

# NATIONAL GRID – GROUP PROCEDURE

## COMPLIANCE MANAGEMENT

### 1. Objective

- 1.1. Businesses face an increasingly aggressive legal and regulatory environment. Legal and regulatory actions against a company can adversely affect its employee morale, reputation and share price, while breaches can result in significant financial consequences and sanctions against a company and/or its employees, particularly a company's directors who could face personal fines and imprisonment. Legal and regulatory compliance is an absolute pre-requisite to National Grid meeting its objectives and safeguarding its reputation. It is, therefore, essential that we take all reasonable steps to ensure compliance with the obligations placed on us.
- 1.2. The need for compliance with both external and internal obligations is already recognised and addressed within the Group. The objective of this Procedure is to enhance the consistency and visibility of compliance management within the Group.

### 2. Scope

- 2.1 This Procedure applies to National Grid and its Subsidiary Companies. For Associate Companies and Joint Ventures, National Grid will seek to promote the adoption of procedures consistent with the principles set out in this document.

The key statutory and best practice requirements that have input to this Procedure are:

- The UK Corporate Governance Code
  - US Corporate and Criminal Fraud & Accountability Act of 2002 (the "Sarbanes–Oxley" Act)
  - 1991 U.S. Sentencing Guidelines for Organisational Defendants
- 2.2 Adopting a risk based approach, Global Ethics and Compliance will focus on current and anticipated external compliance obligations, where the actual or perceived impact of non-compliance on the Group (or locally, the business) is greatest. These are termed key compliance obligations. External obligations arise from legal, regulatory and best practice requirements. Internal obligations (i.e. obligations that flow from internal policies and procedures) will often form part of the control framework implemented to ensure compliance with external obligations and will be reported on as part of the assessment of the control framework. When insufficient assurance can be given on the processes in place to ensure compliance with a key current or future external obligation, this will be considered as a control framework risk and referenced in the Compliance Management reporting process.

### 3. Procedural Framework

- 3.1 National Grid and its Subsidiary Companies, having regard to their own operating environment, must put in place arrangements supported by detailed procedures where applicable, to enable them to deliver the outcomes required by the Board.

- 3.2 The Board recognises that a compliance-aware and responsive workforce is a key element of a good Compliance Management system and has reinforced this through the development of Always Doing the Right Thing. This Procedure builds upon Always Doing the Right Thing to ensure that all relevant managers and employees are made fully aware of:
- the importance that is attached to compliance
  - their compliance obligations and what is expected of them
  - the possible consequences for both themselves and the business of non-compliance
  - how they can obtain advice on compliance issues should they require it.
- 3.3 The implementation of a system of Compliance Management will help increase the visibility and transparency around Compliance Management within the Group enabling the key compliance obligations faced at all levels in the business to be identified, assessed, managed and reported in a consistent manner.
- 3.4 Compliance with this Procedure will enable Executive Directors and senior managers to provide assurance, through the Certificate of Assurance process, that an appropriate level of Compliance Management is operating within their areas of responsibility. It will also help ensure that management elevates key compliance related issues in a timely manner.
- 3.5 At Group level, Global Ethics and Compliance will:
- in conjunction with the businesses and Corporate Centre, identify external best practice in Compliance Management, including enabling tools, for possible adoption and use within the Group.
  - promote the establishment of, and communicate across the Group, as appropriate, a best practice Compliance Management framework that has at its core:
    - a network of business and Corporate Centre compliance advisors and champions, compliance professionals and human resources, communications and other experts as required;
    - a set of minimum data requirements that reflects the key elements of a best practice Compliance Management process, and which facilitate the consistent capture and regular reporting of appropriate compliance management information to management and Executive team meetings;
  - work together with the compliance advisors and compliance professionals and relevant support functions to improve the understanding and awareness of good compliance management principles by those accountable in the business for delivering compliance with obligations.
  - Present to the Executive, Audit and Safety, Environment and Health Committees, on at least an annual basis, a Compliance Report that;
    - highlights the extent to which, if at all, the Group's profile of key compliance obligations has changed over the period

- provides an indication as to how well this Procedure is operating across the Group including:
- 4.
- an analysis and discussion of trends in compliance activities and issues;
  - the extent to which any actual or proposed changes in key external compliance obligations have been highlighted by the businesses / Corporate Centre, as appropriate; and
  - details of compliance awareness programmes carried out during the period and the results of any assessments of the effectiveness of any such programmes.

3.6 Businesses and the Corporate Centre functions will:

- promote the development and implementation of best practice Compliance Management including the establishment of an appropriate culture, supporting organisational structure and awareness training programmes;
- identify, assess, record, manage and report the key compliance obligations within their own area of responsibility together with an assessment of the effectiveness of the control framework in place to ensure compliance;
- ensure that details of any significant actual or potential compliance issues are reported, on an “as arising” basis, to the respective business Board or Executive meetings, or with their relevant Executive Director, and then to the Executive Committee, and other Board Committees, as appropriate;
- present and debate, as appropriate, at their respective Board or Executive meetings or with their relevant Executive Director, at least annually the same type of compliance management information as that presented to the Executive, Audit and Risk and Responsibility Committees by Global Ethics and Compliance (detailed in paragraph 3.5 above);
- provide information on Compliance Management (including details of their assessment of their control frameworks and any significant actual or potential compliance issues) to Global Ethics and Compliance to enable the reporting requirements under 3.5 to be fulfilled, having agreed that information with their respective Board or Executive meetings, or their relevant Executive Director, beforehand.

**5. Guidance on Assessment and Reporting Requirements**

4.1 Reporting in the businesses and Corporate Centre functions shall meet the requirements of the detailed guidance contained in Appendices A to C found at the end of this Procedure unless alternative requirements have been agreed with Ethics and Compliance:

- Appendix A – provides a list of minimum data requirements
- Appendix B – highlights the Compliance Management reporting themes
- Appendix C – provides the basis for the compliance opinion

To facilitate the production of Compliance Management Reports to the Board Committees, Global Ethics and Compliance will communicate, in a timely manner, its compliance reporting requirements, including report formats and timetable, to all businesses and Corporate Centre functions. This will outline the submission dates of reports to the Executive, Audit and Safety,

Environment and Health Committees. Where specific requirements generate the need for additional reporting, Global Ethics and Compliance will issue separate guidance.

## 5. Related Group Policies, Procedures and Other Documents

- Always Doing the Right Thing
- The Board's Process for the Review of Effectiveness of Internal Control
- All Group Policy Statements and Group Procedures
- Certificate of Assurance Process
- Terms of Reference of all the Board Committees, but in particular the Executive, Audit and Safety, Environment and Health Committees

## 6. Key Contacts

- 6.1 This Procedure is owned by the Group General Counsel and Company Secretary and written and maintained by the Global Head of Ethics and Compliance, to whom any questions relating to its content or application should be addressed. The Global Head of Ethics and Compliance Manager will be responsible for facilitating communication of this Procedure throughout the organisation.

## 7. Monitoring and Compliance

- 7.1 The Group General Counsel and Company Secretary will review compliance with this Procedure on an ongoing basis and formally on an annual basis. Any changes needed to ensure its effectiveness will be drawn to the attention of the Executive Committee.
- 7.2 Each business and Corporate Centre function will ensure that it has appropriate arrangements in place to monitor and report compliance with this Procedure on an annual basis. Each Associate Company will be encouraged to put in place similar arrangements to enable compliance to be reported on an annual basis.

## Definitions

**Associate Company:** A company whose equity share capital is 20% or more but not more than 50%, beneficially owned by an NG company or companies.

**Joint Venture:** A commercial undertaking entered into by two or more parties (one being an NG company), by setting up a separate company in which all partners have shares.

**Subsidiary Company:** A company that is a subsidiary of NG, provided that an NG company holds or controls a majority of the voting rights in it or the right to appoint or remove a majority of its directors.

**Compliance Management:** The process whereby external compliance obligations and internal compliance obligations (that exist to ensure adherence to the Group's external obligations and to establish the standards and behaviours that the Group expects of its managers and employees) are identified, assessed, managed and reported.

**Key Compliance Obligation:** An obligation where non-compliance could result in sanctions that would have a significant financial, operational or reputational impact on the business or its employees.

**Compliance Control Framework:** A suite of controls that, when working effectively, provide reasonable assurance of compliance with a particular obligation. It should be based on any generally accepted control framework.

## Detailed Guidance on Reporting Requirements for all Businesses and Corporate Centre Functions

### Appendix A - Minimum Data Requirements

Business and Corporate Centre functions should capture the minimum data requirements for each key compliance obligation in a compliance schedule suitable for local reporting and Group level reporting/consolidation. Where stated, further information is provided in Appendices B and C.

<b>Compliance Theme</b>	Each Compliance obligation should be linked to a Board Reporting Theme. <b>Refer to Appendix B.</b>
<b>Compliance Title</b>	Name of piece of legislation, regulation or an internal requirement
<b>Compliance Owner</b>	Individual responsible for managing the compliance obligation
<b>Possible Legal Sanctions for Non Compliance</b>	Show details of the maximum fines/penalties that the business could face including the maximum possible consequences of litigation Identify any restrictions or adverse actions that may be placed on the business' activities Show the maximum possible financial, custodial and other penalties that could be inflicted on individual members of the Group (NB Businesses may wish to show details of the range of possible legal sanctions that they could face, if they believe that this would be useful)
<b>Reputational Impact of Non Compliance</b>	Consider the likely regional/national media coverage, City and stakeholder criticism, and possible impact on share price or future business opportunities
<b>Compliance Awareness Programme</b>	Details of steps taken to make relevant employees aware of the compliance obligation during the current reporting period and planned for the following reporting period. Could be training programmes, issue of policies, procedures, guidance, etc
<b>Compliance Awareness Assessment</b>	Details of any assessments carried out in the reporting period to gauge the compliance awareness of relevant employees including sample and results, as well as details of any assessments planned
<b>Compliance Opinion</b>	A self-assessment of how well the compliance control framework for each key compliance obligation is operating in aggregate across the business but making specific reference to any particular areas of concern e.g. instances where the local Compliance Opinion rating is "Unsatisfactory". <b>Refer to Appendix C.</b>
<b>Basis of Compliance Opinion</b>	The criteria or factors used in arriving at the Opinion above. <b>Refer to Appendix C.</b>
<b>Non-Compliance Details</b>	Description of the significant non-compliance event, how and when it occurred and an assessment as to why it occurred
<b>Actions to Address Causes</b>	Actions to address the causes of the non-compliance with appropriate timescales and identification of the responsible manager. This may include process changes or additional training etc. Continually reported until actions completed
<b>Actions to Address Consequences</b>	Actions to address the consequences of the non-compliance with appropriate timescales and identification of the responsible manager. This may include the payment of fines or compensation. Continually reported until actions completed
<b>Legislative / Regulatory Changes</b>	Description of the potential (or recently enacted) changes in legislation or regulation and an assessment of their possible financial and operational impact on the business and possible mitigating actions
<b>Risk Register Reference</b>	The reference given to any non-compliance risk raised in connection with the particular obligation

## **Appendix B - Compliance Management Reporting Themes**

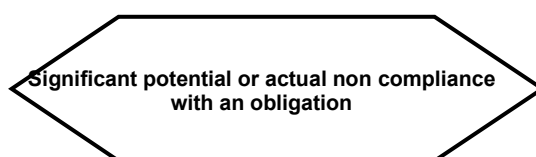
External obligations arise from legal, regulatory and best practice requirements. The following table identifies the “reporting themes” under which key external compliance obligations should be consolidated and reported. Should a compliance obligation not “fit” into this list of themes, please create another category at the end of the table.

<b>External Legal &amp; Regulatory Obligations</b>	
<b>Reporting Theme</b>	<b>Examples (N.B. this is not an exhaustive list)</b>
<b>Regulatory Framework</b> <i>Anti-Trust</i> <i>Utility Legislation &amp; Licensing</i> <i>United Kingdom</i> <i>Regulatory Orders &amp; Tariffs</i> <i>USA Federal &amp; State</i>	Competition Act / Procurement Directive Utilities Act / Electricity Act / Transmission Licence / Gas Act / Gas Transportation Licence Non-compliance with Regulatory Orders, Tariffs and Customer Contracts (including New York Public Service Law & Rhode Island RIPUC Order) and rate case requirements.
<b>Securities Laws</b>	Fair Disclosure / Sarbanes-Oxley Continuing Obligations under UK Listing Rules & New York Stock Exchange Obligations / Companies Act / Financial Services Markets Act 2000 / US Legislation (35 PUHCA)
<b>Health, Safety &amp; Environment</b> <i>United Kingdom</i>  <i>USA – Federal &amp; State</i>	Health and Safety Legislation Health & Safety at Work Act 1974 Laws relating to Workplace and Public Safety Environmental Laws and Regulations
<b>Information Management</b> <i>United Kingdom</i>  <i>USA – Federal &amp; State</i>	Data Protection Act Document Retention Requirements Laws regarding spoliation and destruction of evidence – including retaliation against whistleblowers
<b>Employment Legislation</b> <i>United Kingdom</i> <i>USA – Federal &amp; State</i>	Employment Legislation Laws prohibiting discrimination and harassment
<b>Financial &amp; Reporting</b> <i>Pensions United Kingdom</i> <i>Pensions USA</i> <i>Taxation United Kingdom</i> <i>Taxation USA</i>	Pensions Legislation ERISA
<b>Fraud and Bribery</b>  <i>United Kingdom</i>  <i>USA – Federal and State</i>	Bribery Act 2010, Fraud Act 2006, Political Parties, Elections and Referendum Act 2000,  Foreign Corrupt Practices Act 1977, Lobbying and Political Contribution Laws, anti-fraud legislation

There are also major internal obligations that need to be met. These obligations, in the form of Codes of Conduct, Policy Statements, Control Procedures, Public Position Statements, Delegations of Authority etc, exist to ensure adherence to the Group’s external obligations and to establish the standards and behaviours that the Group expects of its managers and employees. They accordingly form part of the control frameworks in existence to ensure compliance with external obligations and should be reported upon as part of the assessment of the efficacy of the overall control framework. Details can be obtained by reference to the Group’s Governance Framework which can be found at <http://ngt.net/governance/>

## **Appendix C - Compliance Opinion**

The Compliance Opinion comprises of two elements. Firstly there should be an assessment of whether there has been a significant actual or potential non-compliance with the relevant external obligation. Where there has been, that should be recorded as follows:



In addition there should be an opinion on how well the compliance obligation is being managed, at the aggregated business or Corporate Centre function level. A number of factors should be considered when making this assessment including:

- reported instances of non-compliance
- the effectiveness of communication and awareness programmes
- compliance with internal policies and procedures created to support the control framework
- feedback from independent assurance providers (such as Internal Audit, third party assessors, regulatory reviews etc.)
- management information including performance indicators

This opinion should be reported using a coloured system with the following definitions applicable to each colour:

**Green = Effective compliance control framework in place.**

**Yellow = Low Impact/Minor Control Framework Weakness**

**Amber = Medium Impact/Significant Control Framework Weakness**

**Red = High Impact/ Significant Control Framework weakness**