

Internal control and risk management

The Board is committed to effective risk management to deliver our strategy, protect our people, reputation and assets, and safeguard the interests of our stakeholders.

Our Enterprise Risk Management (ERM) Framework

National Grid is exposed to a variety of uncertainties (threats and opportunities) that could have a material effect on the Group's financial position, our operations, our reputation and stakeholder interests; represented by our Group Principal Risks. These uncertainties are managed through our ERM Framework and system of internal control. We maintain and monitor the application of the Framework throughout the year and formally assess its effectiveness annually. This ongoing oversight, alongside continuous improvement, enables us to respond effectively to changes in the internal and external environment and to inform our Group Principal Risks and related risk management activities.



Our risk management and internal control activities are delivered via a “Three Lines” model:

Risk, Controls and Assurance Governance:

- Identify and monitor the Group Principal Risks and emerging risks across the Group

First Line: Business units

- Identify and assess risks
- Manage day-to-day operational risks
- Apply risk appetite, delegated authorities, policies, procedures and codes of conduct
- Design and operate internal controls and other mitigation measures
- Monitor and report risks through relevant reporting and escalation processes

Second Line: Risk and Compliance functions

- Risk and compliance oversight
- Design and/or enable risk management processes across the Group and responsible for continuous improvement
- Provide risk expertise, advice and support
- Monitor and assure compliance with policies, standards and the ERM process
- Report to the Board and Group Executive

Third Line: Internal Audit

- Internal audit (supported by outsourcing or co-sourcing with external assurance providers)
- Review and evaluate risk management activity and provide assurance over the effectiveness of the control environment
- Report to the Board and the Group Executive

Governance and oversight

The Board is accountable for the Group's system of risk management and internal control, including the amount of risk the Group is prepared to accept in delivering our strategic priorities (our risk appetite).

The Group Principal Risks are monitored throughout the year. Each Group Principal Risk is also subject to a detailed review annually by the Group Ethics, Risk and Compliance Committee and the relevant Board committees. A consolidated summary of the Group Principal Risks and how they are being managed is then reviewed bi-annually by the Audit & Risk Committee. Reporting includes consideration of changes in the internal and external context, a review of the effectiveness of mitigations and internal controls, and an assessment of whether risks are being managed within risk appetite, together with any additional actions required.

Our Group Principal Risks

Business context

The external context in which we operate has changed significantly in recent years, particularly in relation to the political and regulatory environment, technological developments, affordability considerations, and how we deliver for customers. We adapt our business and risk management activities and mitigations accordingly.

Group Principal Risks

Operational Group Principal Risks

Operational risks arise from our core business practices, which rely on our systems, equipment, processes and people.

- Catastrophic security incident
- Significant safety or environmental event
- Loss of supply*
- Major capital projects

Strategic Group Principal Risks

Strategic risks, both internal and external, are associated with the business model, corporate strategy and long-term planning.

- Satisfactory regulatory outcomes
- Climate change mitigation
- Political and societal expectations
- People capability and capacity

Financial Group Principal Risks

Financial risks are risks associated with National Grid's ability to raise capital, maintain access to capital, and deliver profitable growth.

- Financing our business

Compliance Group Principal Risks

Compliance risks relate to compliance with laws and regulations, industry standards, contract requirements and internal policy.

- Legal and regulatory compliance frameworks operate at a jurisdictional level (i.e. UK, US federal, New York and Massachusetts) and therefore apply across all relevant National Grid businesses rather than being amalgamated at Group.

* Significant disruption of energy was renamed to Loss of supply during 2025/26 to better reflect the nature of the risk. Upstream supply considerations are included as a key cause.

A summary of actions taken by management to manage our Group Principal Risks is provided on pages 32 – 36. The Board reviewed these risks as part of the bi-annual Group Principal Risk review, which incorporates feedback and recommendations from relevant Board Committees. Further information can be found on pages 100 – 104.

Strategic priorities

1

Enable the energy transition

2

Build the networks of the future now

3

Deliver for customers

4

Operate safely and efficiently

5

Build tomorrow's workforce today

Risk trend

↑

Increasing

↓

Decreasing

–

No change