



Tax Strategy

March 2023

nationalgrid

As part of the requirement under the 2016 Finance Act, we are publishing our tax strategy for the year ended 31 March 2023. National Grid's tax strategy does not change significantly from year to year and remains in line with the Group's purpose and values. It is a global tax strategy and the principles apply across all our relevant jurisdictions including the UK.

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Introduction

Who are we



Andy Agg
Group Chief Financial Officer

National Grid plc is one of the world's largest investor-owned energy utilities, committed to delivering electricity and gas safely, reliably and efficiently to the customers and communities we serve. Our vision is to be at the heart of a clean, fair and affordable energy future. Every day we do the right thing, find a better way, and make it happen. We are working right now to deliver net zero and keep our networks safe and reliable. We have activities in both the UK and the US.

UK Electricity Transmission – We own and operate the high-voltage electricity transmission (ET) network in England and Wales.

UK Electricity Distribution – We own and operate the electricity distribution networks for the Midlands, the South West and South Wales. The combined network of National Grid Electricity Distribution (rebranded from Western Power Distribution (WPD) in September 2022), which became part of National Grid in June 2021, makes it the largest distribution network operator (DNO) group in the UK.

UK Gas Transmission – On 27 March 2022, we announced the agreement for sale of a 60% stake in this business, which owns and operates the gas transmission network across Great Britain (including our UK metering business which previously formed part of NGV). The sale completed on 31 January 2023 to a consortium of buyers.

UK Electricity System Operator – We operate as the electricity system operator (ESO) where we are responsible for making sure the supply of and demand for electricity are balanced in real time every day across Great Britain.

New England – We own and operate electricity transmission facilities and distribution networks across Massachusetts, New Hampshire and Vermont as well as gas distribution networks across Massachusetts. We sold our Rhode Island electricity transmission and gas and electricity distribution business (NECO) to PPL. The NECO Sale completed in May 2022.

New York – We own and operate electricity transmission facilities and distribution networks across upstate New York. We own and operate gas distribution networks across upstate New York, in New York City and on Long Island.

National Grid Ventures and Other activities – National Grid Ventures (NGV), which operates separately from our core regulated units, is focused on competitive markets across the UK and US. Its portfolio includes electricity interconnectors, liquefied natural gas (LNG) storage and regasification, large-scale renewable generation, conventional generation and competitive transmission. Other activities primarily relate to National Grid Partners (NGP), the venture investment and innovation arm of National Grid, as well as UK property, insurance and corporate activities.

Our purpose is to “Bring Energy to Life” and we do this through the delivery of the electricity and gas that powers our customers and communities, safely, reliably, fairly and affordably, and this is the core of our role as a responsible business. It is also vital to focus on how we fulfil our purpose, minimising negative impacts and enhancing overall contribution to society.

We published our Responsible Business Charter (RBC) in October 2020 and the commitments we made then remain the foundation of our activity. The RBC contains a series of commitments under five headings: the environment, our communities, our colleagues, the economy and our governance. These commitments are now built into business plans and performance against each commitment is regularly reviewed.

Our key values underpin our published Code of Ethical Business Conduct which sets out the standards and behaviours we expect at National Grid. Our approach to tax is part of our commitment to being a responsible business. We are committed to a coherent and transparent tax policy.

Implicit in our values is our commitment to build trust amongst stakeholders and to operate ethically, responsibly, and transparently. These values carry over to the manner in which we manage our tax affairs, as we recognise that our tax contribution supports public services and the wider economy. We recognise that effective engagement with a broad range of our stakeholders is essential to the long-term success of the business.



National Grid continues to take a responsible approach to tax. We endeavour to manage our tax affairs so that we pay and collect the right amount of tax, at the right time, in accordance with the tax laws in all the territories in which we operate.



Our approach to tax

‘Do the right thing’



Therese Esperdy
Finance Committee Chairman

As a regulated public utility and a group whose shares are listed on the London Stock Exchange, we are conscious of the need to manage our tax affairs responsibly in the eyes of our stakeholders. The way we do this seeks to comply with relevant legislation and effectively manage our tax risk.

National Grid has a strong governance framework that extends to how our tax affairs are managed. Our internal control and risk management framework helps us manage risks, including tax risk, appropriately.

We aim to comply with all relevant tax laws, regulations and tax reporting requirements. We do not enter into artificial arrangements that lack commercial purpose or where the sole purpose is to achieve tax savings.

Furthermore, we will not enter into arrangements that could have a negative effect on the Group’s reputation, brand, corporate and social responsibilities, or relationships with stakeholders such as HMRC and OFGEM.

We take a conservative approach to tax risk. However, there is no prescriptive or pre-defined limit to the amount of acceptable tax risk.

We act with openness and honesty when engaging with relevant tax authorities and seek to work with tax authorities on a real-time basis. We prefer to seek clarity through timely discussion and prompt disclosure of all relevant information, so we can reach an accurate assessment of the tax implications of our activities.

We engage proactively in developments of external tax policy and engage with relevant bodies where appropriate.

Ultimate responsibility and oversight of our tax strategy and governance rests with the Finance Committee, with executive management delegated to our Chief Financial Officer who oversees and approves the tax strategy on an annual basis.



Our approach to tax is consistent with the Group’s broader commitments to doing business responsibly and upholding the highest ethical standards.

Total Tax Contribution

The total amount of taxes we pay and collect globally year-on-year is significantly more than just the tax which we pay on our global profits.

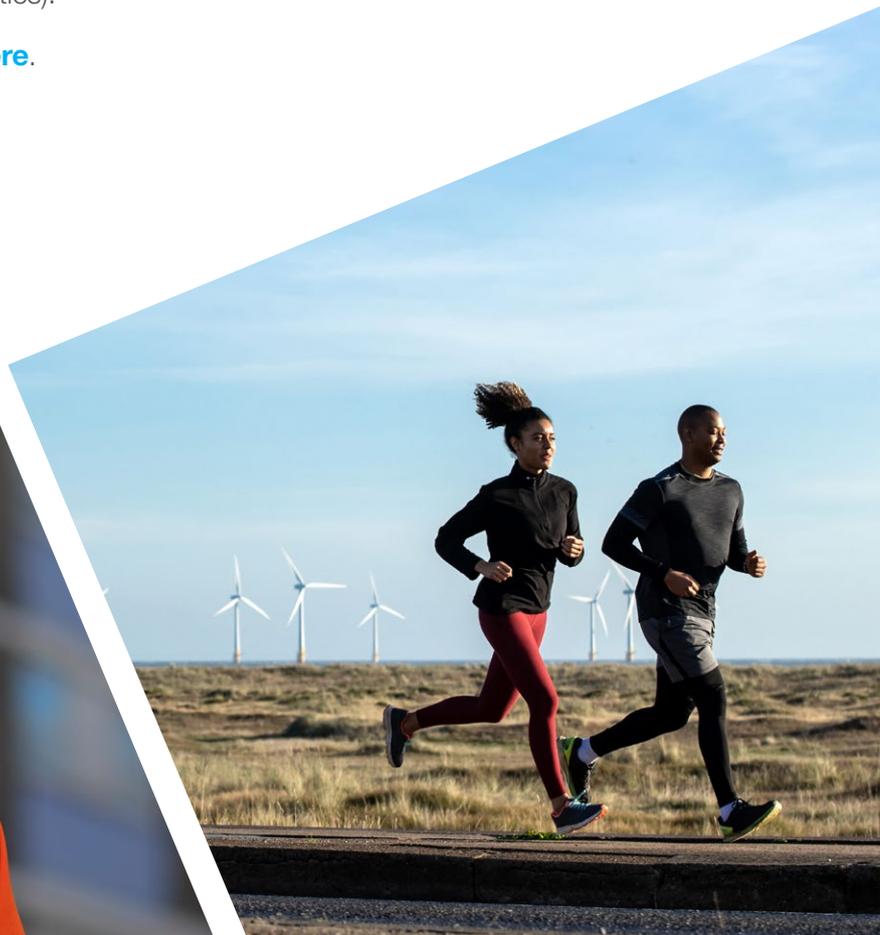
We contribute taxes in two ways, collectively referred to as total tax contribution:

- **taxes borne** are a cost to the Company; and
- **taxes collected** are generated by the operations of the Company and which companies are obliged to administer on behalf of the Government (e.g. income tax under PAYE, employees' national insurance contributions).

Within the total, we include other taxes paid such as property taxes, taxes on employment, together with employee taxes and other indirect taxes.

You can read more about this in our Annual Report and Accounts. This includes the split of our tax contribution by type of tax, and also the reason why the tax charge disclosed in our accounts is generally different to the amount of cash payments made to the tax authorities (including HMRC, the IRS and US state tax authorities).

Our Annual Report and Accounts can be found [here](#).



Governance and management of tax risk

Roles and responsibilities

Day-to-day responsibility of the Group's tax affairs, including the application of our tax strategy, is delegated to the Chief Financial Officer. He provides regular updates to the Finance Committee on tax matters affecting the Group such as tax risk, and the Finance Committee is responsible for authorising any material tax transactions.

Day-to-day tax activities are carried out by a team of appropriately qualified and experienced tax professionals. Where tax related activities are carried out outside the Group tax department (e.g. HR), staff are appropriately qualified and experienced.

We have a confidential internal helpline, and an external 'Speak-Up' helpline available at all times in all the regions where we operate. We publicise the contact information to our colleagues and on our external website so concerns (including concerns around our tax affairs) can be reported anonymously. Our policies make it clear that we will support and protect whistle-blowers and any form of retaliation will not be tolerated.

Decisions relating to tax matters are made at the appropriate level based on the value and potential impact on the business. They follow the Group's delegation of authority procedures and are supported by appropriate documentation and, where necessary, external advice from appropriate professional service providers.

Tax risks

As a large group we are exposed to and need to manage a variety of tax risks, across categories such as the following:

- **transactional risk** – ensuring transactions are undertaken with appropriate consideration of tax consequences;
- **reputational risk** – ensuring actions or decisions do not have an adverse impact on the perception of National Grid from the perspective of our stakeholders including our shareholders, HMRC, OFGEM, our customers and the general public;
- **technical judgement risk** – ensuring tax analyses use the appropriate interpretation of relevant tax law and regulations; and
- **changes in tax landscape** – ensuring that we monitor and keep up to date with changes in tax law and/or accounting standards so we can assess the impact to the Group. Additionally, we ensure that we have appropriate processes and systems in place to interpret the changes correctly and comply with them.

Our internal control and risk management framework helps us manage these risks appropriately.



Ultimate responsibility and oversight of our taxation strategy and governance rests with the Finance Committee, which is a sub-committee of the National Grid Board. Executive management is delegated to the Chief Financial Officer who is a member of the Finance Committee.

Internal control and risk management framework

Accepting that it is not possible to identify, anticipate or eliminate every risk that may arise and that risk is an inherent part of doing business, our risk management process aims to provide reasonable assurance that we understand, monitor and manage the main uncertainties that we face in delivering our objectives, including in our tax affairs. Our risk management process provides a framework through which we can consistently identify, assess, prioritise, manage in accordance with our risk appetite, monitor and report risks, including tax risk.

An important feature of our risk management process is our three lines of defence model, which is designed to avoid the likelihood of a risk not being detected or effectively managed. The three lines of defence at National Grid are:

- **Business function** – control owner who is responsible for the operation of the control and management of the particular risks in their area of the business;
- **Central risk management team** – control framework design authority which implements risk process and independently challenges principal risk assessments and actions taken to manage/mitigate risk;
- **Internal audit** – independent assessment of the effectiveness of our risk management and internal control systems.

We have a number of processes to support our internal control environment. Oversight of these activities is provided through regular review and reporting to the Board and appropriate Board committees. Where we identify deficiencies, these are reported and corrected at the appropriate level. The Audit and Risk Committee assists the Board in fulfilling its oversight and monitoring responsibilities in respect of the integrity of financial reporting, the effectiveness of internal risk management, control and assurance processes, the Company's governance framework and the external audit.

The Board assesses the Company's Group Principal Risks (GPRs) and monitors the risk management process through risk review and challenge sessions twice a year. Our corporate risk profile contains the GPRs that the Board considers to be the main uncertainties currently facing the Group as we endeavour to achieve our strategic objectives.

Risk management activities take place at all levels of our organisation. Through a 'top-down, bottom-up' approach, all business areas identify the main risks to our business model and our business objectives. For each risk the effectiveness of our internal controls is assessed when calculating the financial, operational and reputational impacts, and how likely the risk is to materialise. Where current risk levels are outside of agreed target scores and our risk appetite, the business area identifies and takes actions to close the gap. Cascade and escalation mechanisms are in place throughout the organisation as appropriate for risk appetite, risks, controls and action plans.

You can find more information about our internal control and risk management framework in our Annual Report and Accounts.

Specifically, in respect of tax risk, we carry out continuous review and monitoring, and make recommendations/updates for improvements to a control or process or to take account of changes in the tax landscape. Where a new tax risk is identified, we document and implement proposed action and/or control to mitigate the risk.

We also work with the business to ensure that they understand our approach to tax risk management. By adopting this business partnering approach and proactively engaging with internal stakeholders, we ensure we have comprehensive knowledge of their activities and that tax is always considered when undertaking business decisions. This process therefore allows us to capture any legislative or operational driven changes or transactions and consider the tax impact.



Risks are assessed by considering the financial and reputational impacts, and how likely the risk is to materialise. Consideration is given to the impact on the external environment and the effect on our stakeholders. Where we identify a risk, we take actions to manage and monitor the risk in accordance with our risk appetite, assess the adequacy of existing risk processes and controls and remediate deficiencies.

Attitude to tax planning

Our reputation, corporate social responsibilities and brand are crucial considerations when dealing with tax matters. We will not enter into arrangements that could have a negative effect on the Group's reputation, brand, corporate and social responsibilities, or relationships with stakeholders such as HMRC and OFGEM. Additionally, when making decisions on tax matters, we follow the CBI's Statement of Tax Principles.

We acknowledge that there are circumstances where tax matters may be complex or unclear. So, we may seek advice from reputable professional advisers to provide clarity around the interpretation, particularly where the matter is material to the Group.

We mainly operate in the UK and US and we believe we have the appropriate people and resources for activities undertaken in these locations. We endeavour to make sure that our profits are taxed and therefore paid in the right place, namely in the country in which the economic activity generating the profit takes place.

We do not have operations in tax havens or low tax jurisdictions without commercial purpose.

We have three active captive insurance companies, which are resident for tax purposes in the Isle of Man, Guernsey and the US and which are subject to tax in the UK and US respectively. Our captive companies fulfil a commercial purpose for the Group providing enhanced risk and claims management. In particular, they provide more flexibility of cover where certain risks could be challenging to insure if we approached the commercial market directly. In line with industry standards, the Isle of Man and Guernsey have been chosen as the locations for the business as the regulatory regimes in the jurisdictions recognise captive insurers and have well-established captive infrastructure with good local technical knowledge and expertise, and accessibility to the regulator. Our US captive company insures our local US business risks.

Our presence in Luxembourg is to address a historic nationalisation risk which arose from a Labour Party proposal in 2019 to nationalise nearly all of National Grid's UK assets.

The full list of National Grid subsidiaries is disclosed in our Annual Report and Accounts with their country of incorporation. We have a small number of subsidiaries in a few jurisdictions outside the UK and US and the majority of those entities no longer have any activities and as part of our continued company rationalisation process, should be placed into liquidation in due course.



We will claim valid tax reliefs and incentives where these are applicable to our business operations, but only where they are widely accepted through the relevant tax legislation such as those established by government to promote investment, employment and economic growth.

Level of acceptable tax risk

We assess the level of acceptable tax risk on a case by case basis within our governance framework and risk appetite, as set by the Board.

When assessing tax risk, we consider the following equally important considerations:

- scale;
- complexity;
- our reputational risk;
- our corporate responsibility obligations; and
- impact on our stakeholders.

If we believe a tax position is uncertain, we apply appropriate risk assessment procedures so that we follow appropriate governance. We may seek the opinion of reputable professional advisers, and where necessary, seek clearance from the relevant tax authority.



We take a conservative approach to tax risk. However, there is no prescriptive level or pre-defined limit to the amount of acceptable tax risk.



Approach to dealings with tax authorities

We seek to work with tax authorities on a real-time basis and aim to disclose facts or issues that could result in additional tax liabilities as soon as possible. We may also seek advance clearance from the relevant tax authority on significant or relevant tax matters so we can reduce the risk of incorrect treatment for tax purposes.

We aim to respond promptly to any enquiries or requests for further information from tax authorities to facilitate a prompt resolution of tax matters. For example, this may include facilitating meetings or on-site business visits to assist the tax authority's understanding of our business or area of uncertainty. Where any inadvertent errors in submitted tax filings are identified, we will make full and timely disclosure to the relevant tax authority to resolve the matter.

Development of tax policy

We are committed to the continued development of a coherent and transparent tax policy, so we are continuously monitoring and contributing to the changing tax landscape.

In addition to making direct representations on behalf of National Grid to bodies such as OECD and other tax forums, we are a member of a number of industry groups that participate in the development of future tax policy. This enables us to voice our opinion on relevant tax policy matters so we can ensure that tax policy writers understand the position of our business. It also helps us understand the intentions behind new tax laws and verify our interpretation of the changes, so National Grid remains compliant with the new tax legislation.

As part of this process, we will review the tax impact of the proposals and the evolving tax landscape for National Grid, so we can mitigate any risks the business faces from the changes and to ensure compliance with any changes. As part of that, we continue to look into other areas of tax digitisation and tax technology as enablers for process improvements and risk management as we recognise tax authorities are embracing digitisation and look to place greater emphasis on the integrity of company data.



We aim to maintain a collaborative and open relationship with all relevant tax authorities including HMRC. This includes regular meetings, communications and updates on developments in our business.



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