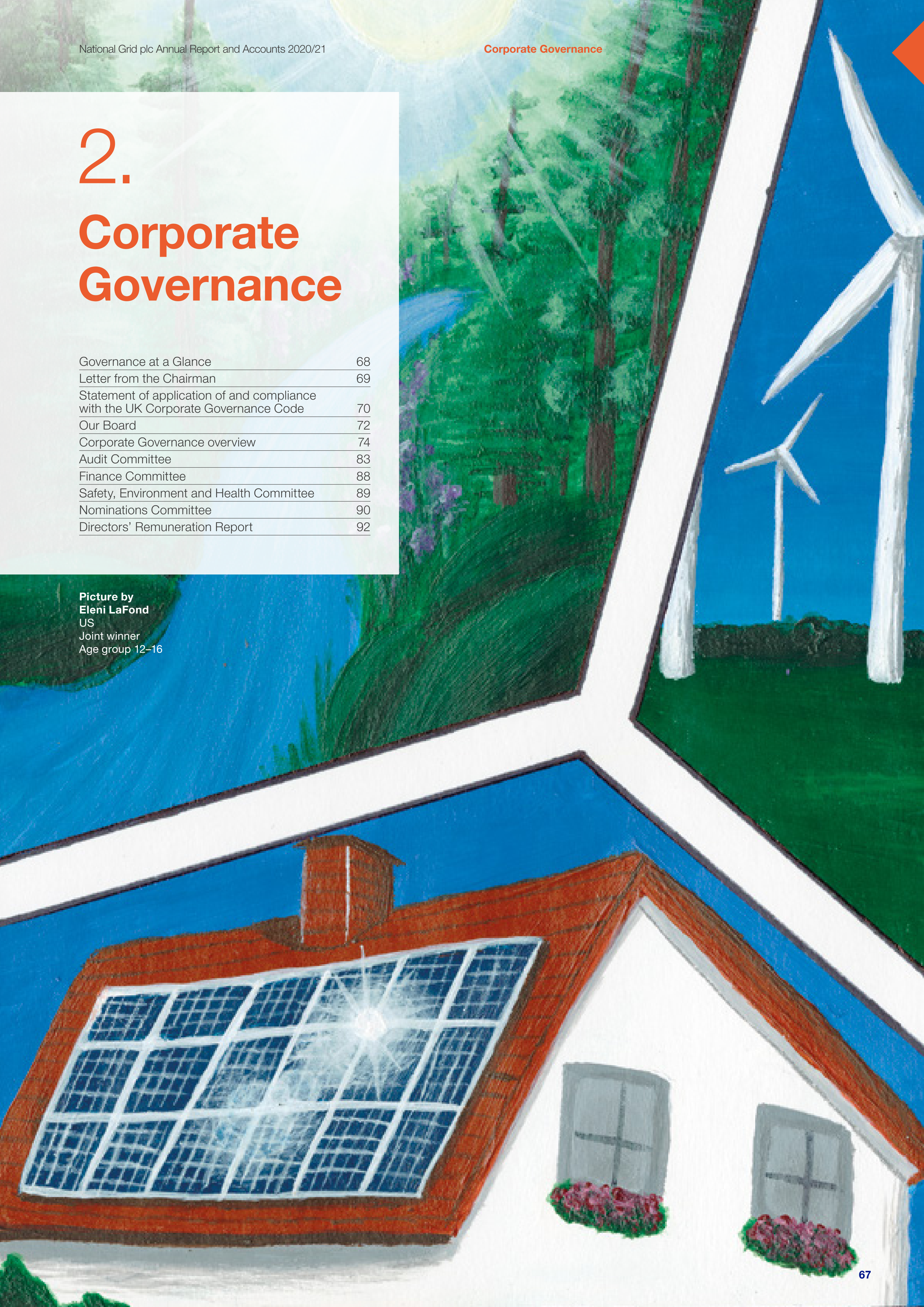


2.

Corporate Governance

Picture by
Eleni LaFond
US
Joint winner
Age group 12–16

Governance at a Glance

The Board remains committed to the highest standards of corporate governance and views good governance as key to the long-term success of National Grid. Governance is embedded throughout the business and in the work that we do to generate value for our stakeholders.

Major Board decisions

In accordance with section 172 of the Companies Act 2006 (see page 46) the Board has consistently factored the needs, concerns and potential impacts on our stakeholders into its decision-making process. The Board continues to consider all factors in the decision-making process including the long-term consequences of any decision and the need to maintain high standards of business conduct. Major decisions taken by the Board include:

- approval of the Company's Business Plan and re-affirmed its support for the strategy approved by the Board in 2020;
- approval of the 2020/21 Annual Report and Accounts;
- endorsement of proposed changes to the new organisational design;
- approval of the Company's Responsible Business Charter and Responsible Business Report, to achieve the goal of applying a Total Societal Impact lens to everything National Grid does as a business and approval of the decision to put the Company's climate transition plan before shareholders for a non-binding advisory vote;
- following significant scrutiny, approval of the 2020/21 interim and final dividends and the announcement on growing the dividend in line with UK CPIH from 2021/22 onwards;
- after detailed analysis of Ofgem's RIIO-2 Final Determinations, accepted the overall package for ESO and most of the package for ET and GT with the approval of the submission of a technical appeal to the Competition and Markets Authority in relation to the proposed cost of equity and outperformance wedge;
- approval of the Company's acquisition of WPD from PPL subject to certain regulatory approvals and shareholder circular;
- approval of the sale of NECO to PPL, conditional on completion of the WPD Acquisition; and
- approval to commence the process to sell a majority stake in National Grid Gas plc, expected to commence later this year and complete in the second half of 2022.

Key activities and matters considered by the Board are detailed on pages 76 and 77.

Key governance events

- A General Meeting was held on 22 April 2021 where shareholders approved the proposed acquisition of WPD and an increased borrowing limit. The General Meeting was held as a closed meeting due to COVID-19 restrictions and in line with government guidelines. A shareholder webcast was made available ahead of the General Meeting where the Chairman, Chief Executive and Chief Financial Officer answered questions posed by shareholders.
- A full Group Executive Committee led virtual town hall with the global employee base was held in September 2020. There were 7,150 estimated attendees and the Company announced its new value 'make it happen'.
- The 2020 Annual General Meeting was held on 27 July 2020 as a closed meeting due to COVID-19 restrictions and in line with the Corporate Insolvency and Governance Act 2020.
- A virtual shareholder engagement event was held immediately following the 2020 AGM, including a live Q&A session with the Board.
- Inaugural ESG virtual seminar for investors led by the Chairman and Chief Executive on 5 October 2020.
- Launch of 'Grid Guide To' virtual series for investors focusing on ESG themes. Led by the Chief Executive and subject matter experts.

Key highlights

97%
Board and Committee meeting attendance
for the year ended 31 March 2021

38.5%
Female representation on our Board
As at date of report

1
Board member from non-white ethnic minority
As at date of report

67%
Average % of Issued Share Capital Voted
at 27 July 2020 AGM (3% increase from 2019)

81%
Employee engagement score for 2020/21

49.16p
Dividend per ordinary share in 2020/21
Increase of 1.21% on prior year

6/13
Board members with less than 4 years' tenure

21
Extra Board and Committee meetings to focus on key priorities: (COVID-19, RIIO-2 and WPD Acquisition)

Letter from the Chairman

Sir Peter Gershon
Chairman

Dear shareholders,

I am pleased to present to you my final Corporate Governance Report as Chairman, for 2020/21.

The year in review

The COVID-19 pandemic has continued to have a significant impact around the world, requiring companies to be versatile and responsive. Good governance through times of crisis is crucial and as a Board we have closely monitored the developments of COVID-19 and the impact on the Company. We have been impressed by the commitment and resilience of our colleagues to continue to operate effectively in such unprecedented circumstances. Despite the restrictions which have prevented meetings in person we have effectively maintained continuity of governance and adapted to work well in a virtual way. As a Board we have utilised the ability to meet virtually ensuring effective engagement and collaboration has continued with each other as well as with our key stakeholders. I have been especially pleased that as a Board we have been able to continue to participate in a number of virtual engagement sessions with a range of different stakeholders to continue the solid progress in this area. In many circumstances holding the event virtually has broadened the diversity and reach of individuals we have been able to engage with where time zones and physical locations may have previously hindered this. Please see pages 79 and 80 to read further about Board engagement activities.

Focus for the Board

Outside of the unprecedented external influences created by the pandemic, it has been an incredibly busy year which has included the Final Determinations from Ofgem on the RIIO-2 price control, review of US strategy and regulatory landscape, a revised Group operating model and the approval of a new dividend policy. The Board also spent significant time discussing strategy and in particular potential strategic opportunities resulting in the proposed acquisition of Western Power Distribution (WPD) and the related sale of our Rhode Island energy business, which was approved by shareholders at a General Meeting (GM) on 22 April 2021.

Culture has been a key focus for the Board over the last few years and the COVID-19 pandemic has brought our purpose, culture and values into sharp focus, requiring the Company and the Board to demonstrate resilience through strong and decisive governance and risk management. The successful execution and implementation of our new operating model and the integration of WPD into the Group over the next year will be crucial in implementing and continuing the desired culture change. To read further about the Board's culture journey go to page 78.

Stakeholders

We devoted additional time to consider the impact of COVID-19 on the Company's stakeholders in its decision-making processes and held additional Board meetings during the year to ensure we were keeping any impact on our stakeholders in view. You can read more about how we have carried out our duties under section 172 of the Companies Act on page 46. We were disappointed to not be able to hold our 2020 AGM or 2021 GM in person; however, we were pleased to be able to offer virtual shareholder engagement sessions for both where shareholders were able to submit questions for answering by the Board. At the time of writing it is uncertain if we will be able to revert to a more 'normal' meeting for 2021; however virtual engagement will be available to ensure shareholders are able to engage with the Board. A resolution to amend our Articles to include the ability to allow for hybrid meetings to take place in the future is also being proposed at the 2021 AGM.

Climate Change

Climate change is an area that we regularly engage with our stakeholders on and has received increased attention year on year. The Company has been working towards an ambitious plan to reach net zero by 2050 and we are proud of the commitment the Company has made in its RBC and the challenging interim targets that have been set. Due to the importance of this area and the significant work that the Company is doing to meet its net zero ambition we wanted to go one step further this year to enable shareholders to have their say on how the Company is tackling this issue. As a result we are pleased to be making a commitment at this year's AGM to bring our climate transition plan to be voted on by shareholders at our 2022 AGM and progress against the plan to be reported annually.

Board succession and diversity

I am delighted that following a thorough search process Paula Rosput Reynolds was identified as my successor as Chair and joined the Board on 1 January 2021 as Non-executive Director and Chair Designate. A comprehensive induction process has been in place and Paula is well prepared to step into the role of Chair following my retirement from the Board on 31 May 2021. For further information on Paula's appointment process see page 91, and, for information on the induction process, page 82.

Maintaining a diverse culture on the Board is crucial and I am pleased that Paula's appointment as Chair will make National Grid one of only a small number of FTSE 100 companies with a female chair. Diversity is crucial to improving effectiveness, encouraging constructive debate, delivering superior performance and enhancing the success of the Company, and with Paula's appointment we have increased our gender diversity to 38.5% women on the Board. 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 refreshed Board Diversity Policy objectives on page 91.

There have been a number of Committee changes during the year with Liz Hewitt becoming Chair of the Audit Committee in November 2020 and Earl Shipp becoming Chair of the Safety, Environment and Health Committee from 1 April 2021. As I signalled in last year's report, Paul Golby will not stand for re-election and will retire from the Board at the conclusion of the 2021 AGM, Mark Williamson is also due to retire later in the year upon reaching his nine-year term. I thank Paul and Mark for their significant contributions and the value that they have added to the Board during their tenures. Justine Campbell also joined the Company, succeeding Alison Kay as Group General Counsel & Company Secretary from 1 January 2021.

Looking Forward

It is clear that Paula will be taking over as Chair at a time of considerable activity, with the next 12–18 months a crucial time for the Company. As we enter into the new RIIO-2 regulatory period, start to see the recovery of the economy from the constraints of the COVID-19 pandemic and the integration of WPD into the Group proceeds, the Board will continue to closely monitor the impacts of these events on the Company. With a number of Directors reaching their nine-year term there will also be a period of change for the Board and the opportunity for a refreshed set of skills which will ensure that the Board is well placed to react to the changing needs of the Company and the repositioning of the Company's portfolio to achieve its vision to put National Grid at the heart of a clean, fair and affordable energy future.

Sir Peter Gershon
Chairman

Paula Rosput Reynolds
Chair Designate

I am honoured to be taking over the role of Chair from 31 May 2021. I am looking forward to working with John Pettigrew and the rest of the Board and engaging with National Grid employees and key stakeholders. Sir Peter has given over nine years of devoted Chairmanship to the Company and I will ensure strong continuity of governance while imparting my experience and knowledge to lead a refreshed Board that is able to add significant value and provide effective stewardship over the Company. I look forward to reporting on the progress made in my first year as Chair in next year's Annual Report.

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

UK Corporate Governance Code – 2020/21 Compliance Statement

The Company is subject to the principles and provisions of the UK Corporate Governance Code (the Code), which have been consistently applied. The table below outlines how the Group has structured the Governance section of the Annual Report around the principles of the Code.

For the year ended 31 March 2021, the Board considers that it has complied in full with the provisions of the Code with the exception of provision 19, which has been a short-term departure from the Code. Provision 19 of the Code outlines that the Chair of a company should not remain in post beyond nine years from the date of first appointment. The Code allows for an extension of the Chair's tenure for a limited time to support effective succession planning and development of a diverse board.

The Company outlined in the 2018/19 and 2019/20 Annual Report that Sir Peter Gershon's tenure would be extended to conclude the RIIO-2 process and allow a smooth transition to the new Chair. Sir Peter will be stepping down on 31 May 2021 at which point we will comply in full with provision 19. Further detail on the Chair succession process can be found on page 91.

Disclosure Guidance and Transparency Rules

We comply with the Corporate Governance Statement requirements pursuant to the FCA's Disclosure Guidance and Transparency Rules by virtue of the information included in this Governance section of the Annual Report together with information contained in the Shareholder Information section on pages 240 – 244.

Principles of the Code

1. Board Leadership and Company Purpose

Company Purpose

National Grid's vision is to be at the heart of a clean, fair and affordable energy future. This vision is intrinsic to our purpose to Bring Energy to Life. National Grid operates at the heart of the energy system, connecting millions of people safely, reliably and efficiently to the energy they use every day. The Board is collectively responsible for the oversight and long-term success of the Company and champions the purpose and vision ensuring consistency with our workforce policies and practices. To deliver our vision, the Board has set its strategy through four key strategic priorities to create long-term value for our stakeholders. This is underpinned by the values and behaviours that shape the culture of National Grid and how we operate. This is detailed on page 18.

Culture

We recognise that how we do things is as vital as what we do. Culture sets the tone and as a result the right culture leads to a motivated and productive workforce. The Board is responsible for influencing and monitoring culture throughout the Company to ensure the desired beliefs and behaviours both in and outside the boardroom are embedded. During the year the Board has continued its journey to mould and implement the right culture across the business. Our culture journey is detailed on page 78.

Engagement

The Board remains committed to engaging with the workforce and view it as a key element of understanding the culture issues and challenges across the business. The COVID-19 pandemic presented some challenges, but engagement has continued effectively due to the ease of virtual sessions and lack of geographical barriers. The Board actively engages with all stakeholders and regularly reviews the type of engagement; further information on this can be found on pages 46 – 51.

2. Division of Responsibilities

The Chairman, who was independent on appointment, is responsible for the leadership and management of the Board and its governance. National Grid has a clear governance framework that is detailed on page 74. The Board supports the separation of the roles of the Chairman and Chief Executive. The key responsibilities are clearly documented and reviewed when appropriate; the matters reserved for the Board schedule is available on our website. The Chairman makes sure the Board is effective in its role by promoting a strong culture of openness and debate. This helps facilitate contribution from all Directors and maintain relations between the Executive and Non-executive Directors.

All of the Non-executive Directors detailed on pages 72 and 73 are considered independent by the Company and the Chair Designate upon appointment was considered independent; this is detailed on page 91. 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 approved by the Board during their tenure.

As part of the Chairman's succession, potential candidates are notified of the expected time commitment at the beginning of the process. Independent of management, our Non-executive Directors bring diverse skills and experience vital to providing strategic guidance, constructive challenge and debate.

The Group General Counsel & Company Secretary ensures 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 72 and 73. Board and Committee attendance during the year to 31 March 2021 is set out on page 75.

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. The appointment of Paula Rosput Reynolds in January 2021 ensures the Board has a Non-executive Director and Chair Designate with the required capabilities and expertise to succeed as 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. Although Paul Golby reached nine years' tenure on 1 February 2021, the Board determined that the 6 months extension past nine years did not have any effect on his independence and he was therefore determined to remain independent.

Succession

The Nominations Committee, which comprises the Chair Designate 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. This has been a key focus in the year and more detail is outlined on page 90.

Following Board approval, Justine Campbell was appointed as Group General Counsel & Company Secretary in January 2021; the detailed process is outlined on page 91.

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. The Chairman held meetings with each Board member at the end of the year to discuss their contribution and performance. Following these meetings he confirmed to the Nominations Committee that he considered that each Director continued to be effective. In April 2021 it was confirmed that all Directors continued to perform their duties in accordance with the principles of the Code. Succession planning is ongoing for those members of the Board who are approaching the nine-year term.

Evaluation

The 2020/21 performance evaluation of the Board, Board Committees and individual Directors was carried out internally with consideration given to composition, diversity, skills, and effectiveness. You can read more about this on page 81.

4. Audit, Risk and Internal Control

The Company recognises the importance and benefits of the independence of both the internal audit function and the external auditor. The Board is satisfied that the current policies and procedures in place ensure their independence and effectiveness. See pages 83 – 87 for further details.

The Board is responsible for presenting the Annual Report and Accounts that when taken as a whole is considered fair, balanced and understandable in its assessment of the Company's position and prospects. The Audit Committee has a robust process to ensure this is the case, outlined on pages 84 and 86. The statement of Directors' responsibilities is set out on page 116.

The Board delegates responsibility to the Audit Committee which oversees the Group's system of risk management and internal control. The Board considered both principal and emerging risks facing the Company during the year as detailed on pages 24 – 27.

The Company's risk appetite is set by the Board alongside internal controls and the risk management processes. The Audit Committee assists the Board with its responsibilities relating to risk and assurance and these activities are set out on pages 84 – 86.

5. Remuneration

The Remuneration Committee is comprised entirely of independent Non-executive Directors. The Committee is responsible for the development and implementation of the Remuneration Policy and determining the remuneration for Executives and senior management; including alignment to the Company's purpose, culture, values and long-term strategy. Our policy is reviewed against workforce remuneration and performance and is designed to reflect our stakeholders' interests.

The Directors' Remuneration Report on pages 92 – 113 sets out the work of the Remuneration Committee, its activities during the year and further details on how our Remuneration Policy is implemented.

During 2020/21, the Remuneration Committee ran a successful tender and appointed new remuneration consultants. Further detail is set out on page 111.

No Director is involved when determining their own remuneration outcome. Each Director exercises independent judgement and discretion as part of any decision made by the Remuneration Committee.

Our Board

Committee membership key

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

Biographies as at 19 May 2021

Other changes during the year:

- Alison Kay stepped down as Group General Counsel & Company Secretary on 31 December 2020

Sir Peter Gershon CBE FREng (74)
Chairman

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

Tenure: 9 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;
- Advisory Board member of the Reform Research Trust;
- Chairman of Join Dementia Research (JDR) Partnership Board; and
- Board member of the Investor Forum.

E F

John Pettigrew FEI FIET (52)
Chief Executive

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

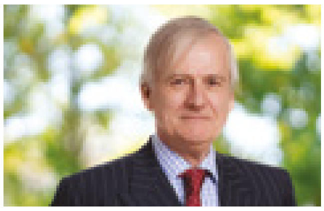
Tenure: 7 years

Skills and competencies: John joined the Group as a graduate in 1991 and has progressed through many senior management roles. 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 of the Group's strategy. This year a new group operating model was introduced under John's leadership, in order to improve customer and stakeholder relationships; evolve our ways of working and culture; and to ensure a step change in efficiency and effectiveness. Recently, he led on a strategic pivot, including the WPD Acquisition and to commence the process to sell a majority stake in our UK Gas Transmission business.

External appointments:

- Member of the UK government's Inclusive Economy Partnership;
- Member of the Electric Power Research Institute Board;
- 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.



R F N

Jonathan Dawson (69)
Non-executive Director; Independent

Appointed: 4 March 2013

Tenure: 8 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 Chairman of the Audit & Risk Committee and Senior Independent Director 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 Limited.

E

Nicola Shaw CBE (52)
Executive Director, UK

Appointed: 1 July 2016

Tenure: 4 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 F

Andy Agg (51)
Chief Financial Officer (CFO)

Appointed: 1 January 2019

Tenure: 2 years

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 appointment:

- Member of the 100 Group Main Committee and Chair of the Tax Committee.

E

Justine Campbell (50)
Group General Counsel & Company Secretary

Appointed: 1 January 2021

Skills and competencies: Justine has held senior executive positions at several multinational companies and is an experienced lawyer with particular expertise in regulated sectors.

She is responsible for safety, legal, risk, compliance and governance activities across the Group, the effective operating of National Grid plc's Board and Committees and advising on key issues of corporate governance.

External appointment:

- Member of the GC100 Group Executive Committee.

A N S

Amanda Mesler (57)
Non-executive Director; Independent

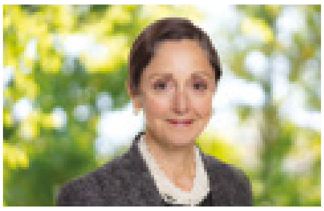
Appointed: 17 May 2018

Tenure: 3 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 appointment:

- Chief Executive Officer of CashFlows Europe Limited.



F A N

Therese Esperdy (60)
Non-executive Director; Independent

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

Tenure: 7 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:

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

S A N

Dr Paul Golby CBE FREng, FIET, FIMechE, FEI, FCGI (70)
Non-executive Director; Independent

Appointed: 1 February 2012

Tenure: 9 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 a member of the Safety, Environment and Health Committee.

External appointments:

- Chairman of Costain Group plc;
- Director of the Electrical Research Association (ERA) Foundation; and
- Chairman of NATS Holdings Limited.

A N S

Liz Hewitt (64)
Non-executive Director; Independent

Appointed: 1 January 2020

Tenure: 1 year

Skills and competencies: Liz qualified as a chartered accountant with Arthur Andersen & Co. In her executive career she worked in private equity for 3i Group plc, Gartmore Investment Management Limited and Citicorp Venture Capital Ltd gaining insights into a wide variety of industries. Her work at Smith & Nephew gave her global insight. She was seconded for a year to HM Government. In November 2020 Liz was appointed as Chair of the Audit Committee. She has extensive experience as an Audit Committee Chair and as a member of nominations and remuneration committees. She is considered to be a financial expert in the context of Audit Committee work. Her broad industrial and global experience and her financial knowledge bring a wide perspective to Board discussions and decision-making.

External appointment:

- Senior Independent Director and Chair of the Audit Committee at Melrose Industries plc.

N

Paula Rosput Reynolds (64)
Chair Designate & Non-executive Director; Independent

Appointed: 1 January 2021 as Chair Designate and Chair with effect from 31 May 2021

Tenure: Less than 1 year

Skills and competencies: Paula's strong business acumen can be demonstrated by her impressive track record of leading complex international businesses. In her board and leadership roles, Paula has demonstrated her decisive and pioneering nature which will be crucial in moving National Grid's vision forward, as it embarks on its journey to clean energy and net zero by 2050. Her knowledge of the energy market and experience supporting organisations through transitional periods will be an asset to the Board as National Grid continues to grow and embrace opportunities. Upon joining the Board, Paula stepped into the role of Chair of the Nominations Committee, which will be pivotal in ensuring that the succession and composition of the Board matches the culture, strategy and leadership needs of the Company. These skills combined with her insight into strategic and regulatory issues will enable her to lead and govern an effective Board.

External appointments:

- Senior Independent Director and Chair of the Remuneration Committee at BP plc;
- Non-executive Director of General Electric;
- President and CEO of PreferWest LLC; and
- Chair of Seattle Cancer Care Alliance.

S N R

Earl Shipp (63)
Non-executive Director; Independent

Appointed: 1 January 2019

Tenure: 2 years

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 particularly in relation to safety management. This, along with his innovative way of thinking, enables Earl to contribute on a wide range of issues to Board and Committee debates and to effectively chair the Safety, Environment and Health Committee.

External appointments:

- Non-executive Director of Olin Corporation; and
- Non-executive Director of CHI St. Luke's Health System of Texas.

F N R

Jonathan Silver (63)
Non-executive Director; Independent

Appointed: 16 May 2019

Tenure: 2 years

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:

- Independent Director of EG Acquisition Corp.;
- Senior Advisor to Guggenheim Partners;
- Non-executive Director of Peridot Acquisition Corp.;
- Director of Plug Power, Inc; and
- Director of Intellihot, Inc.

N R

Mark Williamson (63)
Non-executive Director & Senior Independent Director

Appointed: 3 September 2012

Tenure: 8 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. Mark stepped down as Chair and member of the Audit Committee in November 2020, offering guidance and support to Liz, as she succeeded him as Chair of the Audit Committee. 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

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 & 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.

Group 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 Group Executive Committee

Three Executive Directors are members of the Group Executive Committee, as well as being on the Board. The Group General Counsel & Company Secretary is also a member of the Group Executive Committee. See their biographies on page 72.

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

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: nationalgrid.com

Reports from each of the Board Committees, together with details of their activities, are set out on pages 83 – 94.

Board attendance and skills

Board and Committee membership and attendance

The table below sets out the Board and Committee attendance during the year to 31 March 2021. Attendance is shown as the number of meetings attended out of the total number of meetings possible for the individual Director during the year.

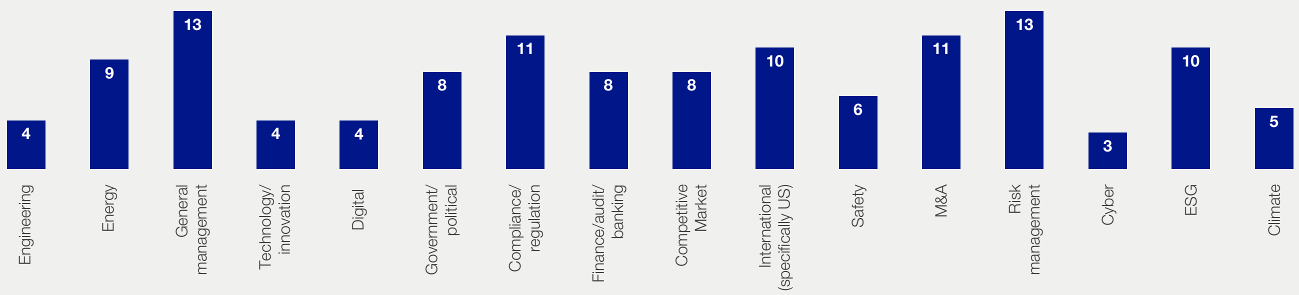
Director	Board	Audit	Finance	Nominations	Remuneration	Safety, Environment and Health
Sir Peter Gershon	◆ 19 of 19	–	–	4 of 4[4]	–	–
John Pettigrew	19 of 19	–	7 of 7	–	–	–
Andy Agg	19 of 19	–	7 of 7	–	–	–
Nicola Shaw	19 of 19	–	–	–	–	–
Jonathan Dawson	19 of 19	–	7 of 7	6 of 6	◆ 10 of 10	–
Therese Esperdy	19 of 19	6 of 6	◆ 7 of 7	5 of 6[1]	–	–
Paul Golby	19 of 19	6 of 6	–	6 of 6	–	◆ 4 of 4
Liz Hewitt	18 of 19[3]	◆ 6 of 6[5]	–	6 of 6	–	3 of 4[3]
Amanda Mesler	17 of 19[1]	6 of 6	–	6 of 6	–	4 of 4
Earl Shipp	19 of 19	–	–	5 of 6[2]	10 of 10	4 of 4
Jonathan Silver	18 of 19[1]	–	7 of 7	6 of 6	9 of 10[1]	–
Mark Williamson	19 of 19	4 of 4[5]	–	6 of 6	9 of 10[1]	–
Paula Rosput Reynolds – Appointed on 1 January 2021	5 of 5	–	–	◆ 1 of 1[4]	–	–

◆ Board/Committee chair

1. A number of meetings this year were ad hoc and held at short notice. The Directors noted were unable to join due to short notice and/or conflicting commitments. Where possible all Board/Committee members who were unable to attend a meeting provided comments to the relevant Chair in advance of the meeting.
2. Earl Shipp was unable to attend the April 2020 Nominations Committee meeting due to a conflicting commitment.
3. Liz Hewitt was unable to attend the September 2020 Board and Safety, Environment and Health Committee meetings due to travel disruption.
4. Sir Peter Gershon stepped down as Chair and member of the Nominations Committee on 1 January 2021 following the appointment of Paula Rosput Reynolds as Chair Designate and Chair of the Nominations Committee with effect from the same date. Sir Peter Gershon was not required to attend one of the Nominations Committee meetings this year as it was held to discuss his succession.
5. Mark Williamson stepped down as Chair and member of the Audit Committee with effect from 10 November 2020. Liz Hewitt stepped into the role as Chair with effect from the same date.

Board skills and experience

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.



Corporate Governance overview continued

Examples of Board focus during the year include:

Strategy

Strategy remained a key focus throughout 2020/21. In addition to Board meetings held during the year, the Board participated in an interactive strategy session held in September 2020. Topics of discussion included: recap of the Company's strategy; the next 12 months; decisions needed in the next 6 months to roll out the new operating model by April 2021; and US, UK and NGV strategy delivery.

UK RIIO-2 price control

The Board has continued to scrutinise and challenge the UK regulatory strategy throughout the year, providing feedback, guidance and support for its ongoing development.

The Board spent a considerable amount of time discussing the RIIO-2 price control this year and an additional meeting was held in January 2021. Matters considered included:

- various scenarios for Draft Determination positioning prior to the publication of the Draft Determinations in July 2020;
- how the UK business was responding to the draft proposals, its approach and key arguments;
- the Company's engagement and communications strategy;
- how the RIIO-2 performance plans had evolved, how risk and change impact of the plans was being managed;
- the outcome of the Final Determinations and possible areas of appeal to the Competition and Markets Authority (CMA);
- approval of the two technical areas of appeal to the CMA; and
- regular updates from the Chairman and Chief Executive on conversations with key stakeholders.

In January 2021, the Board agreed the recommendation to accept the overall package for the Electricity System Operator and not to pursue an appeal on any area to the CMA.

US strategy and regulatory landscape

The Board has continued to focus on developing business plans, strategies and advocacies to reposition the Company to align with the new reality. Considerations included:

- designing a simpler, more streamlined business, leading to a more efficient and effective organisation;
- embedding more of a customer focus in core operations;
- improving the way we engage with a broad range of stakeholders;
- focusing on the long-term objectives of implementing innovative regulatory frameworks, including rate plans;
- providing opportunities for investments in clean energy for the US business; and
- working with regulators and external stakeholders to set up new customer assistance programmes and regulatory pathways for recovery of incremental impacts associated with COVID-19.

The implementation action plan was approved by the Board in April 2020 and execution progressed well with two thirds of the actions now complete. The four actions behind track were due to COVID-19.

Agreed acquisition of WPD from PPL (subject to certain regulatory approvals) and strategic portfolio repositioning

This year the Board has spent a significant proportion of time discussing the strategic position of the Company to ensure its net zero ambition and overarching strategy could be achieved. In March 2021, the Board decided to proceed and strategically pivot the UK portfolio towards electricity. The decision was also taken to proceed with the sale of NECO and the majority stake in NGG.

Stakeholder analysis was undertaken during the decision-making process and further information can be found on page 48.

Stakeholders considered

Business Plan and financial performance

Business Plan

The Board discussed the ongoing financial strategy and focused on developing a Business Plan that meets the Group's requirements, aligned to the Company's purpose, vision and values.

The Board received an update on the emerging Business Plan to provide an early view given the interlinked strategic financial decisions required in 2021. In January 2021, the Board supported the suggested amendment to the financing strategy considered by the Finance Committee and approved the delegation of final approval to a sub-committee.

Stakeholder analysis had been undertaken and the impact of the Business Plan on non-investor stakeholders considered. Following a more detailed impact analysis at the March 2021 Board meeting, the Board approved the Company's Business Plan.

Financial performance

The Board receives monthly updates on the Group's financial performance. This year the Board has reviewed and scrutinised the Group trading performance, budget and financing strategy. Share price has also been considered throughout the financial year.

Dividend

The Board considered the dividend policy at its May and June 2020 meetings. The Board approved the proposed interim and final dividend payments and approved the updated dividend policy in January 2021.

The Board also reviewed the Group's dividend policy in light of the decision on Ofgem's RIIO-2 Final Determinations and the Company's Business Plan. It was announced on 2 March 2021 that from FY2021/22 onwards, the policy will aim to deliver annual dividend per share growth in line with UK CPIH inflation.

Stakeholders considered

Organisation and culture

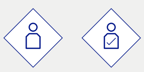
New operating model

Following input from the Nominations Committee, the Board has provided input on the proposed changes to the new operating design. The overarching aim of the project is to build a sustainable operating model to underpin our vision and strategic priorities, and to adapt our business to a rapidly changing external context. Following a clear articulation of the expected outcomes and the impact on the business, the Board endorsed the proposed changes in May 2020.

Diversity

The Board received updates on the ambitious diversity and inclusion targets at the March and April 2021 meetings.

Stakeholders considered



Our Stakeholders

Colleagues	Investors	Regulators
Communities	Customers	Suppliers

COVID-19

The Board has considered the impact of COVID-19 across all areas of the business via Board papers and meeting updates.

Throughout the peak of the pandemic, Board meetings were held weekly to discuss internal and external implications, and particularly the impact on our:

- people;
- operations;
- regulatory developments; and
- financials.

This was supported by the consideration of a number of actions to mitigate any negative impacts.

As the pandemic continued into the summer months, the meetings became fortnightly with weekly briefing notes circulated to the Board.

Our workforce remains a key focus as we continue to navigate the impact of the COVID-19 pandemic. We are pleased to report that none of our employees were furloughed during the period. A survey was conducted across the workplace to gauge both the level of business need, but also personal need, for a priority return to the workplace. The Board recognised the importance to support and prioritise a return for those who were facing the most challenges in working from home. The health and safety of our employees remains paramount and all policies have been in accordance with government guidelines.

Stakeholders considered

Other

The Board has also spent time this year considering the following matters:

- implications of the 2020 US presidential election;
- deep dives on the performance of the business and digital strategy execution;
- the strong performance of the UK and US commercial property portfolio;
- the future of the ESO; and
- culture and the implementation of the new operating model, further details of which can be found on the prior page.

Stakeholders considered

Sustainability

Responsible Business Charter

Following the recommendation last year to develop and implement a new Responsible Business framework for the Company, the Charter was created with the goal of applying a Total Societal Impact lens to everything the Company does as a business.

Extensive internal and external engagement has taken place. The Board reviewed and provided input on the Responsible Business Charter. The Board reviewed and approved the new Responsible Business Report in September 2020. A copy of the report is available at nationalgrid.com/responsibility. See pages 52 – 53 for further information.

COP26

This year the Board was pleased to report that the Company would be a principal partner of COP26. The Board received an update on the Company's aims and objectives for sponsoring COP26, the scope of the Company's campaign and core engagement components and timeline. The Board discussed the Company's ambitions and the engagement of key stakeholders during the campaign. The Board recently approved the addition of climate change as a principal risk. The Group's principal risks are reviewed and discussed by the Board bi-annually. Further information can be found in the TCFD section on page 61.

Following an update on COP26 in January 2021, the Board confirmed its support for the principle of taking a climate change advisory non-binding vote to the Annual General Meeting. In March 2021, the Board noted the climate change action plan and approved the external announcement. The Board received a further update on the Company's environmental, social and governance (ESG) positioning in April 2021.

National Grid Renewables

The Board considered the integration of Geronimo into NGV and the launch of the new National Grid Renewables brand.

Stakeholders considered

Looking forward

The Board's focus for next year is expected to include:

- US and UK regulatory strategy;
- implementation of RIIO-2;
- rate case filings;
- responsible business and ESG strategy;
- future of the ESO;
- organisational culture, bench strength and talent;
- effectiveness of the new operating model;
- stakeholder engagement strategies in the UK and US;
- long-term financing strategy; and
- integration of WPD into the Group and updates on the Rhode Island and NGG sale processes.

Our Stakeholders

Colleagues | Investors | Regulators
Communities | Customers | Suppliers

Corporate Governance overview continued

Our culture journey

Our culture determines how we behave, how we make decisions and our attitude towards risk and how it aligns with the Group's purpose, vision and values. The Board has been on a journey over the last few years to create the right culture throughout the Company, to ensure our workforce are embracing positive and inclusive behaviours and values in everything we do. This year, considerable time was spent reviewing organisational culture as we continue to evolve for the future.

We are pleased to report that the Board has progressed the culture-related activities reported last year. COVID-19 has impacted on the way our colleagues work and new ways of working have accelerated the implementation of our culture change programme following a positive response from our colleagues.

More information on our culture can be found on page 18.

January – March 2020
The Nominations Committee considered the need to evolve our operating model to underpin the delivery of our strategy and to ensure progress was being made towards the Company's goal of being purpose led. It was agreed that there was a need to evolve our culture and ways of working to create substantial change across the organisation and to achieve a results-orientated culture. Following input from the Board, Group Executive Committee, and evaluated learnings from external benchmarks and utility peers, a programme of work was designed and initiated by Human Resources.

April **May**

April – May 2020
The Board received the annual culture scorecard update devised to monitor culture at Group level with the aim of providing the Board with the information required to fulfil its role in influencing and monitoring culture. The scorecard had been updated to include additional analysis highlighting the change in culture and ways of working experienced during the COVID-19 pandemic.

A colleague engagement survey had also been undertaken, prior to the pandemic, to gain a more common understanding of the Company's culture and how this impacted behaviours and ways of working within the Company. The survey concluded that the current culture was highly consistent with the Board's view of culture and that 'order' and 'safety' had ranked as two of the top cultural behaviours and the results were also consistent with the themes seen in the annual survey.

The Board received an update on the early stages of the new operating model, considering the key milestone plan and the four key process stages.

The Board considered the culture and colleague engagement survey in May, which had been updated to reflect the feedback on the scale of ambition and provided tangible measures to support the assessment of progress. The Board noted the updated distillation of the new cultural ambition, which was one of the four overarching programme objectives from the wider operating model review. The proposed targets were agreed, which included a 10% increase in the overall organisation outcome score over the next 12 months.

December **September**

September – December 2020
The Board considered how the organisational design programme was being rolled out, the progress to date and the forward plan.

Programme momentum continued to accelerate with a strong focus on design and implementation. The Board also received an update on the material progress made on culture initiatives and the design and cascaded communication of the new organisation and operating model. The programme became 'Leading the Energy Future' as it symbolised the transition from running a change programme towards an operationalisation of our strategy across the Group. Each of the objectives are directly linked to our strategic priorities and quantified with programme targets. You can read more about our strategic priorities on page 10.

February **April**

February – April 2021
In February 2021, Spencer Stuart facilitated a culture diagnostic survey for the second year, which was completed by the Senior Leadership team, Non-executive Directors and a sample of colleagues from across the business. The aim of the survey was to see if the views of senior leadership corresponded to the views of the wider team and to establish if, from their perspective, any progress had been made on the culture journey.

In March 2021, the Board received an update on our response to the Black Lives Matter movement from the Chief Diversity Officer. Good progress had been made against the 'call to action' commitments and on inclusion and diversity in the Company. The transparency of diversity data had also increased. The Board endorsed the priorities for the next six months in the inclusion and diversity sphere.

In April 2021, an update on the progress of the culture journey was provided to the Board, along with the results of our annual Grid:voice employee survey. Good progress was seen across our organisational and leadership metrics, which exceeded our target outcomes. 81% of our colleagues completed the Grid:voice survey and the overall results were positive and reflected the considerable work we have done this year on developing our culture and our response to the pandemic.

2021 and beyond

2021 and beyond
Our leading indicators on culture change show we have multiple areas of progress being made that point toward a real change being underway. The primary focus for 2021 will be ensuring the successful execution and implementation of our new operating model including the integration of WPD into the Group and managing the proposed sale of a majority stake in Gas Transmission in the UK and the sale of NECO in the US. The acquisition will bring great people and experience to the Group and we will consider how to best incorporate the customer-centric culture. Focus will also be on reviewing and monitoring the impact on culture of the COVID-19 pandemic and ensuring that the improved communications and momentum of change activity continue as colleagues start returning to offices. Looking at the next 6–12 months, the programme will focus on delivering broadly across several initiatives with a key focus across five key priorities:

1. Implement our new organisation across the Group
2. Stand up new components of the operating model
3. Deliver planned/in-flight technology programmes
4. Capture the first wave of functional and business process efficiencies
5. Make key portfolio decisions and incorporate these into target operating design model

Colleague engagement

Throughout the year we have continued with our 'Full Board Employee Voice' approach to workforce engagement, which utilises and enhances existing colleague engagement methods and communication channels to ensure meaningful engagement between the Board and our workforce across all locations.

In April 2020, the Board considered how the COVID-19 pandemic would impact the Board's ability to undertake a significant proportion of the planned activity for 2020/21. The colleague engagement plan was reviewed and updated to include a list of virtual colleague engagement opportunities across our businesses. The virtual colleague engagement sessions, designed to fit around other commitments, have enabled the Non-executive Directors to gain exposure to additional business areas and a broader cross section of employees where previously there may have been logistical constraints. A good example of this was the meeting with the US Trade Unions which would only logistically work virtually given the locations these members are situated in. We will continue to undertake some virtual sessions to ensure this broad engagement continues.

Examples of fuller Board engagement:

Details of the actions can be found below (see page 80).

Employee Resource Group (ERG) Sessions

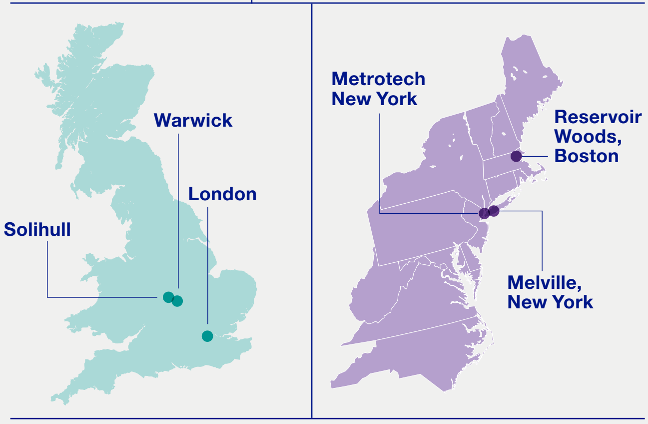
In September 2020, the Non-executive Directors met with nine US ERG Chairs and leads virtually for an informal session. Discussions focused on: inclusion and diversity; communication in middle management; COVID-19; and Board accountability.

Virtual engagement opportunities

Examples of virtual engagement opportunities that took place included:

19 video conference sessions

2,598 participants



Session	Attendees
All NGV call	525
Electricity transmission leadership Q&A call	81
Ethics and psychological safety webinar	189
Finance committee engagement session	12
Interconnector call	7
Investment management meeting	29
NGV leadership call	139
UK finance town hall	160
UK land and property town hall	124
UK leadership call	30
UK town hall	180
UK trade union session	6
US ERG session with NEDs	9
US gas safety performance functional meeting	50
US HR call	150
US leadership calls	600
US strategy & regulation meeting	97
US trade union session with NEDs	10
Virtual Chairman's awards	200

Trade Union Sessions

In October 2020, the Non-executive Directors met virtually with 10 colleagues from the US trade unions who provided a local perspective on the New England, upstate New York, and downstate New York regions. Discussions centred on safety performance; outsourcing; communication; COVID-19; and inclusion and diversity.

In November 2020, the Non-executive Directors met virtually with colleagues from the UK trade unions and discussed COVID-19; the outcome of RIIO-2; health and safety; ethics and business policy; and the protection and integrity of the network.

Communications

A key focus this year and throughout the COVID-19 pandemic has been around maintaining colleague communications across a variety of channels and forums to ensure our workforce were kept informed of the engagement activities being undertaken and the progress of any actions.

Our approach to colleague communications has strengthened and we launched a series of videos of the Non-executive Directors introducing themselves on a Company social media platform. The videos have helped employees to learn more about who our Board members are, their role, and why it is important that they meet and interact with colleagues. These videos combined with the engagement sessions have helped raise the visibility of the breadth of activity undertaken and of the role of Non-executive Directors on the Board. Feedback received confirmed that colleagues valued the Non-executive Directors taking time out to do the videos and to join engagement sessions to meet and talk with our colleagues.

Feedback and decision-making

We continue to track activity, feedback and actions taken. The Board is informed of progress against the actions bi-annually and this provides an opportunity for the Board to consider the arrangements in place. The Board also allocates time at each Board meeting to discuss key outcomes, discussions and any actions from recent engagement activities they have attended.

The Black Lives Matter update to the Board was a positive example of how discussion impacted a Board decision. In July 2020, the Board had the opportunity at a Board meeting to meet with two employees to discuss their views on diversity in the Company and the Black Lives Matter movement. As a result, a 'call to action' campaign document was made available and discussed at a subsequent Board meeting. The campaign identified six areas for the Company's increased focus. In November 2020, the Board received an update on progress and was pleased to see the momentum of change, including the appointment of a new Chief Diversity Officer, increased transparency of diversity data through communications, the roll-out of new leadership training including mandatory unconscious bias training – which was also made available to the Board, and the inclusion of ambitious diversity targets in the Responsible Business Charter which the Board approved. See our website nationalgrid.com/responsibility for more detail.

A further update on diversity was brought back to the Board in March 2021 where the new Chief Diversity Officer presented the progress made against the commitments, what had been done to improve inclusion more broadly, and the areas of focus for the year ahead.

Further information on what we have heard and what we have done can be found below.

Looking ahead

Following the success of the virtual engagement sessions and the continuation of remote working, the number of colleague engagement opportunities continues to grow.

We periodically review the effectiveness of the activity undertaken to ensure our chosen approach remains appropriate and that the engagement continues to evolve following feedback from Board members and colleagues. A more holistic review will be undertaken later this year.

Corporate Governance overview continued

Colleague engagement continued

What we heard in 2020/21:	What have we done?
During the colleague engagement virtual activity, some of the areas we heard about were:	
• commitment to inclusion and diversity within the Company in the long term. Further information was also requested on what was being done to diversify the Board in terms of gender, race and sexuality. Colleagues raised concern that diversity surveys were limited and not shared outside each ERG group.	• Focus remains on our long-term goal of our workforce being representative of the communities we serve. In January 2021, we appointed a new Chief Diversity Officer, who is working with inclusion and diversity managers to create a Global Diversity, Equality and Inclusion (DEI) function. The new function will remain as part of the People function, but will have an elevated reporting line, independence and importance, which is reflective of the Company's commitment to inclusion and diversity. • Aligned to our commitment to improve transparency on gender and race, we now publish data to show the percentage of women and ethnically diverse people against our total population, the communities we serve, by region and global band. In the future, we aim to report on broader diversity measures such as sexual orientation, social mobility and disability, however in order to do so we continue to strongly encourage self-declaration, so we can improve measurement and track progress. • We have also updated our commitments to diversity following the publication of our Responsible Business Charter. Further information can be found within the Nominations Committee Report on page 90. • HR have shared the data from the March 2021 employee diversity survey with the ERG groups. The results have also been shared with the Chief Diversity Officer.
• colleagues suggested that communication could be improved through line managers and safety advocates in relation to safety performance and messaging. Concerns were also raised in relation to a perceived weaker safety performance amongst contractors compared to employees.	• Our internal intranet was piloted to field colleagues in February 2021 and includes a designated space for safety performance. • The Safety, Environment and Health Committee plan to review the safety performance data to see if there is any correlation.

What we heard in 2019/20:	What have we done?
More needs to be done to create ethnic and gender diversity within the Company and to ensure that senior roles are representative.	• Following the introduction of a new inclusion and diversity category at the Chairman's Awards, the winner of the award was the Allyship When it Matters Training. The training was developed in the aftermath of the death of George Floyd and the civil unrest in the US as there was a desire from National Grid colleagues to understand what they could do to support their colleagues from diverse backgrounds further. Many employees wanted to 'do the right thing' but were uncertain as to how to go about it. The US and UK ERGs got together and hosted the virtual webinar Allyship When it Matters. Nearly 2,000 UK and US employees joined the webinar, with an additional 1,500 later viewing the recording. The webinar explained what an ally is, why allies are necessary, allyship best practices and how to go from ally to advocate. The response to the session was overwhelmingly positive with a score of 4.96/5 on the feedback survey. The true value of the webinar was that we offered an opportunity for employees to come together and understand that in acting as an ally they could contribute to addressing the unjustices that have recently been highlighted across the world. Racism and all forms of discrimination were discussed using personal stories of employees to illustrate the devastating impact discrimination causes and educated others on how they can be part of the solution. • When considering the recruitment of new Directors, the Nominations Committee adopts a formal and transparent procedure with due regard to the skills, knowledge and level of experience required, as well as to diversity. All Board appointments are recommended on merit.

Performance evaluation

2020/21 Internal Board evaluation

In accordance with the UK Corporate Governance Code the 2020/21 Board evaluation was conducted internally. Our annual evaluation provides the Board and its Committees with an opportunity to consider and reflect on the quality and effectiveness of their decision-making, and for each member to consider their own contribution and performance. The approach we took this year was to explore further the themes and open questions from last year's evaluation to understand where improvements had been made and where further focus was needed.

Structure

With Paula Rosput Reynolds joining the Board in January 2021 as Chair Designate the evaluation provided an opportunity for feedback to be provided that Paula would be able to review and take forward as appropriate once she stepped into the position of Chair of the Board. In accordance with the Code, National Grid's annual evaluation of Board effectiveness is facilitated by an independent third party at least once every three years; the next externally facilitated evaluation will take place in 2021.

The evaluation process was led by the Chair Designate and supported by the Group General Counsel & Company Secretary. The proposed structure of the evaluation survey and the questions were agreed in December 2020 and presented to the Board for approval in January 2021. The questions were formulated to build on the open questions from last year's evaluation and were largely forward-looking.

Process

In February 2021 the Board received an effectiveness evaluation survey for completion. The questions were focused around the following areas:

- Board effectiveness and information to the Board;
- Committee effectiveness;
- Board dynamics; and
- opportunities/concerns.

Individual performance review meetings were held with the Chairman during the first few months of 2021.

In April 2021, the results of the evaluation survey were presented to the Board and key areas of focus were agreed.

Areas identified to enhance the Board's effectiveness for 2021/22

The Board discussed the results of the evaluation in April 2021 and identified key areas of focus for the coming year including: Board and Committee reporting; and Board dynamics and effectiveness in light of a number of Board member changes. The areas identified in this year's evaluation will feed in to the external evaluation which is due to take place later this year.

Progress against actions for the Board agreed in the 2019/20 internal evaluation

Action	Progress made
More effective discussion and decision-making through streamlined and targeted papers to the Board and its Committees.	• This is an ongoing process. The agenda format and most papers have allowed for more effective discussions and decision-making throughout the year. • Paper templates and information being provided up to the Group Executive Committee and Board will be reviewed again later in the year following an action from the Group Executive Committee to review the content of information going to that forum.
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.	• Unconscious bias training (employee training) rolled out in October 2020 to all Directors. • Digital training – undertaken by the full Board in December 2020. • Proposals for UK/US customer voice are planned to be brought back to the Board at the appropriate time.
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.	• Extensive arrangements put in place for 2020/21, including US and UK trade union sessions and a session with our ERGs. The Non-executive Directors have all joined various town halls/leadership meetings/team calls throughout the year and have engaged with a wider variety of employees. • In July 2020, following the Black Lives Matter (BLM) movement, the Board invited two employees to the Board to provide their views on BLM and what more the Company could be doing. The Board discussed a 'call to action' document and has been kept informed of updates to the actions.
Devote more time to the discussion of strategic priorities at Board meetings.	• This year, the Board's focus on strategic items has been appropriate and reflects the strategy and focus of the Board during the year. Approximately 35 hours of the Board's time in 2020/21 was spent on strategic topics, with the top three areas of discussion being: the acquisition of WPD; RIIO-2; financing, dividend and Business Plan. • All 'for information' papers are included in the board packs but only discussed if a member of the Board has specifically asked to raise a concern/comment with the Chairman prior to the meeting.

Corporate Governance overview continued

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 & 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.

Non-executive Director induction examples

Liz Hewitt and Paula Rosput Reynolds have undertaken a tailored induction programme covering a range of areas of the business including governance, finance, audit and stakeholder matters. They have both met with senior management from key business areas and functions as well as members of the workforce across the UK, US and NGV businesses. They also both separately received a briefing from our legal advisors which included: directors' duties; the Market Abuse Regulation; and listing and disclosure obligations. On appointment both received a comprehensive Director induction pack with important background information on the Company along with corporate information, details on the Board and Committees including up-to-date corporate governance guidance as well as key internal policies and codes.

A detailed summary of Liz Hewitt's and Paula Rosput Reynolds' inductions can be found below.

Liz Hewitt

Due to Liz's position on appointment as successor to Chair of the Audit Committee, focus was given to matters pertinent in preparing Liz to step into her role as Chair of the Audit Committee in November 2020.

Audit Committee	Liz met with Mark Williamson, the outgoing Audit Committee Chair, to gain an understanding of the Company's internal controls and risk management relating to operations as well as an overview of the responsibilities of the Committee. In order for a smooth transition into her role as Chair of the Audit Committee, Mark has provided ongoing support and guidance to Liz to ensure she had access to all the relevant information she needed to effectively chair the Committee.
Colleagues and external advisors	Liz met with several key employees and external advisors in relation to audit and finance including: Deloitte's Lead Audit Partner, which involved an open dialogue in relation to the Company's audit process; and Andy Agg, Chief Financial Officer, who provided an overview of the finance function, the key roles and individuals of our operating model, our Finance Ambition as well as discussing ongoing strategy projects.
Safety, Environment and Health Committee	As part of her induction to the Safety, Environment and Health (SEH) Committee, Liz met with the Group Director of Safety, Health and Environment to discuss our SEH framework and was briefed on the Company's carbon reduction and climate change strategy, wellbeing and sustainability ambitions.
Site visits	Liz visited the central control room in Wokingham, UK; however, due to COVID-19, further planned site visits in the UK and US were postponed. We are planning virtual and in-person site visits this year in line with government guidelines.

Paula Rosput Reynolds

As Chair Designate, Paula's induction aimed to provide a holistic view of National Grid and the environment it operates in. She therefore focused on meeting with the following key external and internal stakeholder groups:

Regulators and governments	National Grid operates in a complex regulatory environment both in the UK and US. To develop her understanding of the intricate nature of our regulatory landscape, Paula held over 20 meetings with key external regulatory, government and system representatives, including with Ofgem, BEIS, Rhode Island Public Utilities and New York Public Service Commission.
Investors, analysts, brokers and technical experts	Before joining the Board, Paula engaged with several investment bankers to gain awareness of their perception and opinions of the Company, including with Morgan Stanley, Robey Warshaw LLP, Guggenheim Partners and Gleacher Shacklock LLP. Further to this, she met with numerous institutional investors including Capital Research, The Olayan Group and Royal London Asset Management. More than 30 meetings were held with analysts, brokers and external technical experts including training from external lawyers at Herbert Smith Freehills, which focused on the legal context for a Chair of a UK listed company, the Listing Rules and the UK Market Abuse Regulations.
Suppliers UK and US trade associates	The external business environment we operate in is changing rapidly and therefore Paula was keen to meet with UK and US trade and other associates. Multiple meetings were held including with Edison Electric Institute, American Gas Association, City and Guilds and RenewableUK.
Colleagues	Individual one-to-one meetings were held with members of the Group Executive Committee along with monthly meetings scheduled for the year with Andy Agg, Chief Financial Officer. Further to this, meetings are being arranged with senior management from a wide variety of functions such as, individuals involved in reporting to the Finance and Audit Committees; individuals who deal with HR, remuneration and safety functions; individuals who head up the legal and risk functions; individuals with senior operational and customer-centric roles; and individuals involved in IT, digital, and cyber security.

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, and climate change and technical updates on a regular basis and we encourage and monitor attendance. During the year, Non-executive Directors attended in-depth training on cyber security in energy, as well as taking part in the Company's unconscious bias training for diversity and fair ethical decision-making. The training received on unconscious bias had also been circulated to employees as a foundation to build on our understanding of how unconscious bias can affect people in the workplace.

Audit Committee

Liz Hewitt
Committee Chair

Key areas of focus in 2020/21:

- Ongoing review and impact of COVID-19 on the half-year and year-end financial statements and internal controls;
- Financial due diligence and circular financial disclosures and assurance for the WPD transaction;
- Alternative Performance Measures (APMs) and Regulatory Performance Measures (RPMs);
- Climate-change-related financial disclosures and responsible business reporting;
- Cyber security and cyber audit outcomes;
- UK regulatory developments and impact on the Committee;
- Audit Committee Chair transition; and
- Finance leadership changes.

Key areas of focus in 2021/22:

- UK regulatory developments and impact on the Committee including Audit Reform;
- WPD Acquisition accounting and integration, including impacts on financial reporting, risk management and internal controls;
- Development of an Audit and Assurance Plan;
- Go-live of new general ledger system in the UK (MyFinance);
- Overall framework for risk management, internal controls and assurance, including the impacts of the new operating model; and
- ESG reporting and related climate and financial disclosures.

Composition of the Audit Committee

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

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

*Mark Williamson stepped down as Committee Chair and member of the Audit Committee on 10 November 2020.

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

Role of the Committee

The work of the Audit Committee has never been more important: investors, other stakeholders and regulators require ever more informative and reliable reporting, not just of the results and financial position, but of resilience, risk management and the Company's Environmental, Social and Governance (ESG) reporting. The Audit Committee supports the Board in its corporate governance responsibilities by providing oversight of the financial reporting including key accounting judgements and estimates, the effectiveness of internal controls, risk management and compliance frameworks, the Company's governance framework, assurance processes and internal and external audit. The Committee also oversees the appropriate procedures and evaluates the Company's approach to the prevention of fraud and bribery, and oversees the appropriate whistleblowing mechanisms.

In January 2021 management completed a detailed review of the Audit Committee's effectiveness against an overarching framework. Outcomes of the review were discussed with the Committee Chair and it was confirmed that the Audit Committee are operating effectively and in line with external guidance.

Review of 2020/21

During the financial year the Committee met four times as part of the standard schedule of meetings. Following the decision to defer the 2019/20 Group results announcement by a month in light of the COVID-19 pandemic there was an ad-hoc meeting on 15 June 2020 to approve the 2019/20 Annual Report and Accounts and a second ad-hoc meeting on 8 March 2021 to review the WPD Acquisition. The attendance of the meetings by members can be viewed on page 75.

The year-end financial reporting process is a busy period for the Group and 2020/21 presented challenges for management, including judgemental and complex accounting issues, changes in work processes, and continued uncertainty in the regulatory landscape both in the UK and US. In executing their governance and oversight responsibilities, the Committee has regularly engaged with management.

The Committee also performed an active role on the WPD Acquisition, with the Board delegating responsibility to the Committee to oversee that a robust financial due diligence process had been undertaken. The Committee was also delegated responsibility for overseeing the financial disclosures in the shareholder circular, including receiving the assurance report from Deloitte and for reviewing management's Financial Position and Prospects (FPP) procedures risk mitigation plan, which was developed to maintain continued compliance with listing rule requirements, following completion of the transaction.

The Committee oversaw the Company's response to the letter received from the FRC following their review of the Company's Annual Report and Accounts for the year-ended 31 March 2020. The letter, received in February 2021, was responded to within the 28-day deadline with no follow-up questions subsequently received.

The Committee maintains an extensive and detailed agenda focusing on audit, compliance and risk processes within the Company, working closely with management, the external auditor, global internal audit, the finance and legal teams. Key items of business considered during the year are set out on page 85.

Despite restrictions caused by the pandemic I was pleased to hold a virtual question and answer session with members of the Risk and Compliance teams from both the UK and US. This was a key part of the wider stakeholder engagement focus for the Board which is detailed on page 79 and I plan to hold more of these sessions with other key teams and the Audit Committee throughout 2021/22.

Following the 9 November 2020 Committee meeting Mark Williamson stepped down as Committee Chair and member of the Audit Committee. I would personally like to thank Mark Williamson for his service to the Committee and his time spent in ensuring a handover to me during last year. My thanks also to the Finance and Company Secretariat teams for their help and support during a busy year.

Eliz Hewitt

Liz Hewitt
Committee Chair

Further reading
You can view the Committee's Terms of Reference here: 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 2021 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 117 – 128.

Matter considered	Factors and reasons considered, including financial outcomes
COVID-19-related matters	• The Committee continued its oversight of the accounting, reporting and internal control implications of the COVID-19 pandemic. In particular, the Committee evaluated management's assessment on the recoverability of bad and doubtful debts for our retail customers in the US, evaluating the impact of reduced collection activities as a result of moratoriums issued by state regulators. Other macroeconomic factors were also considered including the impact of unemployment rates and the level and availability of government stimulus and support. During the year ended 31 March 2021, these factors contributed to a total bad debt charge of £326 million, of which an estimated £179 million was considered to be as a result of the pandemic.
Going concern	• In November 2020 and May 2021, the Committee evaluated papers prepared by management setting out the evidence to support the going concern basis of accounting. Management's analysis included a reasonable worst-case scenario and a further stress test. The reasonable worst-case scenario and the stress test assumed further adverse cash flow impacts from the COVID-19 pandemic, for example periods of additional, strict lockdown restrictions, further restrictions on US customer collection activities and additional working capital requirements to fund payment term extensions and charge deferrals in the UK. The Committee evaluated the impact of the scenarios on the level of headroom available to existing cash and debt facilities and evaluated management's analysis of the mitigating actions available to improve the position if the debt capital markets were not accessible. • Having considered management's analysis and the evidence provided to support the availability of debt financing, noting the issuance achieved throughout the year, along with the disclosures made in note 1 to the financial statements, the Committee concluded that adopting the going concern basis of accounting was appropriate in both the half-year and year-end financial statements.
Application of the Group's Exceptional Items Framework	• In September 2020, the Committee approved revisions to the Group's Exceptional Items Framework to reflect updates to IAS 1 Presentation of Financial Statements and the latest guidance from the Financial Reporting Council (FRC) and other regulators. Throughout the year, the Committee considered papers from management setting out how the updated Framework had 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 each item in isolation as well as the aggregate view of the impact on adjusted profit and adjusted earnings per share. • In line with the revised Framework, the Committee concluded that the release of £14 million of environmental provisions relating to one of our US Superfund sites should be treated as exceptional, in line with the treatment of the original provision. • The Committee further concluded that £55 million of new operating model costs should be treated as exceptional, consistent with the treatment of such costs of a similar nature in prior years, and £24 million of transaction costs related to the WPD Acquisition. Whilst the transaction costs were not sufficiently material to warrant classification as exceptional in isolation, when aggregated with the costs expected to be incurred on completion of the transaction next year, the Committee concluded they should be classified as exceptional in order that all transaction costs were treated in a consistent manner across both years.
Gas Transmission and Gas Distribution asset lives in the context of climate change	• The Committee considered management's judgement, that notwithstanding the regulatory and legislative commitments to net zero in the jurisdictions that we operate in, that there will be a role for our gas networks beyond 2050 in a range of possible scenarios and that nothing at present suggested the asset lives should be shortened at this point. The Committee concurred with management, that consistent with the prior year and in light of the evolving legislative developments and increasing investor attention, additional disclosures should be made in the notes to the financial statements, namely, disclosure of a key judgement in relation to the impact of changes in legislation, disclosure of the useful economic lives of gas assets as a key estimate and appropriate sensitivity analysis on the depreciation charge were shorter asset lives presumed.

Fair, balanced and understandable

It is vital that our financial statements are fair, balanced and understandable. We also place priority on making sure the information provided is necessary for shareholders to assess the Group's position, performance, outlook and strategy. The Committee undertook a full and formal review of the content in the 2020/21 Annual Report and Accounts and recommended the approval of the half- and full-year financial statements and Annual Report and Accounts to the Board. The Company's fair, balanced and understandable statement can be found on page 86.

1. Senior leadership and core reporting team involved throughout the process, including regular steering group meetings of key stakeholders.
2. Clear guidance and instruction to all contributors.
3. Monitoring of regulatory reporting requirements throughout each draft with regard to:
   - The FRC end-of-year letter to CEOs, CFOs and Audit Committee Chairs in November 2020; and
   - FRC's COVID-19 guidance for companies.
4. Validation of management's representations to Deloitte.

   Review and approval of management's assessment of the risk of misstatement in financial reporting.
5. Thorough process of review, evaluation and verification of the information provided by each business unit and contributor, including APMs and RPMs to ensure accuracy of information presented in the 2020/21 Annual Report and Accounts.

   Committee consider and challenge as appropriate.
6. Engagement with the Chair of the Committee who reviews drafts at regular intervals providing comments.

   Committee oversight of the quality and integrity of the Group's financial reporting and accounting policies and practices.

   Committee recommend to the Board.

Key matters considered by the Committee

The key matters considered by the Committee during the course of the year ended 31 March 2021 are set out below:

Matter considered	Factors and reasons considered, including financial outcomes
Financial reporting	• In addition to the matters highlighted on page 84 with regards to matters assessed against the Exceptional Items Framework; the useful economic lives of gas assets in the context of climate change and the provisioning of bad and doubtful debts for our retail customers in the US, the Committee also considered the accounting treatment of the RIIO-2 Draft and Final Determinations; the revision of prior year financial statements; the classification of NECO as held for sale as at 31 March 2021 and management's approach to setting the long-term RPI assumption when valuing our UK pensions liabilities following the UK government's announcement of the change in benchmark rate. • 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. • In September 2020 performed a review of the Group's APMs and RPMs, including the underlying methodologies, process and controls. In March 2021 the Committee agreed an amended policy for changes to methodologies and key judgements taken, and management operated that control for the year ended 31 March 2021. • 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 2020/21 half- and full-year financial statements, going concern and other reports filed with the SEC containing financial information. • Approved the Company's response to the FRC following the FRC's review of the Company's Annual Report and Accounts for the year ended 31 March 2020.
WPD Acquisition	• Held an ad-hoc meeting in March 2021 to consider the WPD Acquisition. • Reviewed and approved the scope and output of the financial due diligence undertaken by third-party advisors, including discussing matters relating to cyber risks and mitigations. • Reviewed and approved the financial disclosures in the shareholder circular, including the pro-forma information, historical financial information and working capital statement. The Committee also received the results of Deloitte's assurance. • Reviewed management's FPP Risk Mitigation Plan and Deloitte's FPP commentary report. • The Chair of the Audit Committee also separately met with members of Deloitte, third-party advisors and the Acquisition sponsor team. Following the announcement of the transaction the Chair further met with management to discuss planning for completion and the oversight to be provided by the Audit Committee.
Internal controls	• Received regular updates on progress towards the Group's annual US regulatory attestation. • In September 2020 and March 2021, the Committee received updates on management's structured programme of work to strengthen the maturity of the Group's risk and controls framework. • In September 2020 the UK Chief Financial Officer presented an update on the UK Finance team, the MyFinance implementation and progress of the roll-out.
Risk and viability statement	• Oversaw risk in relation to the COVID-19 pandemic. As detailed on pages 25 – 27, this became a principal risk in March 2020. • Received regular updates on the actions being taken to manage the risk in line with the Group's risk appetite. • Received confirmation from each of the businesses and functions that risks are managed appropriately and continue to consider external influence and matters outside of the Group's control. • Monitored the internal control processes and reviewed and challenged the going concern and viability statements, including testing for 'reasonable worst-case' scenarios. • Satisfied itself that the Board and management's risk management processes were functioning effectively and provided sufficient assurance.
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 2020/21 half- and full-year results. • Considered throughout the year the external audit plan, including monitoring the approach, scope and risk assessments contained within. This included regular updates regarding the adapted ways of working due to COVID-19. • Assessed the effectiveness and independence of Deloitte, as well as continued review and oversight of non-audit services from Deloitte. • Continued to hold private meetings with Deloitte and maintained dialogue throughout the year. • Engaged with Deloitte regularly on the forward planning and succession planning for the lead Audit Partner. • Received an update from Deloitte on the Company's first 'remote audit'. • Recommended the re-appointment of Deloitte as the Company's external auditor to the Board.
Corporate audit	• Received an update on the new Chartered Institute of Internal Auditors (CIIA) Code of Practice, The IA Code, which included a gap analysis review and a proposed implementation plan. • Received regular updates on the 2020/21 audit plan and the significant findings, and approved the audit plan for 2021/22. • Approved the Corporate Audit Charter which had been updated to reflect best practice and recent corporate governance developments. • Approved the appointment of a new Group Head of Internal Audit, following the incumbent taking up the role of Chief Risk Officer.
Compliance, governance and disclosure matters	• Reviewed and approved the updated Terms of Reference for the Committee. • Received updates on ethics and business conduct, including whistleblowing to support the oversight, management, and mitigation of business conduct issues as part of the controls framework. • Discussed the whistleblowing procedures in place and confirmed internal procedures remained effective, noting the communications during the year to employees and planned communications during 2021. • Received bi-annual updates in September 2020 and March 2021 of compliance with external laws and regulations, including any non-compliance issues and steps being taken to improve compliance across the Group. • Received an update on the key elements of the FRC consultation on the future of corporate reporting including the Brydon, CMA and Kingman reviews and the BEIS consultation. • Received an update on the preparations for the Responsible Business Report and the Company's fourth TCFD disclosure. • Recommended approval of the Responsible Business Report to the Board following review of PwC's external assurance report.

Audit Committee continued

Financial Reporting

Going concern and viability

The Committee, in conjunction with the Finance Committee, reviewed the Group's going concern and viability statements (as set out on pages 28 and 29) and the supporting assessment reports prepared by management. In conjunction with the Finance Committee, during 2020/21 there has been continued review of the Group's going concern and viability in line with the ongoing COVID-19 pandemic.

During 2020/21, significant work was undertaken to consider the Company's viability from additional perspectives. In May and June 2020, the Committee reviewed and challenged the viability statement and considered the period of assessment used, considering COVID-19 events and other external factors 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. As the pandemic has continued throughout 2020/21, consideration has continued to be given to going concern and after due consideration by the Committee in May 2021 the going concern and viability statement was recommended to the Board for approval. 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.

With the regulatory environment evolving quickly, the Committee is kept fully informed of all new legislation, FRC advice and best practice and the requirements of the UK Corporate Governance Code 2018 and Disclosure and Transparency Rules. During 2020/21, the Committee has been kept up to date with changes to legislation and regulatory reviews and has had oversight of the potential impacts.

The Audit Committee and 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.

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 oversees 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. 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 business reviews, attended by the Chief Executive and Chief Financial Officer, supplement these reports. Each month, the Chief Financial Officer presents a consolidated financial report to the Board.

Risk management and internal control

Risk management

Risk management is the responsibility of the Board and is key to achieving our strategic priorities. The system of risk management is established by the Board, sets risk appetite and maintains the system of internal controls to manage risk within the Group. The Audit 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 24 – 27). The Committee provided oversight and reviewed 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, robust and remain fit for purpose. Controls are in place to either reduce the likelihood or impact of any risk once it has occurred. Following the review over the year the Committee recommended to the Board that the processes had the correct authority, expertise and independence and provided sufficient assurance to the Company.

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.

During the year the Company internally appointed a Chief Risk Officer to lead on the Group's risk management processes. Corporate Audit also 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, attends all Committee meetings and has access to the Committee Chair as necessary. The appointment of the Global Head of Audit is a matter for the Audit Committee. The Committee received regular updates from the Chief Financial Officer on the process and approved the appointment in May 2021.

At each of the Committee's meetings, progress of the Internal Audit process is reviewed including significant outstanding actions. The Committee notes timelines and where actions are overdue, these are challenged by the Committee. 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 2020 following agreement from the Safety, Environment and Health Committee. The Committee also approved the plan for the next Internal Quality Assessment to take place in 2021/22 as a further control that Corporate Audit is operating effectively.

Fair, balanced and understandable

The Committee was 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 recommended to the Board at its meeting in May 2021. For more information on the assessment of fair, balanced and understandable, see page 84.

External audit

The Committee is responsible for overseeing the relationship with the external auditor. Liz Hewitt 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 2020 AGM for the year ended 31 March 2021.
- Audit Committee was authorised by shareholders to set Deloitte's remuneration at the 2020 AGM.
- Current lead Audit Partner is Doug King and 2020/21 was the fourth year of his term.

Under the independence requirements, 2021/22 will be the last year where Doug King, Lead Audit Partner, oversees the statutory audit. The Committee is working closely with Deloitte and Doug King, to put in place a clear rotation plan for his successor.

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 2021 AGM. The Committee anticipates that the next competitive tender will be conducted no later than 2026 in accordance with current regulation that requires a tender every 10 years.

Effectiveness, quality and performance

As part of the Committee's responsibilities, consideration is regularly given to the effectiveness of the external auditor to verify that the quality, challenge, and output of the external audit process is sufficient. Throughout the year the Committee also 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 high levels of quality the Committee review and challenge where appropriate the external audit plan prior to approval.

The Committee also regularly engages and receives the views of senior management and members of the finance team in forming conclusions on auditor effectiveness. The Committee also meets with Deloitte at least 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 of Committee meetings.

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 2019/20;
- received the Deloitte Management Letter for 2020/21;
- 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

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.

The Committee considered the safeguards in place, including the annual review by Corporate Audit, to assess the external auditor's independence. The external auditor reported to the Committee in May 2021 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.

Non-audit services

In line with the FRC's Ethical Standard and to maintain the external auditor's objectivity and independence, we have a policy governing Deloitte's provision of non-audit services.

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.

The provision of any non-audit service by the external auditor requires prior approval, with the exception of pre-approved services where we believe there is no threat to the auditor's independence and objectivity, the service has been reviewed by the Chief Financial Officer, and where fees do not exceed £50,000. These services are limited to:

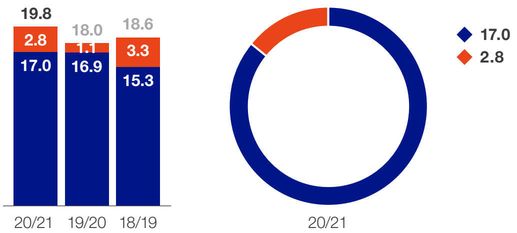
- audit, review or attest services. These are services that generally only the external auditor can provide, in connection with statutory and regulatory filings. They include comfort letters, statutory audits, attest services, consents and assistance with review of filing documents; and
- other areas,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

Management present a list of all non-audit work requests to the Committee to ensure the Committee is monitoring all non-audit services provided. Non-audit service approvals during 2020/21 principally related to assurance work performed on the Class 1 Circular for the WPD Acquisition and for comfort letters issued in support of debt issuances.

External auditor fees

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

Audit and non-audit services (£m)



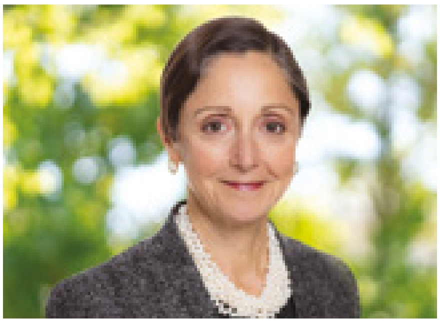
◆ Audit services
◆ Non-audit services

Total billed non-audit services provided by Deloitte during the year ended 31 March 2021 were £2.8 million, representing 14% of total audit and non-audit fees. In 2019/20, non-audit services totalled £1.1 million (7% of total audit and non-audit 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 145.

Total audit and non-audit fees include the statutory fee and fees paid to Deloitte for other services that the external auditor is required to perform, such as regulatory audits and SOX attestation. Non-audit fees represent all non-statutory services provided by Deloitte.

Finance Committee



Therese Esperdy
Committee Chair

Key areas of focus in 2020/21:

- Oversight and monitoring of COVID-19 market, financial and balance sheet impacts including scenario planning;
- Financing strategy across the portfolio including updated dividend policy and credit rating strategy – taking account of the impact of RIIO-2 and consideration of strategic opportunities;
- Review of management of financial risk against the Company's financial risk appetite;
- Financing of the WPD Acquisition;
- Green Financing Framework;
- Insurance risk appetite and renewal strategy; and
- Pensions de-risking transactions.

Key areas of focus in 2021/22:

- Continued oversight of market, financial and balance sheet impacts of COVID-19;
- Financial implications of RIIO-2 and US rate case settlements;
- Completion of the WPD Acquisition, sale of NECO and commencement of process to sell majority stake in National Grid Gas plc;
- Bond issuance;
- Implications of proposed changes to UK and US tax legislation;
- Review of management of financial risk against the Company's financial risk appetite; and
- Continued focus on insurance renewal strategy, taking account of the hardening market.

Review of the year

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 two additional meetings in April and May 2020 to discuss the COVID-19 strategic response, financial scenarios and going concern in relation to the delayed results announcement. There was one further ad-hoc meeting in December 2020 to discuss the Company's financing strategy to accompany the portfolio repositioning of the Group.

An area of key focus for the Committee during the year has been on any potential COVID-19 impact on the Company, considering scenarios and risk mitigation. The Committee has kept any possible impact on the Company's going concern under review, considering cash flow outcomes, undrawn borrowing facilities, long-term debt markets, and short-term cash positioning. The Committee will continue to receive regular updates on these areas as the pandemic continues.

Alongside reacting to the evolving pandemic, key focus in the year was given to Ofgem's Final Determinations in relation to RIIO-2 and the Company's financing strategy across the portfolio. This included oversight of the impact on National Grid's credit ratings, the future dividend policy and other potential financial risks such as pension implications.

Throughout the year the Committee received regular updates on the credit rating outlook of the Group, noting the rating agencies' determinations and subsequent rating downgrade linked to the regulatory determinations within the Group in the UK and US.

The Committee also reviewed the financing strategy to enable the portfolio repositioning of the Group, taking account of the Group's successful bid to acquire WPD from PPL and its related bridge financing and the agreed sale of NECO to PPL, both subject to certain regulatory approvals, and the intention to commence a process later this year to sell a majority stake in National Grid Gas plc.

Despite the restrictions on in-person meetings, caused by the pandemic, the Committee was pleased to be able to continue its workforce engagement. In December 2020, the Committee members hosted a virtual informal question and answer session with colleagues from the Tax, Pensions, Treasury and Insurance teams from both the UK and US. This was a key part of the workforce engagement detailed on page 79 and has enhanced the information flow between the Committee and colleagues. We plan to make these sessions regular events alongside the Committee calendar.

Treasury

The Committee has the responsibility for providing oversight of management's decision-making and execution of financial risk. In November, the Committee reviewed the Company's management of the Group's financial risk appetite. This review also took the opportunity to consider how risk appetite had changed as a result of the COVID-19 pandemic.

During the year, the Committee has had oversight of the potential market impacts and outcomes of Brexit and the US Election. Following the outcomes of both, the Committee was updated on the macro-economic events noting minimal impact. In January 2021 the Committee also received an update on the Treasury management system project, the implementation of a new automated and efficient end-to-end process designed to support business efficiencies, which is expected to go live at the start of 2022/23.

The Committee received regular updates from management on the execution of new bonds during the year, recognising that bond markets remained functioning as normal. The Committee was pleased to see the issuances in September 2020 and January 2021 of National Grid plc's first and second senior bond issue since 2011.

Following the launch of the Green Financing Framework in November 2019, there were further updates to the Committee in relation to issuances from the Framework, and the Committee was pleased to see the issuance by NGNA of the first ever multi-ECA green loan in April 2020 and the $600 million green bond issued by NIMO in June 2020. The Committee also noted the publication of National Grid's first Green Financing Report that detailed the allocation of the green bonds' proceeds and their environmental impact.

Insurance

The Committee has received regular insurance updates which considered the current insurance market and the impact that COVID-19 has had on the market approach to premiums and the Company's policy coverage. In November 2020 the Committee focused on the insurance risk appetite and the insurance renewal strategy for 2021, and approved the approach given the hardening market.

The Committee was pleased to receive an update from the Company's insurance brokers on cyber insurance at its January 2021 meeting.

Tax

The Committee continued to monitor any tax impacts on the Company throughout the year. In November 2020 as part of a wider deep dive of Brexit preparedness the Committee noted the impact of Brexit from a tax perspective ahead of the UK's exit from the EU on 31 December 2020. Following the US Election results an update was also received considering any potential impact on the Company's tax position.

Pensions

The Committee remains committed to supporting the long-term strategy of the Company to reduce the level of risk within its pension arrangements, and significant progress has been made in recent years. In April 2020 the Committee considered the Company's UK and US pension arrangements and discussed any impact of COVID-19 on pension schemes. In addition, external advisors presented to the Committee on the US pension landscape, considering ESG in relation to the investment strategy for UK and US pension arrangements.

In November 2020, the Committee reviewed further plans to de-risk the Company's pension arrangements and approved a proposal for the National Grid UK Pension Scheme to enter into a further buy-in arrangement with Rothesay Life, covering £800 million of pension liabilities.

Looking forward

As the global COVID-19 pandemic continues to evolve, the Committee will remain focused on ensuring the Company is effectively managing financial risk while monitoring the Company's response to external regulatory, political and economic impacts, as appropriate.

Therese Esperdy
Committee Chair

Safety, Environment and Health Committee

Paul Golby
Committee Chair until 1 April 2021

Key areas of focus in 2020/21:
- The impact of COVID-19, including employee health and wellbeing;
- Safety;
- Gas safety and reliability;
- Liquefied Natural Gas (LNG) and Compressed Natural Gas (CNG); and
- Sustainability and climate change.

Key areas of focus in 2021/22:
- The impact of COVID-19, including employee health;
- Gas safety and reliability;
- Group safety performance and safety culture;
- Sustainability and climate change;
- SEH risks and mitigation; and
- Monitor the potential impacts on SEH in relation to the integration of WPD.

Further reading
For more information on the Company's work on Task Force on Climate-related Financial Disclosures (TCFD) requirements see pages 61 – 66.

Review of the year

The Committee met four times during the year to undertake its oversight responsibilities reviewing the strategies, policies, risk exposure, targets and performance of the Company in relation to safety, environment, health and wellbeing.

Employee health and wellbeing and the impacts of COVID-19

The impact of the COVID-19 pandemic on the health and wellbeing of our workforce has been a significant concern for the Committee during the year. The Committee has monitored the approach taken by the Company to pro-actively manage this risk, including the introduction of lateral flow testing; COVID-19 secure workplaces; and the sequestering of Control Room personnel on site contributing to the effective mitigation of COVID-19 transmission and infection risk amongst our people.

In January 2021, the Committee reviewed the Company's health and wellbeing strategy in relation to COVID-19. As a consequence of the move to working from home for the majority of our office-based staff, an increased focus has been given to mental health; chronic disease; and occupational illnesses. New risk areas were identified including continued resilience as well as fatigue.

The Committee is acutely aware of the potential mental health implications of the pandemic and has been pleased with the extent of work being undertaken by the Company in this area, including suicide awareness and mental health crisis response training; developing people management skills and training to spot early signs of mental health issues; Employee Assistance Programme referrals in the UK; and onsite trauma counselling sessions in the US were also closely monitored.

The Committee will continue to exercise oversight in this area to ensure that the Company's strategy in response to COVID-19 remains appropriate.

Safety

The Company's annual safety survey results revealed an improvement within each business area this year, demonstrating the continued progress being made. The survey results highlighted key themes and areas to develop and progress further, particularly around safety leadership and simplification. These themes along with a detailed action plan will be monitored by the Committee as the Company works towards its benchmark target of achieving a proactive safety culture. With the acquisition of WPD and integration into the Group, the Committee will also monitor any potential safety, environmental or health-related impacts from the acquisition and the related transactions as part of its regular reporting as the Company works to ensure cultural alignment and mitigate any SEH risks related to organisational change.

The Committee was pleased to see that the Company maintained its world-class benchmark performance with an injury frequency rate of 0.1 during the year. Despite the strong performance of the Company and the extensive work done to ensure the safety and wellbeing of all our workforce, in November 2020 the Committee was saddened to learn the tragic news that a contractor working on behalf of the Company suffered a fatal injury while working at one of the Company's facilities in New York. An investigation was launched and in January 2021 the Committee reviewed the final report. Although none of the contributing factors or corrective actions identified in the report were attributable to National Grid, the processes and procedures for contractor monitoring were reviewed, resulting in further assurance checks being developed.

Gas safety and reliability

Gas safety and reliability in the US remained a priority this year. The Committee was satisfied with the progress made and was pleased to see improvement across the areas identified for focus in January 2020. There had however been challenges to the rate of progress in certain areas due to COVID-19, in particular around backlogs, which had impacted the ability of the Company to complete work requiring entry to customers' homes. Risks associated with backlogs were being mitigated, and the Committee will continue to monitor progress in this area.

Liquefied Natural Gas (LNG) and Compressed Natural Gas (CNG)

During the year, the Committee also received updates on the Company's risk assessment associated with LNG and CNG assets. An update was provided on additional LNG site-specific studies and the Committee discussed the findings and noted the updated LNG investment plan. The Committee will continue to review this subject on an annual basis.

Sustainability and climate change

Climate change and sustainability remain a key focus and the Committee was hugely supportive of the introduction of climate change as a new principal risk to the Company's risk register as well as the Company becoming a principal partner of the COP26 summit in the UK.
The Committee receives reports on this area annually including the Company's sustainability strategy and its greenhouse gas emissions performance. Last year the Company publicly committed to reducing its Group Scope 1 and 2 greenhouse gas (GHG) emissions to net zero by 2050, with ambitious interim targets to reduce its direct emissions by 80% by 2030 and 90% by 2040. The Committee has been pleased to see that the Company has surpassed its 2020 target with a 68% decrease in Scope 1 and 2 GHG emissions from, a 1990 baseline, and is on track to meet both its interim and 2050 targets. The Committee discussed and challenged the timeline of the targets and the commitment in the Responsible Business Charter to reduce Scope 3 GHG emissions of the gas the Company sells to customers and will continue to monitor and challenge the progress being made in relation to net zero.

Looking forward

I will be stepping down from the Board at the conclusion of the 2021 AGM and this is therefore my last report as Chair of the Committee. I am encouraged by the progress made and delighted that Earl Shipp has been appointed to succeed me as Chair of the Committee with effect from 1 April 2021.
I am confident that his significant experience will leave him well placed to lead the Committee into the future.

Paul Golby
Committee Chair

Nominations Committee

Paula Rosput Reynolds
Committee Chair and Board Chair Designate

Key areas of focus in 2020/21:
- Chair succession and onboarding;
- Succession planning and leadership changes; and
- Board and Committee composition.

Key areas of focus in 2021/22:
- Board Committee governance structure and composition;
- Diversity policy; and
- Senior leadership succession.

This is my first report as Nominations Committee Chair, following my appointment to the Board in January 2021. Since the Committee met four times prior to my arrival, this report covers, in part, the work undertaken under the chairmanship of Sir Peter Gershon. In those meetings, the Committee focused on the appointment of a new Group General Counsel & Company Secretary, executive succession, and Board composition. Since Sir Peter's nine years as Board Chair elapsed during 2021, our Senior Independent Director, Mark Williamson, led the search process for Sir Peter's replacement, a process in which all Directors participated.

Directors' tenure

Sir Peter generously offered me chairmanship of this committee immediately upon my induction. He noted that there were several Directors who were at or near the end of nine years of service and, in line with the UK Corporate Governance Code, they were due to retire. I would have the responsibility and opportunity to refresh the Board, even as I faced the loss of significant knowledge and wisdom with these impending retirements. Sir Peter thus gave me a free hand to work with my colleagues to reconsider the composition of the Board.

COVID-19 has debunked that myth under which we have all operated – namely, that it's essential to meet in person to conduct corporate business. My own appointment to the National Grid Board is emblematic of the fact companies can make leadership changes without rounds of face-to-face meetings. Nevertheless, while individuals may pledge to remain together in cyberspace, the virtual world is not the ideal place to cultivate relationships that are intended to last many years. Thus, to give proper time to identify Board members who can help position National Grid to be at the heart of the energy transition, I've asked those Directors who are at or nearing the ends of the terms to be somewhat flexible about their departure dates. Last year, we reported that Paul Golby would remain on the Board for a limited extension beyond 1 February 2021. Paul, whose deep operating experience and wisdom is truly irreplaceable, has kindly agreed to stay on the Board for several additional months to ease my transition; he will step down at the upcoming AGM. Similarly, Mark Williamson and Jonathan Dawson, both of whom will reach their nine years of service within the upcoming financial year, have agreed to serve until their replacements are appointed.

Board refreshment

It has become standard practice for nominations committees to conduct 'deep dives' into the balance of skills and experience across the Board and its Committees. In January, our Committee considered areas of strength, current gaps and any potential areas of weakness. Having had a robust discussion, we collectively decided that, for the moment, we would not seek new directors using narrow definitions such as 'financial expert' or 'cyber security expert'. While these are important skills, our first priority is to identify a diversity of seasoned and respected leaders with strong commercial skills, whose experience is born of challenging situations, who have led in companies with strong values, and who are deeply engaged in the world at large. The Board is actively in the process of meeting candidates; as I assume the role of Chair of National Grid, I look forward to announcing appointments of individuals who will enrich the deliberations of the Board in the future. Rest assured that we will monitor board and committee effectiveness and effectiveness of Directors on an ongoing basis. As the Company repositions its business model to prosper in the net zero world, we must be mindful that the Board will need to evolve as National Grid's needs change.

Sir Peter commissioned one last Board effectiveness review early in 2021. The results suggest that there are improvements that can be made to our governance processes – among them, making the Board's processes fit for a world in which decisions must be taken with greater urgency and where large amounts of data must be quickly assimilated and presented incisively. I have asked our General Counsel & Company Secretary, Justine Campbell, to undertake a full review of the appropriateness of the Board Committee structure, Committee Terms of Reference, and overall effectiveness, with the intention of refreshing elements of how the Board operates in the upcoming financial year.

Senior succession planning and leadership changes

The Committee has continued to deepen its understanding of executive talent requirements and the capabilities needed to ensure the effectiveness in driving our culture transformation forward (see page 78 for further information). Attention has focused on the process used to support our succession planning and talent decisions, including the talent bench strength of our senior leadership team; the performance of the senior leadership team; and the risk profile across talent in relation to the likelihood of vacancies and succession options. Succession planning is like painting the Forth Bridge; it's never completed. Thus we will be continuing this work in a meaningful way in the times ahead, and ensuring that the lens of diversity figures prominently in the workforce of the future.

During the course of the year, the Committee affirmed the appointment of Justine Campbell as Group General Counsel & Company Secretary and the appointment of Cordi O'Hara, who has served as Chief Operating Officer of US Gas to the role of President of National Grid Ventures. Both individuals joined the Group Executive Committee. Barney Wyld stepped down as a member of the Group Executive Committee in August 2020.

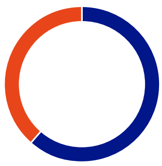
Board Diversity Policy and objectives

National Grid remains committed to supporting diversity and inclusion throughout our organisation and our policy applies to the Board, Group Executive Committee and direct reports to the Group Executive Committee as well. In April 2021, the Committee refreshed our diversity objectives to align with the Company's Responsible Business Charter, which had been published in October 2020. But more broadly, we are at a crossroads in society at large where the long-postponed demands for social and economic justice must be addressed. Thus, a further detailed review of the Board Diversity Policy and objectives will take place later in the year and we will redouble our efforts to be more representative of and responsive to the world of tomorrow.

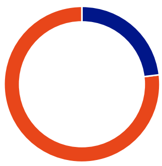
Paula Rosput Reynolds
Committee Chair and Board Chair Designate

Our Board diversity

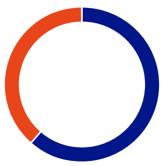
Board gender



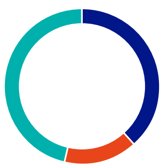
Executive and Non-executive Directors



Board members by nationality



Tenure



Refreshed Diversity Policy objectives – progress update

The Nominations Committee approved the refreshment of the two existing objectives and the addition of an objective to align with the Company's Responsible Business Charter.

Objectives	Progress
The Board aspires to meet and ultimately exceed the target of 33% of Board and the CEO's direct report positions, to be held by women.	There are currently five female Directors on the Board resulting in 38.5% women on the Board. We currently have 51.9% female direct reports to the CEO.
The Board aspires to meet and ultimately exceed the Parker Review target for FTSE 100 boards to have at least one Director from a non-white ethnic minority by 2021.	We currently have one Director from a non-white ethnic minority on the Board and we aspire to exceed this target.
The Board aspires to achieve 50% diversity* on the Board**.	We currently have 46.2% diversity on the Board.

* Diversity of the Board is defined, in this context, as females and non-white ethnic minorities.
** This new objective was approved at the April 2021 Nominations 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.

We will continue to review our progress against the Policy annually and report on progress against our objectives (as set out above) in the Annual Report and Accounts.

Examples of the initiatives to support inclusion and diversity throughout our Company are set out on page 59.

Appointment process and talent pipeline

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. The Committee recognises the importance for the Board to anticipate and prepare for the future and to ensure that the skills, experience, knowledge and perspectives of individuals reflect the changing demands of the business.

In January 2020, the Committee discussed succession planning for a new Group General Counsel & Company Secretary to succeed Alison Kay when she stepped down in January 2021. A detailed role specification was formulated, which considered the experience and technical knowledge required for the position. A list of potential candidates from diverse backgrounds was produced which also included internal candidates, who would be benchmarked against the candidates from the external search. Having been interviewed by a number of Non-executive Directors, the Committee agreed the preferred candidate for recommendation to the Board.

We have a strong talent pipeline, which considers the core competencies and capabilities for potential future leaders, with many high-performing individuals. A talent grid was developed which enabled the Committee to differentiate the performance and potential of the talent pipeline within the Company, including strengths and areas for development. The Group Executive Committee continues to meet regularly to discuss the succession pipeline and health of the talent pool further down the organisation.

Mark Williamson
Senior Independent Director

Chair succession

On 30 January 2020, we announced that after nearly nine years at the Company, Sir Peter Gershon had informed the Board of his intention to step down as Chair and that the Board had started the process to find a successor. As we reported last year, the Committee determined that it was in the Company's best interests for Sir Peter to stay beyond the nine-year term identified in the Code in order to maintain continuity of knowledge and experience during the conclusion of the RIIO-2 process.

The Committee developed and agreed a job specification for the role of Chair which included key leadership characteristics, experience in the energy sector and the extensive knowledge required to lead the Board on both UK and US issues. Russell Reynolds, who do not have any other connection with the Company or individual Directors, were appointed to support the recruitment of this role in November 2019. As Senior Independent Director, I led the selection process for the role.

January 2020
The Committee reviewed the longlist of 51 potential candidates, and it was requested that Russell Reynolds broaden the candidate pool. Following feedback from the meeting, John Pettigrew and I met informally with five potential candidates, to gauge the appetite for the role, likely cultural fit, experience and location/availability considerations. The Committee agreed that a sub-group of the Committee members and attendees made up of John Pettigrew, Earl Shipp, Liz Hewitt, Therese Esperdy, Jonathan Dawson and I would form the appointment panel.

July 2020
The panel interviewed the shortlisted candidates throughout the summer months of 2020. In July 2020, the panel recommended three candidates who were taken forward to meet with other members of the Board.

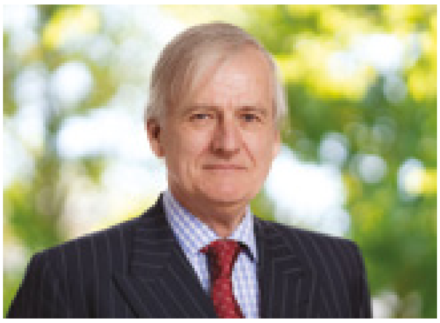
September 2020
Following recommendation from the Committee, the Board approved the appointment of Paula Rosput Reynolds as a Non-executive Director and Chair Designate with effect from 1 January 2021. The Board was pleased to welcome Paula, who brings a wealth of Board-level experience leading global companies in the energy and financial sectors. Her experience within international and US companies and insight into strategic and regulatory issues will be an asset to the Company.

Paula met the independence requirements as set out in the 2018 UK Corporate Governance Code on appointment. In accordance with our external appointment policy, a comprehensive conflicts check was carried out and the Board was satisfied that any potential conflicts, particularly in relation to Paula's appointment at BP, would be manageable and not material. The Board noted that Paula would step down from her role as Non-executive Director at BAE Systems plc on 31 December 2020.

Sir Peter stepped down as Chair of the Nominations Committee with effect from 1 January 2021 and Paula was appointed as Chair of the Committee with effect from the same date. Sir Peter will step down as Chair of the Board and Non-executive Director with effect from 31 May 2021.

Directors' Remuneration Report

Annual statement from the Remuneration Committee Chair



Jonathan Dawson
Committee Chair

Key areas of focus in 2020/21:
- Items related to the appointment of the new Board Chair and Group Executive Committee members;
- Impact of evolving corporate governance standards, including pension arrangement for existing UK-based Executive Directors; and
- Impact of RIIO-2 determinations.

Key area of focus in 2021/22:
- New remuneration policy with focus on latest corporate governance developments and shareholder expectations.

At National Grid's 2020 AGM our Directors' Remuneration Report received 96.92% votes in favour. The Remuneration Committee and the whole Board are grateful to shareholders for their support in respect of our approach to remuneration. 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. As with last 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 2020/21. Our original intention had been to seek approval for a new policy at this AGM but, having reviewed our policy last autumn, we concluded that it remained fit for purpose for its final, third year. We also concluded that we could take the opportunity of the third year to undertake a comprehensive review of our policy to enable us to take account of:
- the impact of RIIO-2 on corporate returns and profitability;
- the extensive business portfolio reshaping that was announced in March and approved by shareholders in a General Meeting held in April;
- the latest developments in investors' thinking around appropriate incentive structures; and
- how best to incorporate appropriate environmental, social and governance (ESG) aspects in our arrangements.

We will therefore be working over the course of this year on our proposals for the next remuneration policy. We will consult with our leading institutional investors towards the end of 2021 and during the first quarter of 2022 and we will put our proposals formally to shareholders at the Company's AGM in July 2022.

The Board continues to engage with the workforce on a variety of topics including remuneration (more details on the 'Full Board Employee Voice' approach that includes our virtual colleague engagement sessions can be found on page 79).

The LTPP rules expire in July 2021 and we are seeking shareholder approval at the 2021 AGM for the new LTPP rules. The new rules are substantially in line with the existing rules, updated to reflect developments in market practice and good governance especially around malus and clawback provisions.

Review of decisions made during the year

Overview

National Grid has again had a successful year in terms of both financial performance and strategic development. Group underlying Profit before Tax was £2,407 million, underlying Earnings per Share (EPS) was 54.2 pence, and Group Return on Equity (RoE) was 10.6%. Despite COVID-19's far-reaching and deep impact across the whole world, National Grid has delivered good operational performance and has initiated a number of major strategic transactions.

As announced in March and subsequently approved by shareholders in April this year National Grid will be acquiring WPD, the UK's largest electricity distribution business, as well as selling our gas and electric businesses in Rhode Island in the US and a majority stake in our UK-based Gas Transmission business. Taken together, these transactions are a significant evolution of the Group's strategy and in the UK a major pivot towards electricity. Whilst the transactions and strategic pivot are key elements in National Grid's future growth and prospects, they have not had any impact on the Group's financial performance in respect of the past year.

Annual Performance Plan (APP)

The Group financial measures for the APP (impacting the CEO and CFO) were 78.9% of maximum and the financial outcome for the Executive Director, UK was 80.1%. APP outcomes are determined by financial results, with technical adjustments made, including, in respect of currency adjustments, unbudgeted pension costs, scrip dividend dilution and storm damage repair costs, in line with past practice. A discretionary adjustment has been applied to Group EPS to exclude the operating profit benefit in NGV linked to lower costs due to COVID-19, reducing the outcome by 0.5 pence.

The performance against individual objectives resulted in outturns ranging from 78.0% to 94.0% of the maximum for the individual portion. Although the Board does not agree with Ofgem's decision to charge a penalty for the RIIO-2 business plans, the Remuneration Committee has decided to reduce the outcomes of the individual component of the APP leading to an adjusted outturn range of 68.0% to 84.0%.

Taking both financial and individual performance together, the overall APP awards to Executive Directors on the Board at 31 March 2021 range from 76.5% to 80.4% of the maximum award, which amounts to awards of 95.6% to 100.5% of salary. In reaching its overall decisions on the APP, the Committee took account of the broader performance of the Company as described above and ESG considerations, noting in particular that, as in 2019/20, no employees have been furloughed, no compulsory redundancies or pay reductions have been made, especially in the context of COVID-19, and trade union agreements have been honoured.

Looking ahead to 2021/22, we have updated within the framework of the current remuneration policy the components of the APP to focus on financial measures (60%), operational/strategic measures (20%) and individual objectives (20%). This compares with the current year's financial and individual weighting of 70% and 30% respectively. The inclusion of the operational/strategic measures is to focus the Group Executive Committee around group-wide non-financial outcomes that are key for the Company, and are leading indicators of sustained performance over the long-term. For 2021/22, these include effectively managing the completion of the WPD transaction and the separation of the RI business to the satisfaction of the Board, and delivering ESG performance that is of strategic importance to National Grid.

Long Term Performance Plan (LTPP)

The performance period for the 2018 LTPP ended on 31 March 2021, with a vesting outcome of 68.0% of the maximum potential (350% of base salary for the CEO and 300% of base salary for other Executive Directors). This outturn was based on our performance measures of Group RoE of 11.3% and Group Value Growth of 12.3% across the three-year period, resulting in outcomes of 36.0% and 100.0% of their maxima, respectively. These outcomes are lower than the actual outcomes of 11.6% and 12.5%, respectively, but the Committee exercised negative discretion in excluding upward adjustments of 30 and 20 basis points to our Group RoE and Group Value Growth respectively, resulting from the revisions described in Note 1F to the consolidated financial statements. As last year, the Group Value Growth outturn includes an element of the value created from the sale of the residual interest in the UK Gas Distribution business in 2019 and revised timing of UK tax payments in 2019/20. For the 2018 LTPP award the weighting was split equally between Group RoE and Group Value Growth.

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 ESG and broader performance factors over the performance period.

As discussed in last year's report, for the in-flight 2019 award the weighting is one-third Group RoE and two-thirds Group Value Growth; for the in-flight 2020 award the weighting is one-sixth Group RoE and five-sixths Group Value Growth. After reviewing the final RIIO-2 regulatory arrangements for the UK, the Committee decided that for the 2021 LTPP award the weighting would revert to half for Group RoE and half for Group Value Growth.

The Committee set the performance range for the 2020 LTPP to reflect the business outlook. As a result, the Group RoE range is 8.25% to 9.75% and the Group Value Growth range is 8.0% to 10.5%. More details on the performance measures are set out on page 106.

Annual salary review

With regard to Executive Directors' annual salaries, save in respect of Andy Agg, the CFO, the Committee has awarded a salary increase of 2.3% which is the increase budget awarded across the UK employee population. Andy Agg was appointed to his role as CFO in January 2019 and, in line with our normal practice he was awarded a base salary that was set significantly below the assessed market rate for the role and with the intention, as stated in last year's report, of increasing his salary progressively toward the assessed market rate, subject to his performance and growth in his new role. The Committee, with input from the CEO, has assessed Andy Agg's performance as strong and that he has continued through the year to make a significant contribution to the Group. A particular focus has been steering the organisation through implications of the COVID-19 pandemic, providing strong support to the business in the agreement of a new UK regulatory framework, as well as coordinating the substantial work associated with the transactions involving WPD, Rhode Island and UK Gas Transmission. As a result, the Committee has awarded him a salary increase of 6.5%. On the basis of the Committee's assessment of the market rate for his role and based on data input from our advisers, the Committee expects, subject again to performance and progress, to make a further and final additional award to Andy Agg next year after which time he will have broadly achieved the assessed market rate.

As already announced, Paula Rosput Reynolds was appointed Chair Designate on 1 January 2021 and will assume the position of Chair from 31 May 2021 following Sir Peter Gershon stepping down from the role. The Committee has set Paula Rosput Reynolds' annual fee at £700,000 without any benefits following a market review and recruitment process, and taking into consideration that she is US-based.

Environmental, Social and Governance measures

Hitherto we have incorporated some individual objectives that are related to ESG, such as delivery of the Responsible Business Charter and progress on emissions reductions. Additionally, we always consider ESG factors generally before making final reward decisions. For example, we reduced the APP payments following a fatality in 2016/17. We concluded that this year there were no circumstances that should result in any adjustment to outturns in respect of ESG considerations.

For 2021/22, we have strengthened our focus on ESG by incorporating group-wide environmental and diversity measures into the APP.

Pension

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.

Additionally, I wrote last year that we recognised and acknowledged expectations from leading institutional shareholders to the effect that companies were 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 and confirms that all UK-based Executive Directors' pension contribution rates will be reset to 12% with effect from 1 April 2022 thereby ensuring alignment with the rate available to the majority of the UK workforce, notwithstanding executives' current contractual terms of employment.

What is our remuneration policy seeking to achieve?

We are very clear as to our objectives when setting senior executives' pay and incentives. Our aim is to ensure that how we structure remuneration and how we make decisions on annual and long-term reward plans:

- attract and motivate senior executives;
- ensure we pay our senior executives in a way that incentivises stretching financial and operational performance, within the risk appetite set by the Board;
- are fully aligned to the way National Grid earns its returns for shareholders; and
- actively support our strategy, ethics, values and contribution to society in the territories and communities 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.

How do we achieve this?

1. Heavy weighting towards share-based pay

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 to reflect the nature and duration of National Grid's businesses and asset lives. It is important, therefore, that day-to-day operations and longer-term investment decisions are executed in line with this strategy. Longer-term alignment is also reinforced through:

- some 85–87% of Executive Directors' variable pay potential (both annual and long-term) is delivered in National Grid's shares;
- a two-year holding period for any vested LTPP awards is mandatory;
- a very high minimum shareholding requirement is set for senior executives (500% of salary in the case of John Pettigrew – equivalent to some nine times his after-tax salary); and
- a post-employment shareholding is required for all senior executives.

Directors' Remuneration Report continued

Annual statement from the Remuneration Committee Chair continued

This approach has been the basis of our remuneration strategy since 2014 and the Committee considers that its principles ensure an alignment of interest between senior executives' remuneration, how the Company earns its returns, and the longer-term returns to private and institutional shareholders. Senior executives will therefore gain if the share price increases and share the consequences of share price falls. Moreover, as a company which distributes significant dividend payments, we also 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 solely on the annual capital value.

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. We also, however, take account of the fact that our in-employment shareholding requirement is at the top end of market practice with at least 500% of salary for the CEO and 400% for other Executive Directors. We will review this matter as part of our consultation for the Directors' remuneration policy vote in 2022.

2. Variable pay is linked directly to performance
At the heart of our approach to remuneration is a simple premise – 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, and as referred to above, non-financial KPIs and wider business performance are also taken into account, and discretion applied if appropriate, when determining an executive's performance against individual objectives and in confirming overall final payouts (APP) and/or vesting outcomes (LTPP). This year we provide greater detail on our wider ESG performance in our Responsible Business Report. In our policy review for the 2022 AGM we will be further considering the role that ESG should play in remuneration.

3. We apply our judgement and discretion as a Committee to assess overall remuneration outcomes
Each year the Committee considers carefully whether to apply discretion when assessing remuneration outcomes for Executive Directors. Before approving any payments under either the APP or LTPP, we reflect on:

- the underlying financial and wider business performance of the Company;
- the wider performance of the Company in terms of its societal contribution, relations with regulators, and its overall reputational standing with all our stakeholders; and
- the performance of each Executive Director and members of the Group 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 the light of all factors that we consider relevant.

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.

Fair and appropriate
When making remuneration decisions for the Executive Directors and other senior executives, 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.

This year, the median CEO pay ratio for UK-based employees is 81:1, a change from 86:1 last year. Our Group-wide median ratio was 53:1 last year and is 54:1 this year. 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 some three quarters of our employees are in the US.

In terms of the UK gender pay gap, the mean has reduced from 3.7% to 1.5%, with a small increase in the median from 2.6% to 3.2%. This year, we are also voluntarily disclosing in our Responsible Business Report additional data related to pay gaps. More details can be found in the 'Our Colleagues' section of the Annual Report on page 59 and the Responsible Business Report.

Changes to the Committee

There were no changes to the membership of the Committee during the last financial year.

Developments for 2021/22

The key focus for the year will be the development of a new remuneration policy and associated consultation with our major institutional investors and proxy agencies. The key elements of this review will reflect:

- the impact of RIIO-2 on National Grid's returns and therefore our remuneration structure;
- the implications for remuneration of the strategic transactions referred to earlier;
- evolving requirements of our investors, and society more generally, with regard to ESG performance (taking into account National Grid's trajectory along its publicly stated Responsible Business pathway); and
- National Grid's contribution towards enabling the wider societal evolution towards new and renewable energy sources and networks.

Our proposals will be presented to shareholders at the AGM in 2022.

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 are 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 – 2020/21

Our 'At a glance' highlights the performance and remuneration outcomes for our Executive Directors for the year ended 31 March 2021. Further detail is provided in the Statement of implementation of remuneration policy in 2020/21.

Annual Report on remuneration

A comparison of the 2020/21 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. Each Executive Director is UK-based.

Total remuneration

Executive Director	Maximum if variable pay vested in full £'000	2020/21 single total figure of remuneration £'000	Split by component (%)			
			Fixed	APP	2018 LTPP – face value	2018 LTPP – share appreciation and dividend equivalent values
Andy Agg	2,625	2,122	36.8%	29.1%	29.5%	4.6%
John Pettigrew	6,557	5,071	27.9%	20.4%	44.7%	7.0%
Nicola Shaw	3,231	2,490	29.2%	21.6%	42.6%	6.6%

Key: ◆ Fixed ◆ APP ◆ 2018 LTPP – face value ◆ 2018 LTPP – share appreciation and dividend equivalent values

Notes:
1. For each Executive Director the share price has increased between grant date of the LTPP awards in 2018 and the estimated share price value at vesting, being the three months' average preceding 31 March 2021. Comparing the share price at grant of 837.41p versus the estimated average share price for the period 1 January 2021 to 31 March 2021 of 855.04p, there is an increase of 17.63p (2.1%) per share. This results in an estimated increase in value (net of dividend equivalents) of £14,914 in total for Andy Agg, £54,074 for John Pettigrew, and £25,281 for Nicola Shaw. Overall, the percentage growth in value over the three-year period due to dividend income per share is 13%, 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 2020/21
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.	• The Committee decided to exercise restraint against the background of the COVID-19 pandemic and so no salary increases were made with respect to John Pettigrew and Nicola Shaw; and • Salary increase of 6.5% for Andy Agg (July 2020). This increase was awarded in line with the remuneration policy to move his salary closer to the market rate and given strong individual performance.
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 Value Added; • Financial measures for Executive Director, UK, comprise 23.3% UK Underlying Operating Profit, 23.3% UK RoE and 23.3% UK Capex; • Individual objectives cover stakeholder/customer engagement, business and finance strategy including delivery on RIIO-2 regulatory framework and risk management, organisation capability including our workforce/culture agenda and external leadership within the energy sector; and • 2020/21 APP payouts as a percentage of maximum opportunity: 79% for Andy Agg, 80% for John Pettigrew and 76% 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.	• 2020 LTPP award: 16.67% Group RoE and 83.33% Group Value Growth; and • Overall the 2018 LTPP vested at 68.0% of the maximum and is based on the performance of two equally weighted measures of Group RoE and Group Value Growth achieving 36.0% 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 • Other benefits as appropriate.	• UK cash allowance for John Pettigrew and Nicola Shaw, 26.7% of pensionable pay (reducing to 23.4% on 1 April 2021 and 12% on 1 April 2022) and for Andy Agg, 20% of pensionable pay (reducing to 12% on 1 April 2022); • 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; and • 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 Defined Contribution 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 of 200% of salary for two years.	• Shareholdings for Andy Agg, John Pettigrew and Nicola Shaw are 209%, 718% and 310% respectively; • John Pettigrew has met his shareholding requirement. Nicola Shaw is expected to meet her shareholding requirement in 2021, after the vesting of her 2018 LTPP award. Andy Agg has not met his shareholding requirement due to a relatively short time in role; and • Andrew Bonfield and Dean Seavers have each met their post-employment shareholding requirement as at 31 March 2021.

Directors' Remuneration Report continued

Directors' remuneration policy – approved by shareholders in 2019

Key aspects of the current Directors' remuneration policy, along with elements particularly applicable to the 2020/21 financial year, are shown on pages 96 – 99 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 2021. A copy of the full remuneration policy is available within the 2018/19 Annual Report and Accounts on the Company's investor website (nationalgrid.com/investors).

From time to time, the Committee may consider it appropriate to apply some judgement and discretion in respect of the approved policy. This is highlighted where relevant in the policy, and the use of discretion will always be in the spirit of the approved policy.

Our peer group

The Committee reviews its remuneration policy against appropriate peer groups annually to make sure we remain competitive in the relevant markets. The primary focus for reward market comparisons is the FTSE 11–40 for UK-based Executive Directors and general industry and energy services companies with similar levels of revenue for US-based Executive Directors. These peer groups are considered appropriate for a large, complex, international and predominantly regulated business.

Approved policy 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 benefits 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 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.

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 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. See footnote below the table. 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 defined benefit plan.

Pension footnote: The Remuneration Committee agreed in November 2019 (i.e. after the July 2019 AGM Policy vote) that newly appointed Executive Directors would receive annual contributions of up to 12% of basic salary for the DC pension scheme or cash in lieu. The Remuneration Committee further agreed in November 2020 that all existing Executive Directors would receive 12% of basic salary for the DC scheme or cash in lieu effective from 1 April 2022.

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/strategic 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.

APP footnote: For 2021/22, a portion of the APP will be allocated to strategic non-financial measures which are consistent for all Executive Directors.

Directors' Remuneration Report continued

Directors' remuneration policy – approved by shareholders in 2019 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 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, 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 Group 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.

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.

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, while 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, while not exhaustive, which could trigger 'good leaver' provisions, 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.

No compensation is payable to the Chairman or Non-executive Directors if they are required to stand down or are not re-elected at the AGM.

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.

External appointments

The Executive Directors may, with the approval of the Board, accept one external appointment as a Non-executive Director of another company and retain any fees received for the appointment. Experience as a board member of another company is considered to be valuable personal development, which in turn is of benefit to the Company.

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

Directors' Remuneration Report continued

Statement of implementation of remuneration policy in 2020/21

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 the Executive Directors, the other members of the Group Executive Committee and the Chairman, and for implementing this policy. The aim is to align the remuneration policy to the Company strategy and key business objectives, and ensure it reflects our shareholders', customers' and regulators' interests. The Committee receives input on policy implementation within the wider workforce before reaching decisions on matters such as salary increases and annual incentive payouts and closely reviews the appropriateness of pay positioning by reference to external measures (benchmarking remuneration packages) and internal review of Company performance and pay gaps (CEO pay ratios, gender and ethnicity pay gaps) and from this year, the relativity year on year of salary, benefits and annual performance incentives compared with the same for the rest of the workforce.

- **Clarity:** we identify and communicate a range of performance measures in incentives which clearly link to the successful execution of Company strategy; as explained in the Committee Chair's statement, the Board continues to engage with the workforce; we shall consult this year with major institutional investors and proxy agencies on our proposals for the new Directors' remuneration policy.
- **Simplicity:** elements of our remuneration framework and their purpose are clearly articulated within our market-standard remuneration policy and we believe this is understood by all our stakeholders.
- **Risk:** risk is managed in a number of ways and evidenced through our remuneration policy, for example by setting maximum levels for incentive plans; measures that are aligned to Company performance/success and shareholder interests; a focus on the long term and value creation through the LTPP; Remuneration Committee discretion to potentially override formulaic outcomes and malus and clawback provisions; a high shareholding requirement for senior executives.
- **Predictability:** full information on the potential values which could be earned are disclosed; our policy outlines threshold, target and maximum opportunity with varying actual incentive outcomes dependent on performance; all the checks and balances set out above under Risk are disclosed as part of the remuneration policy.
- **Proportionality:** whilst incentive plans reward executives' performance in successfully delivering the business strategy, there is also a focus on sustaining this through holding periods that apply to vested shares and annual incentives that are paid out as shares; all executives are also subject to significant shareholding and post-employment shareholding requirements; the policy does not reward poor performance and the range of potential payouts under the policy is appropriate.
- **Alignment to Culture and Strategy:** our culture recognises how we do things is as vital as what we do and this is reflected in the type of performance conditions used in our incentive plans. Both the measures themselves and the targets which are set aim to reinforce this approach.

Our policy has operated as intended in terms of Company performance and quantum; a review of key considerations and decisions pertaining to its implementation is provided in the Committee Chair's statement on pages 92 – 94. The members of the Remuneration Committee in 2020/21 were Jonathan Dawson (Chair), Earl Shipp, Jonathan Silver and Mark Williamson. Details of the Committee's activities during the year can be found at page 111.

AUDITED

Single Total Figure of Remuneration – Executive Directors

The following table shows a single total figure in respect of qualifying service for 2020/21, together with comparative figures for 2019/20. All figures shown to £'000:

	£'000	Salary	Benefits in kind	Pension	Total fixed pay	APP	LTPP	Total variable pay	Total remuneration
Andy Agg	**20/21**	**624**	**32**	**125**	**781**	**618**	**723**	**1,341**	**2,122**
	19/20	595	23	119	737	525	436	961	1,698
John Pettigrew	**20/21**	**1,029**	**110**	**275**	**1,414**	**1,035**	**2,622**	**3,657**	**5,071**
	19/20	1,017	116	305	1,438	897	2,870	3,767	5,205
Nicola Shaw	**20/21**	**562**	**15**	**150**	**727**	**537**	**1,226**	**1,763**	**2,490**
	19/20	555	15	166	736	387	1,342	1,729	2,465

Notes:
Salary: Salary increases were not awarded for 2019/20 for John Pettigrew or Nicola Shaw in line with the Committee's decision to exercise restraint in light of the COVID-19 pandemic. Andy Agg was appointed as CFO in January 2019 on a salary significantly below the assessed market rate for the job, as explained on page 93, with the intention to increase his salary over a multi-year period subject to performance and progression in the role, and was awarded a 6.5% increase on 1 July 2020. John Pettigrew donated £50,000 to the Prince's Trust in May 2020. Andy Agg donated £20,000 to the Prince's Trust in July 2020.
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 which, for John Pettigrew, amounted to approximately £89,000 for 2020/21 (and approximately £86,000 for 2019/20). A Sharesave option award was granted to Andy Agg on 24 December 2020 and the benefit (approximately £7,500) of this award is included. There were no Sharesave options granted to any of the other Executive Directors during 2020/21.
Pension: Pension contributions/cash in lieu for John Pettigrew and Nicola Shaw are 30% of salary for 2019/20 and reduced to 26.7% of salary for 2020/21 and for Andy Agg are 20% for both years. Contributions will fall to 23.4% of salary from April 2021 for John Pettigrew and Nicola Shaw and to 12% of salary for all Executive Directors from April 2022.
APP: John Pettigrew donated 20% of his 2019/20 APP (net of tax) to HELP USA, a charity involved in the emergency COVID-19 response in our US service territories.
LTPP: The 2018 LTPP is due to vest in July 2021. The average share price over the three months from 1 January 2021 to 31 March 2021 of 855.04p has been applied and estimated dividend equivalents are included. The 2019/20 LTPP figures have been restated because last year they were estimated using the average share price (January–March 2020) and they now include the actual share price on vesting and all dividend equivalent shares. Due to a lower share price at vesting of 903.8274p versus the estimate of 978.75p (and the additional dividend equivalent shares added for the dividend with a record date of 3 July 2020 with a dividend rate of 32.00p per share), the actual value at vesting was £17,775, £117,064 and £54,728 lower than for the estimate last year for Andy Agg, John Pettigrew, and Nicola Shaw, respectively.
Impact of share price change: The impact of share price appreciation/depreciation, comparing share prices at grant versus the estimated share prices upon vesting, is set out in the notes to the 2018 LTPP (vesting) table on page 105.

AUDITED

Total pension benefits

Andy Agg, John Pettigrew and Nicola Shaw received a cash allowance in lieu of participation in a pension arrangement. 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 2021, John Pettigrew's accrued DB pension was £168,991 per annum and his accrued lump sum was £506,973. 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.

AUDITED

Annual Performance Plan (APP)

Performance against targets for APP 2020/21

APP awards are earned by reference to the financial year and this year will be paid in June. Financial measures determine 70% of the APP, and individual objectives determine 30% of the APP.

Payment of the APP award is made in shares (50% of the award) and cash (50%). Shares (after any sales to pay associated 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, with the exception of Group Value Added that has an asymmetric range with a higher stretch target.

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 below. Performance against individual objectives is set out on pages 102 and 103.

A discretionary adjustment has been made to Group EPS reducing the outcome by 0.5p. This is to exclude a benefit in operating profit in NGV linked to lower costs due to COVID-19.

Performance measure	Proportion of max opportunity	Threshold	Target	Stretch	Actual	Proportion of max achieved
CEO and CFO						
Underlying EPS (p/share) Ⓐ	35%	47.0	50.5	54.0	53.7	95.7%
Group Value Added (£m) Ⓐ	35%	1,684	1,774	1,914	1,808	62.1%
Executive Director, UK (excluding ESO performance)						
UK Capex (£m) Ⓐ	23.3%	1,249	1,189	1,129	1,160	74.2%
UK RoE (%) Ⓐ (Percentage points above average allowed regulatory return)	23.3%	1.94	2.24	2.54	2.39	75.0%
UK Underlying Operating Profit (£m) Ⓐ	23.3%	1,400	1,450	1,500	1,491	91.0%
All Executive Directors						
Individual objectives (%)	30%	Detail expanded in tables below				68–84%

Ⓐ Denotes an 'Alternative performance measure' as explained on page 250.

Notes:
Underlying EPS: Technical adjustments have been made increasing the target by 0.2p to reflect the net effect of currency adjustments, the impact of deferrable storm costs included in underlying targets but reported outside, US pension assumptions and scrip dividend uptake.
UK Underlying Operating Profit (excluding ESO): Technical adjustments have been made reducing the target by £9m to reflect normalisation of the impact of RPI (£5m) and update of assumptions on allocated costs between UK and ESO (£4m).

Directors' Remuneration Report continued

Statement of implementation of remuneration policy in 2020/21 continued

Individual Objectives

The individual objectives of the Executive Directors when taken together were designed to deliver against each of our 2020/21 business priorities. The Committee used a two-stage process to agree individual objectives. First it reviewed and provided feedback on the objectives, including consideration of the weighting based on business criticality of the objective, and then, at a second meeting, it completed a final review and approved the objectives. At the end of the year, an overall assessment was made taking 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 targets 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.

The below sets out 2020/21 individual objectives which include a focus on strategic operational goals underpinning company performance and ESG objectives together with associated performance commentaries and the Committee's assessment of the performance outcome. The Committee has applied discretion to reduce the total individual performance outcome as explained in the summary line for each Director.

Andy Agg

Individual objective and performance commentary	Weighting	Outcome
Successfully deliver financing strategy despite challenges of COVID-19 pandemic • Achieved financial performance in line with initial guidance to market in June 2020 despite challenges of COVID-19 • Effectively managed the cash and funding implications of COVID-19, with clear guidance to investors • Established and communicated financing strategy including credit ratings approach, with positive reaction from investors	25%	25%
Secure appropriate financial arrangements in key regulatory arrangements • Provided financial plans for RIIO-2 which maintained earnings and protected credit metrics, sustaining strong relationships with stakeholders throughout the process • Delivered significant transaction support as part of rebalancing the portfolio • Supported US rate cases, though work was delayed due to COVID-19 impacts and therefore more work is to be done	25%	17%
Deliver Finance transformation programme • Delivered key Finance transformation programme milestones including operating model changes and leveraging of technology to enable better and more cost-effective delivery • Exhibited excellent leadership of the function through the changes in spite of COVID-19 related challenges	25%	23%
Lead implementation of revised investor proposition • Successfully engaged investors on renewed dividend policy and WPD acquisition, with positive feedback	25%	25%
Summary		
Andy achieved strong performance during the year. He successfully steered the organisation through implications of the COVID-19 pandemic and provided strong support to the business in the agreement of a new UK regulatory framework, and delivered ambitious milestones on the Finance transformation programme. Andy's strong leadership of the function enabled significant progress for the Company and its stakeholders despite challenging circumstances. As referenced in the Committee Chair's statement on page 93, the total outcome has been reduced from 90% to 80% to reflect Ofgem's decision to charge a penalty for the RIIO-2 business plans.	100%	80%

John Pettigrew

Individual objective and performance commentary	Weighting	Outcome
Deliver positive results for stakeholders despite challenges of COVID-19 pandemic • Delivered for our customers, in particular exceeding US customer satisfaction target by +5 points and progressing new construction work in the UK • Managed security of supply for our customers through US storms and low-demand challenges in the UK successfully, leading to positive feedback from members of government in the US and the UK • Delivered +5 point and +6 point increases in colleague engagement and enablement respectively, and demonstrated strong leadership as evidenced by very positive feedback from colleague pulse surveys, including a +14 point increase in care and concern	25%	25%
Execute updated business strategy • Reviewed and confirmed applicability of strategy despite COVID-19 pandemic and communicated and embedded strategy across organisation successfully • Executed acquisition of WPD and disposal of RI business (subject to shareholder vote), resulting in rebalancing to electricity • Delivered good progress on organic growth in non-regulated businesses and developed sound business plans for strong organic asset growth in the regulated businesses (8.2% in the US and 5.3% in Electricity Transmission) • Fostered strong relationships with key external stakeholders to enable continued progress against strategy going forward	25%	25%

John Pettigrew continued

Individual objective and performance commentary continued	Weighting	Outcome
Grow organisational capabilities through new operating model and culture change • Implemented new operating framework successfully with new ways of working, resulting in positive internal and external feedback • Made progress towards cultural ambitions as evidenced through 17.6% improvement in colleague culture diagnostic survey • Enhanced senior leadership capability and diversity through recruitment and new development programmes; more to achieve in diversity organisation-wide	25%	22%
Demonstrate organisational leadership in energy sector • Published Responsible Business Charter on 1 October, with positive feedback received internally and externally including an ESG day held on 5 October, and embedded processes for tracking Responsible Business measures • Made progress against emissions reductions including plan for 'well-below 2°C' pathway, partnered with COP26, announced plan for advisory vote at AGM on climate transition plan, and promoted electric vehicles in the UK, with £950m allocated to the charging infrastructure on the strategic road network • Demonstrated thought leadership in the UK and the US through specific policy actions and initiatives, including gas decarbonisation, a successful FutureGrid Network Innovation Competition Bid to better understand the role H2 has to play in the future of the UK Energy System, a US research programme to reduce gas emissions, and a 'multi-purpose interconnector' concept	25%	22%
Summary		
John's excellent performance over the year and strong leadership led to the Company progressing some significant strategic priorities and delivering for our stakeholders in spite of the COVID-19 pandemic. In particular, he delivered increases in customer and colleague scores, fostered strong relationships, communicated and embedded an updated business strategy and operating framework, progressed cultural ambitions, and demonstrated progress in organisational capabilities and leadership in the energy sector. As referenced in the Committee Chair's statement on page 93, the total outcome has been reduced from 94% to 84% to reflect Ofgem's decision to charge a penalty for the RIIO-2 business plans.	100%	84%

Nicola Shaw

Individual objective and performance commentary	Weighting	Outcome
Deliver positive results for stakeholders despite challenges of COVID-19 pandemic • Successfully adapted processes quickly to ensure reliability and resilience for our customers • Intensified communications and health and wellbeing support to colleagues and communities given the COVID-19 pandemic	25%	25%
Establish effective risk management controls and compliance framework • Successfully delivered milestones, including a thorough risk assessment and review of emerging risks, and implementation of a new risk committee	25%	20%
Successfully execute on UK business regulation priorities • Achieved RIIO-2 framework agreement that provides the right levels of capital expenditure and adjustment mechanisms required • Although all aspects of Ofgem's Final Determinations were accepted, apart from two technical aspects which are being appealed to the CMA, the outcome did not quite satisfy the Board's aspirations	25%	10%
Grow organisational capability • Strengthened succession pipeline • Increased diversity of leaders with females now representing more than half of leaders, and 62.5% of all colleagues self-identified as diverse for gender, ethnicity, disability and/or sexual preference • Significantly increased the number of chartered engineers and fellowships in the business with 30 new designations completed and 20 nearing designation at the end of the year	25%	23%
Summary		
Overall, Nicola has had a good year delivering on most of her objectives. In particular, Nicola showed strong leadership during COVID-19 with world-class safety and reliability delivered as well as the overall capital investment programme. During the year she has successfully led changes in the organisation to position the business for the energy transition and the new regulatory price control. With regards to RIIO-2, she was able to deliver a framework that provides the right levels of capital expenditure and adjustment mechanisms to meet the challenges ahead. As referenced in the Committee Chair's statement on page 93, the total outcome has been reduced from 78% to 68% to reflect Ofgem's decision to charge a penalty for the RIIO-2 business plans.	100%	68%

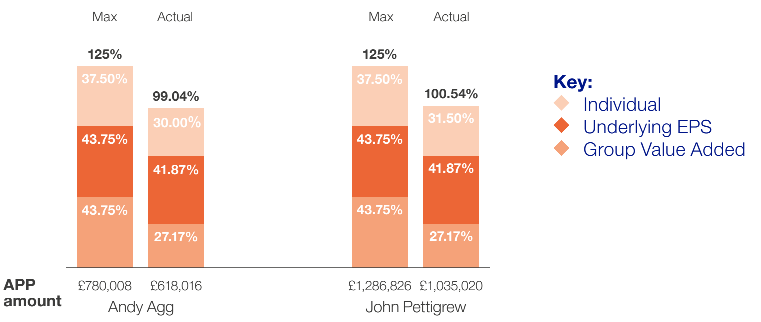
Directors’ Remuneration Report continued

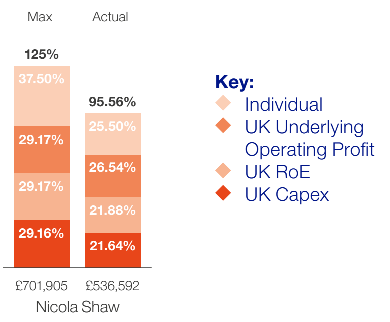
Statement of implementation of remuneration policy in 2020/21 continued

2020/21 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.

Executive Directors at 31 March 2021





AUDITED

LTPP performance

The LTPP value included in the 2020/21 single total figure relates to anticipated vesting in July 2021 of the conditional LTPP awards granted in 2018.

2018 LTPP

The 2018 award is determined by performance over the three years ended 31 March 2021 of Group RoE (50% weighting) and Group Value Growth (50% weighting), which is expected to vest on 1 July 2021. The financial components and weightings for this year’s vesting, i.e., the 2018 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 in 2019 and to adjust for revised timing of UK cash tax payments in 2019/20; both adjustments fall during the three-year performance period measured 2018–2021.

The Committee decided not to reflect the upward adjustments to Group RoE and Group Value Growth resulting from the revisions described in Note 1F to the consolidated financial statements.

The Committee considered the wider financial and business performance for the financial year including taking into account ESG performance and has decided not to apply any discretion for these factors.

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	11.3%	36.0%
Group Value Growth (50% weighting) Ⓐ	10.0%	12.0% or more	12.3%	100.0%

Ⓐ Denotes an ‘Alternative performance measure’ as explained on page 250

Note:
1. Based on the above financial results the overall vesting outcome for participants is 68.0%

AUDITED

2018 LTPP (vesting)

The 2018 LTPP is expected to vest on 1 July 2021. The amounts expected to vest under the 2018 LTPP for the performance period ended on 31 March 2021 and included in the 2020/21 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 2021 to 31 March 2021 of 855.04p; the final dividend to be paid in August 2021 is excluded.

	Original number of share awards in 2018 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	109,886	68.0%	74,722	9,867	723
John Pettigrew	398,398	68.0%	270,910	35,774	2,622
Nicola Shaw	186,263	68.0%	126,658	16,725	1,226

Notes:
The total value of awards vesting and dividend equivalent shares are subject to a two-year holding period.
Andy Agg: Andy Agg was interim CFO at the time of receiving his 2018 LTPP award. The award is subject to the same performance conditions, performance period and vesting percentage/dividend equivalents estimates as other Executive Directors.
Impact of share price change: The 2018 LTPP awards were granted on 28 June 2018 with a share price of 837.4083p. The impact of share price change for the 2018 LTPP, comparing share price at grant versus the average share price for the period 1 January 2021 to 31 March 2021 of 855.04p, for each Executive Director is an increase of 17.63p (2.1%) per share. This results in an estimated increase in value (including dividend equivalents) of: £14,914 for Andy Agg; £54,074 for John Pettigrew; and £25,281 for Nicola Shaw. The impact of share price change is not included in the expected amounts to vest shown in the table above.

AUDITED

Single total figure of remuneration – Non-executive Directors

The following table shows a single total figure in respect of qualifying service for 2020/21, together with comparative figures for 2019/20:

	Fees £'000		Other emoluments £'000		Total £'000	
	2020/21	**2019/20**	**2020/21**	**2019/20**	**2020/21**	**2019/20**
Jonathan Dawson	**112**	111	**1**	0	**113**	111
Therese Esperdy	**142**	141	**0**	19	**142**	160
Sir Peter Gershon	**540**	538	**82**	86	**622**	624
Paul Golby	**104**	104	**1**	5	**105**	109
Liz Hewitt	**99**	23	**0**	1	**99**	24
Amanda Mesler	**91**	91	**0**	2	**91**	93
Paula Rosput Reynolds	**21**	n/a	**0**	n/a	**21**	n/a
Earl Shipp	**104**	103	**0**	17	**104**	120
Jonathan Silver	**104**	91	**0**	11	**104**	102
Mark Williamson	**122**	134	**0**	6	**122**	140
Total	**1,439**	1,336	**84**	147	**1,523**	**1,483**

Notes:
Receiving the US-based Board fee: Therese Esperdy, Earl Shipp, Paula Rosput Reynolds and Jonathan Silver.
Receiving the UK-based Board fee: Jonathan Dawson, Paul Golby, Liz Hewitt, Amanda Mesler and Mark Williamson.
Therese Esperdy: Fees include £25,000 for serving on the National Grid USA Board.
Sir Peter Gershon: Other emoluments comprise private medical insurance of approximately £1,000 and the use of a car and driver when required of approximately £81,000. Sir Peter will step down from the Board on 31 May 2021.
Paula Rosput Reynolds: Paula Rosput Reynolds joined the Board on 1 January 2021 as a Non-executive Director and will be appointed as Chair of the Board from 31 May 2021. She is not eligible for any benefits.
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. For 2020/21 due to COVID-19 travel restrictions, most of the NEDs have not incurred travel-related expenses.

The total emoluments paid to Executive and Non-executive Directors in the year was £11.2 million (2019/20: £10.9 million).

Directors' Remuneration Report continued

Statement of implementation of remuneration policy in 2020/21 continued

AUDITED

Other remuneration disclosures

2020 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. For the 2020 LTPP, due to the uncertainty in the context of COVID-19, the Committee decided to delay the usual LTPP award timing from late June to late August. The share price at the date of grant on 17 August 2020 was 889.18p per share. The number of awards were not adjusted downwards in the context of COVID-19 impact. As a utility business the Company continued to maintain operations, 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.

	Basis of award	Face value £'000	Proportion vesting at threshold performance	Number of shares	Performance period end date
Andy Agg	300% of salary	1,901	20%	213,795	31 March 2023
John Pettigrew	350% of salary	3,603	20%	405,217	31 March 2023
Nicola Shaw	300% of salary	1,685	20%	189,452	31 March 2023

Note:
The 2020 LTPP grant will vest on 3 July 2023. The total value of awards vesting and dividend equivalent shares are subject to a two-year holding period.

AUDITED

Performance conditions for 2020 LTPP awards granted during the financial year

	Conditional share awards granted – 2020		
Performance measure	Weighting for all Executive Directors	Threshold 20% vesting	Maximum 100% vesting
Group RoE (A)	16.67%	8.25%	9.75% or more
Group Value Growth (A)	83.33%	8.00%	10.50% or more

Notes:
Group RoE: As disclosed in the Committee Chair's statement for 2018/19, Group RoE is measured during the first year of the three-year performance period and will contribute one-sixth of the total vesting outcome. Vesting between threshold and maximum will be on a straight-line basis.
Group Value Growth: Group Value Growth is measured over the entire three-year performance period and will contribute five-sixths of the total vesting outcome. Vesting between threshold and 9% will be on a straight-line basis, 9% achievement will result in 60% vesting, and vesting between 9% and 10.5% or more will be on a straight-line basis.
Performance measures have not been adjusted in the context of COVID-19.

AUDITED

Payments for loss of office and payments to past Directors

There have been no payments made during 2020/21 for loss of office. This year we settled a payment of approximately £1,400 on a net of tax basis for a gift to Andrew Bonfield in recognition of his contributions to National Grid during his eight years of service which, Andrew had not been able to redeem until this year. There have been no other payments to past Directors during 2020/21.

Shareholder dilution

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 Employee Stock Purchase Plan in the US.

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 2021, had headroom of 3.9% and 7.9% 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 2021 and the salary used to calculate the value of the shareholding is the gross annual salary as at 31 March 2021.

John Pettigrew has met his shareholding requirement. Andy Agg is still relatively new in post and has not yet met his shareholding requirement but is expected to do so in 2023. Nicola Shaw is expected to meet her shareholding requirement in 2021, after the vesting of her 2018 LTPP award. These projections assume on-target performance/vesting outcomes. They will not be allowed to sell shares, except for covering associated tax liabilities, until their individual shareholding requirements are met. Non-executive Directors do not have a shareholding requirement.

Further shares have been purchased in each of April and May 2021 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 each of their beneficial interests by 33 shares. There have been no other changes in Directors' shareholdings between 1 April 2021 and 19 May 2021.

The expected vesting dates for the conditional share awards subject to performance conditions are 1 July 2021, 1 July 2022 and 3 July 2023 for the 2018 LTPP, 2019 LTPP and 2020 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 (2018, 2019 & 2020 LTPP)
Executive Directors					
Andy Agg	400%	153,047	209%	4,316	537,680
John Pettigrew	500%	856,053	718%	4,219	1,235,584
Nicola Shaw	400%	201,737	310%	4,070	577,674
Non-executive Directors					
Jonathan Dawson	–	43,350	–	–	–
Therese Esperdy (ADSs)	–	1,587	–	–	–
Sir Peter Gershon	–	113,148	–	–	–
Paul Golby	–	2,291	–	–	–
Liz Hewitt	–	2,500	–	–	–
Amanda Mesler	–	1,500	–	–	–
Paula Rosput Reynolds (ADSs)	–	2,000	–	–	–
Earl Shipp (ADSs)	–	1,000	–	–	–
Jonathan Silver (ADSs)	–	0	–	–	–
Mark Williamson	–	47,460	–	–	–

Notes:
Andy Agg: On 31 March 2021 Andy Agg held 4,316 options granted under the Sharesave Plan with an exercise price of 695 pence per share and they can, subject to their terms, be exercised at 695 pence per share between 1 April 2026 and 30 September 2026. These options are discounted by 20%. The number of conditional share awards subject to performance conditions is as follows: 2018 LTPP: 109,886; 2019 LTPP: 213,999; 2020 LTPP: 213,795.
John Pettigrew: On 31 March 2021 John Pettigrew held 4,219 options granted under the Sharesave Plan 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. These options are discounted by 20%. The number of conditional share awards subject to performance conditions is as follows: 2018 LTPP: 398,398; 2019 LTPP: 431,969; 2020 LTPP: 405,217.
Nicola Shaw: On 31 March 2021 Nicola Shaw held 4,070 options granted under the Sharesave Plan 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: 2018 LTPP: 186,263; 2019 LTPP: 201,959; 2020 LTPP: 189,452.
Paula Rosput Reynolds: joined the Board on 1 January 2021.
Therese Esperdy, Paula Rosput Reynolds and Earl Shipp: Holdings are shown as ADSs and each ADS represents five ordinary shares.

Post-employment shareholding requirements

Past Executive Directors are required to continue to hold their shares/ADSs in line with our Directors' remuneration policy agreed at the AGM in 2019.

To enforce this the Executive Directors have agreed to give permission for the Company to periodically check with its third-party share scheme administrator whether the minimum shareholding requirement is being maintained. The Executive Directors have acknowledged that if they breach their post-employment shareholding requirement for any reason, the Company may enforce at its discretion one or more of the following processes: to request they repay to the Company an amount equivalent in value to the shareholding requirement that has not been met; the Company may withdraw/vary the vesting of any future shares granted under the LTPP; the Company may publish a public statement in a form as the Company may decide that the Director has failed to comply with the post-employment shareholding requirement. Executive Directors are reminded annually, when employed, of the post-employment shareholding requirement. At termination the minimum shareholding requirement is confirmed to the Director and checks are made by the Company at the 12-month and 24-month anniversary of leaving and at the financial year-end 31 March to ascertain if their post-employment shareholding requirement has been met.

At 31 March 2021, Andrew Bonfield and Dean Seavers, who stood down from the Board on 30 July 2018 and 5 November 2019 respectively, have each continued to meet their post-employment shareholding requirements.

Directors' Remuneration Report continued

Statement of implementation of remuneration policy in 2020/21 continued

External appointments and retention of fees

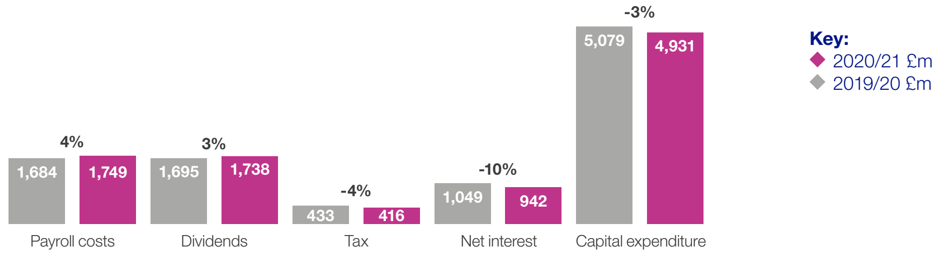
Experience as a board member of another company is considered to be valuable personal development, which in turn is of benefit to the Company. The table below details the Executive Directors (at 31 March 2021) who served as Non-executive Directors in other companies during the year ended 31 March 2021:

	Company	Retained fees
John Pettigrew	Rentokil Initial plc	£63,875
Nicola Shaw	International Consolidated Airlines Group S.A.	£85,609 (€100,500)

Note: For Nicola Shaw, fees have been converted using an exchange rate of 1EUR:0.85183GBP.

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.

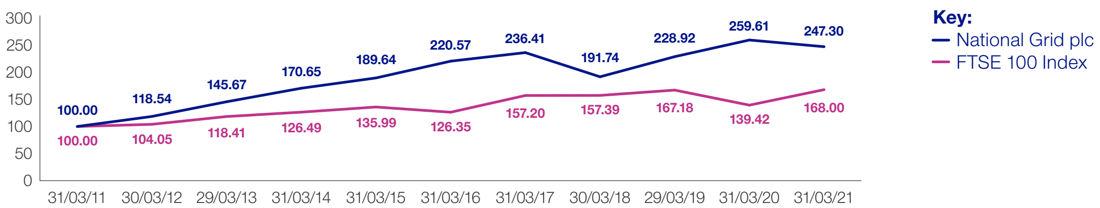


Notes:
1. The Dividends figure for 2019/20 has been restated at £1,695m (from £1,699m) to reflect the actual value of dividends paid.
2. Percentage increase/decrease of the costs between years is shown.

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 2011 and illustrates the growth in value of a notional £100 holding invested in National Grid on 31 March 2011, compared with the same invested in the FTSE 100 Index. The FTSE 100 Index has been chosen because it is a 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 by Refinitiv

Chief Executive's pay in the last ten financial years

Steve Holliday was CEO throughout the five-year period from 2011/12 to 2015/16. John Pettigrew became CEO on 1 April 2016.

	Steve Holliday					John Pettigrew				
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Single total figure of remuneration (£'000)	3,539	3,170	4,801	4,845	5,151	4,623	3,648	4,651	5,205	5,071
Single total figure of remuneration including only 2014 LTPP (£'000)						3,931				
APP (proportion of maximum awarded)	68.67%	55.65%	77.94%	94.80%	94.60%	73.86%	82.90%	84.20%	70.58%	80.43%
PSP/LTPP (proportion of maximum vesting)	49.50%	25.15%	76.20%	55.81%	63.45%	90.41%	85.20%	84.20%	84.90%	68.00%

Notes:
Single total figure 2020/21: The figure for 2020/21 for John Pettigrew is explained in the single total figure of remuneration table for Executive Directors.
Single total figure 2019/20: The figure for 2019/20 has been restated to reflect actual share price for 2017 LTPP vesting in 2020 and all dividend equivalent shares, 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 four years (2013 LTPP) to three years (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.

Percentage change in remuneration for Executive Directors, Non-executive Directors and employee average

In previous years, we have shown the percentage change in the CEO's remuneration for salary, taxable benefits and APP with the average (mean) of each of those components of remuneration for our selected comparator group of non-unionised employees in the UK and the US. This year we have expanded our reporting to meet the requirements of the revised Shareholder Rights Directive (2019) and have included each Executive Director and Non-executive Director at 31 March 2021 to show the percentage changes for 2020/21 versus last year. The regulations cover employees of the Parent Company only and not across the group, and since we have very few people employed by our Parent Company (National Grid plc), we have voluntarily chosen a comparator group of all employees in the UK and the US to provide a representative comparison. In line with the regulations, we shall build this information to display a five-year history.

The Total Shareholder Return performance of National Grid plc over the last year and prior years is shown on page 108.

Percentage change in remuneration

	% change on last year for 2020/21		
	Salary	Benefits	Bonus
Executive Directors			
Andy Agg	4.9%	40.6%	17.7%
John Pettigrew	1.3%	-4.7%	15.4%
Nicola Shaw	1.3%	1.1%	38.8%
Non-executive Directors			
Jonathan Dawson	0.5%	37.1%	n/a
Therese Esperdy	0.4%	-100.0%	n/a
Sir Peter Gershon	0.5%	-5.5%	n/a
Paul Golby	0.5%	-87.5%	n/a
Liz Hewitt	334.8%	-100.0%	n/a
Amanda Mesler	0.5%	-100.0%	n/a
Paula Rosput Reynolds	n/a	n/a	n/a
Earl Shipp	0.5%	-100.0%	n/a
Jonathan Silver	14.3%	-100.0%	n/a
Mark Williamson	-8.6%	-100.0%	n/a
Employee median	2.8%	6.1%	40%

Notes:
Salary: Salaries for Executive Directors, and fees for Non-executive Directors, have been used. Overtime and allowances are excluded from the employee average base salary calculation.
Benefits: For Executive Directors and Non-Executive Directors the taxable benefits reported in the respective single total figure table of remuneration have been used and includes the benefit value of Sharesave options for John Pettigrew in 2019/20 of £7,475 and for Andy Agg in 2020/21 of £7,461. Excluding the benefit of Sharesave options, the percentage change on last year for benefits would be 8.1% and 1.9% for Andy Agg and John Pettigrew respectively. For all employees where eligible, taxable benefits include PMI and car allowance/job requirement cars and commercial vans (private use) pertaining to the UK employees and for the US, taxable insurance premiums and taxable portion of student loan repayment (this year only). Pension is excluded.
Bonus: For Executive Directors, APP values have been used. Non-executive Directors do not receive bonus payments. For all employees APP/annual performance payments relating to the prior year (2019/20) and APP/annual performance payment estimates for this year (2020/21) consistent with our CEO pay ratio analysis have been used. Long-term incentives are excluded.
Rounding: In all cases actual non-rounded numbers have been used rather than values rounded to nearest £'000 as expressed in the respective single total figure of remuneration tables.
Liz Hewitt: Joined the Board on 1 January 2020 and therefore fees received over 12 months for this year are compared with fees received over 3 months last year. In addition, Liz was appointed to the role of Committee Chair for the Audit Committee on 10 November 2020 and her fees were increased accordingly at this time.
Paula Rosput Reynolds: Joined the Board on 1 January 2021 and therefore a comparison with prior year fees is not applicable.
Jonathan Silver: Joined the Board on 16 May 2019 and therefore fees received over 12 months for this year are compared with fees received over 10.5 months last year.
Mark Williamson: Stepped down from the role of Committee Chair for the Audit Committee on 10 November 2020 and his fees were reduced accordingly at this time.
Employee median: Represents the percentage change in the median remuneration for each component on last year for 2020/21. Calculations are based on approximately 23,000 employees located in the UK and the US. Remuneration of Executive Directors and Non-executive Directors is excluded.
Exchange rate: US pay data has been converted based on the exchange rate of $1.341:£1

The percentage change data for salary/fees reflects that, other than for Andy Agg, there were no salary/fee increases for Directors during 2020/21. In contrast, the majority of managers and all those covered by trade union agreements were eligible to receive an annual salary increase during 2020/21. The average salary increase budget for the UK and the US employees, subject to performance review was 2.3% and 2.5% respectively. Budgets vary for employees covered by collective agreements depending on arrangements agreed with the respective trade unions. The Committee takes account of the general salary increase budgets available for managers/non-unionised employees when reviewing Directors' salaries/fees. Further alignment between Executive Director pay and arrangements available to the wider workforce is evidenced by the approach that all employees have the opportunity to receive a bonus which is linked to either a combination of individual and Company/business performance measures, or Company/business performance measures only, thus enabling employees as well as the Executive Directors to benefit in the Company's success annually.

Directors' Remuneration Report continued

Statement of implementation of remuneration policy in 2020/21 continued

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), as well as the median Group-wide pay ratio.

		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
2020/21	Option A	104:1	81:1	62:1	54:1

The comparison with UK employees is specified by the Companies (Miscellaneous Reporting) Regulations 2018 (as amended). US employees represent approximately 72% of our total employees. Our median pay ratio on a Group-wide basis is 54:1, calculated on the same basis as the UK pay ratios and an exchange rate of $1.341:£1.

Salaries at 31 March 2021 and estimated performance-based annual payments for 2020/21 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 decreased to 81:1 at the median. The reduction is explained by the single total figure of remuneration for the CEO being approximately 5% lower compared with last year's calculation, broadly due to a lower estimated 2018 LTPP vesting outcome and a lower cash in lieu of pension allowance, as well as a salary freeze for the CEO. The pay and benefits of the median employee has increased by approximately 2%.

This year the 2018 LTPP vesting represents almost 52% (last year 56%) of the CEO's single total figure of remuneration. Excluding estimated 2018 LTPP vesting, our UK median pay ratio is 39:1. None of the employees for whom pay ratios apply are eligible for LTPP. Overall, approximately 2% of our UK employees are expected to receive 2018 LTPP vested awards this year and these all fall in the upper quartile of our ranked list. As employees advance through the Group, there will be the opportunity to receive higher rewards commensurate with increased accountability.

On a Group basis the median pay ratio has marginally increased to 54:1 which is driven mostly by an exchange rate difference versus last year. The lower Group median pay ratio versus the UK reflects the higher general level of wages in the US compared with the UK, and especially in the regions of the US where we operate. Almost three-quarters of our employees are US-based. Excluding LTPP the Group-wide median pay ratio is 26:1. The ratio of the pay of our Executive Director, UK, to the median UK employees is 40:1 and excluding LTPP is 20:1.

The total pay and benefits and the salary component of total pay and benefits for this year is set out below.

Pay data 2020/21	**Base salary**	**Total pay & benefits**
CEO remuneration	£1,029,461	£5,071,666
UK employee 25th percentile	£33,413	£48,657
UK employee 50th percentile	£57,000	£62,867
UK employee 75th percentile	£63,555	£81,548

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 taxable 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 outcomes of the LTPP and dividend equivalents.

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. While the CEO did not receive a pay increase during 2020/21 (due to restraint being exercised in the context of the COVID-19 pandemic) most managers and all those covered by trade union agreements did receive an annual salary increase.

The Committee's activities during the year

Meeting	Main areas of discussion
April	2019/20 individual objectives scoring for the Group Executive Committee Discussion on 2020/21 objectives for the Group Executive Committee Discussion on 2019/20 expected incentive plan outcomes Performance update for outstanding LTPP awards Discussion on remuneration alternatives in light of COVID-19
May	Provisional approval, in light of COVID-19, of 2020 salary increases and prior and future incentive awards Provisional approval of 2019/20 APP financial metrics Provisional approval of expected 2017 LTPP outcomes; performance update for outstanding LTPP awards Discussion on 2020 LTPP financial targets Final approval of 2019/20 individual APP outcomes and 2020/21 individual objectives for the Group Executive Committee
June	Final approval of pay decisions for the Group Executive Committee Review and approval of Chairman fees
July	Approval of 2020/21 APP targets and update on 2020 LTPP targets
September	Debrief of AGM season and remuneration trends Discussion on remuneration policy and incentive plan design Approval of one-year Group RoE targets for 2020 LTPP Approval of Chair fees for new appointment
November	Discussion on remuneration policy and incentive plan design Review of gender and ethnicity pay gaps Items related to new Group Executive Committee appointment
December	Items related to new Group Executive Committee role
January	Discussion on Group Value Growth target range for the 2020 LTPP Performance updates for outstanding LTPP awards and 2020/21 APP
February	Approval of Group Value Growth targets for the 2020 LTPP
March	Market data review of the Group Executive Committee remuneration and initial proposals for base salary increases Discussion on 2021/22 APP measures

Advisors to the Remuneration Committee

The Committee received advice during 2020/21 from independent consultants as follows: Willis Towers Watson provided advice until stepping down at the end of July 2020, and following a competitive tendering process, PricewaterhouseCoopers LLP (PwC) was selected by the Committee to become its independent advisor from 3 August 2020.

Both Willis Towers Watson and PwC are members of the Remuneration Consultants Group and have signed up to that group's code of conduct. The Committee is satisfied that any potential conflicts were appropriately managed.

Work undertaken by Willis Towers Watson and PwC in its role as independent advisor to the Committee has incurred fees of £22,895 and £88,917 respectively, 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 both Willis Towers Watson and PwC provided credible and professional advice. Both Willis Towers Watson and PwC have provided general and technical remuneration services in their respective areas to the wider Company, in relation to employees below Board and Group Executive Committee level. This has included benchmarking support provided by Willis Towers Watson and benchmarking and data assurance services provided by PwC.

The Committee considers the views of the Chairman on the performance and remuneration of the Chief Executive Officer, and of the Chief Executive Officer on the performance and remuneration of the other members of the Group Executive Committee. The Committee is also supported by the Group General Counsel and Company Secretary, who acts as Secretary to the Committee; the Chief People and Culture 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 voting 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 2019/20 Directors' Remuneration Report at the 2020 AGM

The voting figures shown refer to votes cast at the 2020 AGM (in respect of the 2019 remuneration policy adopted at the 2019 AGM) and represent 66.76% of the voting share capital. In addition, shareholders holding 29.0 million shares abstained.

	For	Against
Number of votes	2,273,916,544	72,165,518
Proportion of votes	96.92%	3.08%

Directors' Remuneration Report continued

How our remuneration policy will be implemented in 2021/22

The remuneration policy adopted at the 2019 AGM will be implemented during 2021/22 as described below.

Salary

Salary increases will normally be in line with the increase awarded to other employees in the UK and the 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 2021 a salary increase of 6.5% for Andy Agg and 2.3% for each of John Pettigrew and for Nicola Shaw will be awarded, effective from July.

	From 1 July 2021	From 1 June 2020	Increase
Andy Agg	£675,000	£633,675	6.5%
John Pettigrew	£1,053,000	£1,029,461	2.3%
Nicola Shaw	£574,500	£561,524	2.3%

Pensions

The remuneration policy approved at the July 2019 AGM stated that new appointments would receive pension/cash in lieu 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. The second year of implementing this agreement was effective 1 April 2021, resulting in cash in lieu of pension contributions for each of John Pettigrew and Nicola Shaw reducing to 23.4%. A further reduction to 20.0% was originally planned to take place at 1 April 2022; however, this has been reviewed and contributions will reduce instead to 12% at this time, without compensation, thereby ensuring alignment with the rate available to the majority of the UK workforce.

Andy Agg currently receives contributions of 20%, which was the approved policy maximum at the time of his appointment. Subsequently, the Committee agreed in November 2019 that newly appointed Executive Directors would receive annual contributions of up to 12% of basic salary for the DC pension scheme, or a cash supplement in lieu. Contributions for Andy Agg will reduce to 12% with effect from 1 April 2022, without compensation, thereby ensuring alignment with the rate available to the majority of the UK workforce.

APP measures for 2021/22

The APP measures and weightings for each Executive Director are shown in the table below. As explained in the Remuneration Committee Chair's statement, for 2021/22 the APP measures will be split across financial measures, operational/strategic measures (with an emphasis on ESG) and individual objectives, weighted 60%, 20% and 20% respectively. The APP targets are considered commercially sensitive and consequently will be disclosed in the 2021/22 Directors' Remuneration Report.

Andy Agg and John Pettigrew	Weighting
Group RoE	30%
Underlying EPS	30%
Operational/strategic measures	20%
Individual objectives	20%

Nicola Shaw	Weighting
UK RoE	20%
UK Underlying Operating Profit	20%
UK Regulated Controllable Costs	20%
Operational/strategic measures	20%
Individual objectives	20%

Performance measures for LTPP to be awarded in 2021

The 2021 LTPP performance measures and weightings, for all Executive Directors, are Group RoE (50%) and Group Value Growth (50%), each measured over the entire three-year performance period, 1 April 2021 – 31 March 2024. Awards are expected to be made towards the end of June. In light of the transactions involving Western Power Distribution, UK Gas Transmission and Rhode Island businesses, the Committee has opted not to finalise the threshold and maximum vesting targets at this time and will confirm these later in the year.

The LTPP rules expire in July 2021 and so we are seeking shareholder approval at the 2021 AGM for the new LTPP rules. The new rules are substantially in line with the existing rules, updated to reflect developments in market practice and good governance especially around malus and clawback provisions.

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.

Paula Rosput Reynolds will assume the position of Chair from 31 May, with an annual fee of £700,000 without any benefits. This fee was set during the recruitment process and takes into account the market data and reflects the candidate being recruited from within the US market.

From this year, fee increases will be effective from 1 July 2021 to align with the annual salary review date applicable to the majority of our employees.

Role	1 July 2021 £'000	1 June 2020 £'000	Increase vs 2020
Chair (new fee level from 31 May 2021)	700.0	540.2	29.6%
Senior Independent Director	23.6	23.1	2.2%
Board fee (UK-based)	71.1	69.5	2.3%
Board fee (US-based)	84.4	82.1	2.8%
Chair Audit Committee	31.9	31.2	2.2%
Chair Finance Committee	24.4	23.9	2.1%
Chair Remuneration Committee	31.9	31.2	2.2%
Chair Safety, Environment and Health	24.4	23.9	2.1%
Committee membership fee	11.0	10.8	1.9%

Notes:
Other than for the Chair role, fees were last increased on 1 June 2019.
Chair/Committee fees are not applicable with respect to the Nominations Committee.

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

Jonathan Dawson
Committee Chair
19 May 2021