom including considering the facilitation of virtual engagement sessions to enable the Board to continue with this despite COVID-19 restrictions.

Culture and the internal Board evaluation

Promoting a culture of openness and debate in the boardroom is one of my key responsibilities as Chairman, and as a Board we play an important leadership role in promoting the desired culture throughout the organisation. The Company has spent considerable time over the last few years getting the culture right for the Company and it continues on its journey; you can read more about this on page 72 where we explain how culture formed part of this year's Board evaluation.

During the year, we undertook a formal and rigorous internal evaluation of our Board and Committees which included some follow-up areas from our external evaluation last year. The evaluation focused on three areas: Board effectiveness; Board decision-making; and organisational culture and the individual style of leaders. During the evaluation process the Board gained insight into the different aspects of culture and the alignment of cultures around the Company. A facilitated session was arranged to discuss the comparisons of the Board evaluation results with the culture survey results of the Company's senior management. Unfortunately, due to the COVID-19 pandemic, this session has been postponed as it would not have been effective to do this when Board members were not physically in the same location. The evaluation process and associated outcomes can be found on page 74.

Board succession and diversity

In November 2019 Dean Seavers, US Executive Director stepped down and in May 2019 and January 2020 we appointed Jonathan Silver and Liz Hewitt as Non-executive Directors respectively. On appointment Jonathan joined the Finance Committee, Remuneration Committee and Nominations Committee and his US regulatory experience alongside his strong financial background has provided valuable insight into Board and Committee discussions. Liz became a member of the Audit Committee, Safety, Environment and Health (SEH) Committee and Nominations Committee on appointment. Liz's diverse and extensive experience has served to strengthen the Code's requirement in relation to the Audit Committee's competence, as a whole, to be relevant to the sector in which the Company operates. Her input to Board and Committee discussions is already very helpful. The Nominations Committee oversaw the rigorous selection process for these appointments. See page 84 for more information.

Last year Mark Williamson, the Board's Senior Independent Director, reported that in order to lead the Company through the completion of the RIIO-2 regulatory process it would be in the Company's best interests for me to stay beyond the nine-year term identified in the Code. Following on from this, in January 2020 I formally notified my intention to step down as Chairman of the Board following the identification of a suitable successor. Mark has been leading this process and we plan to have my designated successor in place in time for me to step down at the 2021 Annual General Meeting (AGM) at the latest. I will be standing for re-election at the Company's AGM in July 2020 and, in order to facilitate an effective succession, it is intended I remain as Chairman until my successor has been successfully onboarded. This crucial succession process will be set out further in next year's Nominations Committee Report.

Ensuring a diverse culture on the Board is crucial to improving effectiveness, encouraging constructive debate, delivering superior performance and enhancing the success of the Company. With the recent appointment of Liz Hewitt I am pleased to report that we are again meeting our diversity target of 33.3% of the Board being women. We also currently meet the Parker Review target for ethnic diversity on FTSE 100 boards. You can read more on how we strive towards our objectives in our Board Diversity Policy on page 85.

Sir Peter Gershon
Chairman

Our response to COVID-19

In order for us, as a Board, to be able to effectively monitor the Company's crisis management we met on a weekly basis throughout April 2020 to monitor the impact of the current COVID-19 pandemic on the Company's operations and how the Company was responding to the latest developments. These meetings were moved to a fortnightly basis from May 2020 and we will assess the need and frequency of these regular briefings as the pandemic continues.

How we have considered our stakeholders during COVID-19

Our commitment to being a responsible business is central to the way in which we operate. This has been the governing principle behind our response to the COVID-19 pandemic as Directors. We have had to think through and debate on the choices and actions we need to consider over the coming months to position us best for success in the medium- to long-term taking account of the impact on our key stakeholders. The Board has continued to monitor its responsibilities to the Company's different stakeholder groups. Good engagement has been crucial in understanding the views of our stakeholders in order to make informed decisions during this period of crisis. For example, the Company has been seeking feedback from employees that has helped to shape its response to the COVID-19 pandemic.

Our colleagues

Our colleagues have been critical in making sure that we keep the lights on. The Board considered both the physical and mental wellbeing of our employees and are regularly briefed on the actions that would be taken to keep them safe and also to equip them to work from home efficiently. The Board has been in support of these initiatives, including: sequestering critical operations staff on-site in the UK and US to ensure service continuity; senior leaders communicating regularly via virtual online group calls; webchats and video messages; rolling out mental health training courses; and understanding colleague sentiment to the crisis and the COVID-19 recovery strategy through a pulse survey in the UK and US. The Company has not implemented pay reductions, furlough or compulsory redundancy schemes. We continue to monitor progress of how the Company can accommodate employees to return safely in the field, and how we can build on some of the positive changes in our culture and ways of working as the restrictions are lifted.

Communities

Our employees have also been supporting our communities by volunteering and providing their time and expertise to support charities and the most vulnerable. In the UK for example, as well as monetary support to various charities, the Company is operating a food bank and has helped the University Hospitals Birmingham (UHB) Charity to purchase almost 400 tablet computers that will be used by patients to help them speak to their loved ones while in isolation, see page 15 for a case study. In the US, the Company approved cessation of service disconnections for non-payment of outstanding bills. This reflects our commitment to support the communities in which we operate. Looking beyond the short-term, the Board will be kept informed of work to support getting people back into employment and into crucial roles, as well as helping support small- and medium-sized businesses (SMEs) to drive the local economies we operate in.

Investors

The Board recognises it is imperative to promote the success of the Company on behalf of its members. The Finance Committee has held two ad hoc meetings to consider the short- and longer-term liquidity of the Company in a range of different COVID-19 related scenarios. The Board approved the recommendation to pay a final dividend in August 2020 following stress testing of the financials in various adverse scenarios.

Customers, regulators and suppliers

We are very conscious that many of our customers are currently experiencing additional financial challenges and have therefore willingly agreed to moratoriums on debt collection activities in our US regulated businesses.

Furthermore, US Niagara Mohawk sought and received permissions from regulators to defer for three months, scheduled rate changes that would have increased customer bills as of 1 April 2020. In addition, we decided to postpone the filing of the US Niagara Mohawk rate case which could have resulted in bill increases in 2021.

The Board also supported the active and constructive engagement with Ofgem to protect customers by supporting the proposal for the relaxation of network charge payment terms for those suppliers and shippers who are facing cash flow challenges as a result of COVID-19. Additionally, the Board noted the request made to modify the collection of forecast additional balancing costs by the ESO for a further year. These costs, estimated at up to £500 million, are required to safely and securely manage and balance the system given the unprecedented reduction in demand levels caused by COVID-19. We recognise that the increase is significant and is a material issue for ESO customers. The Board notes that the ESO is working with Ofgem and the industry with a view to ensuring that any scheme put in place is in the interests of end consumers and our customers. We have also continued the development and tender of future work for our suppliers, giving longer term visibility and greater certainty of income and the Board has been kept informed of any impacts on our suppliers and supply chain.

We will continue to work closely with our stakeholders across both sides of the Atlantic in the current environment. The Board continues to be kept updated regularly on our COVID-19 response and on learnings that can be sustained to improve our ways of working and Company culture.

For information on how we have considered our stakeholders through the year see pages 44 – 47.

Our Board

Committee membership key

- A Audit Committee
- F Finance Committee
- N Nominations Committee
- R Remuneration Committee
- S Safety, Environment and Health Committee
- E Executive Committee
- Chair of the Committee

Biographies as at 17 June 2020

Other Board members during the year were:

- Dean Seavers – stepped down on 5 November 2019
- Nora Mead Brownell – stepped down on 8 April 2019

N

Sir Peter Gershon CBE FREng (73)
Chairman

Appointed: 1 August 2011 as Deputy Chairman and Chairman with effect from 1 January 2012

Tenure: 8 years

Skills and competencies: Sir Peter is an experienced leader, having held senior board-level positions in the computer, defence and telecommunications industries. He has served as a Managing Director in several high-profile organisations and was previously Chairman of Tate and Lyle plc. Sir Peter is committed to engaging with employees, for example, through site visits in the UK and US. He annually hosts the Chairman's Awards, an excellent opportunity to appreciate employees at National Grid; and further engages through the recent employee engagement sessions. Sir Peter brings external insight, understanding of diverse issues and the strong corporate governance expertise required to create and lead an effective Board.

External appointments:

- Chairman of the Dreadnought Alliance Leadership Board;
- Trustee of the Sutton Trust;
- Trustee of the Education Endowment Foundation;
- Chairman of Join Dementia Research (JDR) Partnership Board; and
- Board member of the Investor Forum.

E F

John Pettigrew FEI FIET (51)
Chief Executive

Appointed: 1 April 2014 and Chief Executive with effect from 1 April 2016

Tenure: 6 years

Skills and competencies: John joined the Group as a graduate in 1991 and has progressed through many senior management roles. Together with his extensive operational experience of the Group, John brings significant know-how and commerciality to his leadership of the executive team and management of the Group's business.

John continues to lead the implementation and development of the Group's strategy, creating new opportunities for the continued future growth of our core businesses. He maintains a productive dialogue with institutional investors on Group strategy and performance.

External appointments:

- Member of the UK government's Inclusive Economy Partnership;
- Member of the CBI's President's Committee;
- Member of the Edison Electric Institute Executive Committee; and
- Non-executive Director and Senior Independent Director of Rentokil Initial plc.

E F

Andy Agg (50)
Chief Financial Officer (CFO)

Appointed: 1 January 2019

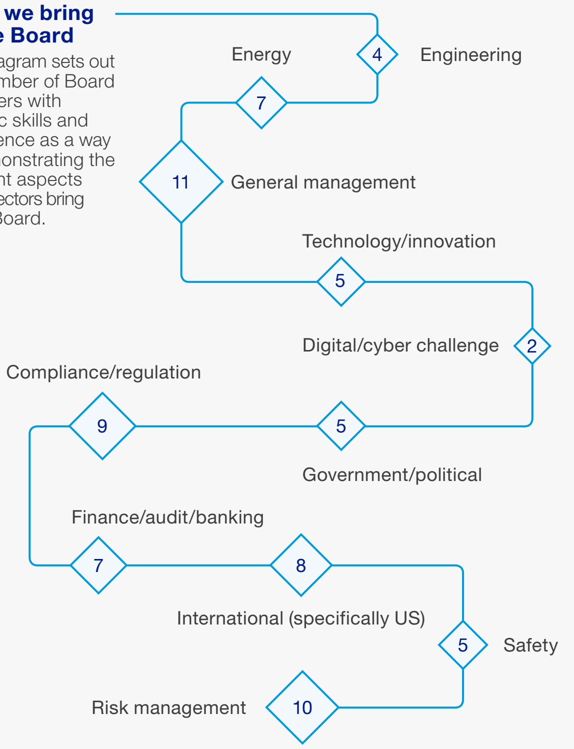
Tenure: 1 year

Skills and competencies: Andy trained and qualified as a chartered accountant with PricewaterhouseCoopers and is a member of the ICAEW. He has significant financial experience, having held a number of senior finance leadership roles across the Group, including Group Financial Controller, UK CFO and Group Tax and Treasury Director. Andy brings in-depth knowledge of National Grid, both in the UK and US, and his broad experience across operational and corporate finance roles led to a smooth transition into his role. He contributes broadly on a wide range of topics at Board, Finance and Audit Committee meetings.

External appointments: None.

What we bring to the Board

This diagram sets out the number of Board members with specific skills and experience as a way of demonstrating the different aspects the Directors bring to the Board.



E

Nicola Shaw CBE (51)
Executive Director, UK

Appointed: 1 July 2016

Tenure: 3 years

Skills and competencies: Nicola's career, in the UK and overseas, has included several senior operational and commercial roles in regulated businesses. She has a strong leadership track record, which has included Chief Executive Officer of HS1 and Managing Director of the UK Business Division at FirstGroup plc.

Her broad range of experience working with the UK government, the European Commission and Parliament and industry regulators, as well as leading large regulated businesses, enables Nicola to implement Board decisions and lead our UK business with the requisite experience, knowledge and leadership expertise.

External appointments:

- Non-executive Director of International Consolidated Airlines Group, S.A.;
- Director of Major Projects Association;
- Director of Energy Networks Association Limited; and
- Director of Energy UK.

E

Alison Kay (56)
Group General Counsel and Company Secretary

Appointed: 24 January 2013

Skills and competencies: Alison has responsibility for the legal, compliance and governance framework of the Group. She is an experienced commercial lawyer and brings advice and guidance to her current role as Group General Counsel and Company Secretary.

Alison provides support and advice to the Directors, the Board and its Committees. She brings rigour to corporate governance and ensures that Board procedures are fit for purpose and adhered to. She also has expertise in regulatory and contractual law and legal risk management from her previous experience at National Grid.

External appointments:

- Member and Vice-Chair of the GC100 Group; and
- Member of the Marie Curie West Midlands Development Board.

R F N

Jonathan Dawson (68)
Non-executive Director; Independent

Appointed: 4 March 2013

Tenure: 7 years

Skills and competencies: Jonathan, through his broad range of expertise within the finance and pensions sector, brings significant in-depth understanding in remuneration and financial matters to his role as Chair of the Remuneration Committee. Jonathan previously held positions as Chairman of the Remuneration Committee and Senior Independent Director of Next plc and Senior Independent Director and Chairman of the Audit & Risk Committee at Jardine Lloyd Thompson Group plc.

As a Non-executive Director, Jonathan brings an innovative perspective, scrutiny, constructive challenge and independent oversight to the Board.

External appointments:

- Chairman of River and Mercantile Group PLC; and
- Chairman and a founding partner of Penfida Ltd.

F A N

Therese Esperdy (59)
Non-executive Director; Independent

Appointed: 18 March 2014. Appointed to the Board of National Grid USA from 1 May 2015

Tenure: 6 years

Skills and competencies: Therese has significant international investment banking experience, having held a variety of leadership roles spanning 27 years. Her career began at Lehman Brothers and in 1997 she joined Chase Securities and subsequently JPMorgan Chase & Co., where she held a number of senior positions. With a distinguished career in the investment banking sector, Therese brings significant banking, strategic and international financial management expertise and knowledge of financial markets to the Board and to her role as Chair of the Finance Committee.

Therese's specialist knowledge combined with her sharp and incisive thinking enables her to contribute and constructively challenge on a wide range of Board debates.

External appointments:

- Chairman of Imperial Brands PLC; and
- Non-executive Director of Moody's Corporation.

S A N

Dr Paul Golby CBE FREng, FIET, FIMechE, FEI, FCGI (69)
Non-executive Director; Independent

Appointed: 1 February 2012

Tenure: 8 years

Skills and competencies: Paul is a Chartered Engineer and has a lifelong passion for engineering and innovation, having spent his career in the energy and regulatory sectors. He brings a valuable engineering and industry perspective to the Board as well as the attributes of an experienced Chairman and Chief Executive to his role as a Non-executive Director. Paul's deep understanding and specialised experience in safety and risk management combined with his deep insight into regulatory issues faced by the Group, particularly in the UK, is crucial to his role as Chair of the Safety, Environment and Health Committee.

External appointments:

- Chairman of Costain Group PLC; and
- Chairman of NATS Holdings Limited.

A N S

Liz Hewitt (63)
Non-executive Director; Independent

Appointed: 1 January 2020

Tenure: Less than 1 year

Skills and competencies: Liz qualified as a chartered accountant with Arthur Andersen & Co. and has held a variety of executive positions in private equity companies including 3i Group plc, Gartmore Investment Management Limited and Citicorp Venture Capital Ltd. Liz was also Director of Corporate Affairs at Smith & Nephew plc. Liz brings significant business, financial and investment knowledge to the Board, and has wide experience of being a chair and a member of audit, remuneration, nominations, disclosure, risk and corporate social responsibility committees. Liz's diverse knowledge and broad range of financial expertise is a great addition to the boardroom bringing a fresh, logical perspective to Board discussions and decision-making.

External appointments:

- Senior Independent Director and chair of the Audit Committee at Melrose Industries plc;
- Non-executive Director and chair of the Audit Committee at Novo Nordisk A/S; and
- External member of the House of Lords Commission and chair of its Audit Committee.

A N S

Amanda Mesler (56)
Non-executive Director; Independent

Appointed: 17 May 2018

Tenure: 2 years

Skills and competencies: Amanda brings to the Group extensive international leadership and general management experience from the technology and fintech sectors. She has over 26 years of experience at senior management and Board level at large international companies. She led a $1 billion global practice at Electronic Data Services and has experience sitting on audit, risk and remuneration committees. Amanda provides an entrepreneurial perspective to the Board and valuable insight into the Company's increasingly important technical evolution.

External appointments:

- Chief Executive Officer of CashFlows Europe Limited; and
- Non-executive Director of Insect Technology Group Holdings Limited.

N R S

Earl Shipp (62)
Non-executive Director; Independent

Appointed: 1 January 2019

Tenure: 1 year

Skills and competencies: With an extensive career in the chemicals industry and having held a senior leadership role in a safety-critical process environment, Earl brings significant safety, project management, environmental, sustainability and strategic expertise to the Board and Committees. This, along with his innovative way of thinking, enables Earl to contribute on a wide range of issues to Board and Committee debates, particularly in relation to safety management.

External appointments:

- Non-executive Director of Olin Corporation;
- Non-executive Director of CHI St. Luke's Health System of Texas; and
- Commissioner of Brazoria-Fort Bend Rail District (Texas).

F N R

Jonathan Silver (62)
Non-executive Director; Independent

Appointed: 16 May 2019

Tenure: 1 year

Skills and competencies: Jonathan has considerable knowledge of the US-regulated energy environment, experience and understanding of integrating public policy and technology into a utility as well as a strong background in finance. Previously, Jonathan was the head of the US government's $40 billion clean energy investment fund. He is currently the Managing Partner of Tax Equity Advisors LLC, which manages investment in large-scale renewable projects and was recognised as one of the 'Top 10 Green Tech Influencers' in the US. Jonathan's strong background in finance and government policy along with his long career at the intersection of policy, technology, finance, and energy brings innovative and positive insight to the Board's policy discussions and to its interaction with management.

External appointments:

- Managing Partner of Tax Equity Advisors LLC;
- Director of Plug Power, Inc; and
- Director of Intellihot Inc.

A N R

Mark Williamson (62)
Non-executive Director and Senior Independent Director

Appointed: 3 September 2012

Tenure: 7 years

Skills and competencies: As a qualified chartered accountant, Mark brings considerable financial and general managerial experience to the Company. His previous roles as Chief Financial Officer of International Power plc, Non-executive Director and Senior Independent Director of Alent plc and Chairman of Imperial Brands PLC cement his extensive financial experience and give him a deep understanding of the utilities sector. This allows him to bring a financial and strategic outlook on diverse subjects in support of the Board and its Committees. Mark acts as an effective board evaluator, provides a logical eye, and makes impartial judgements weighing up options for the Board in a dispassionate way. In his role as Senior Independent Director, Mark brings an excellent understanding of investor expectations as well as providing significant insight into managing relationships with investor and financial communities.

External appointment:

- Chairman of Spectris plc.

Corporate Governance overview

Your Board remains committed to the highest standards of Corporate Governance and in 2019/20 continued to embed the new UK Corporate Governance Code into the work that we do.

Board

Our Board is responsible collectively for the effective oversight of the Company and its businesses. It determines the Company's strategic direction and objectives, business plan, dividend policy, viability and governance structure to help achieve long-term success and deliver sustainable shareholder value. The Board also plays a major role in setting and leading the Company's culture and wider sustainability goals. It considers key stakeholders in its decision-making and, in doing so, ensures that Directors comply with their duty under section 172 of the Companies Act 2006.

To operate efficiently and give the right level of attention and consideration to relevant matters, the Board delegates authority to its Board Committees. Each Committee Chair reports to the Board on their Committee's activities after each meeting.

Key matters considered by the Board include:

- the Company's strategy and long-term strategic objectives;
- risk appetite and determination of principal risks;
- overall corporate governance arrangements, systems of internal control and risk management;
- annual business plan and budget;
- significant changes in capital structure;
- succession planning for Board and senior management;
- half-year and full-year results statements, Annual Report and Accounts and other statutory announcements;
- oversight of the Company's response to major crises and other significant challenges; and
- determination of the framework or policy for the remuneration of the Chairman, Chief Executive, Executive Directors, Group General Counsel and Company Secretary, and direct reports to the Chief Executive, following recommendation from the Remuneration Committee.

Board Committees

Audit Committee:
- Financial reporting.
- Internal controls.
- Processes for risk management.
- Internal audit.
- External auditor.

Nominations Committee:
- Board and Committee composition.
- Succession planning.
- Board appointments.

Remuneration Committee:
- Policy.
- Consideration of exercise of discretion.
- Implementation of policy.
- Incentive design and setting of targets.

Finance Committee:
- Financing policies and decisions.
- Credit exposure.
- Hedging.
- Foreign exchange transactions.
- Tax strategy and policy.
- Guarantees and indemnities.

Safety, Environment and Health (SEH) Committee:
- SEH strategy and policies.
- Performance targets.
- Sustainability.

Executive Committee

Led by the Chief Executive, the Committee oversees the safety, operational and financial performance of the Company. It is responsible for making the day-to-day management and operational decisions it considers necessary to safeguard the interests of the Company and to further the strategy, business objectives and targets established by the Board.

The Committee members have a broad range of skills and expertise that are updated through training and development. Some members also hold external non-executive directorships, giving them valuable board experience. Those members of the Committee who are not Directors regularly attend Board and Committee meetings for specific agenda items.

Other management committees

Disclosure Committee; Investment Committee; Share Schemes Sub-Committee.

Our Executive Committee

Three Executive Directors are members of the Executive Committee, as well as being on the Board. The Group General Counsel and Company Secretary is also a member of the Executive Committee. See their biographies on page 66.

John Pettigrew – Chief Executive and Committee Chair
Andy Agg – Chief Financial Officer
Nicola Shaw – Executive Director, UK
Alison Kay – Group General Counsel and Company Secretary

Governance structure

The schedule of matters reserved for the Board and terms of reference for each Board Committee are available in our Board Governance Document at: www.nationalgrid.com

Reports from each of the Board Committees, together with details of their activities, are set out on pages 76 – 87.

Full biographies for the Executive Committee are available at: www.nationalgrid.com


Andy Doyle
Chief Human Resources Officer


Badar Khan
President, National Grid US


Barney Wyld
Group Corporate Affairs Director


Adriana Karaboutis
Chief Information and Digital Officer


Jon Butterworth
Managing Director, National Grid Ventures

Badar was previously President of the National Grid Ventures business before stepping into the role of Interim President of the US Business, following Dean Seavers stepping down in November 2019, and was appointed to the role permanently on 2 April 2020. Jon Butterworth was appointed Managing Director of National Grid Ventures and a member of the Executive Committee after fulfilling this role on an interim basis since November 2019.

Matters considered by the Board

Board and Committee membership and attendance

The table below sets out the Board and Committee attendance during the year to 31 March 2020. Attendance is shown as the number of meetings attended out of the total number of meetings possible for the individual Director during the year.

Director	Board	Audit	Finance	Nominations	Remuneration	Safety, Environment and Health
Sir Peter Gershon	◆ 12 of 12	–	–	◆ 7 of 7	–	–
John Pettigrew	12 of 12	–	4 of 4	–	–	–
Andy Agg	12 of 12	–	4 of 4	–	–	–
Nicola Shaw	12 of 12	–	–	–	–	–
Jonathan Dawson	12 of 12	–	4 of 4	7 of 7	◆ 5 of 5	–
Therese Esperdy	11 of 12[1]	4 of 4	◆ 4 of 4	7 of 7	–	–
Paul Golby	11 of 12[1]	4 of 4	–	7 of 7	–	◆ 6 of 6
Liz Hewitt – Appointed on 1 January 2020	2 of 2	1 of 1	–	2 of 2	–	1 of 1
Amanda Mesler	12 of 12	4 of 4	1 of 1	7 of 7	–	5 of 5
Earl Shipp	12 of 12	–	–	6 of 7[2]	4 of 5[2]	6 of 6
Jonathan Silver – Appointed on 16 May 2019	9 of 9	–	3 of 3	6 of 6	2 of 3[3]	–
Mark Williamson	11 of 12[1]	◆ 4 of 4	–	7 of 7	5 of 5	–
Former Directors who served for part of the year						
Dean Seavers – Stepped down from position of Executive Director, US on 5 November 2019	6 of 8[4]	–	–	–	–	–
Nora Mead Brownell – Stepped down from position of Non-executive Director on 8 April 2019	–	–	–	–	–	–

1. Four ad hoc Board meetings were held during the year and all non-attendance was due to short notice.
2. Earl Shipp did not attend the April Nominations and Remuneration Committee meetings due to personal circumstances.
3. A Remuneration Committee meeting was held at short notice in November 2019 and Jonathan Silver was unable to attend.
4. Dean Seavers was unable to attend the October and November 2019 Board meetings.

All Board/Committee members who were unable to attend a meeting provided comments in advance.

◆ Board/Committee Chair

Examples of Board focus during the year include:

Key areas of activity	Matters considered	Key decisions made/link to purpose	Views of key stakeholder groups considered
Strategy and performance	Strategy remained a key focus throughout the year. The Board participated in two interactive strategy sessions in addition to the time allocated during Board meetings this year. The offsite sessions in September 2019 and January 2020 provided the Board with an opportunity to scrutinise business performance against the strategic plan and review the key strategic objectives for the year. In the year, the Board focused on: • developing a Business Plan that meets the Group's requirements, aligned to the Company's purpose, vision and values and underpinned by a robust financial strategy; • reviewing and scrutinising Group trading performance, budget and consideration of share price; • shareholders' interests if the Labour Party had won the 2019 UK General Election and implemented its manifesto commitment to nationalise National Grid UK regulated business and interconnectors; • growth strategies for NGV, including renewable generation strategy; • performance updates from the UK and US businesses; • the key milestones and progress made by the Company on the energy transition; • climate change and our strategy to further reduce our emissions, to achieve net zero by 2050 and make a wider contribution to the decarbonisation of the economies in which we operate; • innovation and technology – see separate section below; • the increasingly strong performance of the UK and US commercial property portfolio; and • the sequence of events that took place on Friday 9 August 2019 cumulatively resulted in a widespread electricity power outage across the country.	• Board approval of the Company's Business Plan and strategy; • the direction of travel for our digital strategy; • following consideration of the external energy landscape, endorsed the strategic priority areas for management focus for 2020/21; • reviewed and endorsed the ambition of net zero by 2050 and the interim targets for the Company as a whole; • received updates on cyber security activities and the progress being made in this area. The Board agreed it was acting in accordance with its risk appetite in this area; and • commissioned an internal investigation report, along with an ESO technical report to establish the factors that had led to, and the lessons that could be learned from, the power outage which had occurred on Friday 9 August 2019.	All: Investors Suppliers Customers Regulators Communities and governments Our colleagues

Corporate Governance overview continued

Matters considered by the Board continued

Key areas of activity	Matters considered	Key decisions made/link to purpose	Views of key stakeholder groups considered
Business plan and dividend	Discussed the ongoing financial strategy and business plan for the year. Regular updates were received on emerging themes and key external challenges, and particular consideration was given to these and the current political environment. The Group's financial capacity under the Business Plan was stress tested using the current approach to fund the dividend until Financial Year 2026, in the context of current market expectations. The Board also reviewed the suitability of the Group's dividend policy wording considering the key regulatory processes in the UK and US. In light of the COVID-19 pandemic, the Board discussed the issues that had been considered and analysis undertaken in relation to the payment of a dividend, which had included financial scenarios and resilience testing, and consideration of stakeholders including investors such as pension funds.	• Approval of the initial five-year plan and the viability and going concern statements; • Confirmation that the Group had a financially sustainable business model for the foreseeable future, defined for this purpose only as the five years from March 2019 to March 2024; • The Board considers a range of factors when annually reviewing and setting the dividend, including expected performance and regulatory developments. No dividend policy changes were recommended and the current policy was reaffirmed; and • Approved the payment of the final dividend at its additional June 2020 Board meeting.	Investors Customers Communities and governments Our colleagues
Employee engagement and culture	This year the Board received biannual updates on the implementation of employee voice on Board activity and culture. The Board reviewed the existing employee engagement implementation plan and commented on the overview of activity for the next half of the year. Focus has continued on improving communication channels between the Board and employees to ensure feedback and updates on actions are shared. Discussed the importance of a diverse and engaged workforce to deliver our Group strategy and the continued need to ensure an open culture where dialogue between the Board, senior management and the workforce is encouraged. Our workforce continued to be a key focus as we navigated the impact of the COVID-19 pandemic. The health and safety of our employees remained paramount and discussions centred on keeping critical employees safe whilst their work continued. The Board received weekly updates on employee wellbeing and absenteeism.	• Board input on the approach taken to workforce engagement activities and the topics discussed based on employee feedback; and • The Board believes that existing approaches and mechanisms enable comprehensive two-way engagement opportunities with the workforce and is satisfied that the approach taken is an effective alternative to the proposed methods set out in the Code. Please see pages 72 and 73 for more information.	Our colleagues
Political and regulatory environment	The Board has continued to focus on how to promote the success of the Company during further developments to the external environment in the UK and US. In the UK, regular updates were received on risks and opportunities posed by Brexit proposals and the potential for state ownership, and continued engagement activities with our stakeholders on the issue. In the US, the Board received regular updates on the gas supply constraint in downstate New York. Once an agreement has been reached with the Governor of New York, the focus for the US Business will be on executing the longer-term supply strategy and undertaking a major change in the way it engages with external stakeholders in New York.	• Board input on, support for and monitoring of the UK and US regulatory strategies; • Political sub-group of the Executive Committee continued to take a more hands-on approach to the evolving political and regulatory landscape and its implications for the Company; and • The Board agreed that a lessons learned exercise would be undertaken which would include an assessment of the Company stakeholder management at the US state political level. The reviews were conducted by external consultants. The Board received a comprehensive assessment of the lessons learned at the March 2020 meeting and the action plan to implement the reviews' recommendations was approved at the April 2020 meeting.	All: Investors Suppliers Customers Regulators Communities and governments Our colleagues

Key areas of activity	Matters considered	Key decisions made/link to purpose	Views of key stakeholder groups considered
RIIO-2 price control	The Board scrutinised and challenged the Company's UK regulatory strategy throughout the year, providing feedback, guidance and support for its ongoing development. The Board reviewed the financials of the business plans, noting that the majority of spend was associated with asset health and increased cyber security requirements. A strong stakeholder engagement strategy was adopted by the Transmission and System Operator Boards. This commitment was demonstrated by signing engagement charters to be stakeholder led and to be part of the User Group process. Our final business plans were submitted to Ofgem in December 2019 following extensive stakeholder engagement panels, challenge groups, and consideration against the 2050 net zero target.	• Draft business plans were reviewed, and the Board approved the creation of a sub-committee of the Board, chaired by the Chairman, to confirm the content for the business plans and accompanying assurance statements prior to the final submission to Ofgem; • the sub-committee considered how the comments from the Finance Committee on the Financeability Assurance Statements had been taken into account; and • stakeholder engagement consisting of 2,800 individuals, representing the full cross-section of our stakeholder segments, and 13,000+ consumers, shaped the plans to deliver a safe and reliable network while enabling the transition to a low carbon network. The Board reiterated that the plans had inbuilt mechanisms to cope with potential changes to the energy landscape without increasing consumer bills in real terms.	Investors Customers Regulators
Technology and innovation	The Board reviewed the performance and success of National Grid Partners against the Business Plan and heard about a number of proposed investments. The business continued to perform well and focus remained on disruptive innovation capabilities.	• The Board reviewed the overview of investment strategies and endorsed the growing portfolio noting the establishment of a positive reputation in the external market.	Our colleagues
Total societal impact	Focus has been on navigating expectations of various stakeholder groups as societal expectations have changed. National Grid is at the centre of the energy system in the UK and US, and we are uniquely positioned to drive societal impact in the energy sector and enable a clean, green energy system.	• The Board recommended the development and implementation of a new Responsible Business framework for the Company.	All: Investors Suppliers Customers Regulators Communities and governments Our colleagues

Looking forward, the Board's focus for next year is expected to include:
- management of threats and opportunities posed by the next phase of the COVID-19 pandemic;
- ensuring an acceptable outcome for RIIO-2;
- strategy, including the future of gas;
- organisation, culture, bench strength and talent;
- US reputation recovery;
- New York rate case filings; and
- net zero.

Corporate Governance overview continued

Our culture journey

We recognise that how we do things is as important as what we do.

The Board is responsible for influencing and monitoring culture throughout the organisation to ensure we are emulating desired beliefs and behaviours both in and outside the boardroom, and identifying areas where culture is embedded strongly and areas where shifts in culture are required. Our culture determines how we behave, how we make decisions and our attitude towards risk aligned with the Group's purpose, vision and values.

The Board has spent considerable time reviewing and determining the right culture for the organisation and recognises that there is still work to be done; the journey so far is outlined below.

2016/17

Culture-themed internal Board and Committee evaluation assessed how the Board set the 'tone from the top' and how effectively this was cascaded throughout the Company.

The Board agreed culture-specific actions and a culture scorecard to be reported to the Board at least annually.

2017/18

Re-established clear purpose, vision and values and agreed a common definition of culture as 'Our values, beliefs and behaviours that characterise our Company and guide our practice.'

Agreed areas for increased Board focus including visible leadership and agreed the approach to engaging most effectively with employees.

Approved format for culture scorecard to aid the Board in monitoring culture at Group level.

2018/19

Annual employee survey results were considered, and areas of improvement augmented into the Board's behaviours including local engagement sessions in the UK and US.

The 2018 Corporate Governance Code was considered in depth by the Board, and key stakeholders were mapped out and discussed. The Board discussed its chosen approach to workforce engagement and an implementation plan was agreed.

A revised culture scorecard was considered against an overall status for each of the Company's values, bringing together data from teams including safety, ethics, compliance, supply chain management and customers. The Company committed to review how to evolve its approach to monitoring and measuring culture, along with how it could align the activity taking place to have a greater combined impact and make change happen at a faster pace.

2019/20

Board culture evaluation

During the year the Board considered culture throughout its decision-making and the internal Board evaluation incorporated a review of culture. For more information see page 74.

Board review of culture scorecard

A new set of vision and values was agreed for the Company and the Board agreed to evolve its approach to measuring and monitoring culture across the Company with the aim of having a simplified approach. This would be based on the Company's externally benchmarked annual safety survey, external customer feedback and the modification of the Company's annual engagement survey to align around a more useful cultural diagnostic.

Culture diagnostic work throughout the year showed that the current culture was highly consistent across the Company, promoting a common identity across the organisation; areas of focus and change were also identified as part of the exercise and these have been considered.

Looking ahead

Over the next year the Board will focus on the following culture-related activities:

- monitor the implementation of the Company's purpose, vision and values and the link to the Company's culture;
- review and monitor the culture actions of the internal Board evaluation to ensure that the 'tone from the top' is correct and the Board has a clear view of culture both at Board level and within the organisation;
- facilitate a culture session with the Chief Human Resources Officer and the Board to consider the results of the 2019/20 Board evaluation; and
- review and monitor the change in culture and ways of working in the Company during the COVID-19 pandemic.

Workforce engagement

Employee engagement sessions

In response to the Code we have implemented a range of Employee Voice on Board (EVOB) activities to ensure that there is appropriate meaningful engagement between the Board and our workforce. Activities seek to expose Board members to a broad cross section of employees and employee experiences across the Company and our locations. Using the employee input through the EVOB activity to feed Board decision-making is a core part of the Code and a discussion topic and action log has been maintained following each of the relevant activities.

During the year, the Non-executive Directors (NEDs) held three employee voice engagement sessions, in Boston, New York and London. Unfortunately the session scheduled for March 2020 in California was cancelled due to COVID-19. The employee engagement sessions provided an opportunity for employees and all NEDs to discuss topical subjects, including how successful employees felt the Company had been in embedding its values, beliefs and behaviours throughout the organisation, and shared their views on the gender pay gap. The two-way conversations were strongly encouraged and provided a great opportunity for the Directors and employees to engage more widely in a more informal environment. The Board allocates time directly after the sessions to discuss key outcomes and takeaways. Communications this year have increased to ensure our employees are kept informed about what was being heard in these sessions as well as progress against the actions taken from the meetings. The Board continues to receive updates on the actions taken from these sessions.

Eight non-exec board members hosted:

44 **face-to-face** sessions

across **27** **different sites**

meeting with over **240** **colleagues**

resulting in **27** **actions** captured

Colleagues' feedback has influenced the board's thinking in the following areas and actions are currently in progress:

Inclusion and diversity | Safety | Company brand | Onboarding | Change management | Silos | Line management | Culture | IT | Talent attraction and retention | Decision making | Communication

Employee Voice engagement sessions with NEDs

April 2019, Boston, US

Employees took the opportunity to discuss our corporate culture. The Board were pleased with the unanimous agreement of how important our safety culture was across the Company and the open discussions on wide-ranging topics which followed. Discussions focused on the requirement to positively reinforce the desired culture across all areas of the business and to ensure that communication channels and transparency of actions increased. Topics of concern were raised around the limitations of the existing processes and systems and the Board noted these challenges as areas for improvement.

September 2019, New York, US

These sessions focused on the ongoing communication strategy being implemented throughout the Company. Discussions centred on sharing information across jurisdictions and individual business areas to help 'find a better way' and to promote project successes and learn from any programme failures. The Board listened to concerns around technology and provided an update on the plan going forward.

December 2019, London, UK

The Board praised the active engagement at these sessions with topics focused on corporate identity, culture, diversity and the gender pay gap. Conversations highlighted the need to increase ethnic and gender diversity in senior roles and the NEDs informed the attendees of the latest initiatives (see table below). Positive conversations around reducing the gender pay gap also took place, which started with understanding the reasoning behind the difficulty experienced in recruiting women for some specific roles within the business. The Board encouraged discussions on ideas for programmes aimed at encouraging and enabling women to return from maternity leave.

Employee Resource Group (ERG) Non-executive Director Dinner

November 2019, London, UK

In November, a dinner was held to provide the opportunity for 16 UK ERG Chairs and leads to hold informal discussion with NEDs on the importance and impact of the ERG they support and lead. NEDs were able to discuss and gain feedback on inclusion and diversity related engagement topics. Following the positive feedback received from this session we have planned an equivalent US dinner for 2020.

What have we heard?	What have we done?
During the employee engagement sessions, some of the areas that we heard about were:	
• more needs to be done to create ethnic and gender diversity within the Company and to ensure that senior roles are representative	• appreciating cultural differences is valued by our ethnically diverse colleagues, so we have refreshed and simplified our Reverse Monitoring process to build on cultural awareness by 'walking in our shoes'; and • a new category for Inclusion has been created for the Chairman's Awards, which can be awarded to any individual or group that has contributed positively towards inclusion at National Grid. Examples include involvement in our employee resource groups and evidence of working towards our Group inclusion and diversity strategy.
• more visible support of and advocacy for the employee resource groups by the Board and Executive Committee	• the Executive Committee has joined the Board in supporting and advocating the work of the employee resource groups on a regular basis, including attendance at the twice-yearly Inclusion Forums. The full calendar of events has also been circulated.
• communication and cascading issues combined with process and system changes have caused problems	• a communications strategy has been developed to ensure stronger alignment between the Group narrative and local communications to create a clear line of sight from Group messages to regional entities.
• improvements needed in two-way communications to ensure priorities and focus areas are aligned and that all departments are working towards the overarching National Grid goal	• the UK business has implemented a comprehensive leadership communications programme which includes Q&A sessions, breakfast and lunches with Executive Directors and increased frequency of Town Halls to engage in conversations about the Company's direction, priorities and to give the Directors more opportunities to listen to issues and ideas from across the business.
• frustrations that there are no obvious changes following the annual employee engagement survey	• the US business is developing a communications plan to address any employee concerns more effectively and to ensure updates are communicated and cascaded successfully.
• conversations around gender pay and suggestions that more needs to be done to engage and enable women returning from maternity leave	• in response to gender pay gap concerns and that women require encouragement from the Company to return from maternity leave, we have compiled a list of leading senior examples who flex their work pattern. They have been interviewed by our communications team and their 'work story' will feature in our internal email bulletin every six weeks.
• concerns around technology and cyber threats	• a key focus for 2020/21 is to implement our updated information technology strategy in response to concerns raised by employees throughout the Group.

Corporate Governance overview continued

Performance evaluation

2019/20 Internal Board evaluation

Following the external Board evaluation which was undertaken last year, this year, we undertook an internally facilitated Board and Committee evaluation.

The evaluation focused on Board development and the purpose of this review was to gain:

- insights into how Directors viewed the culture of the Company;
- an understanding of what constituted effective decisions made during the year and why; and
- a deeper understanding about our culture and how it aligned with the Company's ambitions.

The effectiveness of each of the Board Committees was taken into account in the evaluation. The results confirmed that there were minor areas for improvement in relation to Board effectiveness.

The process of the evaluation and the areas identified for further development are noted below.

Our internal evaluation process

January →

Board received the Board and Committee Effectiveness Surveys – including questions on the effectiveness of the Board and its decision-making during the year.

Board completed a tailored Russell Reynolds Survey on organisational culture diagnostic and how Board members perceived the culture in the Company.

Completed Myers-Briggs type indicators (if not known).

↓

February/ March →

Results received from surveys. These were reviewed and analysed to create an aggregated report in relation to organisational culture.

Comments from the effectiveness survey were discussed in the individual Director performance evaluations.

↓

Later in 2020 →

Effectiveness action plans created and discussed with the Board and its Committees.

Facilitated session with Chief Human Resources Officer analysing results of the organisational culture survey, including a comparison of the findings of the same survey completed by the Company's senior management.

Actions to enhance the Board's effectiveness for 2020/21

The Board discussed the results of the evaluation in April 2020 and in May 2020 the following actions were agreed:

Action	Responsibility
More effective discussion and decision-making through streamlined and targeted papers to the Board and its Committees.	Chief Executive and Group General Counsel and Company Secretary
External perspectives to be brought forward to the Board to bolster management expertise including in the areas of cyber, climate change, customer and developments in energy policy and energy technology.	Chief Executive and Group General Counsel and Company Secretary
Continue with and enhance the effectiveness of employee engagement sessions to ensure a clearer alignment between these sessions and discussions/decisions made by the Board and its Committees.	Chief Executive, Group General Counsel and Company Secretary and Chief Human Resources Officer
Devote more time to the discussion of strategic priorities at Board meetings.	Chairman, Group General Counsel and Company Secretary and Chief Human Resources Officer

Progress against actions for the Board agreed in 2018/19 external evaluation

Action	Progress made
Invite our customers into the boardroom to understand and directly hear their perspectives.	The Chairs of both our RIIO-2 Transmission and ESO Stakeholder Panels met with the Board in May and July 2019 respectively. This brought a valuable insight into how our RIIO teams were focusing on the needs of our customers during the regulatory review. We will keep the current situation under review and aim to invite additional customer groups into the boardroom later this year.
Continue to invite external speakers to Board meetings/ dinners on topical issues.	The Governor of Massachusetts and a member of the Governor's office met with the Board in March 2019. The Chair, CEO and incoming CEO of Ofgem met with the Board in November 2019. We had invited Pacific Gas and Electric to meet with the Board in March 2020; however, this has now been postponed due to COVID-19. We continue to monitor the topical issues and will keep under review prospective external attendees who could meet with the Board later in the year.
Use market research agencies to bring the voice of the customer and other stakeholders into the boardroom.	This has been undertaken this year through regular reports from the businesses who use these agencies to inform their views.
Facilitated session to be held to consider how to enhance the collective strengths of the Board in light of the individual strengths evidenced as part of the evaluation.	An all-inclusive facilitated session was due to take place in March 2020 in California which would have covered culture and the results of this year's internal Board evaluation. Due to COVID-19 this has been postponed.
Sponsor of each paper to consider why the Board is being asked to consider a particular paper. On strategic papers, the Chairman to ask the sponsor at the beginning of the meeting what they are hoping to achieve in the meeting.	We have continued to develop our Board and strategic papers with the assistance of a third party to ensure Board meeting effectiveness. The amendments to our paper templates have been made to encourage and guide the sponsor and the paper author to consider the end aim or action they require from the Board. A focus for this year is to ensure the strategic aim is re-communicated at the beginning of each item before Board discussion and input commences.
Add a Corporate Social Responsibility session annually to the Board agenda.	A deep dive into Corporate Social Responsibility took place at the January 2020 Board strategy session and will be discussed again later in the year.

Directors' induction and training

Directors' induction programme

Following appointment to the National Grid Board, each new Director receives a comprehensive induction programme tailored to their experience, background and the requirements of the role. Consideration is also given to Committee appointments, and the Group General Counsel and Company Secretary assists the Chairman in designing and facilitating the individual programmes. They are primarily designed with the purpose of onboarding and familiarising the new Directors with our business, vision, values, governance and people.

Both Earl Shipp and Jonathan Silver were provided with a formal, tailored induction programme upon joining the Board last year. A detailed summary can be found below.

The Board has also welcomed Liz Hewitt this year and we will report on progress against her induction plan next year.

Non-executive Director induction examples

Earl and Jonathan both underwent a tailored induction programme covering a range of areas of the business including governance, remuneration and stakeholder matters. Throughout the year they have both met with senior management from key business areas and functions as well as employees across the UK, US and NGV businesses. They also both separately received a briefing from our legal advisors which included: company law and directors' duties; corporate governance; the Market Abuse Regulation; and listing and disclosure obligations.

Both directors met key employees in our Reward team to understand our reward strategy, remuneration policy and current market practice necessary to assist with their appointment to the Remuneration Committee.

Earl Shipp

Focus was given to matters pertinent to his role on the Safety, Environment and Health Committee.

- Earl met with a number of employees throughout the business and in key safety roles including Paul Golby, the Committee Chair, to discuss National Grid's Safety Framework, including carbon reduction and climate change, wellbeing, sustainability and our 2050 net zero ambition.
- He undertook numerous site visits in both the UK and the US and attended a thorough and engaging safety roadshow in May 2019. This included a visit to our gas, electric and customer business units in New York and New Jersey where he was provided with a detailed end-to-end view of our smart grid approach and our Grid Modernisation Strategy. He also visited control rooms and contact centres in Boston and learnt more about our approach to personalisation and tailoring our customer experience journeys towards the electrification of vehicles and the clean energy future.

Jonathan Silver

Focus for Jonathan's induction was given to matters pertinent to his role on the Finance Committee.

- Jonathan met with the Group Treasurer and the Group Head of Tax who provided a summary of the financing strategy and an overview of the current financial risks faced by the Group, including the current risk appetite and management framework in relation to those risks. Discussions also included: treasury controls; processes and systems; National Grid's tax strategy; the impact of US tax reform; and an overview of pension schemes and pension strategy. He also met key employees throughout the business to discuss financial accounting and control issues, the statutory audit, the annual business planning process and other substantive topics involving pensions and insurance.
- Jonathan undertook a number of site visits across Rhode Island and Massachusetts. This included a tour of a liquefied natural gas facility, as well as visits to renewable energy projects across Rhode Island. He also received in-depth information briefings and undertook control centre tours across the customer, gas distribution and gas transmission functions.

Director development and training

The Chairman has overall responsibility for ensuring that our Non-executive Directors receive suitable ongoing training to enable them to remain an effective Board member. Individual training requirements are reviewed and agreed annually on a one-on-one basis. As our internal and external business environment continues to change, it is important to ensure that Directors' skills and knowledge are refreshed and updated regularly. In addition to individual tailored training, updates on corporate governance, legal and regulatory matters are also provided by way of briefing papers and presentations at Board meetings. Non-executive Directors receive details of training and development opportunities offered by external advisors on various topics including cyber security, operational resilience, climate change and technical updates on a regular basis and we encourage and monitor attendance. In light of COVID-19, training opportunities have continued virtually via webinars. Additionally, the Non-executive Directors are expected to visit at least one operational site annually, a target which is regularly exceeded. Examples of site visits undertaken this year include a visit to the Feeder 9 Project at Goxhill in the UK and South Street Substation Project in Providence, Rhode Island in the US.

Audit Committee

Mark Williamson
Committee Chair

Key areas of focus in 2019/20:

- Assessing and responding to the impact of COVID-19 on year-end financial reporting and internal controls;
- Internal controls;
- Overall framework for risk assurance;
- Cyber security and cyber audit;
- New UK system of financial record (Phase 1);
- Climate change related financial disclosures; and
- Finance leadership changes.

Key areas of focus in 2020/21:

- Ongoing review of the impact of COVID-19;
- Cyber security and cyber audit;
- Overall framework for risk assurance;
- New UK system of financial record (Phase 2);
- Climate change related financial disclosures and Responsible Business reporting; and
- The UK regulatory developments and impact on the Committee.

Composition of the Audit Committee

The Committee is made up of five independent Non-executive Directors:

- Mark Williamson (Committee Chair);
- Therese Esperdy;
- Paul Golby;
- Liz Hewitt; and
- Amanda Mesler.

The Board is satisfied that all members of the Committee have recent and relevant financial experience and that the Chair, as a chartered accountant, and with significant board level financial and audit experience, is suitably qualified. The Committee is deemed to have competence relevant to the sector in which the Company operates.

The Committee members' biographies are on pages 66 and 67 and contain details of each member's skills and experience.

Review of the year

The Committee met four times during the year to undertake its role in providing oversight and monitoring the integrity of financial reporting, the effectiveness of internal risk management, control and assurance processes, the Company's governance framework and the external audit. Following the decision to defer the Group's results announcement by a month in light of the COVID-19 pandemic, the Committee met in May 2020 with an additional meeting convened in June 2020.

A substantial proportion of the Committee's time from late March 2020 onwards was devoted to focusing on the year-end financial reporting, internal controls and related impacts arising from the COVID-19 pandemic in the UK and US.

Assessing and responding to the impact of COVID-19 on year-end financial reporting and internal controls

The Committee met as scheduled on 25 March, in the week following the stay at home notices being issued in both the UK and US. The Committee discussed management's evolving risk assessment relating to the impact of the pandemic on the year-end reporting and close process, as well as contingency plans. The Committee sought regular updates from management throughout the year-end close process as continuity plans were implemented.

As discussed on page 78, the key accounting, financial reporting and internal control related matters were discussed in the May 2020 and June 2020 meetings, and throughout this period I remained in close contact with the Chief Financial Officer, receiving regular updates as the situation evolved. I am pleased to report that the Group's close processes and Sarbanes-Oxley Act 2002 (SOX) controls operated as intended without significant deviation.

In light of the rapidly changing regulatory and economic circumstances throughout late March and early April 2020, a decision was taken to defer the Company's results announcement by one month to June 2020. This decision was consistent with those taken by many other companies, and in keeping with advice from the Financial Reporting Council (FRC), Financial Conduct Authority (FCA) and SEC to afford management and the Board more time to better understand the evolving situation. This has also allowed us to appropriately address the key disclosure requirements in this Annual Report, in a number of key areas including:

- accounting matters – and in particular the impact of the moratoriums on collections in the US on bad debt reserves and cash collection forecasts;
- going concern – focused on the appropriateness of the Group's analysis as regards reasonable downside scenarios;
- long-term viability statement – concerning the key assumptions and reassessment of viability from additional perspectives given the uncertainty and dynamic external factors and their cumulative effect in the medium and long term; and
- the consideration and assessment of a specific COVID-19 risk scenario or cluster scenario.

Continued focus on internal control over financial reporting and IT

The Committee considers these matters at each meeting as a matter of routine. The focus in the early part of the year was on monitoring progress reported by management to address IT control deficiencies highlighted in previous years, and in May 2020 we concluded that sufficient additional control activity had been implemented to allow us to judge the 'significant deficiency' previously reported in respect of US IT infrastructure controls to be remediated and closed.

During the second half of the year, time was spent understanding management's progress on enhancing control environments across all locations. In particular, in March and May 2020, the Committee considered management updates on the lessons learnt from the initial implementation of SAP S/4 HANA (as part of the MyFinance programme) for the ESO prior to the planned deployment of the technology as the financial system of record across the UK regulated business in mid-2021.

As we do annually, we considered the impact of these matters on the year-end attestation relating to the effectiveness of internal controls over financial reporting required under SOX.

Overall framework for risk assurance

During the year, we discussed the Company's control framework and its maturity and it was agreed that management would come back to the Committee regularly with updates on a number of improvements and enhancements to the Company's risk, control and assurance framework that was consistent across the Group. I was pleased to see the appointment of a new Chief Risk and Compliance Officer and the establishment of a central team to drive a more common approach to second line of assurance. In May 2020, we were updated on the number of actions that had already been executed and the plans that had been developed, including the appointment of respective leads in all businesses and functions and the creation of implementation plans to push the improvements forward.

Cyber security and cyber audit update

In September 2019, the Group Chief Information and Digital Officer and Chief Information and Security Officer joined for the delivery of the cyber-risk-related audit update to the Committee. The Committee noted the significant work being undertaken to remediate control weaknesses and that it was proceeding in line with expectations. Following this meeting, an update on digital was presented to the Board in December 2019 to provide a consistent view of risk within the Company's security framework. The Board confirmed it was comfortable with the Company's current cyber priorities and stressed the importance of engagement with regulators for future cyber upgrades. The Committee will consider cyber assurance again later in the year.

Climate change related financial disclosures

The Company has continued to make good progress towards providing disclosures consistent with the recommendations set out by the Task Force on Climate-related Financial Disclosures (TCFD). In the year, the Committee was presented with a roadmap to progress towards full compliance of TCFD and the current gap analysis. The Committee noted progress made in the year, including the identification of a principal risk relating to the threats and opportunities around climate change and the Company's first set of disclosures concerning longer-term scenario analysis.

In the context of the financial statements, the Committee also considered the impact of climate change on management's key judgements and estimates, in particular regarding gas asset lives as set out on page 78.

New UK system of financial record (MyFinance) – Phase 1

MyFinance became the financial system of record for the ESO at the point of legal separation on 1 April 2019.

The Committee received updates from management on a regular basis throughout the year, in anticipation of the planned technology roll out across the UK business in early 2021/22 (Phase 2).

The Committee discussed the programme leadership, governance and assurance model, and lessons learnt from Phase 1 that will be applicable to Phase 2.

Governance and regulatory changes

During the year, we received a detailed report on the outcomes and recommendations of the audit reforms in the UK following the publication of Sir Donald Brydon's review into the quality and effectiveness of audit in the UK, as well as those of the UK Competition and Markets Authority and the Kingman review concerning the UK regulatory landscape. We also received a number of updates from Internal Audit in relation to the new Chartered Institute of Internal Auditors (IIA) Code of Practice and later in the year we will review this and make the appropriate changes to the Internal Audit Charter and the Committee's Terms of Reference.

Finance leadership changes

The Committee also met privately with the Chief Financial Officer towards the end of his first full year in the role, to discuss succession planning within the Finance function during the coming year. We will continue these conversations in 2020/21.

Looking forward

Impact of COVID-19

The Committee expects a significant proportion of its time will remain focused on the impact of the pandemic for the foreseeable future – across accounting, financial reporting and internal control related matters. The Committee will continue to monitor developments and adapt its approach to best support the Group's stakeholders.

Other matters

Cyber and internal control matters will remain high-priority areas as the Company seeks to embed improvements and efficiencies over the coming months.

In addition, the Committee will continue to take a close interest in the Company's evolving ESG-related reporting activities. It will also continue to monitor UK regulatory developments carefully, as the UK government responds to the findings of the Kingman and Brydon reports later in 2020.

Audit Committee Chair transition

Liz Hewitt was appointed as Non-executive Director and joined the Audit Committee as a member in January 2020. During 2019, Liz was identified as the right candidate to take over from me as Audit Committee Chair. Over the course of 2020/21 I will be working closely with the Nominations Committee and Board, as well as Liz, to ensure there is a seamless transition plan in place. As part of Liz's tailored induction she has had meetings with myself, Deloitte, the Global Head of Audit and other senior members of the Company's finance team and she will continue to work alongside me this year to ensure a smooth transition.

Mark Williamson
Committee Chair

Further reading
You can view the Committee's Terms of Reference here: www.nationalgrid.com

Statement of compliance with the Competition and Markets Authority (CMA) Order – the Company confirms that it has complied with The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 (Article 7.1), including with respect to the Audit Committee's responsibilities for agreeing the audit scope and fees and authorising non-audit services.

Audit Committee continued

Significant issues/judgements relating to the financial statements

In considering the financial results announcements and the financial results contained in the Annual Report and Accounts, the Committee reviewed the significant issues and judgements made by management in determining those results.

The significant issues and judgements considered for the year ending 31 March 2020 are set out in the following table.

In addition, the Committee and the external auditor discussed the significant issues addressed by the Committee during the year. You can read more in the Independent Auditor's Report on pages 110 – 120.

Matter considered	Factors and reasons considered, including financial outcomes
COVID-19 related matters	• The Committee considered the accounting, reporting and internal control implications of the COVID-19 pandemic extensively throughout the period from late March through to June 2020. • The Committee satisfied itself that management had adequately identified and considered all potentially significant accounting and disclosure matters in May 2020. Particular attention was devoted to understanding the implications of the moratoriums on collections of customer receivables issued by regulators in New York, Massachusetts and Rhode Island in March 2020. These events significantly impacted the business with immediate effect and contributed to a total bad debt charge of £234 million for the year, of which £117 million ($150 million) was considered incremental and due to the moratoriums. • The Committee also noted the other significant matters identified by management, being the additional uncertainty relating to determining the fair value of unquoted assets held by the Company's pension and other post-employment benefit schemes. The Committee accepted management's approach to delay finalising the financial statements until early June 2020 to allow for additional asset valuation data to be received and appropriate adjustments reflected over residual elements of specific asset classes. • Concerning internal control, in March 2020, the Committee discussed management's evolving risk assessment and contingency planning activities. The Committee noted, amongst other things, management's process to have a back-up individual identified in order to plan for an unforeseen absence by someone involved in a key part of the year-end, close and reporting process. The Committee received regular updates throughout the year-end and close process, and acknowledged that in the vast majority of cases, control-related activities took place on time and by the individual originally assigned. • In May and June 2020, the Committee was kept informed of the impacts of COVID-19 on the Company, including accounting matters, going concern and viability considerations, in light of continuing business developments as well as regulatory pronouncements, including from the UK FRC on the rapidly evolving corporate reporting landscape. • Details of the Committee's conclusions in relation to going concern and the long-term viability statement are set out on page 80.
Application of the Group's Exceptional Items Framework	• The Committee considered papers from management over the course of the year setting out how the exceptional items framework has been applied to certain events and transactions over the period, as set out in note 5 to the financial statements. • For each item, the Committee has considered the judgements made by management, considering both, each item in isolation, and the aggregate view of the impact on adjusted profit and adjusted earnings per share. • The Committee reached the conclusion that additional US environmental provisions, the impact of a 0.5% reduction in the discount rate applied to the Group's environmental provisions and the reversal of the change in the UK tax rate should all be treated as exceptional. • The Committee concluded in line with management's view that it was not appropriate to treat the incremental $150 million bad debt charge as an exceptional item this year. In addition, having considered the quantum and nature of the settlement in relation to the downstate New York gas moratorium and the additional COVID-19 related costs, it was deemed appropriate to include the impact of these items within adjusted profit.
Gas Transmission and Gas Distribution asset lives in the context of climate change	• Consideration was given to whether the developments in the UK and US towards binding carbon reduction targets should trigger any changes to our estimates, judgements or disclosures, especially regarding our gas asset lives. The Committee received various papers from management setting out an overview of the legislative changes in the period, analysis of the future pathways for the energy transition in the UK and US, and evaluation of the possible future use for our networks in these circumstances. • The Committee accepted management's view that on balance we believe there will be a role for our gas networks post 2050 under a range of possible scenarios, and there is nothing at present to suggest that the asset lives should be shortened at this point. The Committee also accepted management's view that in light of the evolving legislative developments and increasing investor attention, disclosure of a key judgement in relation to the impact of changes of legislation, disclosure of our gas asset lives as a key estimate, and appropriate sensitivity analysis were appropriate as set out in note 13 to this year's financial statements.
Going Concern	• The Committee evaluated papers prepared by management in May and June 2020, setting out management's analysis under a reasonable but severe 'worst-case' scenario, principally reflecting potential outcomes as regards the length and severity of lockdown conditions, US customer moratoriums and a significant level of employee absenteeism. The Committee evaluated management's analysis of the mitigating actions available to it to manage through such a situation, including the degree to which plans already existed and the likely challenges associated with implementing them. • The Committee considered the assumptions made by management regarding availability of debt financing, noting recent debt issuances but also contingency plans in the event that debt markets could close. Having considered the available evidence, the Committee considered that the analysis presented, in conjunction with the disclosures included in note 1 to the financial statements, was appropriate to the Company's circumstances.

Key matters considered by the Committee

The key matters considered by the Committee during the course of the year ended 31 March 2020 are set out below:

Matter considered	Factors and reasons considered, including financial outcomes
Financial reporting	• On an ongoing basis the Committee considered current IFRS financial reporting issues. In addition to the matters highlighted above assessed against the Group Exceptional Items Framework, we also considered the accounting as regards to the acquisition of Geronimo in accordance with IFRS 3 'Business Combinations', the position at Western Link as regards to liquidated damage claims, and the impact of the 9 August 2019 UK power outage. • Monitored and reviewed the integrity of the Group's financial information and other formal documents relating to its financial performance, including the appropriateness of accounting policies, going concern and viability. • Recommended to the Board the key accounting judgements and key sources of estimation uncertainty related to pensions and environmental provisions, made by management for the 2019/20 half and full-year financial statements, going concern and other reports filed with the SEC containing financial information.
Internal controls	• The Committee received regular updates on progress towards the Company's annual SOX attestation. • In March 2020, the Committee considered management's progress against its wider financial controls action plan, and further process improvements introduced ahead of the year-end, including relating to governance process and formalisation of documentation around non-IFRS performance measures.
Risk and viability statement	• In addition to its regular work monitoring internal control processes, and reviewing and challenging the draft viability statement, the Committee specifically focused its attention this year on how the Company had factored the COVID-19 pandemic into its annual risk assessment process and long-term viability testing.
External auditor	• Received an update report at each meeting, including updates on the status of, and results from the annual audit process. • Considered the external auditor's report on the 2019/20 half and full-year results. • Received and reviewed the management recommendations letter. • Ongoing consideration of the external audit plan, including monitoring the approach, scope and risk assessments contained therein. • Assessment of the effectiveness and independence of Deloitte, as well as review and update to the Group's policy on the provision of non-audit services from Deloitte following updated FRC guidance in the year. • Review and approval of all audit fees proposed by management and for non-audit services in the year. • Recommended to the Board the re-appointment of Deloitte at the upcoming AGM. • Received an update from Deloitte on workflows in relation to COVID-19 and received confirmation that the external audit team had been working well in new circumstances. • Discussed the results of the client survey assessment, noting results were broadly consistent with the prior year. Key themes were highlighted and it was ensured that any actions would be incorporated into the 2020 audit. • Continued to hold private meetings with Deloitte and maintained dialogue throughout the year.
Corporate audit	• The Committee received a review of the Corporate Audit Charter. Minor changes were made to reflect the SOX control testing transition and the Committee approved the updated Corporate Audit Charter. • Received an update on the 2019/20 audit plan and the significant findings, and reviewed the plan for 2020/21. • Received an update on cyber assurance and updates to the IT Risk Framework. • Reviewed PwC's key messages in the external quality assessment (EQA) of Corporate Audit, noting the improvements made since the last EQA. • Updated the Committee on the new IIA Code of Practice and confirmed a recommendation would be brought back to the Committee later in the year, which would also be reflected in the Corporate Audit Charter and the Committee's terms of reference.
Compliance, governance and disclosure matters	• Welcomed Liz Hewitt to her first Audit Committee meeting in March 2020. • Reviewed and approved the updated terms of reference for the Committee. • Received a detailed report on the outcomes and recommendations of the Brydon Review and other UK regulatory changes. • Considered the progress towards implementing the Financial Stability Board's TCFD recommendations. • Received updates on ethics and business conduct, including whistleblowing to help monitor the management and mitigation of business conduct issues as part of the wider controls framework. The Committee noted that there had not been any significant breaches of the Company's Code of Ethical Business Conduct; however, noted that some cases had highlighted opportunities for improved controls. The Committee was also pleased to hear that the whistleblowing procedures in place and internal procedures remained effective and a number of employee communications would take place in 2020 to improve the understanding of these procedures. • Received a bi-annual update of compliance with external laws and regulations, including updates on any non-compliance issues and steps being taken to improve compliance across the Company. The Committee discussed the controls and mitigating actions employed to reduce such instances of fraud and compliance breaches in support of the Group's overall strategy and culture. The Committee noted that the review of enhancements to the Company's risk, control and assurance framework would incorporate the improvement of assurance activities through culture, technology, organisation and reporting.

Audit Committee continued

Financial Reporting

Going Concern and Viability Statement

The Committee, in conjunction with the Finance Committee, reviewed the Group's going concern and viability statements (as set out on pages 26 and 27) and the supporting assessment reports prepared by management.

The Finance Committee met in May 2020 to discuss the implications of COVID-19 to the Group's going concern and viability statements.

The current COVID-19 situation has highlighted the interconnectivity between risks and the speed at which risks may materialise and during this uncertainty, significant work was undertaken to consider the Company's viability statement from additional perspectives. In May and June 2020, the Committee reviewed and challenged the viability statement and considered the period of assessment used, taking into account the COVID-19 events and other external factors in the fast-changing situation including benchmarking the approach adopted by other companies. It also considered individual risk testing, cluster testing and the impact of the Company's response to COVID-19 on business plans and financial models. After due consideration, these were recommended to the Board in June 2020. The financial statements are prepared on a going concern basis such that the Company and the Group have adequate resources to remain in operation as per National Grid's Group Treasury policy.

Statutory reporting framework policy

The Board has ultimate responsibility for effective management of risk for the Group including determining its risk appetite, identifying key strategic and emerging risks, and reviewing the risk management and internal control framework. The Committee, in supporting the Board to assess the effectiveness of risk management and internal control processes, relies on a number of Company-specific internal control mechanisms to support the preparation of the Annual Report and Accounts and the financial reporting process. This includes both the Board and Committees receiving regular management reports to include analysis of results, forecasts and comparisons against last year's results, and assurance from the external auditor. Members of the Executive Committee attend quarterly performance reviews to supplement this.

The Committee is kept fully informed of all new legislation, FRC advice and best practice and the requirements of the Code and Disclosure and Transparency Rules. Regular reviews in the drafting process support the development of an annual report and accounts that meets all requirements.

The Board receives, in advance of the full-year results, a periodic SOX report on management's opinion on the effectiveness of internal control over financial reporting. This report concerns the Group-wide programme to comply with the requirements of SOX and is received directly from the Group SOX and Controls Team and through the Audit Committee.

In relation to the financial statements, the Company has specific internal mechanisms that govern the financial reporting process and the preparation of the Annual Report and Accounts. The Committee ensures that the Company provides accurate, timely financial results and implements accounting standards and judgements effectively, including in relation to going concern and viability. Our financial processes include a range of system, transactional and management oversight controls. Also, our businesses prepare detailed monthly management reports that include analysis of their results, along with comparisons to relevant budgets, forecasts and the previous year's results. Quarterly performance reviews, attended by the Chief Executive and Chief Financial Officer, supplement these reviews. Each month, the Chief Financial Officer presents a consolidated financial report to the Board.

Fair, balanced and understandable

The Committee undertook a full and formal review of the content in the 2019/20 Annual Report and Accounts and recommended the approval of the half and full-year financial statements and the Annual Report and Accounts to the Board. The review is a well-established and documented process involving senior management and the core reporting team. To enable the Committee to make this recommendation, the Committee considered whether, taken as a whole, the Annual Report and Accounts is fair, balanced and understandable. The Committee also considered the Company's compliance with relevant regulatory frameworks and the validation of management's representations to Deloitte. Further, it provided oversight of the quality and integrity of the Group's financial reporting and accounting policies and practices.

As part of its review of the financial statements, the Committee considered, and challenged as appropriate, the accounting policies and significant judgements and estimates underpinning the financial statements.

This work enabled the Committee to be satisfied that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the necessary information for shareholders to assess the Company's position and performance, business model and strategy. This was reported to the Board at its meeting in June 2020.

Risk management and internal control

Risk management

The Committee has delegated responsibility from the Board for the oversight of the Group's system of internal control and risk management systems. This includes policies, compliance, legislation including compliance with SOX and the UK Bribery Act 2010, appropriateness of financial disclosures, procedures, business conduct and internal audit. As part of the framework across the Group, National Grid's values – "do the right thing", "find a better way" and "make it happen" – continue to communicate and promote a culture of integrity across the business.

During the year, the Board reviewed the principal risks facing the Group (as set out on pages 22 – 25). The Committee provided assurance and review of the risk management process to ensure that processes are in place to manage risk appropriately.

Internal Control and Risk Management effectiveness

We continually monitor the effectiveness of our internal controls and risk management processes to make sure they continue to be effective and assess them to make sure they remain fit for purpose. Following the review over the year the Committee confirmed that the processes had the correct authority, expertise and independence and provided sufficient assurance to the Company. As the business continues to evolve, systems and processes continue to be implemented to support this such as the recent deployment of new systems across finance, supported by the cyber team. The Committee was satisfied that the systems and processes are functioning effectively.

The effectiveness of internal controls and risk management processes is regularly monitored and assessed by the Committee and management to make sure they remain robust. This review includes financial, operational and compliance controls. The Committee also monitors and addresses any business conduct issues or compliance issues. The Certificate of Assurance (CoA) process operates via a cascade system and takes place annually in support of the Company's full-year results.

Corporate Audit supports the Group's risk management and internal controls processes. They deliver an independent and objective approach to evaluate and push forward processes. The Global Head of Audit has responsibility for the internal audit function and attends all Committee meetings, and has access to the Committee Chair when necessary.

At each of the Committee's meetings progress is reviewed including significant findings and how previous actions have been completed. The Committee notes timelines and where actions are overdue, these are challenged by the members. Corporate Audit is responsible for developing the Audit Plan including engaging in major change programmes across the business. The Committee approved the review of the Corporate Audit Charter in November 2019 following agreement from the Safety, Environment and Health Committee.

This year, the Committee continued to keep IT controls at the top of its agenda and focus, following the appointment of a new Chief Information Security Officer. In May 2020, the Committee was informed that the prior year significant deficiency in respect of IT controls was closed, following work to fully remediate the IT infrastructure environment in the US.

Audit Committee Chair Transition

As outlined in the report on page 84, the Nominations Committee discussed in 2019 the plan to recruit a Non-executive Director with suitable capabilities to replace Mark Williamson as Audit Committee Chair when he retires. Following a thorough process, Liz Hewitt was appointed to the Board and joined as a member of the Audit Committee.

Liz is a Chartered Accountant with significant experience in dealing with complex and challenging audit issues. She has extensive experience as chair of an audit committee previously holding the role with Synergy Health plc and Savills plc. Liz currently chairs the Audit Committees of Melrose Industries plc, Novo Nordisk A/S and the House of Lords. Further details on Liz's career experience and skills can be found on page 67.

External audit

The Committee is responsible for overseeing the relationship with the external auditor. Mark Williamson meets with the external auditor prior to each meeting and outside the meeting cycle on a regular basis.

- Deloitte is the external auditor to the Company.
- Appointed in 2017 following a formal tender process.
- Reappointed at the 2019 AGM for the year ended 31 March 2020.
- Audit Committee was authorised by shareholders to set Deloitte's remuneration at the 2019 AGM.
- Current lead Audit Partner is Doug King and 2019/20 was the third year of his term.

Following consideration of the auditor's independence and objectivity, the audit quality, and the auditor's performance, the Committee was satisfied with the effectiveness, independence and objectivity of Deloitte and recommended to the Board its reappointment for the year ended 31 March 2021.

A resolution to reappoint Deloitte and give authority to the Audit Committee to determine their remuneration will be submitted to shareholders at the 2020 AGM.

Effectiveness and performance

As part of the Committee's responsibilities, a review during the year was undertaken to consider the effectiveness of the external auditor and ensure that the quality, challenge and output of the external audit process is sufficient.

National Grid's management take an active engagement in the external audit process and recognise the importance of the process. The Committee also regularly receives the views of senior management and members of the finance team in forming conclusions on effectiveness.

During the year, the Committee:

- reviewed the quality of audit planning including approach, scope, progress and level of fees;
- reviewed the outcome of recommendations from the Deloitte Management Letter in 2018/19;
- received the Deloitte Management Letter for 2019/20;
- held private meetings with Deloitte where management was not present; and
- confirmed that the external audit process by Deloitte had been delivered effectively.

Auditor independence and objectivity

In addition to the review of effectiveness, the Committee is responsible for considering the independence and objectivity of Deloitte. The Committee has full oversight of the non-audit services policy and fees paid and enforces checks to ensure that employees of Deloitte are not appointed to roles in the financial reporting scope within the Company.

The Committee considered the safeguards in place, including the annual review by Corporate Audit, to protect the external auditor's independence. The external auditor reported to the Committee in June 2020 that it had considered its independence in relation to the audit and confirmed that it complies with UK regulatory and professional requirements, SEC regulations and Public Company Accounting Oversight Board (PCAOB) standards and that its objectivity is not compromised. The Committee took this into account when considering the external auditor's independence and concluded that Deloitte continued to be independent for the purposes of the external audit and confirmed that this recommendation was free from third-party influence and restrictive contractual clauses.

The independence of the external auditor is essential to the provision of an objective opinion on the true and fair view presented in the financial statements.

Audit quality

Regularly throughout the year, the Committee looks at the quality of the auditor's reports and considers its response to accounting, financial control and audit issues as they arise. To maintain audit quality, the Committee reviews and challenges the proposed external audit plan, including its scope and materiality, before approval, to satisfy itself that Deloitte has identified all key risks and has developed robust audit procedures and communication plans.

The Committee also meets with Deloitte twice a year without management present, providing the external auditor with the opportunity to raise any matters in confidence and have an opportunity for open dialogue. This meeting also gives the Committee a chance to monitor the performance of the lead Audit Partner both inside and outside Committee meetings.

Non-audit services

In line with the FRC's Ethical Standard and to help protect the external auditor's objectivity and independence, we have a policy governing Deloitte's provision of non-audit services. In March 2020, the Committee approved amendments to the policy in line with the mandatory FRC changes outlined in the Revised Ethical Standards, published in December 2019.

The cap on the total fees that may be paid to the external auditor for non-audit services in any given year is 70% of the average audit fees paid in the last three financial years. Following Deloitte's appointment in 2017 this is the first year that this is effective on the Company.

To help protect auditor objectivity and independence, the provision of any non-audit service by the external auditor requires prior approval. The policy allows for certain specified services to be undertaken under 'pre-approval' by the Audit Committee where we believe there is no threat to the auditor's independence and objectivity, the service has been reviewed by the CFO, and where fees do not exceed £50,000. These services are limited to:

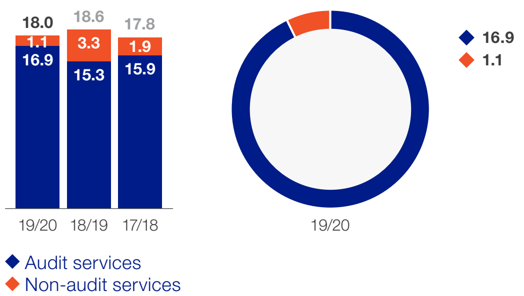
- audit, review or attest services. These are services that generally only the external auditor can provide, in connection with statutory and regulatory filings. They include comfort letters, statutory audits, attest services, consents and assistance with review of filing documents; and
- other areas, such as provision of access to technical publications.

Our policy requires management to present a list of all non-audit work requests to the Committee at each official meeting to ensure the Committee is monitoring all non-audit services provided. Non-audit service approvals during 2019/20 principally related to comfort letters associated with debt offerings. Work performed by Deloitte during the year (which necessarily also includes engagements approved by the Committee in 2018/19) included pre-implementation governance reviews associated with the new UK financial record system (MyFinance) and a final element of market-related advisory work with the UK property division.

External auditor fees

The amounts payable to the external auditor, Deloitte, in each of the past two years were:

Audit and non-audit services (£m)



Total billed non-audit services provided by Deloitte during the year ended 31 March 2020 were £1.1 million, representing 7% of total audit and audit-related fees. In 2018/19, non-audit services totalled £3.3 million (22% of total audit and audit-related fees).

Further information on the fees paid to Deloitte for audit, audit-related and other services is provided in Note 4 to the financial statements on page 136.

Total audit and audit-related fees include the statutory fee and fees paid to Deloitte for other services that the external auditor are required to perform, such as regulatory audits and SOX attestation. Non-audit fees represent all other services provided by Deloitte not included in the above.

Finance Committee

Therese Esperdy
Committee Chair

Key areas of focus in 2019/20:

- UK and US pension and investment strategy;
- Financial risk appetite;
- Treasury-related activities for the ESO separation;
- Bond issuance and hybrid bond refinancing;
- Financial implications of RIIO-2;
- Review of external regulatory and political environments and potential impact on credit ratings and any associated financial risk; and
- Green Financing Framework and first green bond issuances.

Key areas of focus in 2020/21:

- COVID-19 potential market, financial and balance sheet impact;
- Going Concern and Viability Statement;
- Financial implications of RIIO-2;
- Review of management of financial risk against the Company's financial risk appetite; and
- Continued oversight around Brexit-related financial risks and market reaction.

Review of the year and COVID-19

The Committee met on four scheduled occasions during the year to undertake its responsibility of monitoring the financial risk of the Group, focusing on key areas such as treasury, tax, pensions, insurance, investments and commodities. The Committee also convened for an additional presentation in May 2019 which focused on the financial impacts of the RIIO-2 business plans.

Towards the end of the year the impact to global markets of the COVID-19 pandemic became clearer and the Committee held additional COVID-19 focused meetings in April and May 2020. Significant consideration was given to the financial implications of the global pandemic on the Company. This included financial scenario planning and risk mitigation. At its May meeting the Committee considered the Going Concern assumption of the Company, considering the uncertainties posed by COVID-19 and the additional focus by regulators. This consideration included a range of cash flow outcomes, the Company's ability to access existing undrawn facilities alongside its ability to access long-term debt markets and short-term cash positioning.

The Committee will continue to receive regular updates on implications as the pandemic continues to progress.

Prior to the emergence of COVID-19 other key focuses for the Committee included the external regulatory and political environments, and significant time was spent considering the implications of Brexit and the resulting market impact following the UK's exit from the European Union on 31 January 2020.

In January 2020, the Committee members hosted an informal question and answer session with employees from the Tax, Pensions and Insurance teams in the UK, to further increase workforce engagement and to encourage a dialogue between the Committee and employees whom the Committee would not normally have the opportunity to engage with at meetings. Following the success of the January session, similar engagement sessions are planned to take place in 2020 and thought is being given as to how these can take place around COVID-19 restrictions.

Treasury

RIIO-2 was a key focus for the Committee over the year and regular updates on the financial implications of RIIO-2 were received including an additional presentation focused on the financial aspects of the RIIO-2 business plan. Discussions took place on the assumptions and parameters set by Ofgem and proposed financial frameworks, ahead of the RIIO-2 business plan submission in November 2019.

The Committee provided continued oversight over management decision-making and execution of financial risk. The Company reviewed the management of the Group's financial risk appetite; as a result, the Committee approved minor policy changes to funding risk, liquidity risk, counterparty credit risk, credit rating risk and foreign exchange translation risk.

Management provided regular updates on strategy formulation for the future, including investment requirements for the business, credit ratings, dividend policy and LIBOR transition. The Committee was pleased to receive details on the execution of new bonds during the year, approving the year's financing strategy and receiving regular updates as financing is executed. Approval was also given to a hybrid refinancing strategy with hybrid bonds issued across two tranches in NGG Finance plc.

A Green Financing Committee chaired by the Group Treasurer was established in December 2019 to support the Company's sustainability strategy and Green Financing Framework detailed on page 58 as the Group works towards its net zero ambition. In January 2020 the Company launched its first green bond, which was well received by the market.

In November, the Committee invited a credit rating agency to the Committee to provide an insight into methodologies used for ratings, the credit landscape in the UK and US for regulated utilities and the potential impact of Brexit.

Insurance

The Committee received regular insurance updates which considered the current shape of the insurance market and how the Company was benchmarked against other organisations in relation to the Company's approach to insurance renewals in April 2020.

The Committee monitored the evolution and efficiency of cyber insurance as part of our cyber insurance programme. This continues to be a fast-growing area of the global insurance market and external advisors are due to present to the Committee in July 2020 to provide additional external insight.

At its meeting in April, the Committee discussed the impact of COVID-19 on the insurance market and will be monitoring the insurance risk appetite closely throughout the year.

Tax

The Committee has continued to monitor the potential tax impacts of Brexit and received a focused update on implications from a tax perspective throughout the year. An update was also received concerning the UK Finance Bill 2019/20 and the potential impact on the Company, particularly around the impact of the changes to the IR35 rules. The Committee will continue to monitor developments in this area. In January 2020, external advisors presented to the Committee on the evolving Tax Transparency debate.

The Company also continues to give focus to the changing tax landscape, particularly in relation to the effect of digitisation, in line with the business-wide digitalisation ambition. The Tax team continue to inform the Committee of external developments in relation to tax authorities to enable continued best practice and how technology can be leveraged in this area.

Pensions

In 2018/19 the Committee commenced plans to consider de-risking the UK pension plans, to more closely match the assets and liabilities. Throughout this year, the Committee considered these plans further and approved appropriate solutions to de-risk the Company's pension arrangements, enabling the National Grid UK Pensions Scheme to enter into buy-in arrangements with both Legal & General and Rothesay, supporting the Company's long-term strategy to reduce the level of risk within its pension arrangements.

In July 2019, external advisors presented to the Committee on the UK pension landscape and trends in the market, including the increased decline in the defined benefit schemes across the market and the increase in utilisation of defined contribution schemes. The Committee received a further presentation from external advisors in April 2020 focusing on the US pension landscape and trends in the market alongside the impact of COVID-19 on the pensions market.

Looking forward

The Committee will remain focused on ensuring the Company is effectively managing financial risk, working closely with the Audit Committee with particular focus on impacts due to the COVID-19 pandemic as it continues to progress globally.

Thérèse Esperdy

Therese Esperdy
Committee Chair

Safety, Environment and Health Committee

Paul Golby
Committee Chair

Key areas of focus in 2019/20:
- Post-Massachusetts labour dispute and workforce re-integration;
- US regulatory safety changes;
- Liquefied Natural Gas (LNG) and Compressed Natural Gas (CNG);
- Monitoring the action plan to achieve long-term carbon reduction targets;
- Deep dive into employee wellbeing; and
- Continued focus on process safety improvements.

Key areas of focus in 2020/21:
- COVID-19 impact on our customers, employees and contractors;
- Gas safety and reliability;
- Group safety performance and safety culture;
- Sustainability and climate change;
- Business deep dives and process improvements;
- SEH risks and mitigation; and
- Mental health and wellbeing.

Further reading
For more information on the Company's work around Task Force on Climate-related Financial Disclosures (TCFD) requirements (see pages 57 – 62).

Review of the year and COVID-19

During the year, the Committee met six times to undertake its oversight responsibilities for reviewing the strategies, policies, initiatives, risk exposure, targets and performance of the Company in relation to safety, environment, health and wellbeing. Two of these meetings were scheduled specifically to monitor the potential safety issues surrounding the lifting of the downstate New York gas moratorium. The Committee considered the Company's contingency proposals to maintain security of supply throughout the winter, including the potential to add new CNG sites to meet demand, and challenged the associated risks.

Towards the end of the year we have seen the acceleration of the global COVID-19 pandemic; the health and wellbeing of all employees and contractors has been of paramount importance during these challenging and unprecedented times. The Committee has and will continue to focus on ensuring the strategies and policies being implemented across the business adequately protect the health, safety and wellbeing of everyone.

Committee member induction

Since joining the Committee in 2019, both Amanda Mesler and Earl Shipp have undertaken site visits in the UK and US as part of their induction. These site visits provided a useful insight into the Company and the opportunity to gain a wider perspective of National Grid and to meet and engage with a variety of employees to discuss their views on safety, environment and health on site and throughout the Company. The site visits are an important way of demonstrating Company safety, health and environment leadership and are a way to build Committee knowledge, skills and strengthen discussion around issues.

The Committee also welcomed Liz Hewitt as a member in January 2020. Liz brings excellent experience to the Committee and her wealth of knowledge in wide areas of business will add diversity and value to our discussions.

Safety

In line with the Company's key values, safety remains a top priority for the Company and the Committee. We have seen improvement in the Injury Frequency Rate in the UK, which remains world class; however, we must never become complacent and improvements still need to be made. The Committee was deeply saddened when in July 2019 a National Grid employee in the US was involved in a fatal traffic accident while working on behalf of the Company. The Committee has been kept up to date on the investigations surrounding this tragic incident and has strongly endorsed the Company's commitment to ensuring that key lessons learned have been communicated to all our workforce. As a result, the Company rolled out a Group-wide safety intervention to remind our workforce of the Company's Safety Ambition. The feedback from the intervention has been positive and has encouraged our workforce to continue the important conversation around safety by discussing within teams recent safety incidents and ways to prevent future occurrences. The Committee will continue to monitor the implementation of these lessons learned.

Further to my update last year about the employee safety culture survey, this year the Committee received an update on the results of the survey including the new plans built from the actions identified, which will help the Company to continue on its journey from a calculative safety culture to a more proactive safety culture.

Gas safety and reliability

A significant amount of the Committee's time this year has been spent on gas safety and reliability in the US. The post-work stoppage initiatives following the Massachusetts labour dispute were reviewed, including monitoring the closure of open work actions and the implementation of new processes to ensure regulatory compliance. Regular updates were provided which identified areas of focus and improvement and the Committee discussed and considered risks around these. The Committee also reviewed and challenged the proposed plan to improve the safety of US LNG plants. The Committee will continue to monitor progress of the gas safety and reliability initiatives over the coming year.

National Grid's net zero commitment

Sustainability is a key focus and the Committee has been pleased to see the increasing prominence of this issue internally and externally. The Company recognises it has a critical role to play in the decarbonisation of the energy system and the importance of setting a net zero ambition for the Company's own emissions, which aligns with its strategy of a cleaner future. In November 2019, the Committee endorsed the Company's new target to reduce its own direct greenhouse gas emissions to net zero by 2050. The Committee reviewed the Company's high-level plan to achieve this and in January 2020 approved ambitious interim targets to reduce its direct emissions by 80% by 2030 and 90% by 2040. The Committee will continue to closely monitor and challenge the Company's progress against the action plan and the implementation of the Company's wider strategy around sustainability to achieve long-term carbon reduction targets.

Employee health and wellbeing

In January 2020, the Committee received an update in relation to the Company's progress on its health and wellbeing strategy. It was noted that a transition had been made by the Company in its strategy from a disease-based campaign towards a more holistic approach, with a wider range of health and wellbeing factors facing the workforce being considered. As part of the strategy, the Committee has continued to track the impact of musculoskeletal injuries (MSK) and its effect on employees. The Committee was pleased to see that as a result of physiotherapy services being available to UK employees as well as holding 20 MSK workshops across 11 locations, the sickness absence risk, in relation to MSK, had dropped from the third to fifth highest days lost over the past calendar year. Progress continues to be made in relation to mental health awareness and prevention activities. With the ongoing COVID-19 pandemic the Committee will monitor the implementation of wellbeing policies and the impact on our workforce; this will be kept under review over the coming year to ensure that appropriate health and wellbeing campaigns and procedures are implemented.

Paul Golby

Paul Golby
Committee Chair

Nominations Committee

Sir Peter Gershon
Chairman and Committee Chair

Key areas of focus in 2019/20:
- Board and Committee composition;
- Chairman succession; and
- Senior leadership succession.

Key areas of focus in 2020/21:
- Chairman succession and onboarding;
- Review of senior leadership succession policy; and
- Board and Committee composition.

Review of the year

The Committee met seven times during the year to undertake its responsibilities in reviewing the leadership needs of the Company, based on the structure, size and composition of the Board and its Committees. In addition, the Committee reviews and oversees succession planning for Directors and senior management and makes recommendations, as appropriate, to the Board.

Succession planning and Board composition

A key focus for the Committee this year has been succession planning. The Committee is responsible for ensuring that the Company is headed by a high-quality Board and senior management team and recognises that the process of building a strong and effective Board and senior management team requires a good balance of continuity and refreshment. During the year, Board members assessed the skills and areas of expertise that they brought to the boardroom to ensure effectiveness in providing good corporate governance and strategic oversight. This assessment will further aid in identifying gaps and areas of strengthening needed when appointing members in the future. The Committee has also borne the Code in mind in its deliberations throughout the year to ensure that we have in place a strong Board and senior management team with the breadth of skills, experience and perspectives necessary to reflect the changing demands of the business and Company strategy. The Committee will continue to monitor the skills and capabilities, and length of tenure of Board members to ensure that broad and relevant expertise is evident and will recommend further appointments if necessary. Further information on our individual Directors' skills and capabilities can be found on pages 66 and 67.

Senior leadership

Following Dean Seavers stepping down from his role as Executive Director in November 2019, Badar Khan (previously Group Director, Corporate Development and National Grid Ventures) stepped in as Interim President of the US business. Jon Butterworth (previously COO of National Grid Ventures) stepped in as Interim Managing Director of National Grid Ventures. Following success in their interim positions, the Committee approved the permanent appointment of Badar Khan as President of the US business and Jon Butterworth as permanent Managing Director of National Grid Ventures on 2 April 2020.

Non-executive Director – Jonathan Silver

The appointment of Jonathan Silver began in 2018 with the appointment of Korn Ferry, a search consultancy firm that does not have any other connection with the Company or individual directors. The Committee reviewed and agreed the Non-executive Director candidate profile which was formulated taking into account the current skills of the Board members and data analysis received from the 2018 external Board evaluation process. This highlighted the additional need to strengthen the Board's US regulatory, equity and financial experience. Having conducted an initial search, a list of potential candidates were selected for the first interview with the Chairman. It was agreed that a sub-group of the Committee (Nora Mead Brownell, Therese Esperdy and Mark Williamson), and John Pettigrew would interview the final candidates from the short list recommended by the Chairman. The Committee agreed the preferred candidate and made a recommendation to the Board in April 2019. On 16 May 2019, following a thorough and rigorous process, the Board welcomed Jonathan Silver as a Non-executive Director to the Board and as a member of the Finance, Remuneration and Nominations Committees.

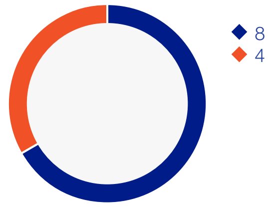
Non-executive Director – Liz Hewitt

In April 2019, the Committee discussed recruiting a further Non-executive Director with capabilities to succeed Mark Williamson as Audit Committee Chair once he retired. The Inzito Partnership, who do not have any other connection with the Company or individual directors, was appointed to support the recruitment of this role. The Committee agreed the Non-executive Director candidate profile and a short list of potential candidates was then drawn up. First-stage interviews were conducted by the Chairman and final interviews were conducted by a sub-group of the Committee (Therese Esperdy, Paul Golby and Mark Williamson), John Pettigrew and Andy Agg. In November 2019, the Committee agreed that Liz Hewitt was the preferred candidate and made a recommendation to the Board. Liz has a strong background in dealing with complex and challenging audit issues. The Board welcomed Liz Hewitt as a Non-executive Director and member of the Audit, Safety, Environment and Health, and Nominations Committees on 1 January 2020.

When considering the recruitment of new Directors, the Committee adopts a formal and transparent procedure which takes into account the skills, knowledge and level of experience required as well as diversity. For both appointments the candidate pool was as diverse as possible ensuring the Committee had options to balance the diversity on the Board. The effectiveness of the Board is also reviewed through the annual Board evaluation; see page 74 for further information.

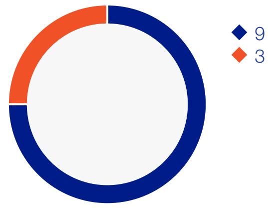
Our Board diversity

Board gender



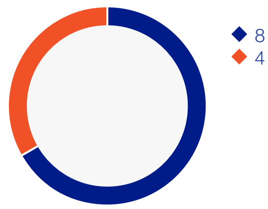
◆ Men
◆ Women

Executive and Non-executive Directors



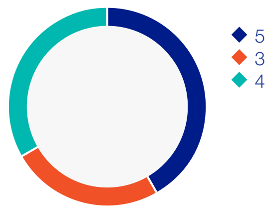
◆ Executive
◆ Non-executive (inc. Chairman)

Board members by nationality



◆ British
◆ American

Tenure



◆ < 3 years
◆ 3-6 years
◆ > 6 years

Charts as at 17 June 2020

Board diversity objectives

Objectives	Progress
The Board aspires to meet the target of 33% of Board and Executive Committee positions, and direct reports to the Executive Committee, to be held by women in 2020.	**Objective met:** there are currently 33.3% women on the Board, 33.3% women on the Executive Committee and 33.8% women direct reports to the Executive Committee. We continually aspire to exceed this target and we take gender diversity into consideration in all our Executive and Non-executive Directors searches. All appointments are however made on merit.
The Board aspires to meet the Parker Review target for FTSE 100 boards to have at least one director from a non-white ethnic minority by 2021.	**Objective met:** we currently have one Director from a non-white ethnic minority on the Board. Additionally, our mandatory requirement for a diverse candidate pool should facilitate the opportunity to recruit further from non-white ethnic minorities.

Director tenure

The Committee believes that Non-executive Directors should generally stay in role no longer than nine years, in line with the Code; however, the Committee may determine that on occasion it is in the Company's best interest for a Director with particular skills, knowledge and experience to stay beyond the nine-year term. It is proposed that Paul Golby stay for a limited extension beyond 1 February 2021 in order for the Board to maintain the knowledge and experience required to conclude the RIIO-2 process.

Talent pipeline – Senior leadership succession

The Board and Nominations Committee support and encourage initiatives that strengthen the talent pipeline within the Company. Over the last 12 months we have seen several changes within the Executive and senior leadership team as we refresh the skills and capabilities needed to achieve our long-term strategy. The Committee has considered whether the talent pipeline and the collective strength of the current leadership and senior management bench in the business is strong enough in its key positions, specifically in relation to handling crises and ensuring the business is fit for the future. It is an area of focus for the Committee to ensure that the required pace of change facilitates strong and effective succession across the Board and the wider business.

The Executive Committee continues to meet regularly to discuss the succession pipeline and health of the talent pool further down the organisation; as a result, a number of individuals have been identified as potential successors to key positions. Our senior leaders below the Board were invited to participate in the 'Energise Our Business' programme this year which combines flexible online development and peer learning with more traditional development activity. The Committee has developed a strong understanding of executive talent requirements and the capabilities we need for the future to fit with our purpose, vision and values. This has been evidenced by the appointment of Badar Khan as President of the US Business and Jon Butterworth as Managing Director of National Grid Ventures. The Committee regularly reviews the development plans of the high potential senior leaders below the Board. The Board has also met with high-potential employees both in the UK and the US on several occasions during the year.

Terms of reference

Following the introduction of the Code, the Committee terms of reference have been revised to align with the new requirements. These reflect the broadening of the Committee's responsibility for overseeing the development of a diverse pipeline of high-performing potential successors to senior management and keeping under review the leadership and succession needs of the Company.

Diversity and Board diversity policy

National Grid supports the creation of an inclusive and diverse culture which we believe supports the attraction and retention of talented people, improves effectiveness, delivers superior performance and enhances the success of the Company.

Our Board diversity policy (Policy) reflects our continued commitment to promote an inclusive and diverse culture and we value diversity of thought, skills, experience, knowledge and expertise including of educational and professional backgrounds, alongside diversity criteria such as gender, ethnicity and age.

The Policy applies to the Board, Executive Committee and direct reports to the Executive Committee.

As set out in the Policy:

- all Board appointments and succession plans are made on merit and objective criteria, in the context of the skills and experience that are needed for the Board to be effective and to guard against 'group think';
- we will only engage executive search firms who have signed up to the UK Voluntary Code of Conduct on Gender Diversity; and
- we will continue to make key diversity data, both about the Board and our wider employee population, available in the Annual Report and Accounts.

Chairman's succession

Mark Williamson
Senior Independent Director

Throughout the year I have chaired the Nominations Committee, without Sir Peter Gershon present, to discuss the Chairman's performance, tenure and succession. In last year's report I reported that Sir Peter's tenure may be extended beyond the recommended nine-year term in order to conclude the RIIO-2 process. This was agreed following discussion with 18 of our largest shareholders, who unanimously supported the extension. In January 2020, Sir Peter Gershon formally announced his intention to step down as Chairman and retire from the Board following the appointment of a suitable successor. To manage a smooth transition, we intend to appoint a Chairman designate to the Board. A search process for the next Chairman is currently underway, supported by Russell Reynolds, and the Committee considered a long-list of potential candidates at the January 2020 meeting. Over the next few months, the Committee will agree a shortlist of preferred candidates and a full explanation of the search and appointment process will be reported in next year's report.

We will continue to review our progress against the Policy and report on our objectives (set out above) annually in the Annual Report and Accounts. The Committee will be reviewing this Policy throughout the year to ensure it remains up to date and relevant.

Examples of the initiatives to promote and support inclusion and diversity throughout our Company are set out on page 53.

Sir Peter Gershon
Chairman and Committee Chair

Statement of application of and compliance with the UK Corporate Governance Code 2018

The statement 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 in the UK Corporate Governance Code 2018 (the Code). For the year ended 31 March 2020, the Board considers that it has complied in full with the provisions of the Code, available at www.frc.org.uk. The Corporate Governance report also explains compliance with the Disclosure Guidance and Transparency Sourcebook. The index on page 87 sets out where to find each of the disclosures required in the Directors' Report in respect of Listing Rule 9.8.4 R.

1. Board Leadership and Company Purpose

Our Board is collectively responsible for the effective oversight and long-term success of the Company and champions our purpose, vision, values and desired culture, ensuring consistency with our workforce policies and practices. It also determines the strategic direction, business plan, objectives, principal risks and viability of the Company and sets the governance structure that will help achieve the long-term success of the Company and deliver sustainable shareholder and stakeholder value.

The Board sets the risk appetite and principal risks for the Company and takes the lead in areas such as safeguarding the reputation of the Company and its financial policy, as well as making sure we maintain a sound and prudent system of internal control and risk management. Since the onset of the COVID-19 pandemic, we have received updates on the impact on our UK networks that are managing the rapid and unprecedented decrease in energy demand across all UK networks and in May 2020 it was agreed to add COVID-19 as a principal risk. The Board also agreed to add a new climate change principal risk in March 2020.

There is a clear schedule of matters reserved for the Board and schedule of delegation, which were both reviewed and updated in January 2020. The schedule of matters reserved for the Board is available on our website, together with other governance documentation.

The Board actively engages with shareholders and stakeholders, including employees, on a regular basis. Further information on how the Board has effectively discharged this responsibility can be found on pages 44 – 47.

2. Division of Responsibilities

The Chairman, who was independent on appointment, is responsible for the leadership and management of the Board and its governance. He makes sure the Board is effective in its role by promoting a culture of openness and debate, facilitating the effective contribution of all Directors and helping to maintain constructive relations between Executive and Non-executive Directors. The Chairman sets the Board's agenda making sure consideration is given to the main challenges and opportunities facing the Company, and adequate time is available to discuss all agenda items, including strategic issues. This particular area was reviewed as part of the internal Board evaluation. For further information on the Chairman's independence and tenure, please see page 85.

The annual evaluation of our Board considers the composition, including the combination of Executive and independent Non-executive Directors, to ensure there is no dominant decision-making. The Board supports the separation of the roles of the Chairman and Chief Executive. The key responsibilities are clearly documented and reviewed when appropriate. See our website for more details.

Non-executive Directors are advised of the time commitment and travel expected from them on appointment. External commitments, which may impact existing time commitments, must be agreed with the Chairman prior to appointment and during their time on the Board. As part of the Chairman's succession, potential candidates are notified of the expected time commitment at the beginning of the process. Details of external appointments are set out in the biographies on pages 66 and 67 and on our website. Independent of management, our Non-executive Directors bring diverse skills and experience vital to providing strategic guidance, constructive challenge and debate. See our website for the matters reserved for the Board schedule.

The Group General Counsel and Company Secretary makes sure that the Board has access to the necessary policies, processes and resources required to operate effectively and efficiently. She is also responsible for ensuring that timely information is provided and advises and supports the Chairman and the Board on all governance matters.

3. Composition, Succession and Evaluation

Composition

The Board believes it operates effectively with an appropriate balance of independent Non-executive and Executive Directors who have the right balance of skills, experience, independence and knowledge of the Company. Details of our Board, their biographies and Committee membership are set out on pages 66 and 67 and fuller biographies are available on our website. Board and Committee attendance during the year to 31 March 2020 is set out on page 69. The size and composition of the Board and its Committees is kept under review by the Nominations Committee to ensure the appropriate balance of skills, experience, independence and knowledge. The Committee also monitors the expertise of the Board and will recommend further appointments if desirable. The appointment of Liz Hewitt in January 2020 ensures the Board has a Non-executive Director with the required capabilities and expertise to succeed as Audit Committee Chair. The independence of the Non-executive Directors is considered at least annually along with their character, judgement, commitment and performance on the Board and Board Committees. The Board took into consideration the Code and indicators of potential non-independence, including length of service. Following due consideration, the Board determined that all Non-executive Directors were independent in character and judgement.

Succession

The Nominations Committee, which comprises the Chairman and Non-executive Directors, leads the process for Board appointments and makes recommendations to the Board. The Nominations Committee also has responsibility for ensuring that plans are in place for orderly succession to both the Board and senior management positions as well as overseeing the development of the talent pipeline to ensure that the future leadership needs of the Company are considered and these fit the culture and forward-looking strategy of the Company.

Each Director is subject to election at the first AGM following their appointment, and re-election at each subsequent AGM. Following recommendations from the Nominations Committee, the Board considers whether all Directors continue to be effective, committed to their roles and have sufficient time available to perform their duties. In April 2020 the Nominations Committee confirmed to the Board that all Directors continued to perform their duties in accordance with the principles above. Succession planning is ongoing for those members of the Board who are approaching the nine-year tenure recommendation.

Evaluation

The 2019/20 performance evaluations of the Board, Board Committees and individual Directors were carried out internally with consideration given to composition, diversity, how effectively members work together to achieve objectives and effectiveness of decision-making. You can read more about this on page 74.

Chairman's Performance

As part of our annual evaluation process, Mark Williamson, as Senior Independent Director, led a review of the Chairman's performance. At a private meeting, the Non-executive Directors, with input from the Executive Directors, assessed his ability to fulfil his role as Chairman and considered the arrangements he has in place to fulfil his role. They concluded that the Chairman showed effective leadership of the Board and his actions continued to influence the Board and wider organisation positively. They also confirmed it would be in the Company's best interest for Sir Peter Gershon to continue in his role as Chairman during the conclusion of the RIIO-2 regulatory process.

At the end of the year, the Chairman held performance meetings with each Board member to discuss their contribution and performance over the prior year, including how effectively they worked together to achieve objectives and any training and development needs. Following these meetings, the Chairman confirmed to the Nominations Committee that he considered each Director to have demonstrated a commitment to the role and that their contribution continued to be effective.

4. Audit, Risk and Internal Control

Under the Disclosure and Transparency Rules and the Code, the composition and competence of the Audit Committee was considered by the Nominations Committee at its April meeting. The Board confirmed the recommendations of the Nominations Committee: that all members of the Committee are independent (including the Chair of the Committee), that Mark Williamson, as a chartered accountant, is considered to have competence in accounting, and that the Committee, as a whole, has competence relevant to the sector in which it operates.

The requirement for Directors to state that they consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable remains a key consideration in the drafting and review process. The coordination and review of the Annual Report and Accounts is conducted in parallel with the formal audit process undertaken by the external auditors and the review by the Board and its Committees. The Board is satisfied that the current policies and procedures in place ensure the independence and effectiveness of the internal and external audit functions. Further details can be found on page 81.

The drafting and assurance process support the Audit Committee's and Board's assessment of the overall fairness, balance and clarity of the Company's position and prospects as detailed in the Annual Report and Accounts, and the statement of Directors' responsibilities as set out on page 109.

The Board has carried out a robust assessment of the nature and extent of the principal and emerging risks facing the Company in achieving its long-term strategic objectives, including those that would threaten the business model, future performance, solvency or liquidity. Further details can be found on pages 22 – 27.

The Board also sets the Company's risk appetite, internal controls and risk management processes. The Board monitors the Company's risk management, internal control systems and framework and undertakes a review of their effectiveness annually. The activities of the Audit Committee, which assists the Board with its responsibilities relating to risk and assurance, are set out on pages 76 – 81.

5. Remuneration

The Remuneration Committee, comprised entirely of Independent Non-executive Directors, is responsible for recommending to the Board the remuneration policy for Executive Directors, the Chairman and senior management, and the implementation of this policy. The aim is to align the remuneration policy to the long-term Company strategy and key business objectives that will promote long-term sustainable success. Our policy is reviewed against workforce remuneration and performance, and is designed to reflect our shareholders', customers' and regulators' interests.

The Directors' Remuneration Report on pages 88 – 107, sets out the work of the Remuneration Committee, its activities during the year and further details on how our Remuneration Policy is implemented including the remuneration of Non-executive Directors. Executive Remuneration, including alignment to broader workforce pay policies has been discussed at employee voice engagement sessions, along with gender pay reporting. These topics will remain key areas for discussion as we continue our programme of engagement into 2020/21.

For more information regarding our policy on the Executive Directors pension contribution/allowance and the alignment to the workforce, please see page 89 of the Directors' Remuneration Report.

Index to Directors' Report and other disclosures

Directors' Remuneration Report

Annual statement from the Remuneration Committee Chair

Jonathan Dawson
Committee Chair

Key areas of focus in 2019/20:
- Items relating to the appointment of new Executive Committee members and leaving arrangements for former Executive Director, US; and
- Reviewed impact of evolving corporate governance standards, including pension arrangement for UK-based new hires.

Key areas of focus in 2020/21:
- COVID-19 related remuneration decisions;
- RIIO-2 impact on future LTPP awards; and
- Directors' Remuneration Policy review and shareholder consultation.

Introduction
Last year, our shareholders approved the new Directors' Remuneration Policy for the period from 2019, with 97.03% votes in favour. At the same time, the Directors' Remuneration Report received 96.53% votes in favour. The Remuneration Committee and the whole Board are grateful to shareholders for their support for our Policy and our implementation of it. As a company, our aim is to ensure transparency with our shareholders and all stakeholders in what we do, particularly with regard to governance and remuneration. The Committee fully recognises the central importance of these areas for National Grid's reputation, and the strong interest of shareholders in our standards and performance. Last year's vote followed extensive consultation with our major institutional shareholders in light of which we put forward proposals that were approved at the AGM. This year we are not seeking approval of a new Policy, although through the annual advisory vote we are seeking your support for our implementation of the Policy during 2019/20. We are planning to seek your approval of a new Policy next year in light of decisions to be made by Ofgem during the year regarding the next regulatory period (RIIO-2) commencing April 2021. As we have done previously, we will consult with major institutional shareholders before putting forward our proposals.

Review of decisions made during the year
Annual Performance Plan (APP)
National Grid again delivered good financial performance for the year, with Group underlying Profit before Tax of £2,493 million, Underlying Earnings per Share of 58.2 pence and Group Return on Equity of 11.70%; and the Directors have recommended an increase in the final dividend in line with our stated policy. Against this background, the Group financial metrics for the APP (impacting the CEO and CFO) represented 79.4%, a little over half way between target and stretch performance. The financial outcome for the Executive Director, UK was 58.3%, just ahead of target performance, reflecting lower UK-specific financials versus Group particularly on RoE. The financial performance metrics for the APP are based on financial results, with technical adjustments made in line with past practice in respect of currency adjustments, unbudgeted pension costs, scrip dividend dilution and storm damage repair costs.

The final APP outcomes (which incorporate assessments against individual objectives and financial performance) have, however, had one adjustment affecting all staff eligible for APP awards. With the bulk of colleagues working remotely due to COVID-19 restrictions, and heavily focused on maintaining continuity of service and supply to our customers, it would have been difficult for in-depth annual personal performance reviews to be undertaken in the normal way. The Committee therefore agreed with senior management that, across the Group, the individual component under the APP would be capped at the lower of actual and target, which is equal to 50% of maximum. The Committee has also applied this principle to the Executive Directors and other senior executives; the unadjusted individual scores for the Executive Directors are shown on pages 98 and 99, from which it can be seen that the outturn for the individual objectives of all current Executive Directors has been reduced in light of this approach.

Coupled with the financial measures for the APP, the overall outcome for the CEO and CFO is 88.3% of salary, and for the Executive Director, UK 69.8% of salary, in each case out of a maximum potential of 125% of salary. In its assessment of the overall performance of John Pettigrew and the level of APP outcome for him for the year, the Committee gave careful consideration to the issues arising from the decision to impose a moratorium on new gas supply connections in National Grid's service territory in downstate New York (KEDNY/KEDLI). Although this was an operational decision taken by the Group's US leadership in response to a potential shortfall in gas supplies coming into the region, the Committee and John agreed that, as CEO, he was ultimately accountable for the adverse financial and reputational consequences suffered by the Company. The Committee also recognised the subsequent outstanding leadership that John had given in reaching a settlement with the New York authorities and in actions taken to address the situation. Accordingly, the Committee and John agreed that it would be appropriate for John to donate 20% of his APP award (net of tax) when it is paid in July to a charity involved in the emergency COVID-19 response in our US service territories.

In reaching its overall decisions on the APP, the Committee took account of Environmental, Social and Governance (ESG) considerations, including those related to COVID-19, noting in particular that no employees have been furloughed, no compulsory redundancies or pay reductions have been made, and trade union agreements have been honoured.

Annual statement from the Remuneration Committee Chair continued

Long Term Performance Plan (LTPP)
The performance period for the 2017 LTPP ended on 31 March 2020, with a vesting outcome of 84.9% of the maximum potential (350% for the CEO and 300% for other Executive Directors). This outturn was based on our performance measures of Group Return on Equity and Group Value Growth, with adjustments in respect of inclusion of the value created from the sale of the residual interest in the UK Gas Distribution business and revised timing of UK tax payments. More details on the performance measures are set out on page 100. The Committee reviewed whether there were any factors which might cause it to reduce the vesting levels, including compliance with the dividend policy, but concluded after careful consideration that the vesting levels fairly reflected performance over the performance period, and that the additional two-year holding period and significant shareholding requirements appropriately align interests with shareholders, particularly through COVID-19 uncertainty.

Annual salary review
Against the background of the pandemic and its impact on wider society and the economies of the territories where National Grid operates, the Committee agreed that, whilst most managers and all those covered by trade union agreements would receive increases, it would exercise restraint and not award annual salary increases to the Group Executive Committee members at this time. The Committee however felt that an exception should be made in respect of Andy Agg, the CFO. Andy was appointed to his role in January 2019 and, as we have done for other appointments, his starting salary was set significantly below the assessed market rate for the job with the publicly stated intention to increase his salary, subject to his performance and progression in the role, toward the assessed market rate. In line with this plan Andy would have received a salary increase of 9% from 1 June 2020. However, in the context of the other senior executives not receiving a salary increase this year, the Committee decided to restrict Andy's increase to 6.5%. In approving this increase, the Committee considered that Andy had made a very good contribution to the Group in his first full year as CFO, with a particular focus on strengthening his senior financial team as well as focusing on the financial preparations for RIIO-2. The Committee will again review Andy's salary next year and may, as previously, award him an increase in excess of other senior executives, subject to continuing good performance, to bring his salary in line with the market rate.

The Remuneration Committee will continue to consider the current and potential impact of COVID-19 on the Company and its stakeholders in determining if and when any salary increases are awarded. Consistent with this decision, there will be no increases in fees for the Board Chairman or other Non-executive Directors at this time.

I would also like to note and thank John Pettigrew and Andy Agg for their generous donations of £50,000 and £20,000, respectively, to the Prince's Trust to support the Trust's work with young people giving them a lifeline and increased social mobility despite the challenges created by the COVID-19 pandemic. The £20,000 donation from Andy Agg represents some 50% of the salary increase he will receive for 2020.

Leaving arrangements for Dean Seavers

Dean Seavers, Executive Director, US, stepped down for personal reasons from the Board on 5 November 2019. His employment with National Grid subsequently terminated on 31 December 2019, following a handover period with his successor as President of National Grid's US business. The Committee concluded that 'good leaver' remuneration provisions should apply under our Directors' Remuneration Policy. Details of his leaving arrangements are provided on page 102.

The Board decided that this position will no longer sit on the Main Board. Badar Khan was appointed Interim President of the US Business and then was made permanent in this role from 1 April 2020.

Pension

Under the new Policy approved last year, any new UK-based Executive Directors will receive a pension contribution/allowance of up to 20% of base salary (reduced from 30% previously). To further align with the evolving shareholder expectations and market practice, the Committee decided that, from November 2019 onwards, any new UK-based Executive Directors will receive a pension contribution/allowance of up to 12% of base salary, which is in line with the defined contribution rate available to the majority of the UK-based wider workforce. The Company has also cascaded this change so that it applies to all new UK hires regardless of level. The current average pension contribution across the various pension schemes for the wider UK workforce has decreased from 18% last year to 17% this year due to natural attrition.

I noted last year that our recently appointed CFO's pension allowance was already set at 20% of base salary at the time of his appointment. Also, as reported last year, our previously appointed UK-based Executive Directors agreed to reduce their pension allowance from 30% of base salary to 20% by the end of 2022, without compensation.

We recognise recent governance and remuneration statements from major institutions to the effect that companies are expected to develop a credible plan to align incumbent directors' pension contribution rates with the majority of the wider UK workforce by the end of 2022. The Committee has been thinking carefully about this issue, particularly in the context of the variety of legacy pension plans in operation and the tiered structure of pension contributions throughout the Company which I described last year. This matter is under active review, and we shall incorporate our longer-term pension proposals as part of our consultation for the Directors' Remuneration Policy binding vote in 2021.

What is our remuneration policy seeking to achieve?

Although we have regularly stated our remuneration policy objectives, it is important to set out again what we are seeking to achieve in the way we structure senior executives' remuneration. Our policy aim is to ensure that how we structure remuneration and how we make decisions on annual and long-term reward plans are compatible with and fully support:

- attracting, motivating and retaining senior executives while not over-paying;
- ensuring we pay our senior executives in a way that incentivises stretching financial and operational performance, within the risk appetite set by the Board;
- being fully aligned to the way National Grid earns its returns for shareholders; and
- actively supporting our strategy, ethics, values and contribution to society in the territories where we operate.

In addition, in order to ensure internal alignment and common purpose, we apply the same broad architecture to the remuneration of our senior management team below the Executive Directors.

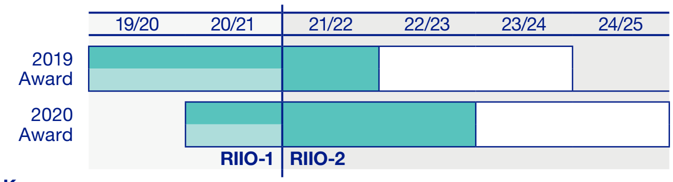
The key components of our approach are:

1. Significant weighting towards long-term value creation and alignment with shareholder interests

Nearly three quarters of John Pettigrew's variable pay opportunity is represented by the LTPP. We continue to put a much higher weight on this element compared with the APP because National Grid is a long-term business with long-life assets. We want to make sure investment decisions are made, and operating efficiencies achieved, against this background. Moreover, for Executive Directors, some 85% of their variable pay opportunity (both annual and long-term) is delivered in National Grid's shares. Consistent with our approach for aligning executive interests to the long term, LTPP awards have a three-year performance period and a further two-year post-vesting holding period. Our LTPP measures for 2020 will continue to be fully aligned with long-term value creation and shareholder interests. Figure 1 below illustrates how performance measures are structured for 2019 and 2020 LTPP awards, taking account of the impact of the transition from RIIO-1 to RIIO-2.

Impact of RIIO-2 on our Long Term Performance Plan

Figure 1: LTPP measures



Key:
◆ Group Value Growth ◇ Group RoE ◇ Holding period

2. We require senior executives to maintain very high shareholdings in National Grid

As CEO, John Pettigrew has to hold at least five times his pre-tax salary in National Grid's shares, which is equivalent to around nine times his post-tax salary. Other UK-based Executive Directors must hold at least four times their pre-tax salary in National Grid's shares (equivalent to around seven times their post-tax salary). This requirement ensures that

Directors' Remuneration Report continued

executives necessarily have a longer-term view in their decision-making, are rewarded for achieving success progressively 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. Moreover, we believe our senior management, not just Executive Directors, should view the dividends paid on shares they earn as part of their overall remuneration arising from National Grid, rather than focusing on the annual capital value. An important characteristic of our high shareholding requirement is that a newly appointed Executive Director who owns no National Grid shares should expect to take some six to seven years (assuming target payout levels) to have earned the minimum shareholding requirement and will be unable to sell shares (other than to pay income tax arising on vesting) prior to that point. Our post-employment shareholding requirement further enhances the alignment of interests between executives and shareholders. Our current post-employment shareholding policy requires Executive Directors to hold 200% of salary for two years. We have noted recent governance developments and shareholder expectations that the post-employment shareholding requirement should be at the same level as the in-employment shareholding requirement, although balanced against that our in-employment shareholding requirement is at the top end of market practice. We will review this matter as part of our consultation for the Directors' Remuneration Policy vote in 2021.

3. Achievement of short-term (APP) and long-term (LTPP) incentive opportunities is linked to National Grid's performance

A key principle of our remuneration policy, and how it operates, is that reward should be aligned to the financial and operational performance of the Company and to shareholder interests. As set out in the Strategic Report, a number of our financial KPIs directly align to our APP and LTPP rewards. In addition, non-financial KPIs and wider business performance (for example, safety and environmental performance) are also taken into account, and discretion applied if appropriate, when determining an executive's performance against their individual objectives and in confirming the overall final payouts (APP) and/or vesting outcomes (LTPP). Our approach, illustrating how variable pay is linked to performance, is illustrated below in Figure 2.

4. Discretion and independent judgement is applied. Achievement of short-term (APP) and long-term (LTPP) incentive opportunities is linked to National Grid's performance

As I stated last year, as a committee we consider whether to apply discretion when assessing remuneration outcomes for Executive Directors. Before approving any payments under either the APP or LTPP, we reflect with great care first on both the underlying financial and wider business performance of the Company; we then assess the wider performance of the Company in terms of its societal contribution, its relations with regulators, and its overall reputational standing with stakeholders. We also undertake a careful appraisal of the performance of each Executive Director and members of the Executive Committee against their individual objectives set for them at the start of the year and their demonstration of leadership qualities and our values. Whilst the underlying financial performance of the Company is a material factor in our assessments, the Committee has shown and will continue to demonstrate a willingness to apply discretion to adjust final payments in light of all factors considered relevant by the Committee.

In addition to applying discretion to final payment levels, the Committee considers whether there might be any basis for applying malus and/or clawback to awards made and/or payments already received by an individual where subsequent events or factors justify taking such steps.

Figure 2: How our variable pay is determined and linked to performance

	Financial measures	+	Individual objectives	+	Committee discretion	+	Malus/clawback
APP 1-year performance period (up to 125% of salary)	Group/Business Return on Equity Business Value Added Business Underlying Profit Earnings per Share		Objectives are set on an individual basis, dependent on role, remit and requirements. Includes wider business measures as appropriate		Committee considers wider financial and business performance as well as individual demonstration of leadership qualities and values, and will adjust as appropriate		Committee has discretion to apply malus/clawback in exceptional circumstances
LTPP 3-year performance period (up to 350% of salary for CEO, 300% for other Executive Directors)	Group Return on Equity Group Value Growth		n/a				

Fair and Appropriate

When making remuneration decisions for the Executive Directors and other senior leaders, the Remuneration Committee takes account of the remuneration arrangements and outcomes for the wider workforce, statistical information, such as the CEO pay ratio and gender pay gap data, employee views on executive pay as part of our employee voice process, and our Company values. Last year, we voluntarily reported our CEO pay ratio one year early, with a median ratio of 76:1 for UK-based employees. This year, the median ratio for UK-based employees is 86:1. Our Group-wide median ratio was 48:1 last year and 53:1 this year. The increases in both ratios are largely due to the increase in LTPP vesting. The lower Group-wide ratio reflects the higher general level of wages in the US compared with the UK, and especially in the regions of the US where the Company operates. It is also important to recognise that around three quarters of our employees are in the US. In terms of UK gender pay gap, there has been an improvement from the median of 4.4% last year to 2.6% this year.

Changes to the Committee membership

Nora Mead Brownell resigned from the Board on 8 April 2019. Jonathan Silver joined the Board and was appointed to the Committee on 16 May 2019.

Developments for 2020/21

Looking ahead, and as already mentioned, the Committee's work will be dominated by considering the impact of RIIO-2 on our remuneration structure. In addition, we will also be mindful of the evolving practice on executive pension levels (where we have already taken steps to align different employee levels). We will also be considering how best to build into our remuneration arrangements consideration of key non-financial objectives, such as environmental issues and the Company's performance in reducing emissions and enabling the wider societal evolution towards new and renewable energy sources and networks. In our review of policy for 2021, we will consult on all of these matters during the year ahead.

Conclusion

The Committee has carefully reviewed the performance of the senior executive team during the year and the prior three years to assess whether the level of APP and LTPP payments/vesting were aligned with the Company's performance over the period and concluded that the arrangements set out in this Remuneration Report were a fair reflection of their individual and collective performance. Accordingly, on behalf of the Committee, I commend this Directors' Remuneration Report to you and ask for your support at the Annual General Meeting.

Jonathan Dawson
Remuneration Committee Chair

At a glance – 2019/20

Our 'At a glance' highlights the performance and remuneration outcomes for our Executive Directors for the year ended 31 March 2020. Further detail is provided in the Statement of implementation of remuneration policy in 2019/20.

Annual Report on Remuneration

A comparison of the 2019/20 single total figure of remuneration, with the maximum remuneration if variable pay had vested in full, is set out below for the Executive Directors. Andy Agg, John Pettigrew and Nicola Shaw were each in office for the full year. Dean Seavers was in office for part of the year.

Total remuneration

Executive Director	Maximum if variable pay vested in full £'000	2019/20 total single figure of remuneration £'000	Split by component (%) Fixed	APP	2017 LTPP – face value	2017 LTPP – share appreciation/depreciation and dividend equivalent values
Andy Agg	2,015	1,716	43.0%	30.6%	23.2%	3.2%
John Pettigrew	6,227	5,322	27.0%	16.9%	50.2%	5.9%
Dean Seavers	2,905	2,502	24.4%		69.3%	6.3%
Nicola Shaw	3,074	2,520	29.3%	15.3%	49.6%	5.8%

Key: ◆ Fixed ◆ APP ◆ 2017 LTPP – face value ◆ 2017 LTPP – share appreciation/depreciation and dividend equivalent values

Notes:
1. Dean Seavers stepped down from the Board for personal reasons on 5 November 2019 and left the Company on 31 December 2019. In the above table, the maximum if variable pay vested in full relates to the period 1 April to 31 December 2019 and includes base salary, benefits in kind, pension, 2019/20 APP and 2017 LTPP vesting.
2. For each UK-based Executive Director the share price has increased between grant date of the LTPP awards in 2017 and the estimated share price value at vesting, being the three months' average preceding 31 March 2020. Comparing the share price at grant of 973.80p for Andy Agg, John Pettigrew and Nicola Shaw versus the estimated average share price for the period 1 January 2020 to 31 March 2020 (978.75p), there is an increase of 4.95p (0.5%) per share. Andy Agg received a second 2017 LTPP tranche and comparing the share price at grant of 941.50 versus the estimated average share price for the period 1 January 2020 to 31 March 2020 (978.75p), there is an increase of 37.25p (4.0%) per share. This results in an estimated increase in value (net of dividend equivalents) of £10,554 in total for Andy Agg, £15,107 for John Pettigrew, and £7,063 for Nicola Shaw. For the former US-based Executive Director, Dean Seavers, the ADS price has decreased between grant date and the estimated average ADS price for the period 1 January 2020 to 31 March 2020 ($62.48). Comparing the ADS price at grant of $63.94 versus the estimated ADS price of $62.48 there is a reduction of $1.46 (2.0%) per ADS. This results in an estimated reduction in value (net of dividend equivalents) of $56,810 for Dean Seavers. Overall, the percentage growth in value over the three-year period due to dividend income per share/ADS is at least 11%, and this will increase further subject to a final dividend to be included on the vesting date.

	Key features of remuneration policy (adopted 2019)	Implementation of policy in 2019/20
Salary	• Target broadly mid-market against FTSE 11-40 for UK-based Executive Directors and general industry and energy services companies with similar revenue for US-based Executive Directors.	• Salary increases of 8.0% (comprising the UK budget of 2.9% and a further 5.1%) for each of John Pettigrew and Nicola Shaw (June 2019). These increases were awarded in line with remuneration policy and given their strong individual performance and to align their pay to the appropriate market levels for their roles; • Salary increase of 3.1% for Dean Seavers (June 2019). This increase was in line with the budget for US managerial employees; and • Andy Agg was not eligible for a June 2019 salary increase because he was internally promoted on 1 January 2019.
Annual Performance Plan (APP)	• Maximum opportunity is 125% of salary; • 50% paid in cash, 50% paid in shares which must be retained until the later of two years and meeting the shareholding requirement; and • Subject to both malus and clawback.	• 70% based on financial measures and 30% based on individual objectives; • Financial measures for CEO and CFO comprise 35% underlying EPS and 35% Group RoE; • Financial measures for Executive Director, US, and Executive Director, UK, comprise 23.3% US/UK Value Added respectively, 23.3% US/UK RoE respectively and 23.3% US/UK Underlying Operating Profit respectively; and • Individual objectives cover driving efficiency, delivering value for investors, stakeholder engagement including regulatory and government, our workforce/ talent and culture agenda, corporate social responsibility and customer. • 2019/20 APP payouts as a percentage of maximum opportunity: 71% for each of Andy Agg and John Pettigrew, 0% for Dean Seavers and 56% for Nicola Shaw.
Long Term Performance Plan (LTPP)	• Maximum award level is 350% of salary for CEO and 300% for other Executive Directors; • Vesting is subject to long-term performance conditions over a three-year performance period; • Shares must be retained until the later of two years from vesting and meeting the shareholding requirement; and • Subject to both malus and clawback.	• 2019 LTPP award: 33.33% Group RoE and 66.67% Group Value Growth; and • Overall the 2017 LTPP vested at 84.9% of the maximum and is based on the performance of two equally weighted measures of Group RoE and Group Value Growth achieving 69.8% and 100.0% respectively.
Pension and other benefits	• Eligible to participate in a defined contribution plan (or defined benefit if already a member); • Pensionable pay is salary only in UK and salary and APP in US in alignment with market; and • Other benefits as appropriate.	• UK cash allowance for John Pettigrew and Nicola Shaw, 30% of pensionable pay (reducing to 26.7% at 1 April 2020, 23.4% at 1 April 2021 and 20% at 1 April 2022) and for Andy Agg, 20% of pensionable pay; • US-defined contribution for Dean Seavers, 9% of pensionable pay with additional match of up to 4%; and • 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. • The Committee agreed in November 2019 that newly appointed UK-based Executive Directors will receive pension contributions of up to 12% of base salary for the DC plan (or cash supplement in lieu); this is in line with the level for new joiners across the rest of the UK-based workforce.
Shareholding requirement	• 500% of salary for CEO; • 400% of salary for other Executive Directors; and • Post-employment shareholding requirement, 200% of salary for two years.	• Shareholdings for Andy Agg, John Pettigrew and Nicola Shaw are 195%, 609% and 175% respectively and for Dean Seavers (at 5 November 2019) 423%; and • John Pettigrew has met his shareholding requirement. Andy Agg and Nicola Shaw have not yet met their shareholding requirements due to relatively shorter tenure in role and in company, respectively. • Andrew Bonfield and Dean Seavers have each met their post-employment shareholding requirement as at 31 March 2020.

Directors' Remuneration Report continued

Directors' remuneration policy – approved by shareholders in 2019

Key aspects of the current Director's remuneration policy, along with elements particularly applicable to the 2019/20 financial year, are shown on pages 92 – 95 for ease of reference only. The current policy was approved for three years from the date of the 2019 AGM, held on 29 July 2019. A shareholder vote on the remuneration policy is not required in 2020. A copy of the full remuneration policy is available within the 2018/19 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.

The Committee reviews annually the overall appropriateness and relevance of the remuneration policy and whether any changes should be put to shareholders. Decisions on the levels of measures and targets for performance related pay (APP and LTPP) and payouts are made taking account of overall financial and business performance. A member of the Audit Committee is required to be a member of the Committee and this ensures the Committee receives knowledgeable input on setting financial measures and assessing outturns including any adjustments and judgements considered by the Audit Committee. The Committee also works closely with the Nominations Committee in respect of pay and conditions of newly appointed executives to ensure their remuneration is within policy. The Committee will interface with the Share Schemes Sub-Committee as required. Consistent with the UK Corporate Governance Code, members of the Remuneration Committee are independent Non-executive Directors who do not receive any variable remuneration and do not participate in decisions about their own remuneration.

Approved policy tables – Executive Directors

Salary

Purpose and link to business strategy: to attract, motivate and retain high-calibre individuals, while not overpaying.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Salaries are generally reviewed annually and are targeted broadly at mid-market of our peer group. However a number of other factors are also taken into account: • business performance and individual contribution; • the individual's skills and experience; • scope of the role, including any changes in responsibility; and • market data, including base pay and total remuneration opportunity in the relevant comparator group.	No prescribed maximum annual increase, although increases are generally aligned to salary increases received by other Company employees and to market movement. Increases in excess of this may be made at the Committee's discretion in circumstances such as a significant change in responsibility, progression if more recently appointed in the role and broad alignment to mid-market.	Not applicable.

Benefits

Purpose and link to business strategy: to provide competitive and cost-effective benefits to attract and retain high-calibre individuals.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Benefits provided include: • company car or a cash alternative (UK only); • use of a car and driver when required; • private medical insurance; • life assurance; • personal accident insurance (UK only); • opportunity to purchase additional benefits (including personal accident insurance for US) under flexible benefit schemes available to all employees; and • opportunity to participate in HMRC (UK) or Internal Revenue Service (US) tax-advantaged all-employee share plans, currently: 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 their gross salary to purchase shares. These shares are placed in trust. 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.	The cost of providing benefits will vary from year to year in line with market. Participation in tax-approved all-employee share plans is subject to limits set by the relevant tax authorities from time to time.	Not applicable.

Directors' remuneration policy – approved by shareholders in 2019 continued

Pension

Purpose and link to business strategy: to reward sustained contribution and assist attraction and retention.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Externally hired Executive Directors will participate in a Defined Contribution (DC) arrangement. UK-based Executive Directors may alternatively choose to receive cash in lieu. In cases of internal promotion to the Board, the Company will recognise legacy Defined Benefit (DB) pension arrangements of existing employees in both the UK and US where these have been provided under an existing arrangement. In line with market practice, pensionable pay for UK-based Executive Directors includes basic salary only and for US-based Executive Directors it includes basic salary and APP award.	UK DC: annual contributions for new appointments of up to 20% of basic salary. Existing Executive Directors may receive annual contributions of up to 30% of basic salary. Executive Directors may take a full or partial cash supplement in lieu. Life assurance of four times basic salary and a dependant's pension of one third of basic salary is provided. Executives with HMRC pension protection may be offered lump sum life assurance only, equal to four times basic salary. UK DB: a pension generally payable from age 60 or 63. DB benefits are subject to capped increases in pensionable salary. No enhancement is provided on promotion to the Board. Funded DB benefits are subject to HMRC maximum allowances and limits. On death in service, a lump sum of four times pensionable salary and dependant's pension of two-thirds of the Executive Directors' pension is provided. DB pension plans were closed to new members by April 2006. US DC: annual contributions of up to 9% of basic salary plus APP award with additional 401(k) plan match of up to 4%. US DB: an Executive Supplemental Retirement Plan provides for an unreduced pension benefit at age 62 (this plan is closed to new participants from 1 January 2015). For retirements at age 62 with 35 years of service, the pension benefit would be approximately two thirds of pensionable salary. DB final average pay plan is subject to capped increases in 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).	Not applicable. None of the current Executive Directors are active members of a DB plan.

Pension footnote: The Remuneration Committee agreed in November 2019 (i.e. after the July 2019 AGM Policy vote) that newly appointed Executive Directors will receive annual contributions of up to 12% of basic salary for the DC pension scheme, or cash supplement in lieu.

Annual Performance Plan (APP)

Purpose and link to business strategy: to incentivise and reward the achievement of annual financial measures and strategic non-financial measures including the delivery of annual individual objectives and demonstration of our Company leadership qualities and values.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
The APP comprises reward for achievement against financial measures and achievement against individual objectives. Financial performance measures and targets are normally agreed at the start of each financial year and are aligned with strategic business priorities. Targets are set with reference to the budget. Individual objectives and associated targets are normally agreed also at the start of the year. APP awards are paid in June. 50% of the APP award is paid in shares, which (after any sales to pay-associated income tax) must be retained until the shareholding requirement is met, and in any event for two years after receipt. Awards are subject to malus and clawback provisions as set out in the paragraph overleaf.	The maximum award is 125% of basic salary in respect of a financial year.	At least 50% of the APP is based on performance against financial measures. The Committee may use its discretion to set financial measures that it considers appropriate in each financial year and has the flexibility to modify the amount payable, to reflect wider financial and business performance, demonstration of leadership qualities and our values, or to take account of a significant event. The payout levels at threshold, target and stretch performance levels are 0%, 50% and 100%, respectively.

Directors' Remuneration Report continued

Long Term Performance Plan

Purpose and link to business strategy: to drive long-term business performance, aligning Executive Director incentives to key strategic objectives and shareholder interests over the longer term.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Awards of shares may be granted each year, with vesting subject to long-term performance conditions. The performance measures have been chosen as the Committee believes they reflect the Executive Directors' creation of long-term value within the business. Targets are set for each award with reference to the business plan. Participants may receive ordinary dividend equivalent shares on vested shares, from the time the award was made, at the discretion of the Committee. 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. Awards are subject to malus and clawback provisions as set out in the paragraph below.	The maximum award for the CEO is 350% of salary and it is 300% of salary for the other Executive Directors based on salary at the time of the award.	The performance measures are Group Value Growth and Group RoE for all Executive Directors. For awards made in financial year 2019/20: Group Value Growth measured over three years (2019/20, 2020/21 and 2021/22) and Group RoE measured over two years (2019/20 and 2020/21) such that Group Value Growth represents two thirds and Group RoE represents one third of the total vesting outcome. For awards made in financial year 2020/21: Group Value Growth measured over three years (2020/21, 2021/22 and 2022/23) and Group RoE measured over one year (2020/21) such that Group Value Growth represents five sixths and Group RoE represents one sixth of the total vesting outcome. For awards made in 2016 which will vest in 2019, the performance measures and percentage weightings are: Group Value Growth (50%) and Group RoE (50%) for the CEO and CFO; Group Value Growth (50%), Group RoE (25%) and UK or US RoE (25%) for the UK and US Executive Directors respectively. For awards made in 2017 and 2018 which will vest in 2020 and 2021 respectively, the performance measures were Group Value Growth and Group RoE, equally weighted, for all Executive Directors. All awards have a three-year performance period. For each performance measure, threshold performance will trigger only 20% of the award to vest; 100% will vest if maximum performance is attained. Notwithstanding the level of award achieved against the performance conditions, the Committee may use its discretion to modify the amount vesting to reflect wider financial and business performance and take account of a significant event and/or compliance with the dividend policy.

Malus and clawback

The Committee has discretion to determine whether exceptional circumstances exist which justify whether any or all of an award should be forfeited, even if already paid. Examples of exceptional circumstances include, but are not limited to, material misstatement, misconduct of the participant, a significant environmental, health and safety or customer issue or failure of risk management, and if certain other facts emerge after termination of employment. The Committee also has a prescribed process to follow when determining whether and how to apply this discretion.

Approved policy table – Non-executive Directors (NEDs)

Fees for NEDs

Purpose and link to business strategy: to attract NEDs who have a broad range of experience and skills to oversee the implementation of our strategy.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
NED fees (excluding those of the Chairman) are set by the Executive Committee in conjunction with the Chairman. The Chairman's fees are set by the Committee. **Fee structure:** • Chairman fee (all inclusive); • basic fee, which differs for UK- and US-based NEDs; • Committee chair fee; • Committee membership fee; and • Senior Independent Director fee. No additional fees are paid for membership/chair of the Nominations Committee. Fees are reviewed every year taking into account those in companies of similar scale and complexity. The Chairman is covered by the Company's private medical and personal accident insurance plans, and has the use of a car and driver, when required. NEDs do not participate in incentives, pension or any other benefits. 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. NEDs who also sit on National Grid subsidiary boards may receive additional fees related to service on those boards.	There are no prescribed maximum fee levels although fees are generally aligned to salary increases received by other Company employees and market movement for NEDs of companies of similar scale and complexity. The cost of benefits provided to the Chairman is not subject to a predetermined maximum since the purchase cost will vary from year to year.	Not applicable.

Directors' remuneration policy – approved by shareholders in 2019 continued

Shareholding requirement – in employment

The requirement of Executive Directors to build up and hold a significant 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.

Shareholding requirement – post employment

The requirement of Executive Directors to continue to hold National Grid shares after leaving ensures they continue to share a risk with shareholders and maintain alignment with shareholders' interests. Executive Directors will be required to hold 200% of base salary calculated at their leave date, or maintain their actual holding percentage if lower, expressed as a number of shares and held for a period of two years. This calculation excludes the value of any awards not yet vested for 'good leavers' that will vest according to the normal schedule and which in any event must be held for a two-year period. The calculation will include recently vested LTPP awards or APP awards paid as shares which are subject to respective two-year holding periods, even after employment. Unless the post-employment 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.

Consideration of remuneration policy elsewhere in the Company

Our remuneration policy is generally aligned to the policies for our non-unionised workforce. All employees are entitled to base salary, benefits and pension contributions. In setting the remuneration policy the Committee considers the remuneration packages offered to employees across the Company. As a point of principle, salaries, benefits, pensions and other elements of remuneration are assessed regularly to ensure they remain competitive in the markets in which we operate. In undertaking such assessment our aim is to be at mid-market for all job bands, including those subject to union negotiation. As would be expected, we have differences in pay and benefits across the business which reflect specific accountabilities and labour markets. There are elements of remuneration policy which apply to all, for example, flexible benefits and share plans.

When considering annual salary increases, the Committee reviews the proposals for salary increases for the employee population generally, as it does for any other changes to remuneration being considered.

All employees are eligible for an annual performance-based award. Eligibility and the maximum opportunity available is based on market practice for incentives for the employee's job band. In addition, around 400 senior management employees are awarded LTPPs annually, which include the same performance measures as those for Executive Directors.

The Company has a number of all-employee share plans that provide employees with the opportunity to become, and to think like, a shareholder. These plans include Sharesave and the Share Incentive Plan (SIP) in the UK and the 401(k) and 423(b) plans in the US. Further information is provided on page 92.

The Company issues an employee engagement survey each year, which includes remuneration as a topic. It does not specifically invite employees to comment on the Directors' remuneration policy but any comments made by employees are noted. The Board also regularly engages with employees on a variety of topics, including remuneration.

Policy on payment for loss of office

The contracts contain provisions for payment in lieu of notice, at the sole and absolute discretion of the Company. Such contractual payments are limited to payment of salary only for the remainder of the notice period. In the UK such payments would be phased on a monthly basis, over a period not greater than 12 months, and the Executive Director would be expected to mitigate any losses where employment is taken up during the notice period. In the US, for tax compliance purposes, the policy is to make any payment in lieu of notice as soon as reasonably practicable, and in any event within two and a half months of the later of 31 December and 31 March immediately following the notice date.

In the event of a UK Director's role becoming redundant, statutory compensation would apply and the relevant pension plan rules may result in the early payment of an unreduced pension.

On termination of employment, no APP award would generally be payable. However, the Committee has the discretion to deem an individual to be a 'good leaver', in which case a pro-rata discretionary payment could be paid, based on financial performance (as measured at the end of the financial year) and the achievement of individual objectives during the financial year up to termination. In the UK the discretionary payment would generally be paid at the normal time. In the US the payment would be made earlier if required for tax compliance purposes, in which case the Committee would apply discretion to determine an appropriate level of financial performance. Examples of circumstances, whilst not exhaustive, which could trigger 'good leaver' treatment include redundancy, retirement, illness, injury, disability and death. The Committee will apply discretion to determine if the pro-rata discretionary payment should be made sooner than it would normally be paid, for example, in the case of death.

On termination of employment, outstanding awards under the share plans will be treated in accordance with the relevant plan rules approved by shareholders. Unvested share awards would normally lapse. 'Good leaver' provisions apply at the Committee's discretion and in specified circumstances. Examples of circumstances, whilst not exhaustive, which could trigger 'good leaver', include: redundancy, retirement, illness, injury, disability and death, where awards will be released to the departing Executive Director or, in the case of death, to their estate. Long-term share plan awards held by 'good leavers' will normally vest subject to performance measured at the normal vesting date and will be reduced pro-rata for each completed month starting on the date of grant. Such awards would vest at the same time as for other participants, apart from circumstances in which the award recipient has died, in which case the awards vest as soon as practicable (based on a forecast of performance).

At the Committee's discretion, the Company may also agree other payments such as an agreed amount for legal fees associated with the departure of the Executive Director and outplacement support.

Service contracts/letters of appointment

In line with our policy, all Executive Directors have service contracts which are terminable by either party with 12 months' notice. 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.

Please refer to the full remuneration policy within the 2018/19 Annual Report and Accounts on the Company's investor website (http://investors.nationalgrid.com) for our remuneration policy on Directors' recruitment, external appointments, total remuneration opportunity and corporate and share capital events.

Directors' Remuneration Report continued

Statement of implementation of remuneration policy in 2019/20

Key

AUDITED

Audited Information
Content contained within a blue box highlighted with an 'Audited' tab indicates that all the information in the panel is audited.

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 the 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 2019/20 were Nora Mead Brownell (until 8 April 2019), Jonathan Dawson (Chair), Earl Shipp, Jonathan Silver (from 16 May 2019) and Mark Williamson.

The Committee's activities during the year – activities of the Committee during the year can be found at page 106.

AUDITED

Single Total Figure of Remuneration – Executive Directors

The following table shows a single total figure in respect of qualifying service for 2019/20, together with comparative figures for 2018/19:

		Salary £'000	Benefits in kind £'000	Pension	Total fixed pay	APP	LTPP	Total variable pay	Total remuneration
Andy Agg	**19/20**	**595**	**23**	**119**	**737**	**525**	**454**	**979**	**1,716**
	18/19	149	4	30	183	158	20	178	361
John Pettigrew	**19/20**	**1,017**	**116**	**305**	**1,438**	**897**	**2,987**	**3,884**	**5,322**
	18/19	944	94	283	1,321	994	2,336	3,330	4,651
Dean Seavers	**19/20**	**512**	**27**	**74**	**613**	**0**	**1,889**	**1,889**	**2,502**
	18/19	825	30	138	993	457	1,551	2,008	3,001
Nicola Shaw	**19/20**	**555**	**15**	**166**	**736**	**387**	**1,397**	**1,784**	**2,520**
	18/19	515	15	155	685	552	997	1,549	2,234

Notes:
Dean Seavers: 2019/20 fixed pay components in the table above are for the period he served as a Director during the year, from 1 April to 5 November 2019; 2019/20 variable pay components in the table above are for the period during which he was employed, from 1 April to 31 December 2019.
Andy Agg: 2018/19 figures in the table above are for the period he served as a Director during the year, from 1 January to 31 March 2019.
Salary: Base salaries were last increased on 1 June 2019 other than for Andy Agg, who was not eligible to receive a salary increase due to being appointed CFO on 1 January 2019.
Benefits in kind: Benefits in kind (BIK) 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 and which, for John Pettigrew, amounted to approximately £86,000 for 2019/20 (and approximately £75,000 for 2018/19). A Sharesave option award was granted to John Pettigrew on 27 December 2019 and the benefit (approximately £8,000) of this award is included. There were no Sharesave options granted to any of the other Executive Directors during 2019/20.
APP: John Pettigrew will donate 20% of his 2019/20 APP (net of tax) to a charity involved in the emergency COVID-19 response in our US service territories. Dean Seavers received a nil payout for the individual portion of the APP. Consistent with Company policy for all colleagues not covered by a trade union agreement, this results in a nil payout overall. Information relating to amounts paid for the loss of office can be found on page 102.
LTPP: The 2017 LTPP is due to vest in July 2020. The average share price over the three months from 1 January 2020 to 31 March 2020 of 978.75p ($62.48 per ADS) has been applied and estimated dividend equivalents are included. The 2018/19 LTPP figures have been restated because last year they were estimated using the average share price (January–March 2019) and they now include the actual share price on vesting at 1 July 2019 and all dividend equivalent shares. Due to a higher share price at vesting of 842.10p versus the estimate of 837.34p (and the additional dividend equivalent shares added for the dividend with a record date of 31 May 2019 with a dividend rate of 31.26p per share), the actual value at vesting was £770, £89,005 and £37,991 higher than for the estimate last year for Andy Agg, John Pettigrew, and Nicola Shaw, respectively. Despite a lower ADS price at vesting of $52.736 versus the estimate of $54.73, the actual value at vesting was £539 higher than for the estimate last year for Dean Seavers. This is because the change in ADS price was offset by the additional dividend equivalent ADSs for the dividend with a record date of 31 May 2019 with a dividend rate of $2.0256 per ADS.
Impact of share price change: The impact of share price appreciation/depreciation, comparing share/ADS prices at grant versus the estimated share/ADS prices upon vesting is set out in the notes to the 2017 LTPP (vesting) table on page 101.
Exchange rate: $1.2868:£1.

AUDITED

Total pension benefits

Andy Agg, 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 until he left the business at 31 December 2019. 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.

John Pettigrew has, in addition, accrued defined benefit (DB) entitlements. He opted out of the DB scheme on 31 March 2016 with a deferred pension and lump sum payable at his normal retirement date of 26 October 2031. At 31 March 2020, John Pettigrew's accrued DB pension was £165,031 per annum and his accrued lump sum was £495,092. No additional DB entitlements have been earned over the financial year, other than an increase for price inflation due under the pension scheme rules and legislation. Under the terms of the pension scheme, if he satisfies the ill health requirements, or he is made redundant, a pension may be payable earlier than his normal retirement date. A lump sum death in service benefit is also provided in respect of these DB entitlements.

Statement of implementation of remuneration policy in 2019/20 continued

AUDITED

Annual Performance Plan (APP)

Performance against targets for APP 2019/20

APP awards are earned by reference to the financial year and this year will be paid in July 2020. 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.

For financial measures, threshold, target and stretch performance levels are predetermined 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 stretch performance.

Target and stretch performance levels for the individual objectives are also predetermined by the Committee, and an assessment of the performance relative to the target and stretch performance levels is made at the end of the performance year on each objective.

The outcomes of APP awards earned for financial performance are summarised in the table immediately below. Performance against individual objectives is set out in the tables which follow.

Performance measure	Proportion of max opportunity	Threshold	Target	Stretch	Actual	Proportion of max achieved
CEO and CFO						
Underlying EPS (p/share) Ⓐ	35%	54.0	57.5	61.0	58.2	60.0%
Group RoE (%) Ⓐ	35%	10.91	11.31	11.71	11.70	98.8%
Executive Director, UK						
UK Value Added (£m)	23.3%	1,655	1,715	1,775	1,734	65.8%
UK RoE (%) Ⓐ (Percentage points above average allowed regulatory return)	23.3%	2.01	2.26	2.51	2.34	66.0%
Underlying UK Operating Profit (£m) Ⓐ	23.3%	1,533	1,583	1,633	1,576	43.0%
Executive Director, US						
US Value Added (£m)	23.3%	1,276	1,327	1,387	1,344	64.2%
US RoE (%) Ⓐ	23.3%	8.96	9.16	9.36	9.25	72.5%
Underlying US Operating Profit (£m) Ⓐ	23.3%	1,725	1,785	1,845	1,645	0.0%
All Executive Directors						
Individual objectives (%)	30%	Detail expanded in tables below				60–65%

Notes:
Underlying EPS: Technical adjustments have been made reducing the target by 2.5p to reflect the net effect of currency adjustments, the impact of deferrable storm costs, certain actuarial assumptions on pensions and scrip dividend uptake.
Group RoE: A technical adjustment has been made reducing the target by 0.33% to reflect the true-up of opening equity.
UK financial measures: Technical adjustments have been made reducing the underlying UK Operating Profit target to reflect the net effect of certain actuarial assumptions on pensions (£5m reduction) and normalisation to reflect the impact of RPI (£11m reduction) and reducing the UK Value Added target by £14m to ensure consistency of accounting treatment.
US financial measures: Technical adjustments have been made reducing the underlying US Operating Profit target by £70m to reflect the net effect of currency adjustments, deferrable storm costs and certain actuarial assumptions on pensions. Technical adjustments have been made reducing the US Value Added target by £33m to reflect the net effect of currency adjustments and the impact of deferred tax movements.
Individual Objectives: For 2019/20 the Committee has applied discretion to cap the payout for overall individual achievement against individual objectives at the lower of target and actual achievement to reflect restraint in the context of COVID-19 and to be consistent with decisions made for the wider managerial population. This discretion is not incorporated above.

Directors' Remuneration Report continued

Individual Objectives

The individual objectives of the Executive Directors when taken together were designed to deliver against each of our 2019/20 business priorities. The Committee adopts a two-stage process to agree individual objectives. First it reviews and provides feedback on the objectives including consideration of the weighting based on business criticality of the objective and then, at a second meeting, it completes a final review and approves the objectives. At the end of the year an overall assessment is made which takes account of the weighting and achievement of the respective individual objectives for each Director and the degree to which each element of the objective was met against specific target and stretch targets. As with the financial measures, the achievement of 'stretch' performance and 'target' performance overall results in 100% and 50% respectively of the maximum payout.

For 2019/20 the Committee has applied discretion to cap the payout for overall achievement against individual objectives at the lower of target and actual achievement to reflect restraint in the context of COVID-19 and to be consistent with decisions made for the wider managerial population. This discretion is not incorporated in the percentage outcomes below.

Andy Agg

Individual objective & performance commentary	Weighting	Outcome
Drive operating efficiency of the business and finance function • Delivered targeted UK cost efficiencies of £50 million and on track to deliver a further £100 million in 2020/21 • Delivered US cost efficiencies, but was short of target • Made good progress on the digital transformation of the Finance function, including the successful implementation of SAP improvements and strong leadership of a Finance transformation programme, with more work to be done to crystallise cost reductions	25%	64%
Support financial aspects of regulatory negotiations • Provided effective support on the Hinkley-Seabank agreements and in continuing RIIO-2 discussions with Ofgem in the UK, enabling financial parameters that are viewed as positive by shareholders • Enabled positive outcome on Massachusetts Electric (MECO) rate case • Maximum not awarded due to regulatory outcomes not fully at stretch levels	25%	80%
Support in updated investor proposition review and Total Societal Impact initiative • Established and gained agreement from the Board for an appropriate investor proposition • Completed sale of minority stake in Cadent in line with agreed timing • More opportunities remain in identifying additional financeable growth opportunities for sustained outperformance	25%	80%
Drive the talent agenda • Made positive progress on development and succession planning deeper in the Finance function • Increased the Colleague Enablement score and workforce diversity in the Finance function, though fell short of targeted aspirations	25%	36%
Summary		
Andy had a good year and has firmly established himself in the CFO role. He provided good leadership on the investment proposition, started to transform the Finance function and strengthened talent capabilities. Outside of his core objectives he has also made strong contributions in articulating National Grid's contributions as a corporate entity in the State Ownership debate, introducing GAAP reporting. More work is needed in driving the talent agenda in the US and progressing additional risk and control measures.	100%	65%

John Pettigrew

Individual objective & performance commentary	Weighting	Outcome
Optimise regulatory/government agreements and relationships • Led a successful response to the near simultaneous tripping of two large power stations in August 2019 leading to power outages in various parts of England and Wales, including re-establishing power within the timeframes required by Ofgem, and engaging with Ofgem in the investigation and learnings reviews which confirmed that the outage was not caused by National Grid infrastructure • Continued dialogue with Ofgem and stakeholders on the proposed parameters for RIIO-2 although there remain differences on certain issues • Achieved a successful outcome for the Hinkley-Seabank project in the UK and the MECO rate case in Massachusetts • Continued positive engagement with key regulatory and government stakeholders, including a new UK government, and administrations in Massachusetts and Rhode Island, though there is more work to be done in New York to rebuild our reputation following the issues arising from the downstate New York Gas moratorium	40%	50%
Develop external National Grid value proposition • Established and gained agreement from the Board for an appropriate investor proposition • Additionally, established and gained agreement from the Board for a new framework for defining National Grid's Total Societal Impact to support our aspirations as we continue to emphasise the importance of being a purpose-led organisation	20%	100%
Continue work to ensure National Grid is well placed for growth and innovation • Continued to build an effective platform for growth through National Grid Ventures, particularly with the purchase of renewables developer Geronimo Energy • Delivered the digital strategy in both the UK and US • Responded appropriately to innovation and disruptive technologies, particularly through National Grid Partners, though there remains more work to be done to achieve our ambitions	20%	75%

Statement of implementation of remuneration policy in 2019/20 continued

John Pettigrew continued

Individual objective & performance commentary continued	Weighting	Outcome
Drive the talent and culture agenda • Increased the colleague engagement score by 6% and articulated clear aspirations on culture, which now need to be embedded in the organisation • Demonstrated enhancements in the capabilities and strength of succession of the National Grid leadership team, including the successful appointments of a President of the US business, and Managing Director, National Grid Ventures; there remains more work to be done on succession planning and further investment in leadership capability • Made strides in inclusion and diversity, though success of I&D initiatives still needs to be evidenced with increased proportion of women and minorities in leadership and managerial positions	20%	50%
Summary		
John Pettigrew's performance in his role as CEO continues to be strong, with particular highlights in the areas of the value proposition for our investors and communities, stakeholder engagement and outcomes in the UK and Massachusetts, and growth and innovation. More work is to be done on completing agreements on downstate NY and in the succession planning and diversity of our workforce.	100%	65%

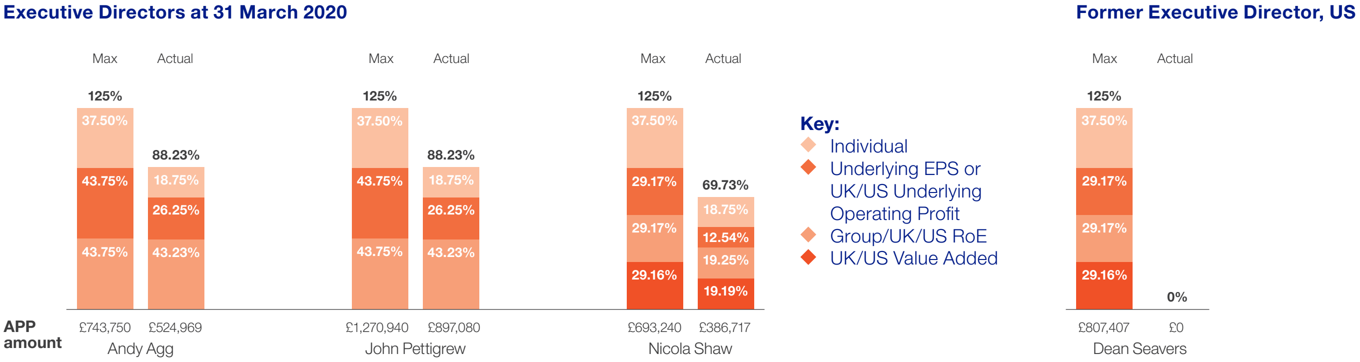
Nicola Shaw

Individual objective & performance commentary	Weighting	Outcome
Deliver a step change improvement in the performance of customer service as measured by Net Promoter Score and Customer Satisfaction (CSAT) • Met Net Promoter Score stretch target • Met Customer Satisfaction score target, and was very close to stretch target • Demonstrated strong focus on customer service during the year, including positive personal engagement with customers	25%	80%
Deliver a step change in Operational Performance • Delivered cost reductions as part of the UK transformation programme whilst successfully managing all key risks • Successfully managed implications of Brexit, with no interruption to business • Made progress on digital transformation, with some further implementation work to be done • More work to be done on risk and control measures	25%	45%
Deliver successful regulatory outcomes • Delivered RIIO-2 business plans with stakeholder support, with some items posed by independent challenge group to be addressed, although there remain differences on certain issues • Positive engagement with UK regulator, including on Hinkley-Seabank activities which led to a positive outcome • Led a successful response to the August 2019 power outage, although external communications response times could have been better	25%	55%
Drive the talent agenda • Made positive progress on succession planning but more work to be done • Increased the Colleague Enablement and Engagement scores in the Core UK business • Improved workforce diversity in the Core UK business	25%	60%
Summary		
Overall Nicola Shaw has had a good year with delivering on cost reduction commitments, strong progress in improving customer service, positive engagement with our stakeholders, particularly with RIIO-2 and Hinkley-Seabank, and excellent Colleague Enablement and Engagement scores. There remains work to be done on risk and control measures and certain issues regarding RIIO-2.	100%	60%

Directors' Remuneration Report continued

2019/20 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.



Notes:
1. Underlying EPS and Group RoE pertain to Andy Agg, CFO and John Pettigrew, CEO.
2. Underlying UK Operating Profit, UK RoE and UK Value Added pertain to Nicola Shaw, Executive Director, UK.
3. Underlying US Operating Profit, US RoE and US Value Added pertain to Dean Seavers, Executive Director, US. The APP maximum opportunity and actual award for Dean Seavers are for the period during which he was employed, from 1 April to 31 December 2019.
4. For 2019/20 the Committee has applied discretion to cap the payout for overall achievement against individual objectives for Andy Agg, John Pettigrew and Nicola Shaw, at the lower of target and actual achievement to reflect restraint in the context of COVID-19 and to be consistent with decisions made for the wider managerial population. This discretion is incorporated in the actual payouts above.
5. John Pettigrew will donate 20% of his 2019/20 APP (net of tax) to a charity involved in the emergency COVID-19 response in our US service territories.

AUDITED

LTPP performance

The LTPP value included in the 2019/20 single total figure relates to anticipated vesting in July 2020 of the conditional LTPP awards granted in 2017.

2017 LTPP

The 2017 award is determined by performance over the three years ended 31 March 2020 of Group RoE (50% weighting) and Group Value Growth (50% weighting), which is expected to vest on 27 July 2020. The financial components and weightings for this year's vesting, i.e., the 2017 LTPP awards, are the same for all Executive Directors. The Group Value Growth outturn includes an amount to reflect the value added from the sale of the residual interest in the UK Gas Distribution business and to adjust for revised timing of UK tax payments in 2019/20.

The Committee has decided not to apply any discretion following consideration of wider financial performance during the 3-year performance period.

Performance measure	Threshold – 20% vesting	Maximum – 100% vesting	Actual/expected vesting	Actual/expected proportion of maximum achieved
Group RoE (50% weighting) Ⓐ	11.0%	12.5% or more	11.9%	69.8%
Group Value Growth (50% weighting)	10.0%	12.0% or more	12.8%	100.0%

Statement of implementation of remuneration policy in 2019/20 continued

AUDITED

2017 LTPP (vesting)

The 2017 LTPP is expected to vest on 27 July 2020. The amounts expected to vest under the 2017 LTPP for the performance period ended on 31 March 2020 and included in the 2019/20 single total figure are shown in the table below. The share price valuation is an estimate based on the average share price over the three months from 1 January 2020 to 31 March 2020 of 978.75p ($62.48 per ADS); the final dividend to be paid in August 2020 is excluded.

	Original number of share awards in 2017 LTPP	Overall vesting percentage (as % of max.)	Number of awards vesting	Number of dividend equivalent shares	Total value of awards vesting and dividend equivalent shares (£'000)
Andy Agg	49,080	84.9%	41,668	4,675	454
John Pettigrew	323,205	84.9%	274,401	30,794	2,987
Dean Seavers (ADSs) (prorated)	41,078	84.9%	34,875	4,036	1,889
Nicola Shaw	151,109	84.9%	128,291	14,397	1,397

Notes:
The total value of awards vesting and dividend equivalent shares are subject to a two-year holding period.
Andy Agg: Andy Agg's award of 49,080 shares was granted in two tranches. The first tranche of 21,996 shares was granted on 28 June 2017 followed by a second tranche of 27,084 shares granted on 24 July 2017. Both awards are subject to the same performance conditions, performance period and vesting percentage/dividend equivalents estimates.
Dean Seavers: Dean Seavers' original award of 49,294 ADSs has been prorated to 41,078 ADSs on the basis of completed months employed between the grant date and 31 December 2019.
Impact of share price change: The impact of share price change for the 2017 LTPP, comparing share price at grant versus the average share price for the period 1 January 2020 to 31 March 2020 of 978.75p ($62.48 per ADS), for each Executive Director: for John Pettigrew and Nicola Shaw the share price at grant was 973.80p resulting in an increase per share of 4.95p (0.5%) and this results in an estimated increase in value (including dividend equivalents) of £15,107 for John Pettigrew and £7,063 for Nicola Shaw; Andy Agg received his 2017 LTPP award in two tranches and the share prices at grant for his awards were 973.80p and 941.50p resulting in increases per share of 4.95p (0.5%) and 37.25p (4%) respectively and this results in estimated increases in value (including dividend equivalents) of £1,028 and £9,526 respectively; for Dean Seavers the ADS price at grant was $63.94 resulting in a decrease per ADS of $1.46 (2%) and this results in an estimated reduction in value (including dividend equivalents) of $56,810. The impact of share price change is not included in the expected amounts to vest shown in the above table.

AUDITED

Single total figure of remuneration – Non-executive Directors

The following table shows a single total figure in respect of qualifying service for 2019/20, together with comparative figures for 2018/19:

	Fees £'000		Other emoluments £'000		Total £'000	
	2019/20	**2018/19**	**2019/20**	**2018/19**	**2019/20**	**2018/19**
Nora Mead Brownell	**2**	100	–	8	**2**	108
Jonathan Dawson	**111**	108	**0**	2	**111**	110
Therese Esperdy	**141**	138	**19**	15	**160**	153
Sir Peter Gershon	**538**	523	**86**	83	**624**	606
Paul Golby	**104**	101	**5**	5	**109**	106
Liz Hewitt	**23**	n/a	**1**	n/a	**24**	n/a
Amanda Mesler	**91**	77	**2**	–	**93**	77
Earl Shipp	**103**	25	**17**	3	**120**	28
Jonathan Silver	**91**	n/a	**11**	n/a	**102**	n/a
Mark Williamson	**134**	130	**6**	6	**140**	136
Total	**1,338**	1,202	**147**	122	**1,485**	1,324

Notes:
Receiving the US-based Board fee: Nora Mead Brownell, Therese Esperdy, Earl Shipp and Jonathan Silver.
Receiving the UK-based Board fee: Jonathan Dawson, Paul Golby, Liz Hewitt, Amanda Mesler and Mark Williamson.
Nora Mead Brownell: Nora Mead Brownell stepped down from the Board on 8 April 2019.
Therese Esperdy: Fees for 2019/20 include £25,000 in fees for serving on the National Grid USA Board.
Sir Peter Gershon: Other emoluments comprise private medical insurance and the use of a car and driver when required and this amounted to approximately £85,000 for 2019/20 (and approximately £81,000 for 2018/19).
Jonathan Silver: Jonathan Silver joined the Board on 16 May 2019.
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 and these costs are included in the table above.

The total emoluments paid to Executive and Non-executive Directors in the year was £13.5 million (2018/19: £11.6 million).

Directors’ Remuneration Report continued

AUDITED

Other Remuneration Disclosures

2019 LTPP (conditional award) granted during the financial year

The face values of the awards are calculated using the volume weighted average share price at the date of grant (28 June 2019) (£8.341132 per share and $53.0487 per ADS) and are used to determine the value of the awards granted.

	Basis of award	Face value ’000	Proportion vesting at threshold performance	Number of shares	Performance period end date
Andy Agg	300% of salary	£1,785	20%	213,999	31 March 2022
John Pettigrew	350% of salary	£3,603	20%	431,969	31 March 2022
Dean Seavers (ADSs)	300% of salary	$3,347	20%	63,094 (ADSs)	31 March 2022
Nicola Shaw	300% of salary	£1,677	20%	201,059	31 March 2022

Notes:
The 2019 LTPP grant will vest on 1 July 2022. The total value of awards vesting and dividend equivalent shares are subject to a two-year holding period.
Dean Seavers: Dean Seavers’ 2019 LTPP award of 63,094 ADSs will be prorated to 10,515 ADSs to reflect the time served between the award date and 31 December 2019 when he left the Company.

AUDITED

Performance conditions for 2019 LTPP awards granted during the financial year

	Conditional share awards granted – 2019		
Performance measure	Weighting for all Executive Directors	Threshold 20% vesting	Maximum 100% vesting
Group RoE Ⓐ	33.33%	11.0%	12.5% or more
Group Value Growth	66.67%	10.0%	12.0% or more

Notes:
Group RoE: Group RoE is measured during the first two years of the three-year performance period and will contribute one-third of the total vesting outcome (at the end of three years).
Group Value Growth: Group Value Growth is measured over the entire three-year performance period and will contribute two-thirds of the total vesting outcome.

AUDITED

Payments for loss of office and payments to past Directors

Leaving arrangements for Dean Seavers

Dean Seavers stepped down from the Board for personal reasons on 5 November 2019 and remained employed by the Company until 31 December 2019 to support a smooth leadership transition and handover.

Mr Seavers’ remuneration in relation to his fixed pay for the period 1 April 2019 to 5 November 2019, his 2019/20 APP and his 2017 LTPP is disclosed in the Single Total Figure of Remuneration table on page 96. For the period from 6 November 2019 to 31 March 2020, Mr Seavers received remuneration totalling £1.1 million which predominantly includes his fixed pay (salary, benefits and pension) until 31 December 2019, his pay in lieu of notice of approximately £732,000 and his accrued holiday of approximately £133,000. All payments are in accordance with his service agreement and the Directors’ Remuneration Policy and subject to applicable tax withholdings. As part of Mr Seavers’ agreed leaver arrangements the Company will fund limited costs for security arrangements until 31 December 2020. These costs are expected to be no more than $35,000.

The Committee agreed to grant good leaver treatment for Mr Seavers’ outstanding LTPP awards given his overall long-term strong performance and contribution to the business. Mr Seavers’ outstanding ADS awards under the 2018 and 2019 Long Term Performance Plan (LTPP) will be prorated for completed months held since the award date until 31 December 2019, as set out in the table below. These awards will vest at the same time as other participants, subject to performance measured at the vesting date and any discretion the Committee may decide to exercise at the time of vesting, in line with our Directors’ Remuneration Policy. These shares will be subject to the two-year post-vesting holding requirement and post-employment shareholding requirement, if not already met.

LTPP Awards

Award	ADSs awarded	Pro-rata ADSs	Vesting Date
2018 LTPP	58,786	29,393	July 2021
2019 LTPP	63,094	10,515	July 2022
Total	**121,880**	**39,908**	

Mr Seavers is subject to the Company’s post-employment shareholding requirement of 200% of base salary for two years after leaving the Company.

Statement of implementation of remuneration policy in 2019/20 continued

Payments to past Directors and post-employment shareholdings

There have been no payments to any other past Director during 2019/20. Past Directors are required to continue to hold their shares/ADSs with the Company's third-party share scheme administrator in order to audit compliance; at 31 March 2020 Andrew Bonfield and Dean Seavers have each continued to meet their post-employment share-holding requirements.

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 2020, had headroom of 3.89% and 7.86% respectively.

AUDITED

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. The shareholding is as at 31 March 2020 and the salary used to calculate the value of the shareholding is the gross annual salary as at 31 March 2020.

John Pettigrew has met his shareholding requirement. As Andy Agg and Nicola Shaw are still relatively new in post and to the Company, respectively, they have not yet met their requirement, but each are expected to do so in 2023 assuming on-target performance/vesting outturns. They will not be allowed to sell shares, except for covering associated tax liabilities, until this requirement is met. Dean Seavers had met his shareholding requirement before he stepped down from the Board. Non-executive Directors do not have a shareholding requirement.

A further 50 shares have been purchased between April and June on behalf of each of Andy Agg, John Pettigrew and Nicola Shaw via the Share Incentive Plan (an HMRC tax-advantaged all-employee share plan), thereby increasing their beneficial interests. There have been no other changes in Directors' shareholdings between 1 April 2020 and 17 June 2020.

The normal vesting dates for the conditional share awards subject to performance conditions are 1 July 2020, 1 July 2021 and 1 July 2022 for the 2017 LTPP, 2018 LTPP and 2019 LTPP respectively.

Directors	Share ownership requirements (multiple of salary)	Number of shares owned outright (including connected persons)	Value of shares held as multiple of current salary	Number of options held under the Sharesave Plan	Conditional share awards subject to performance conditions (LTPP 2017, 2018 & 2019)
Executive Directors					
Andy Agg	400%	122,351	195%	4,045	372,965
John Pettigrew	500%	662,828	609%	7,253	1,153,572
Dean Seavers (ADSs) (at 5 November 2019)	400%	81,817	420%	–	80,986
Nicola Shaw	400%	103,897	175%	4,070	539,331
Non-executive Directors					
Nora Mead Brownell (ADSs) (at 8 April 2019)	–	4,583	–	–	–
Jonathan Dawson	–	41,077	–	–	–
Therese Esperdy (ADSs)	–	1,587	–	–	–
Sir Peter Gershon	–	107,215	–	–	–
Paul Golby	–	2,291	–	–	–
Liz Hewitt	–	0	–	–	–
Amanda Mesler	–	1,500	–	–	–
Earl Shipp (ADSs)	–	1,000	–	–	–
Jonathan Silver (ADSs)	–	0	–	–	–
Mark Williamson	–	47,460	–	–	–

Notes:
Andy Agg: On 31 March 2020 Andy Agg held 4,045 options granted under the Sharesave Plan. 4,045 options were granted with an exercise price of 749 pence and these have since been exercised at 749 pence per share in April 2020. The number of conditional share awards subject to performance conditions is as follows: 2017 LTPP: 49,080; 2018 LTPP: 109,886; 2019 LTPP: 213,999.
John Pettigrew: On 31 March 2020 John Pettigrew held 7,253 options granted under the Sharesave Plan. 3,034 options were granted with an exercise price of 749 pence per share and these have since been exercised at 749 pence per share in April 2020. 4,219 options were granted with an exercise price of 711 pence per share and they can, subject to their terms, be exercised at 711 pence per share between 1 April 2025 and 30 September 2025. The number of conditional share awards subject to performance conditions is as follows: 2017 LTPP: 323,205; 2018 LTPP: 398,398; 2019 LTPP: 431,969.
Dean Seavers: The number of conditional share awards (ADSs), subject to performance conditions, has been prorated (from 171,174 ADSs) for completed months served since the grant date until his last day of employment (31 December 2019) and is made up as follows: 2017 LTPP: 41,078 (the original award of 49,294 ADSs prorated for 30/36 months); 2018 LTPP: 29,393 (the original award of 58,786 ADSs prorated for 18/36 months); 2019 LTPP: 10,515 (the original award of 63,094 ADSs prorated for 6/36 months).
Nicola Shaw: On 31 March 2020 Nicola Shaw held 4,070 options granted under the Sharesave Plan. 4,070 options were granted with an exercise price of 737 pence per share and they can, subject to their terms, be exercised at 737 pence per share between 1 April 2022 and 30 September 2022. The number of conditional share awards subject to performance conditions is as follows: 2017 LTPP: 151,109; 2018 LTPP: 186,263; 2019 LTPP: 201,959.
Nora Mead Brownell: stepped down from the Board on 8 April 2019.
Dean Seavers, Therese Esperdy, Earl Shipp and Jonathan Silver: Holdings and awards are shown as ADSs and each ADS represents five ordinary shares.

Directors' Remuneration Report continued

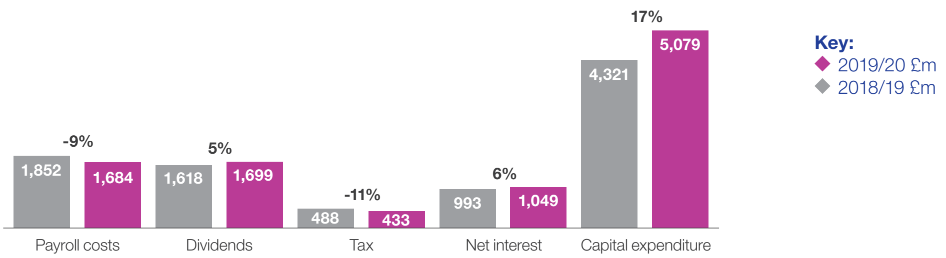
External appointments and retention of fees

Experience as a board member of another company is considered to be valuable personal development, which in turn is of benefit to the Company. The table below details the Executive Directors (at 31 March 2020) who served as Non-executive Directors in other companies during the year ended 31 March 2020:

	Company	Retained fees
John Pettigrew	Rentokil Initial plc	£68,986
Nicola Shaw	International Consolidated Airlines Group S.A.	£107,042 (€120,000)

Relative importance of spend on pay

The chart below 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.

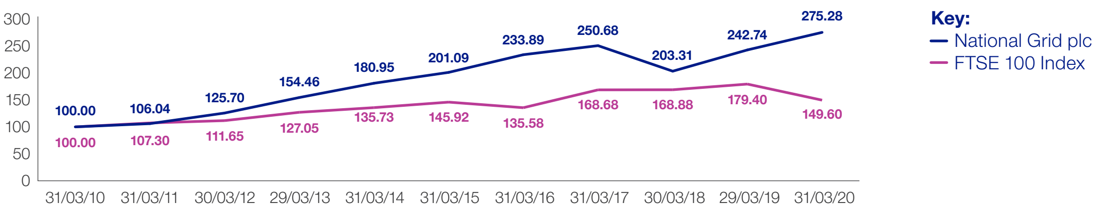


Notes:
1. The Dividends figure for 2018/19 has been restated at £1,618 million (from £1,610 million) to reflect the actual value of dividends paid.
2. Percentage increase/decrease of the costs between years is shown.

Performance graph

This chart shows National Grid plc's 10-year annual Total Shareholder Return (TSR) performance against the FTSE 100 Index since 31 March 2010 and illustrates the growth in value of a notional £100 holding invested in National Grid on 31 March 2010, compared with the same invested in the FTSE 100 index. The FTSE 100 Index has been chosen because it is the widely recognised performance benchmark for large companies in the UK. The TSR level shown at 31 March each year is the average of the closing daily TSR levels for the 30-day period up to and including that date. It assumes dividends are reinvested.

Total shareholder return



Data source: DataStream

Chief Executive's pay in the last ten financial years

Steve Holliday was CEO throughout the six-year period from 2010/11 to 2015/16. John Pettigrew became CEO on 1 April 2016.

	Steve Holliday						John Pettigrew			
	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Single total figure of remuneration (£'000)	3,738	3,539	3,170	4,801	4,845	5,151	4,623	3,648	4,651	5,322
Single total figure of remuneration including only 2014 LTPP (£'000)							3,931			
APP (proportion of maximum awarded)	81.33%	68.67%	55.65%	77.94%	94.80%	94.60%	73.86%	82.90%	84.20%	70.58%
PSP/LTPP (proportion of maximum vesting)	65.15%	49.50%	25.15%	76.20%	55.81%	63.45%	90.41%	85.20%	84.20%	84.90%

Notes:
Single total figure 2019/20: The figure for 2019/20 for John Pettigrew is explained in the single total figure of remuneration table for Executive Directors.
Single total figure 2018/19: The figure for 2018/19 has been restated to reflect actual share price at 1 July 2019, consistent with comparative figures shown in this year's single total figure of remuneration table.
2014 LTPP: The 2016/17 single total figure of remuneration includes both the 2013 LTPP award and the 2014 LTPP award due to a change in the vesting period of three years to four years between the 2013 LTPP and 2014 LTPP.
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.

Statement of implementation of remuneration policy in 2019/20 continued

Percentage change in CEO's remuneration

The table below shows how the percentage change in the CEO's salary, benefits and APP between 2018/19 and 2019/20 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, each with their own pay structure.

	Salary			Taxable benefits			APP		
	2019/20 £'000	2018/19 £'000	Change	2019/20 £'000	2018/19 £'000	Change	2019/20 £'000	2018/19 £'000	Change
John Pettigrew	1,017	944	7.7%	116	94	23.4%	897	994	-9.8%
Non-union employees (average increase/decrease)			3.6%			-1.3%			-5.9%

Notes:
Non-union employees: The population is not a constant comparator group due to external hires, promotions and attrition between years. Calculating the APP change comparing employees that were employed throughout the period results in a 0.35% change. The result is impacted also by the proportion of new employees that have not accrued a 'full year' of APP payout and changes in business results which this year drive in particular a lower APP payout for our US business versus last year.
Pay data for US employees have been converted at $1.2868:£1.

CEO pay ratio

We have disclosed our CEO pay ratios comparing the CEO single total figure of remuneration to the equivalent pay for the lower quartile, median and upper quartile UK employees (calculated on a full-time equivalent basis) in accordance with the Companies (Miscellaneous Reporting) Regulations 2018 (as amended), which formally apply to National Grid from this reporting year, 2019/20. We disclosed these ratios on a voluntary basis last year for 2018/19.

		UK			Group-wide
Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio	Median pay ratio
2018/19 – voluntary	Option A	96:1	76:1	58:1	48:1
2019/20	Option A	111:1	86:1	66:1	53:1

The comparison with UK employees is specified by the regulations. US employees represent approximately 73% of our total employees. Our median pay ratio on a Group-wide basis is 53:1, calculated on the same basis as the UK pay ratios and an exchange rate of $1.2868:£1.

Salaries at 31 March 2020 and estimated performance-based annual payments for 2019/20 have been annualised to reflect full-time equivalents. Performance payments have not been further adjusted to compensate where new employees have not completed a full performance year.

The CEO pay ratio has increased from 76:1 to 86:1 at the median. The CEO single total figure of remuneration has increased by approximately 17% versus last year and this increase is driven predominantly by an approximate 25% increase in estimated LTPP vesting value. Increases in salary, benefits in kind and pensions as a result of the increase to base salary are broadly offset by an approximate reduction of 11% in 2019/20 APP payout for the CEO. Excluding LTPP the total pay and benefits for the CEO has increased by 0.8% whilst the total pay and benefits for the reference employee at the median has increased by 2.4%, compared with last year.

Excluding estimated 2017 LTPP vesting, our UK median pay ratio is the same as last year at 38:1 and on a Group basis has marginally reduced to 23:1 this year compared with 24:1 last year. The lower Group median pay ratio versus the UK reflects the higher labour cost in the US versus the UK, which is further influenced by the US locations in which we operate which have even higher labour costs than the US on average. The ratio of the pay of our Executive Director, UK, to the median UK employee is 41:1 and excluding the estimated 2017 LTPP vesting is 18:1.

This year the 2017 LTPP vesting represents some 56% of the CEO's single total figure of remuneration. However, only 2% of UK-based employees will receive an estimated 2017 LTPP vest in our pay ratio calculations, and all of these employees are in the upper quartile of our ranked list and so are not selected as a 75th percentile (or below) reference employee. Removing the impact of 2017 LTPP vesting in our calculations results in lower ratios, for the reference employees of 49:1, 38:1 and 29:1 at the 25th, 50th and 75th percentiles respectively and these ratios are the same as last year. As employees advance through the Group, there will be the opportunity to receive higher rewards commensurate with increased accountability and market practice.

The regulations require the total pay and benefits and the salary component of total pay and benefits for this year to be set out as follows:

Pay data 2019/20	Base salary	Total pay & benefits
CEO remuneration	£1,016,752	£5,321,735
UK employee 25th percentile	£34,521	£47,849
UK employee 50th percentile	£51,149	£61,842
UK employee 75th percentile	£60,913	£80,614

Flexibility is provided to adopt one of three methods for calculating the ratios. We have chosen Option A, which is a calculation based on the pay of all UK employees on a full-time equivalent basis, as this option is considered to be more statistically robust. The ratios are based on total pay and benefits inclusive of short-term and long-term incentives applicable for the respective financial year 1 April – 31 March. The reference employees at the 25th, 50th and 75th percentile have been determined by reference to pay and benefits as at the last day of the respective financial year, 31 March, though estimates have been used for the respective APP payouts and performance outturns of the LTPP and dividend equivalents.

Directors' Remuneration Report continued

Statement of implementation of remuneration policy in 2019/20 continued

All employees are eligible for a performance-based annual payment. Our principles for pay setting and progression in our wider workforce are the same as for our executives – mid-market approach to total reward, being sufficiently competitive to attract and retain high-calibre individuals without over-paying and providing the opportunity for individual development and career progression. The pay ratios reflect how remuneration arrangements differ, as accountability increases for more senior roles within the organisation, and in particular the ratios reflect the weighting towards long-term value creation and alignment with shareholder interests for the CEO.

We are satisfied that the median pay ratio reported this year is consistent with our wider pay, reward and progression policies for employees. The median reference employee falls within our collectively bargained employee population and has the opportunity for annual pay increases, annual performance payments and career progression and development opportunities.

The Committee's activities during the year

Meeting	Main areas of discussion
April	2018/19 individual objectives scoring for Executive Committee Approval of 2019/20 Objectives for Executive Committee Discussion on 2018/19 expected incentive plan outturns
May	2018/19 APP financial outturns and confirmation of awards for Executive Committee Discussion on expected 2016 LTPP outturns Annual salary review and LTPP proposals for Executive Committee Approval of 2019/20 APP financial metrics Review and approval of Chairman's fees
November (two meetings)	Performance update for outstanding LTPP awards Review of gender and ethnicity pay gaps Items related to Executive Committee appointments Leaving arrangements for Executive Director, US Debrief of AGM season and remuneration trends Review of pensions arrangements for Executive Committee
March	Market data review for Executive Committee remuneration and initial proposals for base salary increases First review of 2019/20 individual objectives of Executive Committee Item related to new Executive Committee appointment

Advisors to the Remuneration Committee

The Committee received advice during 2019/20 from independent consultants Willis Towers Watson. Willis Towers Watson was selected by the Committee to become its independent advisor from 23 October 2017 following a competitive tendering process. Willis Towers Watson is a member of the Remuneration Consultants Group and has signed up to that group's code of conduct. The Committee is satisfied that any potential conflicts were appropriately managed.

Work undertaken by Willis Towers Watson in its role as independent advisor to the Committee has included providing market information for the Executive Directors and other senior employees and for governance matters. This work has incurred fees of £57,488 incurred on the basis of time charged to perform services and deliverables. The Committee reviews the objectivity and independence of the advice it receives from its advisors each year. It is satisfied that Willis Towers Watson provided credible and professional advice. Willis Towers Watson also provided general and technical remuneration services in relation to employees below Board and Group Executive Committee level.

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 Chief Human Resources Officer, the HR Director – 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 Directors' Remuneration Policy adopted at the 2019 AGM

The voting figures shown refer to votes cast at the 2019 AGM and represent 63.86% of the issued share capital. In addition, shareholders holding 28.6 million shares abstained.

	For	Against
Number of votes	2,116,131,831	64,718,198
Proportion of votes	97.03%	2.97%

Voting on 2018/19 Directors' Remuneration Report at the 2019 AGM

The voting figures shown refer to votes cast at the 2019 AGM (in respect of the prior remuneration policy adopted in 2017) and represent 63.71% of the issued share capital. In addition, shareholders holding 33.8 million shares abstained.

	For	Against
Number of votes	2,100,158,370	75,482,807
Proportion of votes	96.53%	3.47%

How our remuneration policy will be implemented in 2020/21

The remuneration policy adopted at the 2019 AGM will be implemented during 2020/21 as described below.

Salary

Salary increases will normally be in line with the increase awarded to other employees in the UK and US, subject to performance. Higher salary increases may also be awarded for a change in responsibility. Additionally, 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).

As explained in the Remuneration Committee Chair's Statement, for 2020/21 a salary increase for Andy Agg will be awarded and this will be effective from July in line with the rest of the workforce. Salary increases for John Pettigrew and Nicola Shaw will not be awarded at this time.

	From 1 July 2020	From 1 June 2019	Increase
Andy Agg	£633,675	£595,000	6.5%
John Pettigrew	£1,029,461	£1,029,461	0%
Nicola Shaw	£561,524	£561,524	0%

Pensions

The remuneration policy approved at the July 2019 AGM stated that new appointments would receive contributions of up to 20% of base salary. In addition to this, John Pettigrew and Nicola Shaw agreed progressive reductions from 30% to 20% of base salary. Implementation of this agreement is now underway and effective 1 April 2020, cash in lieu of pension contributions for each of John Pettigrew and Nicola Shaw have reduced to 26.7% and further reductions to 23.4% and then 20.0% will take place at 1 April 2021 and 1 April 2022 respectively. Andy Agg already receives the approved policy maximum of 20%. Further to the 2019 AGM the Committee agreed in November 2019 that newly appointed Executive Directors will receive annual contributions of up to 12% of basic salary for the DC pension scheme, or cash supplement in lieu. Further discussions on pension contributions will be conducted as part of the 2021 Directors' Remuneration Policy review.

APP measures for 2020/21

Due to the uncertainty in the context of COVID-19, the Committee has opted not to finalise financial measures, associated weightings or targets at this time but intends to do so as soon as practicable. APP targets are considered commercially sensitive and consequently will be disclosed in the 2020/21 Directors' Remuneration Report.

Performance measures for LTPP to be awarded in 2020

Due to the uncertainty in the context of COVID-19, the Committee has opted not to finalise the targets for the 2020 LTPP financial measures. The weightings for these measure are Group RoE (16.67%) and Group Value Growth (83.33%). Group RoE will be measured over the first year of the three-year performance period and Group Value Growth will be measured over the entire three-year performance period, determining 1/6th and 5/6ths of the total vesting outcome for the 2020 LTPP, respectively. LTPP awards are expected to be made later in the year and will be based on 1 July 2020 salaries.

Fees for NEDs

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. We will not be increasing the Chairman's fee or other NED fees at this time. Fees effective from 1 June 2019 remain unchanged and are set out in the table below.

Role	From 1 June 2019 £'000
Chairman	540.2
Senior Independent Director	23.1
Board fee (UK-based)	69.5
Board fee (US-based)	82.1

Role	From 1 June 2019 £'000
Committee membership fee	10.8
Chair Audit Committee	31.2
Chair Remuneration Committee	31.2
Chair (other Board Committees)	23.9

The Directors' Remuneration Report has been approved by the Board and signed on its behalf by:

Jonathan Dawson

Jonathan Dawson
Committee Chairman
17 June 2020