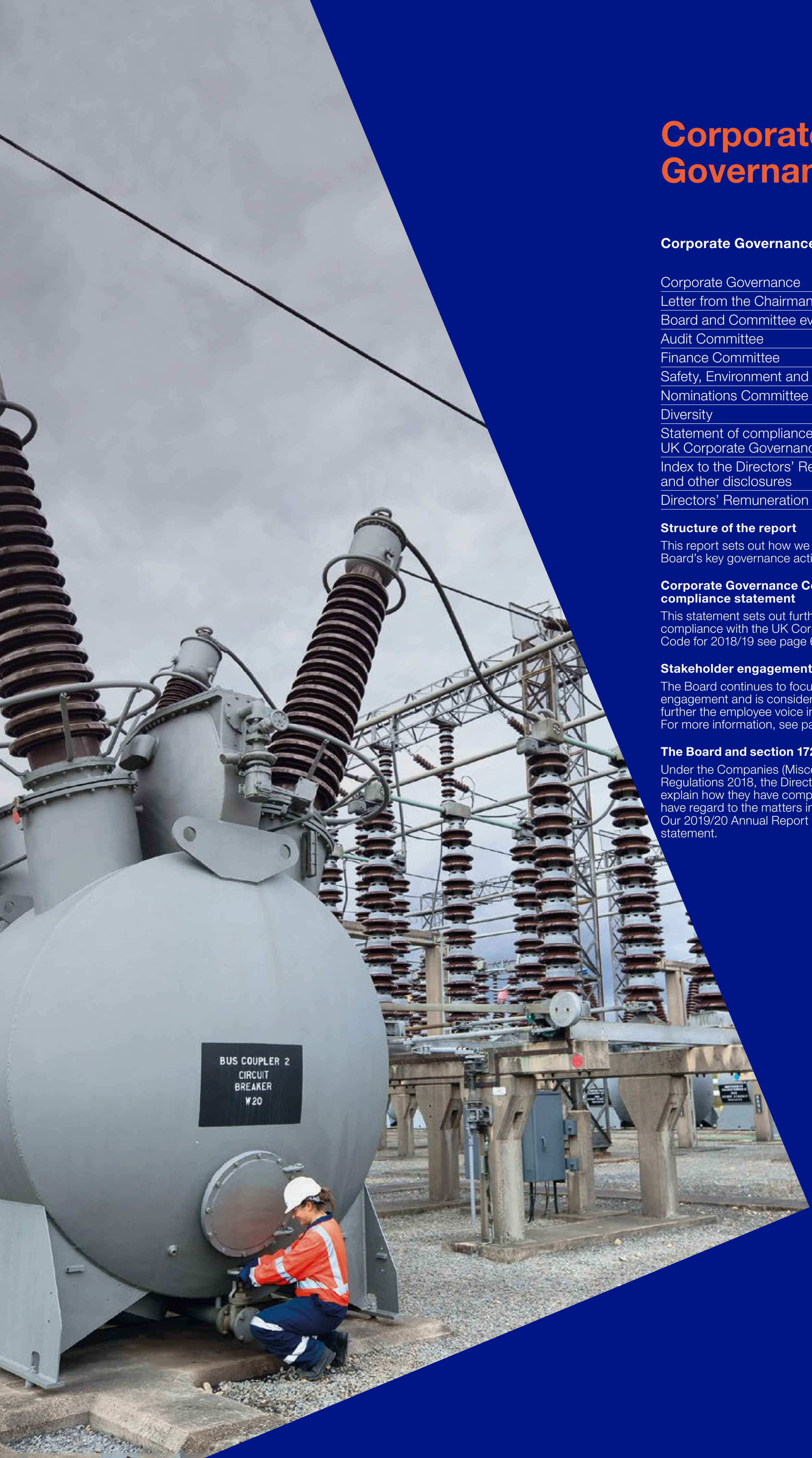

Corporate Governance

Corporate Governance contents

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Structure of the report

This report sets out how we are governed and the Board's key governance activities during the year.

Corporate Governance Code 2016 compliance statement

This statement sets out further information on our compliance with the UK Corporate Governance Code for 2018/19 see page 67.

Stakeholder engagement

The Board continues to focus on stakeholder engagement and is considering how to increase further the employee voice in the boardroom. For more information, see pages 54 – 55.

The Board and section 172 Companies Act 2006

Under the Companies (Miscellaneous Reporting) Regulations 2018, the Directors will be required to explain how they have complied with their duty to have regard to the matters in section 172 (1) (a)-(f). Our 2019/20 Annual Report will include this statement.

Letter from the Chairman

"It was important that the Company builds on the extensive existing range of engagement activities and continues to consider workforce views in decision-making."

Sir Peter Gershon
Chairman

Introduction and the new UK Corporate Governance Code 2018

This year has seen significant changes to the Corporate Governance landscape, which have remained high on the Board's agenda this year, reiterating the importance with which we treat Corporate Governance.

Following the introduction of the new UK Corporate Governance Code 2018 (the new Code), the Board took the opportunity to review stakeholder engagement (especially workforce engagement), succession planning, diversity and the role of the Remuneration Committee in more depth over the year. From the work we have completed in previous years, I am pleased to say that we are well placed to meet the new requirements. As you will see throughout this report, we are now doing more to ensure that the views of our stakeholders are being captured in the boardroom, and maintaining focus on creating the right culture for the Company. In next year's report, we will report in detail on our compliance against the new Code.

Other external influences on the Board agenda included the ongoing UK regulatory and political uncertainty and the legal separation of the Electricity System Operator, all of which will have a significant impact on the way we work and operate. The Board has also taken time to discuss topics such as our strategy, innovation, cyber security, RIIO-T2 and the Hinkley-Seabank Connection Project.

Stakeholder engagement and the Board's duty

The role and effectiveness of the Board are essential in a successfully run company. During the year, we discussed the Board's duty under section 172 of the Companies Act 2006, with a significant focus on reviewing and mapping out our key stakeholder groups and discussing the Board's current level of engagement and incorporation of its views into decision-making. Our discussions around RIIO-T2, the Massachusetts gas labour dispute and workforce contingency plan, the Hinkley-Seabank Connection Project and our Business Plan are examples of how the Board has had regard to its duty under section 172, including ensuring we had regard for the interests of key stakeholders and the likely consequences of any decisions in the long term. You can read more about who our key stakeholders are and how they have influenced key decision-making on pages 54 – 55.

Workforce engagement

In November 2018, the Board considered the provisions of the new Code and, in particular, reviewed the three FRC recommended methods of workforce engagement. Following a detailed review of the existing mechanisms for engagement by the Board, Executive Committee and senior management, the Board thought it was important that it builds on the extensive existing range of engagement activities that are already in place and continues to consider workforce views in relevant decision-making processes. The Board determined that the workforce was not limited to Company employees, but also included contractors and agency workers, in all locations. Current engagement mechanisms include reviewing and implementing actions from the employee survey results, site visits by myself and Non-executive Directors and separate Non-executive Director sessions with a cross section of the workforce. These mechanisms will be enhanced to include additional engagement sessions with the Non-executive Directors and our approach to leadership dinners will evolve to drive greater, more diverse, workforce representation and broader communications by inviting a representative from each employee resource group to a separate dinner. Focus will be on the Board's interactions with all employees, hearing their views on the outcome of the employee engagement survey and other topical issues, such as gender pay. We will continue to review and adapt our approach during the year.

External Board evaluation

This year, we appointed Dr Sabine Dembkowski of Better Boards Limited to undertake an independent, formal and rigorous evaluation of our Board and committees. During the evaluation process, Sabine provided the Board with insights about the different aspects of effective boards and how they can work together more effectively as a team. Each Board member received an individual evaluation and the Board had a combined action plan. The process and outcome can be found on page 56.

Culture

As Chairman, promoting a culture of openness and debate in the boardroom is one of my key responsibilities, and as a Board we play an important leadership role in promoting the desired culture throughout the organisation and ensuring that we establish good governance to underpin a healthy culture. You will see from our culture journey (on page 53) that the Company has spent a considerable amount of time over the last few years focusing on getting this right for the Company. In the year, the focus has been on the changes from the new Code and stakeholder engagement.

Board developments and diversity

There were a number of people changes on the Board during this year. All appointments were subject to a formal and transparent procedure. We welcomed two new Directors, as mentioned in the Nominations Committee Report on page 65. Andy Agg was appointed Interim CFO in July 2018 and was formally appointed to the Board as Chief Financial Officer with effect from 1 January 2019. Earl Shipp joined the Board as Non-executive Director and joined the Safety, Environment and Health Committee, Remuneration Committee and the Nominations Committee. On 16 May 2019, we will welcome Jonathan Silver to the Board as a Non-executive Director. The Nominations Committee oversaw the rigorous selection process for these new appointments, ensuring that relevant skills and diversity of thought were considered carefully as part of the appointment process. You can read more about this on page 65. We also said goodbye to Andrew Bonfield and Pierre Dufour in July 2018 and Nora Mead Brownell in April 2019.

We remain focused on maintaining an inclusive and diverse culture on the Board. We believe this improves effectiveness, encourages constructive debate, delivers superior performance and enhances the success of the Company. I was pleased to see National Grid was mentioned in the latest Hampton-Alexander Review and ranked 15th out of the FTSE 100 for women on boards and in leadership. Most recently, we were also placed in The Times Top 50 Employees for Women.

Following the changes to the Board during the year, we continued to meet our diversity target of having 33% of women on the Board, until April 2019 when Nora Mead Brownell left the Board and it fell to 27.3%. We currently exceed the Parker Review target for ethnic diversity on FTSE 100 Boards. You can read more on how we strive towards our objectives in our Board Diversity Policy on page 66.

Business in the Community (BITC) has recognised the Company for the work we do to support workplace equality and inclusion, a fact of which I am personally very proud. We were also named in the Top 70 Employers for Race, and we were also a finalist in BITC's Race Equality Awards. This acknowledged that we are taking a proactive approach to address racial inequalities in the Company. Our policies are also considered to be having a positive impact on our Black, Asian and Minority Ethnic (BAME) employees, and we will continue to progress our diversity aims through the year.

Sir Peter Gershon
Chairman

Our Board

Committee membership key

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

Tenure as at 31 March 2019

Committee membership as at 15 May 2019

Other Board members during the year were:

- Andrew Bonfield – stepped down from position of CFO on 30 July 2018;
- Pierre Dufour – stepped down on 30 July 2018; and
- Nora Mead Brownell – stepped down on 8 April 2019.

N

Sir Peter Gershon CBE FREng (72)
Chairman

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

Tenure: 7 years

Skills and competencies: Sir Peter is an experienced leader, having held senior board-level positions spanning both public and private sectors in the computer, defence and telecommunications industries. He has served as Chief Executive and as a Managing Director in several high-profile organisations. Through his broad business experience and previous roles, 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:

- Non-executive Chairman of the Aircraft Carrier Alliance Management Board and Dreadnought Alliance;
- Trustee of The Sutton Trust;
- Trustee of the Education Endowment Foundation;
- Chairman of Join Dementia Research (JDR) Partnership Board;
- Board member of The Investor Forum.

E F

John Pettigrew FEI FIET (50)
Chief Executive

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

Tenure: 5 years

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

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

External appointments:

- Member of the Government's Inclusive Economy Partnership;
- Member of the CBI's President's Committee;
- Non-executive Director and Senior Independent Director of Rentokil Initial plc.

E F

Andy Agg (49)
Chief Financial Officer (CFO)

Appointed: Interim Chief Financial Officer from 30 July 2018. Appointed as CFO on 1 January 2019

Tenure: Less than 1 year

Skills and competencies: Andy trained and qualified as a chartered accountant with PricewaterhouseCoopers and is a member of the ICAEW. He has significant financial experience, having previously held a number of senior finance leadership roles across the Group, including Group Financial Controller, UK CFO and, most recently, Group Tax and Treasury Director. Andy's in-depth knowledge of National Grid, both in the UK and US, and his broad experience in operational and corporate finance roles have ensured a smooth transition to his role as CFO.

External appointments: None.

E

Nicola Shaw CBE (49)
Executive Director, UK

Appointed: 1 July 2016

Tenure: 2 years

Skills and competencies: Nicola's career, in the UK and overseas, has included senior positions in several regulatory, commercial and operational roles. She has a strong leadership track record, including 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 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;
- Director of Energy UK.

E

Dean Seavers (58)
Executive Director, US

Appointed: 1 April 2015

Tenure: 4 years

Skills and competencies: Dean brings to the Board a broad range of financial and customer experience, along with significant general management experience with a particular focus on change and performance improvement programmes. He has a proven track record of building successful teams and improving operations. Dean's keen finance and business development skills continue to differentiate the Company as a leading US energy distributor and innovator.

External appointments:

- Advisor to the Board at City Light Capital;
- Non-executive Director of Albemarle Corporation.

E

Alison Kay (55)
Group General Counsel and Company Secretary

Appointed: 24 January 2013

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

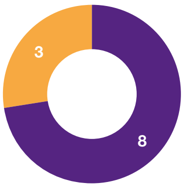
Alison provides support and advice to the Directors, the Board and its Committees. She brings rigour to corporate governance and ensures that Board procedures are fit for purpose and adhered to. She also has expertise in regulatory and contractual law and legal risk management from her previous experience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

External appointments:

- Member and Vice-Chair of the Association of General Counsel and Company Secretaries working in FTSE 100 Companies;
- Member of the Marie Curie West Midlands Development Board.

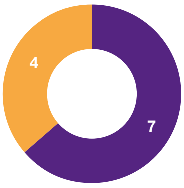
Our Board diversity

Board gender



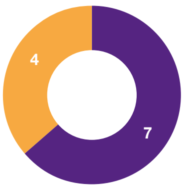
- Men
- Women

Executive and Non-executive Directors



- Executive
- Non-executive (inc. Chairman)

Board members by nationality



- British
- American

Charts as at 15 May 2019

Tenure as at 31 March 2019

- < 3 years
- 3-6 years
- > 6 years

R F N

Jonathan Dawson (67)
Non-executive Director; Independent

Appointed: 4 March 2013

Tenure: 6 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. As a Non-executive Director, Jonathan brings scrutiny, additional challenge and independent oversight to the Board.

External appointments:

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

F A N

Therese Esperdy (58)
Non-executive Director; Independent

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

Tenure: 5 years

Skills and competencies: Therese has significant international investment banking experience, having held a variety of leadership roles spanning 26 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. Her sharp and incisive thinking enables her to contribute and constructively challenge on a wide range of Board debates.

External appointments:

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

S A N

Dr Paul Golby CBE FREng, FIET, FIMechE, FEI, FCGI (68)
Non-executive Director; Independent

Appointed: 1 February 2012

Tenure: 7 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 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 specific experience in safety and risk management is crucial to his role as Chair of the Safety, Environment and Health Committee.

External appointments:

- Chairman of Costain Group PLC;
- Chairman of the UK National Air Traffic Services;
- Member of the Prime Minister's Council for Science and Technology.

A N S

Amanda Mesler (55)
Non-executive Director; Independent

Appointed: 17 May 2018

Tenure: 1 year

Skills and competencies: Amanda brings to the Group extensive international leadership and general management experience from the technology and fintech sectors. She has over 25 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 a new entrepreneurial perspective to the Board.

External appointment:

- Chief Executive Officer of Earthport plc.

N R S

Earl Shipp (61)
Non-executive Director; Independent

Appointed: 1 January 2019

Tenure: Less than 1 year

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

External appointments:

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

A N R

Mark Williamson (61)
Non-executive Director and Senior Independent Director

Appointed: 3 September 2012

Tenure: 6 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 and Non-executive Director and Senior Independent Director of Alent plc cement his extensive financial experience and provide a deep understanding of the utilities sector. This allows him to bring a financial and strategic outlook on diverse subjects in support of the Board and its Committees. In his role as Senior Independent Director, Mark brings an excellent understanding of investor expectations as well as having significant experience in managing relationships with investor and financial communities.

External appointments:

- Chairman of Imperial Brands PLC; on 11 February 2019, Imperial Brands PLC announced that Mark would step down as Chairman once a suitable successor had been found;
- Chairman of Spectris plc.

Corporate Governance overview

Your Board remains committed to the highest standards of Corporate Governance and in 2018/19 continued to embed best practice in line with the evolving UK governance landscape.

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, 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:

- Company's strategy, long-term strategic objectives and business plan;
- Risk appetite and determining 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;
- Determination of the framework or policy for the remuneration of the Chairman, Chief Executive, Executive Directors, Group General Counsel and Company Secretary, and direct reports to the Chief Executive, following recommendation from the Remuneration Committee.

Board Committees

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

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

Remuneration Committee:
- Policy;
- Implementation of policy;
- Incentive design and setting of targets.

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

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

Executive Committee

Led by the Chief Executive, the Committee oversees the safety, operational and financial performance of the Company. It is responsible for making the day-to-day management and operational decisions it considers necessary to safeguard the interests of the Company and to further the strategy, business objectives and targets established by the Board. The Committee members have a broad range of skills and expertise that are updated through training and development. Some members also hold external non-executive directorships, giving them valuable board experience. Those members of the Committee who are not Directors regularly attend Board and Committee meetings for specific agenda items.

Other management committees

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

Our Executive Committee

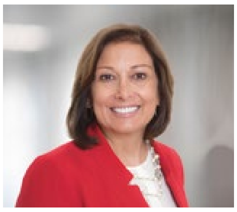
Four Executive Directors are members of the Executive Committee, as well as being on the Group Board. Our Group General Counsel and Company Secretary is also a member of the Executive Committee. See their biographies on page 48.

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

Andy Doyle
Chief Human Resources Officer (from 1 April 2019)

Badar Khan
Group Director, Corporate Development and National Grid Ventures

Barney Wyld
Group Corporate Affairs Director



Adriana Karaboutis
Group Chief Information and Digital Officer

Governance structure

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

Reports from each of the Board Committees, together with details of their activities, are set out on pages 58 – 90.

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

Matters considered by the Board

Board and Committee membership and attendance

The table below sets out the Board and Committee attendance during the year to 31 March 2019. 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	◆ 8 of 8	–	–	◆ 7 of 7	–	–
John Pettigrew	8 of 8	–	4 of 4	–	–	–
Andy Agg – Appointed as CFO 1 January 2019[1]	2 of 2	–	1 of 1	–	–	–
Dean Seavers[2]	6 of 8	–	–	–	–	–
Nicola Shaw	8 of 8	–	–	–	–	–
Nora Mead Brownell – Stepped down on 8 April 2019	8 of 8	–	–	6 of 7	10 of 10	4 of 4
Jonathan Dawson	8 of 8	–	4 of 4	7 of 7	◆ 10 of 10	–
Therese Esperdy	8 of 8	4 of 4	◆ 4 of 4	7 of 7	–	–
Paul Golby	8 of 8	4 of 4	–	7 of 7	–	◆ 4 of 4
Amanda Mesler – Appointed on 17 May 2018	6 of 6	3 of 3	3 of 3	5 of 5	–	–
Earl Shipp – Appointed on 1 January 2019	2 of 2	–	–	2 of 2	2 of 2	1 of 1
Mark Williamson[3]	8 of 8	◆ 4 of 4	–	7 of 7	9 of 10	–
Former Directors who served for part of the year						
Andrew Bonfield – Stepped down from position of CFO on 30 July 2018	2 of 2	–	1 of 1	–	–	–
Pierre Dufour – Stepped down on 30 July 2018	2 of 2	–	–	2 of 3	3 of 4	1 of 1

1. Andy Agg became Interim CFO from 30 July 2018 and joined the Board from 1 January 2019.
2. Dean Seavers missed the November and December Board meetings due to personal circumstances.
3. A Remuneration Committee meeting was held at short notice and due to other commitments, Mark Williamson was unable to attend.

◆ Board/Committee chair

Examples of Board focus during the year include:

Key areas of activity	Matters considered	Outcome	Views of key stakeholder groups considered
Strategy	In addition to the time allocated during Board meetings to discuss business performance and key strategic objectives for the year, the Board participated in two strategy sessions. In the year, the Board focused on: • developing a Business Plan that meets the Group's requirements underpinned by a robust financial strategy; • growth strategies for NGV, including interconnectors and electrification of vehicles; • UK and US gas growth potential, in line with economy-wide decarbonisation goals and the UK's and Northeast US's attention on energy to provide heating; • the sale of our remaining 39% share in Quadgas; • building capabilities and experience in distributed energy resources in the US for our regulated and unregulated businesses; • a deep dive of our digital strategy, including cyber security; • innovation – see separate section below; and • UK and US commercial property portfolio.	• Board approval of the Company's Business Plan and strategy; • Input on the direction of travel for our digital strategy; • In April 2019, the Board endorsed the strategic priority areas for management focus for 2019/20; • Approval of the investment in the Viking Link interconnector; • Received updates on cyber security and the latest cyber scorecard. Noted that a number of cyber initiatives were underway; • Continued focus on mapping cyber security activities into the risk appetite framework, and the Board agreed it was acting in accordance with its risk appetite in this area; and • The Board reviewed the performance of the commercial property portfolio and discussed the success of the St William joint venture.	All: Investors Suppliers Customers Regulators Communities and governments Our people
Corporate Governance Code 2018	Following the introduction of the new Corporate Governance Code in July 2018 for accounting periods starting on or after 1 January 2019, the Board, with assistance from the Group General Counsel and Company Secretary, took the opportunity to review: stakeholder engagement; workforce engagement; succession planning; and diversity. The purpose was to identify where the existing strong engagement between leadership and employees across the business needed to be developed further to support effective Board decision-making.	• Noted the present measures in place to facilitate the communication with stakeholders and gave support to the wide engagement programme currently being undertaken; • Agreed on a number of further actions that should be implemented; • Annual consideration of whether all Directors had time to discharge duties effectively, which is established during the appointment process and is subject to ongoing monitoring; and • For more information on employee engagement, see pages 42, 43 and 53.	All: Investors Suppliers Customers Regulators Communities and governments Our people

Further reading
For more info about our key stakeholders, see pages 4 – 7 of the Strategic Report

Corporate Governance overview continued

Matters considered by the Board continued

Key areas of activity	Matters considered	Outcome	Views of key stakeholder groups considered
Business plan	Discussed the ongoing financial strategy and business plan for the year. Regular updates were received on key external challenges, and particular consideration was given to these and the current political environment.	• Approval of the initial five-year plan and the viability and going concern statements; • Confirmation that the Group had a financially sustainable business model for the foreseeable future, defined for this purpose only as the five years to March 2023.	Investors Customers Communities and governments Our people
Electricity system operator (ESO) separation	Considered at length the corporate governance arrangements required to prevent conflicts of interest with the legal separation of the ESO and to restrict engagement with other parts of National Grid. Discussed how management and staff across the Company would need to be clear which part of the business they represented externally.	• Updates provided regularly through the Chief Executive's Report and from the Executive Director, UK; • Approval of a new Group-level Board, with separate terms of reference and delegated authority; • A significant amount of work has taken place internally to ensure that all employees are clear on the separation boundaries, including online training.	Customers Our people Regulators
Political and regulatory environment	Significant focus on the changing political and regulatory environment, including Brexit. The Board continually reviewed possible outcomes of the Brexit deal and the impacts on the Company. Received regular updates on risks and opportunities posed by Brexit, including the potential for state ownership, and continued engagement activities with our stakeholders on the issue.	• Board input on, support for and monitoring of the UK and US regulatory strategy; • Political sub-group of the Executive Committee was established to take a more hands-on approach to the evolving political/regulatory landscape and its implications for the Company.	All: Investors Suppliers Customers Regulators Communities and governments Our people
RIIO-T2 price control	Ahead of our next UK regulatory price control, the Board considered the key elements of Ofgem's RIIO-T2 price control framework review consultation, published in March 2018, and the sector-specific consultation published in December 2018. The Board scrutinised and challenged the Company's UK regulatory strategy, providing feedback, guidance and support for its ongoing development.	• The Board reiterated the belief that RIIO-T2 must deliver a total financial package that can fund necessary investments as well as fairly remunerate shareholders for this investment; • Expectation that there would be an increasingly challenging UK regulatory environment resulted in the appropriate assumptions being made in the business plan.	Investors Customers Regulators
Massachusetts gas labour dispute and workforce contingency plan	The Board considered at length the employee terms and conditions for two gas unions in Massachusetts this year. As no agreement was reached before the existing contracts expired, the Board noted the decision by US management to implement contingency workforce plans from the end of June 2018. The Board was kept appraised of the contingency workforce plans, received updates throughout from the Chief Executive and Executive Director, US and was provided with an update on the lessons learned once an agreement was reached.	• Our objective was to reach a fair settlement that allowed the business to deliver vital services at a reasonable cost to customers, minimise any future cost increases and protect the agreements already in place with the other unions; • The implementation of the workforce contingency plan ensured that critical work continued safely and that any disruption to our current customers was kept to a minimum; unfortunately, those people who wanted, but could not get new connections, experienced disruption; • In January 2019, an agreement was reached with the two Massachusetts gas unions over employment terms and conditions and the reintegration of those employees back to work.	Our people Communities and governments
Technology and innovation	To support our response to the threats and opportunities presented by emerging technology, this year the Board reviewed the organisation and governance of our Group Technology and Innovation function and provided input on the strategy, including how we: • learn from and leverage innovation that is occurring externally; • enhance the effectiveness of internally generated innovation; and • measure the success of our efforts in this area.	• The Board reviewed and endorsed the organisation and governance of the Group Technology and Innovation function; • The Board reviewed and provided input on the Company's technology and innovation strategy; • Focus was on enabling an innovative culture with rapid decision-making and the acceleration of internally sourced ideas.	Our people

Looking forward, the Board's focus for next year is expected to include:

- continued regular reviews of safety activities;
- UK, US and NGV operational business overviews;
- continued detailed review of our strategy for growth and its financing;
- the implications of regulatory and political changes in our business environment on our activities, including the outcome and implications of Brexit and state ownership;
- our UK and US regulatory strategy and preparation for the RIIO-T2 price control submission;
- update on the Hinkley-Seabank Connection Project;
- technology and innovation;
- cyber security updates;
- climate change and total societal impact;
- risk; and
- our stakeholder engagement model.

Our culture

Our culture journey

The Board is responsible for the culture of the Company. Its role is to influence and monitor culture to ensure we are emulating desired beliefs and behaviours in and outside the boardroom and identifying areas where culture is embedded strongly and where there are gaps. Since 2016, the Board has been on a journey to help influence the right culture throughout the Company, as set out below.

2016/17 – Internal Board and Committee evaluation

Assessed how the Board could set the 'tone from the top' and gauged how effectively this was cascaded throughout the Company.

Results of the Board evaluation for 2016/17 included:

- the need to create a common definition of culture;
- confirmation that the Board's role was to influence and monitor culture to ensure desired beliefs and behaviours were reinforced formally in the boardroom, and to identify where the culture was strongly embedded or where there were gaps;
- the Executive Committee similarly committed to driving the desired beliefs and behaviours in its role in leading the organisation directly; and
- creating a scorecard to aid the Board's role in influencing and monitoring culture, alongside its engagement with the business.

September 2017 – Board meeting

Re-established a clear purpose, vision and values, and a common definition of culture was agreed as:

"our values, beliefs and behaviours that characterise our Company and guide our practices"

Agreed areas for increased Board focus were:

- shaping the right culture in the recruitment and appointment of Non-executive Directors, Executives and senior leadership. The Board would be mindful of this key responsibility as a driver of culture and would evaluate candidates on cultural alignment and their ability to drive the Company's vision, beliefs and behaviours; and
- visible leadership. The Board increasingly uses its existing engagement opportunities to get a good sense of the culture in action across the business and encourages conversation more broadly about all aspects of our culture. These insights would be brought back into the boardroom to inform decision-making.

January 2018

Discussion focused on evaluating and monitoring culture, including additional recommendations on recruiting for cultural alignment and approaches to engaging most effectively with employees.

Decisions/actions:

- consistent evaluation criteria aligned directly to the values and leadership qualities would be used when screening, evaluating and selecting Non-executive Directors and Executive Committee members. Recommendations to the Board and Nominations Committee would also include a justification of cultural fit alongside technical qualifications; and
- employee engagement sessions would be integrated into Board agendas.

March 2018

Approval of a culture scorecard to be used to help the Board in monitoring culture at Group level. The scorecard was largely based on data from the annual employee engagement survey.

The following principles for the scorecard were adopted:

- focus given to our values and how they were embedded in beliefs and behaviours (for example, leadership qualities);
- 360-degree view including our processes/operations, employees and vendors/customers;
- leveraging existing data, KPIs and expectations; and
- embracing external thinking and best practices.

The results of the scorecard will be reviewed by the Board at least annually.

April 2018

Evaluation of annual employee survey results.

Areas of improvement were identified, and, in addition to the regular employee communication, other areas that we augmented further into Board behaviours included additional on-site local engagement sessions in the UK and US (see case study).

November and December 2018, March and April 2019

Discussions around the impacts of the new UK Corporate Governance Code 2018.

Focus throughout the end of the year was largely on the implications of the new UK Corporate Governance Code 2018, mapping our key stakeholders and discussions around workforce engagement which included:

- an implementation plan for workforce engagement was presented and noted by the Board; and
- the Board considered the revised culture scorecard and overall status against each of the Company's values that now includes measures and trend data from teams including: safety, ethics, compliance, supply chain and customers. In all areas it was noted that activity and initiatives were taking place within functions and business units to move the culture forward in line with delivering on our purpose, vision and values and plans in place to ensure our leaders have the capability to embed and deliver the change required.

Case study – UK and US employee engagement sessions

During the year, the Non-executive Directors held three employee engagement sessions, in New York (April 2018), Boston (September 2018) and Warwick (January 2019). The employee engagement sessions provided an opportunity for employees and Non-executive Directors to discuss topical subjects, including how successful employees felt the Company had been in embedding its values, beliefs and behaviours throughout the organisation. The two-way conversations were strongly encouraged and provided a great opportunity for the Directors and employees to engage more widely in a more informal environment.

April 2018, New York, US.
Topics: New England storm response and the accelerated development programme.

The Board praised the efforts and successes in the storm response programme and conversation centred on the progress of our customer focus strategy. Discussions around the accelerated development programme focused on the range of projects centred on the initiative and the use of valuable feedback to deliver against project and leadership expectations.

September 2018, Boston, US.
Topics: Transforming our corporate culture.

Employees took the opportunity to discuss our corporate culture and desired capabilities set against the backdrop of two transformational projects designed to meet the rapidly evolving needs of our customers and communities. The discussions centred on 'finding a better way' and 'doing the right thing' to develop a safe, reliable and affordable transmission network, while enabling the decarbonised energy future.

January 2019, Warwick, UK.
Topics: Legal separation of the Electricity System Operator and recruitment schemes.

Employees discussed elements of their role and their thoughts on National Grid as an employer. They also took the opportunity to raise any concerns they had, including where they felt the key challenges within the organisation were, and suggested how empowerment and innovation could be used to unlock some of these challenges. The recruitment schemes discussion emphasised the significance of culture in the recruitment process, and the need for the Company to review continually where and how we advertise to get the best talent and broadest diversity.

Corporate Governance overview continued

How we create value for our stakeholders

The long-term success of our business is critically dependent on the way we work with a large number of important stakeholders. We aim to create value for our stakeholders every day – and to continue doing so as the energy landscape changes. The table below sets out our focus on the key relationships and shows how the relevant stakeholder engagement is reported up to the Board or Board Committees to help inform our strategy delivery. Not all information is reported directly to the Board. However, the information will inform business-level decisions, with an overview of developments being reported on a regular basis to the Board or a Committee. In some cases, this will be through an annual or more frequent round-up for the business area interfacing with the relevant stakeholder (this is generally the case for customers and suppliers). In other instances, one or more members of the Board may be involved directly in the engagement (such as shareholder or other investor networking). In each case, it is important for all members of the Board to gain sufficient understanding of the issues relating to every stakeholder so their views are taken into account in Board discussions.

In December 2018 and March 2019, the Board received an update on the stakeholder voice in the boardroom and noted an implementation plan to further the current programme of engagement.

In 2019, a robust framework will be established to ensure that stakeholder considerations are suitably captured and enhancements made to strengthen the views of our stakeholders in the boardroom. Several actions will also be considered by the Board to ensure that the impact on stakeholders is reflected adequately in boardroom considerations and decision-making processes.

The Board also discussed how stakeholder groups viewed the Company and its Board and management and whether their perception matched the Company's view. In 2017, we carried out an initial survey to gain some insight, and these surveys will now be undertaken regularly.

Stakeholder group	Form of engagement	How this stakeholder group influenced the Committee/Board agenda and decision-making
Communities and governments We help national and regional governments formulate and deliver their energy policies and commitments. The taxes we pay help fund essential public services. We have a role to play in sustainability, enabling the transition to a low-carbon future.	Engagement with local communities in the form of consultations during construction phases of projects and work with environmental education centres. Liaison with land owners and wider communities where the Company has assets and dedicated teams to manage relationships. Regular discussions and satisfaction surveys to journalists and government. Policy and public affairs and US government relations in-house teams to develop, grow and leverage the Company's relationships with key politicians, officials, wider stakeholders and influencers pertaining to legislation and government policy.	The Board agenda has been strongly focused on governmental issues this year. In the UK, discussions have influenced key business issues such as the RIIO-T2 price control, the implications of Brexit including scenario planning, and the potential for state ownership. In the US, the impact on communities following the gas safety incident was considered in depth by the Safety, Environment and Health Committee and by the Board. Governments and communities are strongly focused on a cleaner energy agenda. In the US, at the state level, we have strong alignment with policymakers and regulators who, like us, are committed to a cleaner energy agenda. In the UK, we continue to work to maintain access for customers to European energy that is affordable and renewable. The Executive Committee approved the creation of National Grid Partners during the year, allowing us to increase our capability in the new and disruptive energy technologies to meet the changing energy needs of our customers and communities.
Our customers The users of our products and services. In the UK, our key customers are electricity and gas distributors and generators. In the US, we have more than seven million retail bill payers. By delivering the energy they need and dealing with them in a transparent and responsive manner, our customers trust us to deliver services of value to them.	**UK customer programme** – the UK Customer Experience Board is chaired by the Executive Director, UK, and attended by the entity and functional directors. Each member attends regular customer meetings to listen to what matters most to our customers and build strategic relationships. Customers are invited to attend the Customer Experience Board and group immersion events are held where Executive Directors hear from customers about their concerns in the industry. An annual survey to senior customer contacts provides useful feedback on the level of satisfaction and customer advocacy. Proxy co-creation stakeholder user group – created to represent a wide range of stakeholders including large and small customers and consumers. The group has challenged the Company's approach to engagement and are currently analysing the Company's Business Plan. **US customer team** – collects and communicates 'voice of customer' throughout the business. Each jurisdiction facilitates a range of listening surveys for brand perception and customer satisfaction during transactions. A new online panel has been created of over 6,000 residential customers to contribute ideas and feedback continuously.	In the year, the Executive Committee and Board received updates on both the UK and US customer strategies. Biannual reports are also submitted to the Board from UK, US and NGV. **UK** – feedback received influences decision-making at customer and entity team level. It was used to help shape the Company's five customer principles (care, agility, trust, transparency and value), and the UK customer ambition. **US** – the Executive Committee and Board received updates on, and approved the recent US rate case filings.
Our investors – individual shareholders Represent more than 95% of the total number of shareholders on our share register.	Shareholder networking programme – includes visits to UK operational sites, presentations by senior managers and employees over two days and an opportunity to engage with Board members. Annual General Meeting (AGM) – shareholders are provided with the opportunity to ask questions and to engage with the Board and areas of the business through the business showcase.	During the shareholder networking programme and AGM, the Board members will listen and respond to views and will feed back to the businesses as necessary.

Stakeholder group	Form of engagement	How this stakeholder group influenced the Committee/Board agenda and decision-making
Our investors – institutional **Equity investors:** we earn financial returns as per our regulatory contracts in the UK and US. These contracts incentivise us to invest in long-term sustainable infrastructure in an efficient and cost-conscious way. **Debt investors:** our debt investors provide capital in the form of loans and bonds, allowing us to optimise how we finance our investments.	We carry out a comprehensive engagement programme for institutional investors and research analysts, providing the opportunity for our current and potential investors to meet with Executives and operational management. This includes: meetings; presentations and webinars; attendance at investor conferences across the world; holding roadshows in major cities in the UK, Europe, Australia, Asia and North America; and hosting site visits and stewardship meetings. Our engagement programme focuses on updating investors on our regulatory progress in our UK and US businesses, as well as the growth opportunities available to the Group through investment in UK and US regulated assets and interconnector and renewable generation investments through our NGV business. In September 2018, we hosted a teach-in event on our UK business focused on the business' preparation for RIIO-T2. Over the year, we held 438 investor meetings across 12 countries and 43 cities: met with over 340 institutions, representing 58% of our share register; and hosted five site visits; offering investors the opportunity to meet divisional management and view our assets. Meetings between senior group treasury representatives and debt investors in the UK, Continental Europe and the US to discuss various topics, such as our full-year results and upcoming US rate case filings. We also met with debt investors at various conferences over the course of the year.	The Board receives regular feedback on investor perceptions and opinions about the Company. Specialist advisors and the Director of Investor Relations provide updates on market sentiment. Additionally, each year, the Board receives the results of an independent audit of investor perceptions. Interviews are carried out with investors to establish their views on the performance of the business and management. The findings and recommendations of the audit are then reviewed by the Board. The Chair of the Remuneration Committee, Jonathan Dawson, the Chair of the Nominations Committee, Sir Peter Gershon, and the Senior Independent Director, Mark Williamson, engaged with a number of our investors during the year. Meetings were around the Company's new remuneration policy, which will be put to shareholders for approval at the 2019 Annual General Meeting (see pages 74 – 78) and succession planning for Board members approaching their nine year tenure before the finalisation of the RIIO-T2 price control.
Our people We create an environment in which our people can make a positive contribution, develop their careers and reach their potential. At 31 March 2019, we had more than 22,000 employees.	Engagement with our people takes many forms, including engagement and pulse surveys, union and town hall meetings and other Board engagement. The outcome of these mechanisms is reported to the Board and affects decision-making.	The annual employee survey provides the Executive Committee and Board with an insight into how our employees are feeling. You can read more about the Board and Committee's engagement with our people on pages 42-43 and 53. In the US, the Committees and Board were kept informed of the Massachusetts Gas workforce contingency plan.
Our regulators In the UK, Ofgem regulates our electricity and gas transmission businesses. In the US, state utility commissions regulate our retail activities. The Federal Energy Regulatory Commission regulates our wholesale activities (including energy generation and interstate transmission).	**UK** – regular interactions with Ofgem and the Health and Safety Executive. The Company also organises stakeholder fora and consultations with stakeholders, including members of the public, our suppliers and customers around specific projects such as RIIO-T2 and the Hinkley-Seabank Connection Project. The outcomes are reported to the appropriate forum and ultimately to the Executive Committee and Board. We work with other networks and organisations outside of the energy industry to identify good practice. **US** – regular interface with both federal and state regulators and customers on an ongoing basis, as well as the pre-filing stakeholder engagement programme in the build-up to and during any rate case process. Any rate case engagement is reported up to the Executive Committee and the Rate Case Steering Committees as appropriate. Specific engagement was undertaken regarding the Northeast 80x50 Pathway and the Niagara Mohawk advanced metering infrastructure.	**UK –** any large-scale investments at compressor sites (for example, new turbines) require approval from the regulators for them to issue a permit. Early engagement around plans and decisions made, help to ensure the relationship is maintained. Regular discussions at the Executive Committee and the Board with Ofgem around the RIIO-T2 consultation, including the response to Ofgem on the RIIO-T2 price control. On invitation, members of the RIIO-T2 stakeholder panel will meet with the Board later in 2019. **US –** influence the Company's regulatory strategy and business planning for rate cases and other US regulatory priorities. The Company's rate case pre-filing stakeholder engagement programme has become a major contributor to the Company's successful rate case outcomes.
Our suppliers Provide us with the goods and services we rely on to deliver for our customers. They range from substantial multinational companies to small-scale local businesses providing bespoke services when they are needed.	Strategic relationship meetings conducted regularly between suppliers and procurement. Tendering and sourcing events are undertaken to select new suppliers. On anti-corruption and anti-bribery matters, we expect all our suppliers to be compliant with the Modern Slavery Act and we work closely with our suppliers and peers to build on our knowledge and promote best practice. In 2018, this included engaging with suppliers we had identified as being within potentially high-risk categories. Review of the Company's 2018 submission on Prompt Payment Practices and the Company's performance.	Bi-annual reports submitted to the Executive Committee and annual reports to the Board. Elaborate on our global supplier code objectives and outcomes. The Board annually approves the Modern Slavery statement. The Board requested that further updates on the duty to report on prompt payment, practices and performance form part of the annual update on procurement.

Corporate Governance overview continued

Performance evaluation

2018/19 external Board evaluation

This year, we were required to undertake an externally facilitated Board and Committee evaluation. We appointed Dr Sabine Dembkowski of Better Boards Limited to work with the Board on a Board development programme. Neither Dr Sabine Dembkowski nor Better Boards Limited has any other connection to the Company.

The evaluation focused on Board development and was designed to provide the Board with insights about themselves and how the Board was working as a whole. This type of evaluation provided a foundation upon which individuals could increase their personal impact, which in turn could increase the overall effectiveness of the Board. The purpose was to gain:

- Insights into the hallmarks of effective boards;
- Insights into how Directors view themselves versus how they are perceived by their fellow Directors; and
- An understanding of the levers that individual Directors could pull to increase their impact in the boardroom to make the Board more effective.

The effectiveness of each of the Board Committees was taken into account in the evaluation. All Board members (including those who did not sit on all Committees) were asked their opinion of each Committee, if it was effective and whether it focused on the right matters. The results confirmed that the Board was satisfied with the structure of the Committees and there was no immediate need to make any changes.

Dr Sabine Dembkowski concluded the areas for further development, as noted below. The evaluation also identified two actions for the Nominations Committee.

> "This type of evaluation provided a foundation upon which individuals could increase their personal impact, which in turn could increase the overall effectiveness of the Board."

Stages of the external evaluation process

January

1. Meetings between Sabine and the Group General Counsel and Company Secretary to agree on objectives and the online questionnaire structure.
2. Presentation to the January Board meeting, including objectives, stages of the process and time commitment required from the Directors.

February

3. Interviews between Sabine and Board members, face-to-face or via video conference, to gain personal insights, including any challenges and issues.
4. Individual completion of an online questionnaire, with a focus on key competency areas for the Board's role behaviours and know-how areas.

March

5. Data combined from individual meetings and the questionnaire to create an aggregated report and individual Director reports.
6. Better Boards held confidential feedback and coaching sessions with each Board member to discuss the findings in their individual reports, and an action plan for each Board member was created as a result.

April/May

7. Feedback to the Chairman and Company Secretariat team, which resulted in an aggregated report for the Board that was presented to the Board meeting.
8. An action plan was agreed for the Board and two additional actions were agreed for the Nominations Committee.

Actions to enhance the Board's effectiveness for 2019/20

Action	Responsibility
Invite our customers into the boardroom to understand and directly hear their perspectives.	Chief Executive/Chairman
Continue to invite external speakers to Board meetings/dinners on topical issues.	Chief Executive/Chairman
Use market research agencies to bring the voice of the customer and other stakeholders into the boardroom.	Chief Executive/Chairman
Facilitated session to be held to consider how to enhance the collective strengths of the Board in light of the individual strengths evidenced as part of the evaluation.	Chairman/Chief Human Resources Officer
Sponsor of each paper to consider why the Board is being asked to consider a particular paper. On strategic papers, the Chairman to ask the sponsor at the beginning of the meeting what they are hoping to achieve in the meeting.	Chairman/sponsor of the paper submitted
Add a Corporate Social Responsibility session annually to the Board agenda.	Chairman and Group General Counsel and Company Secretary
Show clearer mapping of agenda items to the Company's risk register.	Chairman and Group General Counsel and Company Secretary

Progress against actions for the Board agreed in 2017/18 internal evaluation

Action	Progress made
Increase the opportunities for the Board to engage with external experts on key strategic topics	External attendees included: Barclays (April and November 2018), Herbert Smith Freehills (May 2018) and the Massachusetts Governor Baker (March 2019). Discussion topics included political uncertainty, the macro-economic climate in the US and the Massachsetts gas workforce contingency plan.
Consider Board agendas and, in particular, whether more time can be devoted to strategic issues	During the year, Board discussions have strongly focused on our key strategic priorities, including two strategy sessions in the year and additional meetings to discuss strategy. The agendas were also reviewed and appropriate items removed to allow time for these items.
Review whether enhancements could be made to how risk appetite is incorporated into Board papers where a decision is required	Risk appetite disclosures have been added into the relevant papers. A review was undertaken by the Group General Counsel and Company Secretary to ensure the main risks were being covered at Board and Committee meetings throughout the year.
Improve the efficiency and speed of Board decision-making by assessing the quality of Board papers continuously	The papers are continually reviewed before they are sent to the Board to ensure they are of a high standard. All Board and Committee papers are presented to the Executive Committee first and appropriate changes made for the subsequent Board meeting. The Chairman and Chief Executive also feed back on papers at, or after, the end of the Board meeting.

Directors' induction and training

Directors' induction programme

Following new appointments to the Board, the Chairman, Chief Executive and Group General Counsel and Company Secretary arrange a comprehensive induction programme. It is tailored based on experience and background and the requirements of the role. Consideration is given to committee appointments, and where relevant, tailored training is undertaken.

Following the appointment of Jonathan Silver on 16 May 2019, we will be tailoring his induction plan and will report back on this next year.

Director development and training

As our internal and external business environment changes, it is important to make sure that Directors' skills and knowledge are refreshed and updated regularly. The Chairman is responsible for the ongoing development of all Directors and agrees any individual training and development needs with each Director.

Updates on corporate governance and regulatory matters are also provided at Board meetings, together with details of training and development opportunities available to our Directors. Additionally, the Non-executive Directors are expected to visit at least one operational site annually.

Amanda Mesler – Non-executive Director induction

Amanda, appointed in May 2018, received a tailored induction programme covering a range of areas of the business, including governance, remuneration and stakeholder matters. Amanda met senior management from key business areas and functions as well as employees across the UK, US and National Grid Ventures businesses during site visits. Focus was given to matters pertinent to her role on the Audit and Finance Committees (some of Amanda's induction programme is included below).

Finance meetings

- Chief Financial Officer – provided a summary of the financing strategy and an overview of the current financial risks faced by the Group, including the current risk appetite and management framework in relation to those risks. Discussions also included: treasury controls; processes and systems; National Grid's tax strategy; the impact of US tax reform; and an overview of pension schemes and pension strategy.
- US Chief Financial Officer – provided an informative overview of the Group's organisation structure and priorities, including the recent change to the US Business Services leadership. Amanda also heard how, following the alignment to deliver value globally, the finance team is now integrally involved in the high-growth work within the US business functions, and they discussed the major successes.
- Met with the Group Financial Controller and discussed financial accounting and control issues, the statutory audit, and the annual business planning process.

Additionally, met Mark Williamson, Chair of the Audit Committee; Therese Esperdy, Chair of the Finance Committee; and Andi Karaboutis, Group Chief Information and Digital Officer.

Site visits

Amanda visited National Grid Ventures in Solihull and California in January 2019 for a thorough and engaging induction to technology and innovation. During her visit, Amanda met with the Chief Technology and Innovation Officer, along with key Board members of three of National Grid Partners' portfolio companies.

Audit Committee

"This year, we continued our focus on internal controls relating to financial reporting and received several updates from management and Deloitte at each meeting."

Mark Williamson
Committee Chair

Changes to Committee composition:

- Amanda Mesler joined May 2018.

Key focus areas in 2018/19:

- Internal controls relating to financial reporting, specifically IT related;
- Application of the Group's exceptional items framework; and
- Impact of new accounting standards.

Key focus areas in 2019/20:

- Internal controls relating to financial reporting;
- Cyber security;
- Task Force on Climate-related Financial Disclosure (TCFD); and
- New UK financial record system.

Composition of the Audit Committee

In accordance with the Code and DTR 7.1, the Board is satisfied that all members of the Committee have recent and relevant financial experience and that Mark Williamson, as a chartered accountant, having been Chief Financial Officer at International Power plc, and chairman of the audit committee at Alent plc, is suitably qualified. The Board is also satisfied that when considered as a whole, the Committee has competence relevant to the sector in which the Company operates (including utilities, finance and engineering) to ensure the right balance of skills, experience, professional qualifications and knowledge.

The Committee members' biographies are on pages 48 – 49.

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

The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 – statement of compliance:

The Company confirms that it complied with the provisions of the Competition and Markets Authority's Order for the financial year under review.

Review of the year

The Committee met four times during the year to undertake its role in the governance of the Group's financial reporting, internal risk management, control and assurance processes, and the external audit.

Continued focus on internal control over financial reporting

This year, we continued our focus on internal controls relating to financial reporting and received several updates from management and Deloitte at each meeting. These updates focused on the IT control weaknesses highlighted last year, and I am pleased to see progress continues to be made in implementing and executing new controls, including a significantly strengthened IT infrastructure environment. We have considered the impact of these on the year-end attestation relating to the effectiveness of internal controls in respect of financial reporting required under the Sarbanes-Oxley Act 2002 (SOX). You can read more about these significant issues on the following pages.

In September 2018 and March 2019, the Group Chief Information and Digital Officer attended to discuss IT controls in more detail. In March 2019, cyber risk governance was discussed in more detail, including a more in-depth analysis of the cyber risk audit plan and additional insight from a newly commissioned independent external review. I was pleased to hear that the plan had been substantially delivered, in line with the Committee's expectations, and that the external assessment of our cyber risk coverage concluded it was comprehensive, and did not identify any significant gaps in our internal IT assurance activity conducted by Internal Audit.

New accounting standards

The Committee received periodic updates on the impact of adoption of IFRS 16 (leases) which is effective next year. Reviews of the impact of IFRS 15 (revenue from contracts with customers) and IFRS 9 (financial instruments) were undertaken in 2017/18. This year, the Committee considered the effectiveness of the changes to processes, controls and systems implemented in the period.

Climate-related financial disclosures

We have continued to make good progress with the recommendations set out by the Task Force on Climate-related Financial Disclosure (TCFD). In the year, the Committee was presented with a roadmap to progress towards full compliance of TCFD and discussed the current gap analysis. We noted that focus in the next 12 months would be on performing scenario analysis as regards the continuing viability of our various businesses under various future environmental and regulatory scenarios, the link to our risk registers, and ensuring the right metrics and targets were developed.

Looking forward

Internal controls relating to financial reporting

The Committee will remain focused on ensuring that management delivers the planned internal control improvements in respect of IT controls.

Cyber security and scorecard

Cyber security risk will remain at the top of the agenda for the Committee.

New UK financial system

The Committee plans to receive updates in September and November in respect of the implementation of a new system of financial record in the UK business (scheduled to become progressively operational through 2019/20).

Mark Williamson
Committee Chair

Significant issues 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 Committee reviewed papers prepared by management setting out the key areas of risk, the actions undertaken to quantify the effects of the relevant issues and the judgements made by management on the appropriate accounting required to address those issues in the financial statements. The significant issues considered relating to the financial statements for the year ended 31 March 2019 are set out in the following table, together with a summary of the financial outcomes where appropriate.

In addition, the Committee and the external auditors have discussed the significant issues addressed by the Committee during the year. You can read more about the Independent Auditor's Report on pages 93 – 102.

Significant issues considered by the Committee	How the Committee addressed the issues
Internal control over financial reporting	We have continued to focus on financial controls and received specific updates from management at our September, March and May meetings. These updates focused on the IT control weaknesses reported last year, where we made good progress in implementing and executing new controls. We challenged management and were satisfied with the plans in place to close the remaining items. Concerning the broader financial control environment, a three-year Group controls roadmap has been established, setting out initiatives to strengthen and improve controls significantly and KPIs to assess progress. After careful consideration, the Committee concurred with management's overall assessment that the Group's internal control over financial reporting is effective.
Application of the Group's exceptional items framework to certain events in the period	The Committee considered papers from management at each of the meetings in the year, which set out key considerations to the application of the exceptional items framework in relation to a number of specific transactions in the year including, but not limited to, the Massachusetts gas labour dispute and workforce contingency plan, the UK and US cost efficiency programme, certain legal settlements, and the impairments of UK nuclear connection assets. In each case, the Committee assessed the appropriateness of the judgements reached (which are set out further in Note 5 to the financial statements), individually in relation to the specific events and circumstances, and also in aggregate, considering the overall composition of the adjusted profit and the associated disclosures in Note 5. The Committee also paid close consideration to the classification of two items that were not treated as exceptional. Firstly, the Committee considered the classification of £95 million of income from two legal settlements. In concluding that it remained appropriate to classify these within adjusted profit, the Committee specifically noted the precedent set by the previous classification of costs to which the settlements related. Secondly, the Committee considered the treatment of sales by the UK Property business to the St William JV and noted that such transactions are part of the Group's ordinary course of business.
Classification of the Group's retained interests in UK Gas Distribution	At the September meeting, the Committee specifically considered a proposal from management to classify the retained interests in UK Gas Distribution (all of which are subject to the Further Acquisition Agreement and Remaining Acquisition Agreement) as a discontinued operation. The Committee concurred with management that it was appropriate to consider the ultimate exit of these interests as part of a single co-ordinated plan to exit the UK Gas Distribution business, which began in 2015.

2018/19 other key areas of focus

Area of focus	Matters considered
Financial reporting and financial results of the business – including through the use of non-IFRS measures	• Specific consideration of the financial review and the degree to which this appropriately reflects statutory versus non-IFRS performance measures, with supporting definitions, explanations as to the relevance and importance of these measures, and reconciliations to IFRS metrics as necessary; • Updates on the impact of the adoption of IFRS 16 (leases) and consideration of the effectiveness of changes to processes and controls following the implementation of IFRS 15 (revenue from contracts with customers) and IFRS 9 (financial instruments); • 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 and going concern; • Approved the key accounting judgements made by management; • Considered the approval process for confirming and recommending to the Board that the 2018/19 Annual Report is fair, balanced and understandable; • Reviewed and recommended to the Board the approval of the 2018/19 Annual Report and Accounts and other reports filed with the SEC containing financial statements; • Reviewed any significant issues and recommended approval of the preliminary results announcements; and • In addition, although there were no significant changes or developments in the year, the Committee also concurred with management's assessment that the valuation of the Group's defined benefit scheme pension liabilities and cash flows forecasts associated with environmental provisions continue to be considered significant estimates in the context of the Group's financial statements.
Task Force on Climate-related Financial Disclosure (TCFD)	• Reviewed management's paper commenting on the continued progress to date, the roadmap for the next 12 months and key priorities as described on pages 210 – 211; • Review of disclosures; and • The Committee discussed the linkage between the work being undertaken on understanding the full effects of the Company's Total Societal Impact and how this related to other internal scenario planning and external reporting.

Audit Committee continued

Area of focus	Matters considered
Risk and viability statement	• Discussed the recent corporate failures in the UK, including Carillion, and any lessons learned that could be taken away from the events. The discussion included the issues involved, the role of the Audit Committee and the auditor's ability to challenge; • Monitored and assessed the effectiveness of our risk management processes; • Received regular updates on the risk management processes and any changes as well as updates on other risk management activities; • Reviewed and challenged the draft viability statement in March and May 2019 for review in advance of the Board's consideration of the statement in May; • Received an update on the process and a summary of the outcome of the annual testing of our principal risks; and • Reviewed internal control processes.
External auditors	• The approach, scope and risk assessments of external audit and the effectiveness and independence of the external auditor; • Ongoing consideration of the external audit plan; • Considered the auditor's report on the 2018/19 half and full-year results; • Reviewed and monitored the appropriateness of the provision of non-audit services by the external auditor in the context of reviewing the auditor's independence; • Reviewed and approved audit/non-audit expenditure incurred during the year; and • Recommended to the Board the reappointment of the external auditors and for the Committee to agree auditor's remuneration.
Compliance, governance and disclosure matters	• Received two reports on compliance with external legal obligations and regulatory commitments; • Received updates on the SOX control findings and undertook an annual assessment of the effectiveness of internal control over financial reporting; • Received two ethics and business conduct reports, including whistleblowing, to help monitor the management and mitigation of business conduct issues as part of the wider controls framework; • Received an annual report on the Company's anti-bribery procedures and reviewed their adequacy; • Received a report from the Disclosure Committee on matters relevant to the half and full-year announcements in November and May; and • Received results of the Disclosure Committee's evaluation of the effectiveness of the Company's disclosure controls to the Audit Committee.
Cyber security	• Received two reports on cyber risk control environment; • The Committee received additional analysis of the cyber audit plan to help evaluate the assurance coverage over cyber risk and its key controls; • PwC had been engaged to undertake a review of our audit plan cycle to ensure it is fit for purpose and in line with best practice. This arrangement was extended to include a deep dive on the cyber audit plan; no significant assurance gaps had been identified and PwC considered coverage was appropriate; however, some minor recommendations were made; • The Committee noted progress made by management on our cyber security strategy and that Corporate Audit continued to deliver a balanced programme of audits across cyber security; and • Management would continue to receive regular external input into its risk management in this area.
Corporate audit	• The Committee received regular controls updates from the Corporate Audit team, including approval of, and updates on, progress with the corporate audit plan. These reports present information on specific audits, as appropriate; summarise common control themes arising from the work of the team; and update on progress with implementing management actions; • Following best practice, we reviewed the Corporate Audit Charter against the Institute of Internal Auditors (IIA) international standards and the IIA model charter. This review ensured that the purpose, authority and responsibility, as defined in the Charter, are sufficient to enable the Corporate Audit function to complete its objectives; and • The Committee confirmed that it was satisfied that the Corporate Audit function had the quality, experience and expertise appropriate for the business.

Risk management and internal control

Our internal control processes

The Board has delegated responsibility to the Committee for monitoring and assessing the effectiveness of our risk management processes. In support of this responsibility, the Committee received regular updates on the risk management processes and any changes as well as updates on other risk management activities within the business.

Several processes support our internal control environment. Dedicated specialist teams manage these processes, which include risk management; ethics and compliance management; corporate audit and internal controls; and safety, environment and health. Oversight of these activities is provided through regular review and reporting to the appropriate Board Committees.

The Committee is responsible for keeping under review and reporting to the Board the effectiveness of reporting, internal control policies, compliance with the SOX, UK Bribery Act legislation, appropriateness of financial disclosures and procedures for risk and compliance management, business conduct, and internal audit. Throughout the year, we conduct 'deep dive' sessions on significant risk issues.

Reviewing the effectiveness of our internal control and risk management

The effectiveness of internal controls and risk management processes are monitored continually and assessed to make sure they remain robust. The Committee (which includes financial, operational and compliance controls) undertakes this review. The Certificate of Assurance (CoA) process operates via a cascade system and takes place annually in support of the Company's full-year results.

Following a thorough review, the Committee confirmed that the processes provided sufficient assurance and that the sources of assurance had sufficient authority, independence and expertise. The Committee Chair reported to the Board in May and confirmed that management's process for monitoring and reviewing internal control and risk management processes is functioning effectively. It noted that no material weaknesses had been identified by the review and confirmed that it was satisfied the systems and processes were functioning effectively.

We have conducted a review of the effectiveness of the Group's risk management and internal control systems, including those relating to the financial reporting process, in accordance with the Code. We consider that our review of the risk management and internal control systems, in place throughout the year, meets the requirements of the Code and the Disclosure and Transparency Rules.

National Grid's values – "do the right thing" and "find a better way" – continue to provide a framework for reporting business conduct issues, educating employees and promoting a culture of integrity at all levels of the business. These, along with the suite of policies and procedures, communicate the behaviour expected from employees and third parties to prevent and investigate fraud and bribery and other business conduct issues. The Committee monitors and is kept informed of any business conduct issues and monitors and addresses any compliance issues.

Internal control over financial reporting

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

The Company has specific internal mechanisms that govern the financial reporting process and the preparation of the Annual Report and Accounts. Our financial controls guidance sets out the fundamentals of internal control over financial reporting. Our financial processes include a range of system, transactional and management oversight controls. Also, our businesses prepare detailed monthly management reports that include analysis of their results, along with comparisons to relevant budgets, forecasts and the previous year's results. Quarterly performance reviews, attended by the Chief Executive Officer and Chief Financial Officer, supplement these reviews. They consider historical results and expected future performance and involve senior management from both operational and financial areas of the business. Each month, the Chief Financial Officer presents a consolidated financial report to the Board.

Fair, balanced and understandable

The Committee reviewed the content of the 2018/19 Annual Report, together with a well-established and documented process. The Committee has reported to the Board that, taken as a whole, the Committee consider the Annual Report to be fair, balanced and understandable. The Committee further believes the Annual Report provides the necessary information for shareholders to adequately assess the Company's position and performance, business model and strategy.

External audit

In November 2018 and May 2019, as part of the reporting of the interim and final results statements, Deloitte reported to the Committee on its assessment of the Company's judgements and estimates. This report included considering the appropriate accounting under IFRS and highlighted that improved controls were in place.

Mark Williamson meets with Deloitte prior to each meeting and outside the meeting cycle on a regular basis.

Auditor independence and objectivity

Mindset, integrity and objectivity enable auditors to undertake their role with professional scepticism while maintaining effective working relationships with those subject to audit, i.e. management and other employees.

In assessing the mindset, professional scepticism and degree of challenge to management, the Committee took into account the observations, recommendations and conclusions drawn by Deloitte.

The independence of the external auditors is essential to the provision of an objective opinion on the true and fair view presented in the financial statements. Auditor independence and objectivity are safeguarded by a number of control measures, including limiting the nature and value of non-audit services performed by the external auditors. These checks ensure that employees of the external auditors, who have worked on the audit in the past one year (two years for a partner of the audit team), are not appointed to roles with financial reporting oversight within the Company in line with our internal code; consideration of Deloitte's annual independence letters; and an annual review by Corporate Audit of the independence of the external auditors.

Audit Committee continued

Audit quality

To maintain audit quality, the Committee reviews and challenges the proposed external audit plan, including its scope and materiality, before approval, to make sure that Deloitte has identified all key risks and developed robust audit procedures and communication plans.

The Committee noted that Deloitte would engage specialists to assist in its audit of the Group IT systems, derivative financial instruments, pension obligations, discount rates and tax balances, as well as utilising employees within the core audit team who have significant experience of regulated utilities in the UK and US.

Regularly throughout the year, the Committee looks at the quality of the auditor's reports and considers their response to accounting, financial control and audit issues as they arise.

The Committee also meets with Deloitte regularly without management present, providing the external auditors with the opportunity to raise any matters in confidence and have an opportunity for open dialogue. This meeting also gives the Committee the chance to monitor the performance of the lead engagement partner both inside and outside Committee meetings.

The Committee specifically considered the findings of the Audit Quality Review Team (AQR) review of Deloitte's 2017/18 audit. The Committee noted the observations raised and challenged Deloitte as to remedies being introduced. Overall, the Committee noted the findings did not raise any significant concerns in respect of audit quality.

Auditor performance

In assessing auditor performance this year, the Committee considered: the quality of planning, delivery and execution of the audit; the quality and knowledge of the audit team; the effectiveness of communications between management and the audit team; the robustness of the audit, including the audit team's ability to challenge management as well as to demonstrate professional scepticism and independence; the quality of the reports received; and the views of management to gauge the quality of the audit team and their knowledge and understanding of the business.

In forming its conclusions, the Committee solicited views from the senior finance team members most directly involved in the year-end audit.

Auditor appointment

Deloitte was appointed by shareholders as the Group's statutory auditors at the 2017 AGM. Douglas King, the current lead audit partner, will be required to rotate off in 2022.

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 2020. A resolution to reappoint Deloitte and giving authority to the Directors to determine their remuneration will be submitted to shareholders at the 2019 AGM.

Non-audit services provided by the external auditors

During the year, the Committee approved amendments to the non-audit service policy.

The Committee continues to be responsible for all non-audit service approvals, but it now allows pre-approval for certain specified services, including where services that have fees of less than £50,000 and are on a defined list are considered to fall within the "clearly trivial" concept used by the Financial Reporting Council. For any services that do not meet these criteria, no threshold is applied, and approval will be sought from the Committee in advance of the work being performed.

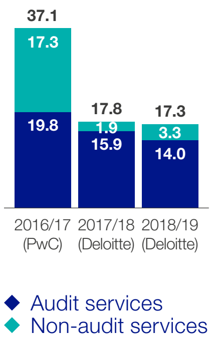
The services for which management may seek pre-approval relate to:

- Audit, review or attest services, which generally only the external auditors 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;
- Ongoing work with the UK Property team on the review of its commercial property portfolio, which was approved and continues to evolve. Our history with Deloitte means that it is the clear choice for relevant expertise. Such work does not include valuation work, or any other prohibited services; and
- Other areas, such as training or provision of access to technical publications.

Our policy requires management to present a list of all approved non-audit work requests to the Committee at each meeting (other than ad hoc meetings), as well as annually in aggregate to ensure the Committee is aware of all non-audit services provided.

Management approves the provision of non-audit services on the basis that the service will not compromise independence and is a natural extension of the audit, or if overriding business or efficiency reasons are making the external auditors most suited to provide the service. We prohibit the external auditors from performing certain services.

Audit and non-audit services (£m)



Total billed non-audit services provided by Deloitte during the year ended 31 March 2019 were £3.3 million, representing 23% of total audit and audit-related fees (excluding expenses). In 2017/18, Deloitte billed £1.9 million for non-audit services (14% of total audit and audit-related fees). In 2016/17, fees paid to PwC included a substantial proportion related to work associated with the disposal of the UK Gas Distribution business.

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

Finance Committee

"The external regulatory and political environments remained a key area of focus…including the developments and proceedings of Brexit and the ongoing debate around state ownership."

Therese Esperdy
Committee Chair

Changes to Committee composition:

- Andrew Bonfield left July 2018;
- Amanda Mesler joined May 2018 and left May 2019; and
- Andy Agg joined January 2019.

Key focus areas in 2018/19:

- US pension and investment strategy;
- Financial risk appetite;
- Financial implications of RIIO-T2; and
- Review of external regulatory and political environments and potential impact on credit ratings and financial risk.

Key focus areas in 2019/20:

- The potential financing implications of RIIO-T2;
- Review of impact of the proposed move of asset indexation from RPI to CPIH within UK regulated businesses;
- The potential implications of the upcoming Libor reform;
- Review of management of financial risk against financial risk appetite; and
- Continued oversight around Brexit-related financial risks and market reaction.

Review of the year

The Committee met four times 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. Andrew Bonfield stepped down as a member of the Committee following his resignation as Finance Director at the 2018 AGM. The Committee welcomed Amanda Mesler, Non-executive Director, on 17 May 2018 and Andy Agg, CFO, on 1 January 2019, as members of the Committee.

Treasury

The Committee provided continued assurance throughout the year over management decision-making and execution of financial risk. A review of the Group's financial risk appetite was undertaken, resulting in policy changes to interest rate risk and foreign exchange translation risk.

The Committee received regular updates on management's progress with formulating financial strategy for the future, including the business's investment requirements, the dividend policy, credit ratings, RIIO-T2 and potential implications of US tax reform. The Committee also approved the new financial strategy of the Group at its November meeting.

The Committee recognises the need to remain informed about global market conditions and invites external advisors to present to the Committee on specific topics and issues. The Committee received a presentation from external advisors at its January meeting, which analysed the Company's financial position benchmarked against peers and proposed areas for consideration in 2019, such as the expectations for markets and Libor reform.

The external regulatory and political environments remained a key area of focus for the Committee, including the developments and proceedings of Brexit and the ongoing debate around state ownership. Focus was particularly on the impact on credit ratings and financial risk.

The Committee considered extensively the potential financial implications of RIIO-T2, including discussion around how Ofgem's consultation may impact the Company's credit rating and funding plans and the proposed move of asset indexation from RPI to CPIH for the UK regulated businesses. This remains a key area of focus for the Committee.

Insurance

The Committee received regular insurance updates and considered the investment strategy for National Grid Insurance Company (Isle of Man) Limited, approving a new strategy allowing for further diversification, lower risk and expected higher returns.

The Committee also received an update on the outcome of the insurance broker tender and the approach to operational insurance for the 2019 renewals and in the longer-term.

Tax

In November, external advisors presented to the Committee on the Company's approach to tax and the changing pace of the tax landscape, including US tax reform and the role of the Board and corporate culture surrounding tax.

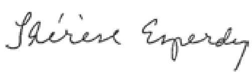
Following last year's US tax reform, the Committee continued to receive updates on the implications of this, especially concerning the regulated utility business exception for the limitation of business interest expense.

Pensions

The Committee received regular updates on pensions both in the UK and US and approved the US pension and investment management strategy. This focused on reducing risk and liabilities, along with increasing engagement with regulators, to facilitate investment de-risking and full recovery of settlement losses.

The Committee also agreed to proposals to offer members greater information and advice around how they should receive their pension benefits from the UK pension plans, utilising the provisions of 'Freedom and Choice', and on further steps to de-risk the UK plans, to more closely match the assets and liabilities.

The Committee received updates on topical pension issues, including on the UK Government's White Paper on Pensions, 'Protecting Defined Benefit Pension Schemes' and on Guaranteed Minimum Pensions following the UK High Court ruling.



Therese Esperdy
Committee Chair

Safety, Environment and Health Committee

"Throughout the year, the Committee continued to prioritise safety, in particular process safety and safety culture."

Paul Golby
Committee Chair

Changes to Committee composition:

- Pierre Dufour left July 2018;
- Earl Shipp joined January 2019;
- Nora Mead Brownell left April 2019; and
- Amanda Mesler joined May 2019.

Key focus areas in 2018/19:

- Monitoring safety during the Massachusetts labour dispute;
- Implementation of key safety, environment and health Business Management Systems (BMS) Standards;
- SEH risk management; and
- Chief Engineers engineering Assurance Updates.

Key focus areas in 2019/20:

- Post Massachusetts labour dispute and workforce integration;
- US regulatory safety changes;
- Monitoring the action plan to achieve long-term carbon reduction targets;
- Deep dive into employee mental wellbeing; and
- Road traffic collision reduction strategy.

Review of the year

The Committee met four times in the year to undertake its oversight responsibilities in respect of reviewing the strategies, policies, initiatives, risk exposure, targets and performance of the Company in relation to safety, environment and health. The Committee welcomed Earl Shipp as a member in January 2019 following Pierre Dufour's resignation at the 2018 AGM and Amanda Mesler joined as a member in May 2019. Earl's strong background in leading safety initiatives across a global chemical business and Amanda's strong background in technology has strengthened the depth and variety of experience on the Committee.

Safety

Throughout the year, the Committee continued to prioritise safety, in particular process safety and safety culture. Members of the Committee made regular site visits and time was taken to discuss these at each meeting, where consideration was given to the culture and behaviours on work sites as well as the safety processes being followed. The Committee monitored the results and proposed actions of an employee safety survey completed during the year. It will continue to monitor the implementation of these actions.

Massachusetts labour dispute

The Committee spent a significant amount of time throughout the year monitoring the Massachusetts labour dispute. It received regular updates from key management involved in the work continuation plan, focusing on the risks together with the physical and mental wellbeing of employees during this difficult period. It received regular reports on the Company's compliance with regulatory and employee safety standards to ensure that all safety standards were being met. This included oversight of the investigation of alleged safety violations made by the trade unions, together with regular site visits. The Committee also considered the changing regulatory landscape in Massachusetts and the wider US following the Columbia Gas explosion in September 2018. It will continue to monitor the effects of these changes over the coming year.

Understanding external perspectives

Following the Committee's annual review of its performance last year, it recognised the importance of ensuring that its perspective was both inward and outward looking and took action to introduce relevant external industry input to the Committee's agenda. The Committee received a presentation from the UK Health and Safety Executive (HSE) in July 2018 where the key issues faced by the HSE and wider issues within the UK were discussed. The presentation emphasised the challenges within the sector and the priorities for the HSE and gave some specific thoughts on National Grid's performance. At the January 2019 meeting, the Committee received a presentation from Natural England where the work of Natural England was considered, alongside areas for potential improvement that National Grid could consider over the next few years.
The Committee will continue to introduce external presentations to its forward agenda and will be receiving a presentation from a US agency later in the year to ensure that the Committee's perspective is both UK and US focused.

Oversight of safety risk

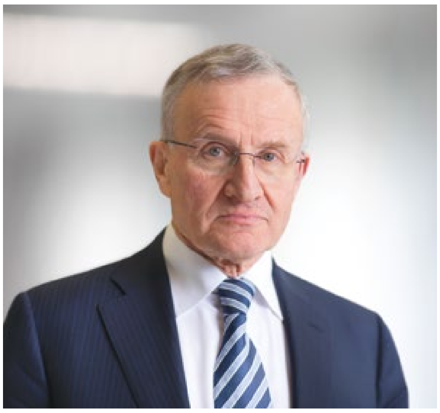
The Committee received updates on the gas pipeline maintenance programme and safety management system strategy. It was pleased to note that the business has moved towards a more proactive philosophy in understanding the risks in this area to ensure compliance with safety obligations at both local and federal levels in the US. The Committee also reviewed the global LNG risk throughout the year with consideration given to the policies and procedures in place to mitigate the remote likelihood of a catastrophic event at an LNG site. These sites continue to remain key areas of focus and oversight for the Committee. The Committee also undertook a deep dive into the progress relating to switching errors, which has shown improvement this year. However, the Company recognises that there is continuing work to be done in this area, in particular the behavioural factors surrounding switching errors. The Committee will continue to monitor the progress being made in this area.

Mental health and wellbeing

At the January 2019 meeting, the Committee received an update on the Company's mental health and wellbeing strategy. The Company had adopted good practices regionally and the Committee has been pleased to note that conversations concerning health and wellbeing are moving in a positive direction. Good progress has been made against the 2018/19 strategic priorities and the Committee endorsed a proposal to simplify these focus areas in 2019/20. Leading indicators are being developed to help show progress in this area and the Committee will continue to monitor this.

Paul Golby
Committee Chair

Nominations Committee



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

Sir Peter Gershon
Chairman and Committee Chair

Changes to Committee composition:

- Amanda Mesler joined May 2018;
- Pierre Dufour left July 2018;
- Earl Shipp joined January 2019; and
- Nora Mead Brownell left April 2019.

Key focus areas in 2018/19:

- Senior leadership succession planning;
- Review of Chairman's performance and tenure; and
- Non-executive Director search and appointment.

Key areas of focus in 2019/20:

- Board and Committee Composition; and
- Senior leadership succession.

Chairman's performance and tenure

Mark Williamson
Senior Independent Director

During the course of the year I have led the Nominations Committee, without Sir Peter Gershon present, to discuss the Chairman's tenure. Due to the need to maintain continuity of knowledge and experience during the conclusion of the RIIO-T2 process, the Committee has determined that it would be in the Company's best interests for Sir Peter to stay beyond the nine-year term identified in the new Code. It is proposed that he remain as Chairman for an additional one year to 2021 and thus go over the nine-year recommendation for a Chairman of a Company. As part of the consultation meetings with investors that myself and Sir Peter have attended, there had been unanimous support amongst investors that this was the right decision for the Company.

Review of the year

The Committee met seven times over the year to review the structure, size and composition of the Board and its Committees, review and oversee the succession planning for Directors and members of the Executive Committee and to make appropriate appointment recommendations to the Board.

Succession planning and appointment process

The Board said goodbye to Andrew Bonfield and Pierre Dufour following the 2018 AGM and as a result a primary focus of the Committee this year has been the selection and appointment of a new Chief Financial Officer and a new Non-executive Director to the Board. Nora Mead Brownell stepped down in April 2019 and, as our working assumption had been that Nora would step down from the Board during 2019/20, a formal appointment process for a second new Non-executive Director to join the Board had already begun. As a result, we will welcome Jonathan Silver to the Board with effect from 16 May. The Committee recognises the importance for the Board to anticipate and prepare for the future and to ensure that the skills, experience and knowledge of individuals reflect the changing demands of the business, whilst ensuring that the culture and values of the Group remain paramount. This was taken into consideration throughout the search and appointment processes outlined below.

When considering the recruitment of new Directors, the Committee adopts a formal and transparent procedure with due regard to the skills, knowledge and level of experience required as well as to diversity.

Chief Financial Officer – Andy Agg

The Committee appointed Russell Reynolds as search consultants and at the May and August 2018 meetings, the Committee considered the role of the Chief Financial Officer (CFO) in order to formulate a more detailed role and person specification. This considered the experience, technical knowledge and leadership characteristics required for the position. A long list of potential candidates from diverse backgrounds was produced and the Committee agreed that Andy Agg as Interim CFO would be included and considered for the role on a permanent basis, but would be benchmarked against the candidates from the external search. By the December 2018 meeting, the list of candidates had been narrowed down to three. All had been interviewed by Sir Peter Gershon, John Pettigrew, Therese Esperdy and Mark Williamson with the two external candidates also interviewed by Mike Westcott and Nicola Shaw. Following an in-depth critique and further testing of the candidates' credentials, the Committee made a recommendation to the Board in December 2018. The Board approved the recommendation to appoint Andy Agg as the strongest candidate to the Board with effect from 1 January 2019, subject to shareholder approval at the 2019 AGM.

Non-executive Director – Earl Shipp

The Committee keeps the composition of Directors on the Board under regular review and so when notice of the resignation of Pierre Dufour was received, the Committee focused its external search on candidates that had the relevant skills to enhance the Board in areas such as safety, environment and health.

Korn Ferry was appointed as search consultants and at the August 2018 Committee meeting the Committee agreed that the Chairman would review the long list of candidates to select those suitable for a first-stage interview. It was also agreed that a sub-group of the Committee members and attendees made up of Sir Peter Gershon, John Pettigrew, Paul Golby, Mark Williamson and Therese Esperdy would interview the final candidates. At the September 2018 meeting, the Chairman gave feedback on first-stage interviews and recommended two candidates to take forward in the process. The Committee agreed the two proposed candidates and following further testing of the candidates' credentials and development areas, the Committee agreed the preferred candidate and made a recommendation to the Board in December 2018. The Board approved the recommendation and Earl Shipp was appointed to the Board with effect from 1 January 2019, subject to shareholder approval at the 2019 AGM.

Board composition and director tenure

The success of the Company begins with a high-quality Board and senior management team. With the changes made during the year, the current composition of the Board and its Committees remains appropriate. This is kept under regular review, however, the range of skills and capabilities at Board level are assessed for their relevance to the execution of the Company strategy. The Committee will continue to monitor the balance of the Board to ensure that broad and relevant expertise is evident in the existing members, and will recommend further appointments if desirable. The effectiveness of the Board is also reviewed through the annual Board evaluation; see page 56 for further information.

The Committee believes that Non-executive Directors should generally stay in role no longer than nine years, in line with the UK Corporate Governance Code; however, the Committee may determine that it is in the Company's best interests for a Director with particular skills, knowledge and experience to stay beyond the nine-year term.

Nominations Committee continued

Talent pipeline – senior leadership succession

The succession pipeline to the Executive Committee and health of the high potential talent pool further down the organisation is discussed at quarterly Executive Global Talent Pool meetings, as part of the ongoing focus on our talent strategy. An example of the internal talent pipeline in practice can be seen through the appointment of Andy Agg as Chief Financial Officer; details of the appointment process are noted overleaf. This year the annual review of members of the Executive Committee also led to the development of bespoke talent and succession targets. The Board has also met with high-potential employees both in the UK and the US on several occasions during the year.

We have a strong talent pipeline with many high performing individuals and where possible we aim to develop talent within the organisation, such as with the appointment of Andy Agg. However, we also recognise the need to ensure we have the correct balance of skills, knowledge and experience on our Executive Committee and as such we continue to benchmark with potential external candidates to ensure that the senior leadership within the business is diverse with an appropriate range of external experience. As a result, during the year two external candidates, Andy Doyle and Barney Wyld, were appointed to the Executive Committee.

The Committee continues to take an active interest in the development of the talent pipeline below board level, ensuring that appropriate opportunities are in place to develop high-performing individuals and to build diversity across senior roles in the business.

Diversity and Board Diversity Policy

National Grid is fully committed to supporting diversity and inclusion in the Boardroom which we believe supports the attraction and retention of talented people, improves effectiveness, delivers superior performance and enhances the success of the Company.

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

The policy applies to the Board, Executive Committee and direct reports to the Executive Committee. It does not apply directly to diversity in relation to the remaining employees of National Grid as this is covered by other policies and the National Grid Inclusion Charter.

As set out in our Board diversity 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 Board diversity policy annually and report on our progress against the policy and our objectives (set out below) in the Annual Report and Accounts. We will also include details of initiatives to promote gender and other forms of diversity in our Board, Executive Committee and other senior management.

Examples of the initiatives to promote and support inclusion and diversity throughout our Company are set out below and on page 43.

Sir Peter Gershon
Chairman

Skills and experience

Each bar shows the number of members on the Board with strong or very strong skills or experience in this area.

This bar chart, together with the biographies (on pages 48 – 49) shows some of the key sector experience and skills the Board has identified for the effective running of the Company and the delivery of its long-term strategy. They also demonstrate how each Board member contributes to this blend of skills and experience.

Objectives	Progress
The Board aspires to meet the target of 33% of Board and Executive Committee positions, and direct reports to the Executive Committee, to be held by women by 2020.	**Objective ongoing:** there are currently 27.3% women on the Board. In our Executive and Non-executive Director searches we take this into consideration; however, all appointments are made on merit. We currently have 33.3% women on our Executive Committee and 26.6% women direct reports to the Executive Committee. These figures have been taken as at the date of this report. We are undertaking the following actions to help achieve our target: • All senior external recruitment requires a diverse list of candidates to be considered as part of the selection process; • All talent meetings have inclusion and diversity moments at the start to ensure an inclusive mindset when discussing talent moves and promotions; and • All Executive Directors have diversity targets.
The Board aspires to meet the Parker Review target for FTSE 100 boards to have at least one director from a non-white ethnic minority by 2021.	**Objective met:** we currently have two Directors from a non-white ethnic minority on the Board. Additionally, our mandatory requirement for a diverse candidate pool should ensure that we continue to have the opportunity to recruit further from non-white ethnic minorities.

Statement of application of and compliance with the UK Corporate Governance Code 2016

The statement below, together with the rest of the Corporate Governance report, explains the main aspects of the Company's governance structure to give a greater understanding of how the Company has applied the principles in the UK Corporate Governance Code 2016 (the Code). For the year ended 31 March 2019, the Board considers that it has complied in full with the provisions of the Code, available at www.frc.org.uk. The Corporate Governance report also explains compliance with the Disclosure Guidance and Transparency Sourcebook. The index on page 68 sets out where to find each of the disclosures required in the Directors' Report in respect of Listing Rule 9.8.4 R.

A. Leadership

Our Board is responsible collectively for the effective oversight and long-term success of the Company. It also determines the strategic direction, business plan, objectives, principal risks and viability of the Company and sets the governance structure that will help achieve the long-term success of the Company and deliver sustainable shareholder and stakeholder value.

There is a clear schedule of matters reserved for the Board and a schedule of delegation, which were both reviewed and updated in January 2019. The schedule of matters reserved for the Board is available on our website, together with other governance documentation.

The Board supports the separation of the roles of the Chairman and Chief Executive. The key responsibilities are clearly documented and reviewed when appropriate. See our website for more details.

B. Effectiveness

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 48 – 49 and fuller biographies are available on our website. Board and Committee attendance during the year to 31 March 2019 is set out on page 51. 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 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.

Further reading
www.nationalgrid.com

Appointments to the Board

The Nominations Committee leads the process for Board appointments and makes recommendations to the Board. The Nominations Committee also considers Board succession planning and the leadership needs of the Company.

Russell Reynolds and Korn Ferry provided external search consultancy services in relation to the appointments of the Chief Financial Officer and new Non-executive Director respectively. Both Russell Reynolds and Korn Ferry do not have any other connection with the Company.

Each Director is subject to election at the first AGM following their appointment, and re-election at each subsequent AGM. Following recommendations from the Nominations Committee, the Board considers whether all Directors continue to be effective, committed to their roles and have sufficient time available to perform their duties. Therefore, in accordance with the Code, all Directors will seek election and re-election at the 2019 AGM.

Time commitment

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. Details of external appointments are set out in the biographies on pages 48 – 49 and on our website. As part of the evaluation of the Chairman, the Non-executive Directors, with input from the Executive Directors, assessed the Chairman's ability to fulfil his role, taking into account other significant appointments.

Individual performance

The Chairman held performance meetings with each Board member to discuss their contribution and performance over the year and their training and development needs. Following these meetings, the Chairman confirmed to the Nominations Committee that he considered each Director to have demonstrated a commitment to the role and that their performance continued to be effective.

Chairman's performance

As part of our annual evaluation process, Mark Williamson, as Senior Independent Director, led a review of the Chairman's performance. At a private meeting, the Non-executive Directors, with input from the Executive Directors, assessed his ability to fulfil his role as Chairman and considered the arrangements he has in place to fulfil his role. They concluded that the Chairman showed effective leadership of the Board and his actions continued to influence the Board and wider organisation positively.

See page 77 for further details about the Directors' service contracts and letters of appointment.

Information and support

The Group General Counsel and Company Secretary makes sure that appropriate and timely information is provided to the Board and its committees and is responsible for advising and supporting the Chairman and the Board on all governance matters. All Directors have access to the Group General Counsel and Company Secretary and may take independent professional advice at the Company's expense in conducting their duties.

C. Accountability

It remains a key consideration in the drafting and review process for Directors to state that they consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable. The coordination and review of the Annual Report and Accounts are conducted in parallel with the formal audit process undertaken by the external auditors and the review by the Board and its committees (of relevant sections).

The drafting and assurance process supports the Audit Committee's and Board's assessment of the overall fairness, balance and clarity of the Annual Report and Accounts and the statement of Directors' responsibilities as set out on page 92.

The Board has carried out a robust assessment of the nature and extent of the principal risks facing the Company in achieving its objectives, including those that would threaten the business model, future performance, solvency or liquidity. Further details can be found on pages 20 – 22.

Details on the Company's risk management and internal control systems are set out on pages 20 – 22.

The activities of the Audit Committee, which assists the Board with its responsibilities relating to risk and assurance, are set out on pages 58 – 62.

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

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

D. Remuneration

The Directors' Remuneration Report on pages 69 – 90, sets out the work of the Remuneration Committee and its activities during the year; Directors' remuneration and the new policy to be approved at the 2019 AGM.

E. Relations with shareholders

The Board as a whole is responsible for making sure that satisfactory dialogue with shareholders takes place, and members take an active role in engaging with shareholders. More information about our approach to relations with shareholders can be found on pages 54 – 55.

The AGM provides a key opportunity for the Board to communicate with and meet shareholders.

Our AGM will be held on Monday 29 July 2019, at The International Convention Centre in Birmingham, and broadcast via our website. The Notice of Meeting for the 2019 AGM, available on our website, sets out in full the resolutions for consideration by shareholders, together with explanatory notes and further information on the Directors standing for election and re-election.

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Directors' Remuneration Report

Annual statement from the Remuneration Committee Chair

"This year, in addition to the annual advisory vote concerning the implementation of our current remuneration policy, we are also seeking shareholder approval for a new remuneration policy."

Jonathan Dawson
Committee Chair

Changes to Committee composition:

- Pierre Dufour left July 2018;
- Earl Shipp joined January 2019; and
- Nora Mead Brownell left April 2019.

Key focus areas for 2018/19:

- Proposed 2019 Remuneration Policy;
- Items relating to the appointment of new CFO and other Executive Committee appointments; and
- LTPP design.

Key focus areas for 2019/20:

- Review impact of evolving corporate governance standards; and
- RIIO-T2 impact on anticipated 2021 LTPP design and new policy.

Dear Shareholders,

Last year, our shareholders approved the annual Directors' Remuneration Report with 96.94% of votes in favour. This year, in addition to the annual advisory vote concerning the implementation of our current remuneration policy, we are also seeking shareholder approval for a new remuneration policy. I wrote last year that we would be doing this a year earlier than required in order to modify our remuneration policy to take account of the impact of the transition to the next UK Regulatory Framework, RIIO-T2. We are also taking the opportunity of the policy vote to propose some other changes in response to the provisions in the new UK Corporate Governance Code as well as other developments in the corporate governance environment.

The main policy proposals for 2019 are:

- changes to the performance measures (but not quantum) for the Long Term Performance Plan (LTPP);
- a reduction in the maximum company pension contribution for newly appointed Executive Directors;
- the introduction of a post-employment shareholding requirement for existing Executive Directors, together with appropriate compliance monitoring arrangements; and
- further detail on when and how malus and/or clawback would apply to incentive awards.

We engaged widely with institutional shareholders and proxy advisory service organisations on all of the proposed policy changes. Through the consultation period we refined our approach on the changes to our maximum pensions contributions. Additionally, John Pettigrew and Nicola Shaw have agreed a progressive reduction in their pension contributions to the same rate as newly appointed Executive Committee members.

The development and refinement of this policy, as well as the implementation of the current policy, occurred across ten meetings during the year.

What is our remuneration policy seeking to achieve?

Much of the remuneration policy remains the same as before as we feel most aspects continue to be appropriate for the business, and achieve our aims of:

- attracting, motivating and retaining senior executives while not overpaying;
- ensuring we pay our senior executives in a way that incentivises stretching performance;
- being fully aligned to the way National Grid earns its returns for shareholders; and
- actively supporting our strategy and values.

The key components of our approach are:

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

Nearly three quarters of John Pettigrew's variable pay opportunity is represented by the LTPP. We emphasise this over the Annual Performance Plan (APP) because National Grid is a long-term business. We want to make sure investment decisions are made, and operating efficiencies achieved, against this background. For Executive Directors, some 85% of their variable pay opportunity is delivered in National Grid's shares. Consistent with our approach for aligning executive interests to the long term, LTPP awards are determined after a three-year performance period with any shares that are then allocated to Executive Directors having to be held for at least a further two years. Our proposed LTPP measures for 2019 and 2020 will continue to be fully aligned with long-term value creation and shareholder interests.

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

As CEO, John Pettigrew has to hold at least five times his pre-tax salary in National Grid's shares, which is equivalent to around nine times his post-tax salary. Other UK-based Executive Directors must hold at least four times their pre-tax salary in National Grid's shares (equivalent to around seven times their post-tax salary). For the US-based Executive Director, the minimum shareholding requirement is also four times his pre-tax salary (equivalent to around six times his post-tax salary). This requirement ensures that executives have a longer-term view in their decision-making, are rewarded for achieving success progressively over the long term, and have interests aligned to our private and institutional shareholders – gaining if the share price increases, and sharing in the consequences of share price falls. An important characteristic of our high shareholding requirement is that a newly appointed Executive Director who owns no National Grid shares should expect to take some six to seven years (assuming target payout levels) to have earned the minimum shareholding requirement and will be unable to sell shares prior to that point. Our new post-employment shareholding requirement further enhances the alignment of interests between executives and shareholders.

Directors' Remuneration Report continued

Annual statement from the Remuneration Committee Chair continued

How our variable pay is determined and linked to performance

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

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

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

4. Discretion and independent judgement is applied

As I stated last year, as a committee we consider whether to apply discretion when assessing remuneration outcomes for Executive Directors. Before making any APP payouts we reflect on both the underlying financial and wider business performance of the Company as well as the performance of Executive Directors against their individual objectives and their demonstration of leadership qualities and our values. We also take account of the underlying financial performance of the Company before deciding the performance outturns for LTPP vesting. This year, as set out in our new policy, we have identified for the benefit of shareholders the sort of exceptional circumstances which would trigger a review as to whether malus and/or clawback should be applied.

Proposed changes to Remuneration Policy – 2019

1. Changes to LTPP measures

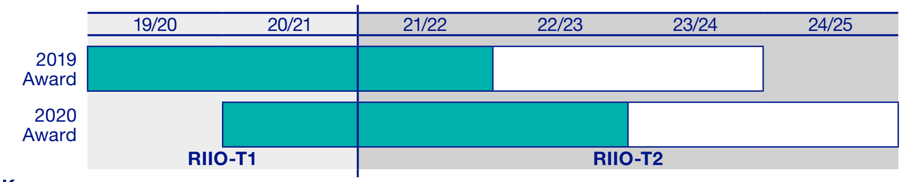
As I covered in some detail last year, National Grid's eight-year RIIO-T1 regulatory period in the UK will end on 31 March 2021. RIIO-T2 will start on 1 April 2021 and will have a five-year duration. Given that the bulk of senior executive remuneration is by design derived from the LTPP, we have considered what arrangements should be made for the LTPP awards whose performance periods straddle the two regulatory periods. The first such LTPP will be granted in June 2019, the outturn of which will be based on two years of RIIO-T1 performance and one year of RIIO-T2 performance. The second will be granted in June 2020, the outturn of which will be based on one year of RIIO-T1 performance and two years of RIIO-T2 performance. This is illustrated in figure 1.

The outcome of the RIIO-T2 framework will not be known until at least late 2020 but we need to determine now the performance measures that will apply to the 2019 and 2020 awards. Our current LTPP financial measures are weighted equally between Group RoE and Group Value Growth. Given the present uncertainty of the regulatory arrangements commencing in April 2021, we cannot be sure that Group RoE will continue to be among the two most important performance indicators for our business under RIIO-T2 and, even if Group RoE remains appropriate, we will not be able to set realistic targets for this measure with sufficient confidence. We may therefore be at risk of losing alignment with shareholder interests or risk focusing senior executives on the wrong measures by continuing to use Group RoE in the RIIO-T2 overlap period. We are confident that Group Value Growth will continue to be an important indicator of performance during RIIO-T2. It is designed to capture the Total Shareholder Return for our Company which senior management can impact, representing the uplift in value of our regulated and non-regulated assets through investment, delivery of the dividend, and strong cash generation (the detailed definition can be found on page 242). It has been applied each year since 2014 and reported in our Annual Report. It continues to be a key element of our financial proposition as presented to investors by senior executives.

As part of our review, the Committee considered carefully whether alternative long-term incentive designs, for example, restricted stock, could be appropriate. We also reviewed whether other performance measures such as Total Shareholder Return relative to an index such as the FTSE 100 might be applied. We concluded that introducing restricted stock was not consistent with the emphasis on motivating improved performance across the Group. We also concluded that introducing an incentive measure where the value was largely determined by Company share price performance against unrepresentative comparators (where, by definition, management could have little influence) would not provide a direct link between individual and collective performance and ultimate reward. We were also concerned that this might lead to significant swings in outturns that potentially were unjustified one way or the other compared with management's performance in running the Company.

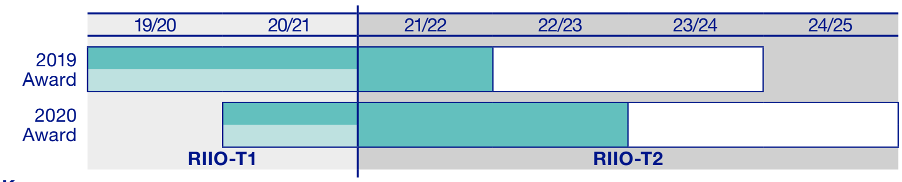
Impact of RIIO-T2 on our Long Term Performance Plan

Figure 1: LTPP timings



Key:
◆ Performance period ◇ Holding period

Figure 2: LTPP measures



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

The Committee believes that the strongest alignment with external shareholder interests derives from the very high shareholding requirements imposed on senior executives. The Committee also focused on the fact that LTPP awards are made not just to Executive Directors but to some 400 senior managers below Executive Committee level across National Grid in the UK and the US, who are critical to the effective operation and performance of the Company.

The Committee has therefore concluded that LTPP vesting for the 2019 and 2020 LTPP awards should be calculated according to the performance of:

a) Group Value Growth measured over the entire three-year performance period (determining 2/3rds and 5/6ths of the total vesting outcome for the 2019 and 2020 LTPP awards, respectively); and

b) Group RoE measured only over the RIIO-T1 performance period (determining 1/3rd and 1/6th of the total vesting outcome for the 2019 and 2020 LTPP awards, respectively).

This proposal is illustrated in figure 2.

We intend to supplement Group Value Growth with a second performance measure once we have clarity on the RIIO-T2 regulatory framework. We will consult with investors and propose a new remuneration policy at that time which we anticipate to be at the 2021 AGM and which will enable us to make awards in 2021 under the new policy.

2. Maximum company pensions contributions

Included in the policy is a reduction in the defined contribution rate (or cash in lieu) from a maximum of 30% to a maximum of 20% of salary for new UK-based Executive Directors (whether external recruits or internal promotions). We had already transitioned to this arrangement when appointing Andy Agg as CFO and also for other UK-based appointments to our Executive Committee made in October 2018 and March 2019. This is in response to evolving shareholder views as well as the new UK Corporate Governance Code.

Additionally, being mindful of evolving views, John Pettigrew (an active member of a DB plan until 2016) and Nicola Shaw have agreed a progressive reduction in their pension contributions in three equal steps from 30% of salary to 20% of salary without compensation. This will be implemented from the start of the next financial year following their decisions (April 2020).

We recognise the direction of travel on aligning pension contributions with those available to the wider workforce. However, it is not an issue that the Committee believes can easily be resolved in a single move as National Grid has a number of different pension structures (defined benefit (DB), defined contribution (DC) and cash in lieu) and tiering of value in both the UK and the US. As employees advance through the Company, progressive increases in the rates of pension contribution will normally apply, as is the case with other benefits such as company car allowance. In the UK our DB pension plans, all of which were closed to new members by April 2006, continue to accrue for active members. Current maximum employer contributions in our DC schemes are tiered by managerial band, ranging from 12% to 30% of salary. Our assessment of the current average annual value to our entire UK workforce excluding Executive Directors across both our DC and DB schemes is around 18%. We selected 20% as an appropriate rate for future Executive Director appointments noting in particular that this is the cash contribution rate currently earned by other UK-based senior executives. We will continue to review contribution rates in the coming years, acknowledging contractual obligations, evolving views of investors and wider market movements.

3. Post-employment shareholding requirements

The Committee also wishes to align with the new UK Corporate Governance Code, shareholder views and emerging market practice in the area of post-employment shareholding requirements. We implemented a post-employment shareholding requirement when Andrew Bonfield, CFO, left in July 2018. We have now set our policy that Executive Directors will be required to hold a minimum of 200% of salary in shares for two years after leaving employment, calculated at their leave date. If any Executive Director has not yet reached the 200% level for whatever reason at the time of their departure, we will not require additional shares to be purchased but we will require them to maintain their holdings for two years. The calculation excludes the value of any outstanding 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 (as per LTPP portion of the remuneration policy).

We have adopted a similar approach for other Executive Committee members at a level of 100% of base salary with the same holding period for two years after leaving employment.

Executive Committee members will be required to provide evidence of their shareholding at the first and second anniversaries after leaving. We will report annually in the Directors' Remuneration Report whether or not the requirement has been met by Executive Directors. Failure to comply could result in a financial penalty up to the value of the shareholding requirement, and the withdrawal/reduction of any future vesting of shares. I can confirm Andrew Bonfield has continued to meet his post-employment shareholding requirement.

4. More detail related to malus/ clawback provisions

In line with best practice we have included more detail on our approach to malus and clawback, and have also provided examples of those types of events that would be expected to trigger a review under our new process. These examples include, but are not limited to, material misstatement, misconduct of the participant, a significant environmental, health and safety or customer issue and failure of risk management, whether these events occur before or only emerge after cessation of employment. I emphasise, as I did last year, that the Committee has discretion to determine whether circumstances exist which justify whether any or all of an award should be forfeited, even if it has already been paid. In each Directors' remuneration report we will disclose any application of malus and/or clawback for our Executive Directors.

The full remuneration policy for shareholder approval is set out on pages 74 – 78.

Overview of financial performance

National Grid has had a good year, delivering £4.5 billion of investment in critical infrastructure leading to strong asset growth of 7.2%. Additionally, a dividend increase of 3.07% has been recommended for 2018/19. Our new efficiency programmes were launched in both the US and UK. In the US, we continued to make good regulatory progress, and we reached agreement on new employment terms with the unions in Massachusetts. In the UK, we delivered another year of good returns within 200 to 300 basis points of outperformance.

Review of decisions made during the year

APP

APP payouts for Executive Directors are 70% based on the achievement of the Group's financial measures and 30% based on the achievement of individual objectives. As in previous years, technical adjustments are made to financial measures, where relevant, to account for: the impact of timing, major storm costs, the net effect of currency adjustments, certain actuarial assumptions on pensions, scrip dividend uptake, and to ensure consistency of accounting treatment.

The performance of the respective financial measures has resulted in outturns ranging from 33.3% to 90.3% of the maximum for the financial portion. The performance against individual objectives has resulted in outturns ranging from 70.0% to 81.0% of the maximum for the individual portion. Taking both financial and individual performance together, the overall APP awards to Executive Directors on the Board at 31 March 2019 range from 44.3% to 85.6% of the maximum award, which amounts to awards of 55.4% to 106.4% of salary. Details of the APP payouts are presented on pages 80 – 83, including the full range of performance levels for each of the financial measures and also commentary on each Executive Director's performance against individual objectives.

Having reflected on wider financial and business performance, the Committee concluded there was no reason to exercise discretion on APP outcomes.

The full **remuneration policy for shareholder approval** is set out on pages 74 – 78.

Directors' Remuneration Report continued

Annual statement from the Remuneration Committee Chair continued

LTPP

The 2016 LTPP awards vest in July 2019. The three-year performance period ended on 31 March 2019 and vesting outcomes ranged from 73.8% to 84.2%. Details of the LTPP vesting are provided on pages 83 – 84. As I mentioned last year, the LTPP vesting also benefited from a portion of the value arising from the sale of a majority interest in the UK Gas Distribution business.

We note that the increase in the vested value of John Pettigrew's 2016 LTPP is attributable to this being the vesting of the first award made to him as CEO (and therefore at a higher base salary and award level than in prior years).

Having reflected on wider financial and business performance, the Committee concluded there was no reason to exercise discretion on LTPP outcomes.

Annual salary review

As I have stated in each remuneration report since John Pettigrew and Nicola Shaw were appointed, the Committee decided not to award them initial salaries at our assessment of the appropriate levels for their roles. Instead, we decided that we would make progressive increases in excess of the managerial salary increase budget, subject to their individual performance.

In implementing this approach, we increased both John Pettigrew's and Nicola Shaw's salaries by 9% in 2017 and 6% in 2018. I indicated that this year we would follow the same approach, again subject to performance, so both of their salaries would be appropriately aligned to our assessment of salaries for their roles.

The Committee concluded that John Pettigrew has continued to deliver strong performance in his third year in the role. This has been achieved through delivery of value to investors together with taking necessary steps to create future value for shareholders, strengthening external stakeholder relationships, as well as driving our corporate social responsibility and people agendas.

The Committee also considered that Nicola Shaw has continued to deliver strong performance. In particular, Nicola delivered enhancements in the areas of customer delivery, operational performance, and engagement with Ofgem and other key stakeholders. Highlights include a significant change programme in the UK this year and the legal separation of our Electricity System Operator business. During this period, project delivery, safety, reliability and environmental performance have been strong.

Given the strong performance of both John and Nicola over the last year, the Committee has awarded each of them a salary increase of 8% (comprising the UK budget of 2.9% and a further 5.1%). The Committee feels that their resulting salaries are appropriate given their performance and our assessment of market salaries for their roles. Our intention for the future is to make salary increases that are in line with the average salary increase budget for our UK employees subject to performance.

We have increased Dean Seavers' salary by 3.1%, which is aligned to the average salary increase budget for our US employees.

Consistent with our approach for appointing John Pettigrew and Nicola Shaw to the Board, Andy Agg was appointed at a salary level below our assessment of the appropriate level for his role. As with John and Nicola, the Committee may award future increases in excess of the managerial salary increase budget, subject to his performance. This year, however, Andy is not eligible for a June salary increase. This is consistent with our policy for the rest of the managerial population whereby employees externally hired or internally promoted on or after 1 January are not eligible for a salary increase until the following year's annual cycle.

Remuneration for new Executive Committee members

In addition to setting the remuneration of Andy Agg on his appointment as Chief Financial Officer (CFO) on 1 January 2019, the Committee reviewed and agreed the remuneration terms concerning the appointment of Barney Wyld, Group Corporate Affairs Director, in October 2018 and the appointment of Andy Doyle, Chief Human Resources Officer, in March 2019. The Committee also approved the exit arrangements of the outgoing Executive Committee members in accordance with our policy.

Fair and appropriate

The key purpose of the Committee is to set pay for Executive Directors and other Executive Committee members at a level necessary to attract, incentivise and retain high-calibre individuals, while not overpaying. To guide the Committee in making appropriate remuneration decisions we take account of the policies and practices for the wider workforce. For example, we consider: gender and ethnicity pay gaps, annual salary increases for the wider workforce, CEO pay ratios, and alignment with managerial pay principles such as mid-market approach to total reward. We employ an individual objective setting approach consistent with our managerial workforce and consider the wider business performance and resulting variable pay outcomes impacting the remuneration of our wider workforce when deciding variable pay outcomes for senior executives. All our employees are eligible for a performance-based annual payment.

In addition, we have taken steps to review pensions arrangements for Executive Directors. We have already implemented the reduction in the maximum contribution rate for the newly appointed Executive Committee members. As set out above, the pension contributions for John Pettigrew and Nicola Shaw are being reduced progressively to the 20% rate now applicable to other UK-based Executive Committee members.

We have decided to report voluntarily on CEO pay ratios one year early, and will continue to be informed by the ratios when making pay decisions for senior executives. Our CEO pay ratio is 76:1 at the median for UK-based employees. The position is somewhat different, however, when comparing CEO pay against the median level for the Group. On a Group basis the median pay ratio is 48:1. This reflects the higher general level of wages in the US compared with the UK, and especially in the regions of the US where the Company operates. It is also important to recognise that around three quarters of our employees are in the US.

A further point to note is that half of John Pettigrew's total pay is derived from this year's vested long-term incentives. These long-term incentives align John Pettigrew's interests with those of our shareholders and specifically incentivise appropriate long-term decision-making. Removing the impact of long-term incentives from our calculations (but including the APP) results in a UK employee pay ratio at the median of 38:1 and a Group-wide median ratio of 24:1. Further details of our pay ratios can be found on page 88.

The Chairman has described in his letter on page 47 the mechanisms for engagement with our employees on a wide range of topics, including pay and benefits throughout the organisation. The Committee will take all relevant feedback into account.

Changes to Committee membership

Pierre Dufour did not seek re-election last year and left the Board on 30 July 2018. The Board appointed Earl Shipp who joined the Committee on 1 January 2019. Nora Mead Brownell resigned from the Board on 8 April 2019.

Focus for 2019/20

In 2019/20, the Committee will continue to monitor and reflect on the evolving corporate governance environment and progress in the UK on RIIO-T2 arrangements which will inform our next policy review planned for 2021.

Conclusion

There are two separate remuneration votes this year. First, to approve a new binding three-year policy and second, to approve the remuneration report for 2018/19. I believe that the Committee has applied the current policy correctly and that the outcomes for senior executives properly reflect both the performance of National Grid and their personal contributions. I also believe that the policy proposals we are submitting to you will allow us to make appropriately incentivising LTPP awards in 2019 and 2020, as well as to reflect evolving best practice in remuneration governance. Accordingly, on behalf of the Committee, I commend this report to you and ask for your support for both resolutions at the AGM.

Jonathan Dawson

Jonathan Dawson
Committee Chair

At a glance – 2018/19

Our 'At a glance' highlights the performance and remuneration outcomes for our Executive Directors for the year ended 31 March 2019. Further detail is provided in the Statement of implementation of remuneration policy in 2018/19.

Performance in 2018/19

A comparison of the 2018/19 single total figure of remuneration with the maximum remuneration if variable pay had vested in full is set out below for the Executive Directors. John Pettigrew, Dean Seavers and Nicola Shaw were each in office for the full year. Andy Agg and Andrew Bonfield were each in office for part of the year.

Total remuneration

Executive Director	Maximum if variable pay vested in full £'000	2018/19 total single figure of remuneration £'000	Split by component (%)
Andy Agg	392	360	50.7% / 43.9% / 5.8% / -0.4%
Andrew Bonfield	355	355	100%
John Pettigrew	5,170	4,562	29.0% / 21.8% / 53.3% / -4.1%
Dean Seavers	4,044	3,001	33.1% / 15.2% / 57.9% / -6.2%
Nicola Shaw	2,482	2,196	31.2% / 25.1% / 51.1% / -7.4%

Key: ◆ Fixed ◆ APP ◆ 2016 LTPP – face value ◆ 2016 LTPP – share appreciation/depreciation and dividend equivalent values

Notes:
1. Andy Agg was appointed CFO on 1 January 2019 and his remuneration from 1 January 2019 to 31 March 2019 is disclosed above.
2. Andrew Bonfield stood down from the Board at the AGM on 30 July 2018 and left the Company on 31 July 2018. His remuneration for the period 1 April 2018 to 31 July 2018 is disclosed above. This excludes variable pay (APP, LTPP) due to his leave reason being 'resignation' and therefore he was not eligible for any APP or LTPP awards.
3. For each Executive Director the share/ADS price has decreased between grant date and the estimated three months average preceding 31 March 2019. Comparing the share price at grant of 1,021.00p for Andy Agg and John Pettigrew and 1,105.07p for Nicola Shaw, and $69.1825 for Dean Seavers, versus the average share/ADS price for the period 1 January 2019 to 31 March 2019 (837.34p and $54.73), there is a reduction of 183.66p (18%) per share, 267.73p per share (24%) and $14.4525 per ADS (21%) respectively. This results in an estimated reduction in value (net of dividend equivalents) of £4,267 for Andy Agg (prorated), £492,852 for John Pettigrew, $534,390 for Dean Seavers and £306,658 for Nicola Shaw.

	Key features of remuneration policy (adopted 2017)	Implementation of policy in 2018/19
Salary	• Target broadly mid-market against FTSE 11-40 for UK-based Executive Directors and general industry and energy services companies with similar revenue for US-based Executive Directors.	• Salary increases of 6.0% for each of John Pettigrew and Nicola Shaw (June 2018). These increases were awarded to help reduce the gap and bring their pay closer to appropriate levels for their roles and given strong individual performance; • Salary increase of 3.0% for Dean Seavers (June 2018). This increase was in line with the budget for US managerial employees; and • Andrew Bonfield was not eligible for a June 2018 salary increase because he was leaving the business.
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 clawback and malus.	• 70% based on financial measures and 30% based on individual objectives; • Financial measures for CEO and CFO comprise 35% adjusted EPS and 35% Group RoE; • Financial measures for Executive Director, US and Executive Director, UK comprise 23.3% US/UK Value Added respectively, 23.3% US/UK RoE respectively and 23.3% US/UK Operating Profit respectively; and • Individual objectives cover delivering value for investors, stakeholder engagement, people, corporate social responsibility, customer and driving efficiency.
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 clawback and malus.	• 2018 LTPP award: 50% Group RoE and 50% Group Value Growth; and • 2016 LTPP vesting in 2019: 50% Group RoE and 50% Group Value Growth for CEO and CFO; 25% Group RoE and 25% US/UK RoE for Executive Director, US and Executive Director, UK respectively and 50% Group Value Growth.
Pension and other benefits	• Eligible to participate in a defined contribution plan (or defined benefit if already a member); • Pensionable pay is salary only in UK and salary and APP in US in alignment with market; and • Other benefits as appropriate.	• UK cash allowance for John Pettigrew and Nicola Shaw, 30% of pensionable pay and for Andy Agg, 20% of pensionable pay; • US defined contribution for Dean Seavers, 9% of pensionable pay with additional match of up to 4%; and • Other benefits include private medical insurance, life assurance, and for UK-based Executive Directors either a fully expensed car or a cash alternative, and a car and driver when required.
Shareholding requirement	• 500% of salary for CEO; and • 400% of salary for other Executive Directors.	• Shareholdings for Andy Agg, John Pettigrew, Dean Seavers and Nicola Shaw are 136%, 428%, 275% and 35% respectively; and • Andy Agg, John Pettigrew, Dean Seavers and Nicola Shaw have not yet met their shareholding requirement due to a relatively short time in role and therefore their LTPP award levels are based on prior roles (Andy Agg, John Pettigrew) or relatively short time with the Company (Dean Seavers, Nicola Shaw).

Directors' Remuneration Report continued

Directors' remuneration policy – for approval by shareholders in 2019

The following tables provide details of the policy we intend to apply, subject to shareholder approval, for three years from the date of the 2019 AGM. Following approval, it will continue to be available within the 2018/19 Annual Report and Accounts on the Company's investor website (investors.nationalgrid.com). From time to time, the Committee may consider it appropriate to apply some judgement and discretion in respect of the approved policy. This is highlighted where relevant in the policy, and the use of discretion will always be in the spirit of the approved policy.

Shareholders' views

We have engaged widely with shareholders and proxy advisory service organisations on our policy proposals, enabling us to refine the policy to reflect evolving external stakeholder views. The proposed changes concern: the weighting of performance measures for LTPP, pension contributions, a post-employment shareholding requirement and further detail on the application of malus and/or clawback. Through the consultation period we have refined our approach on the changes to maximum pension contributions.

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.

Notwithstanding anything in this policy, any commitment made to a person before that person became an Executive Director or before this policy came into effect will be honoured by the Company.

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

Future 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. 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.

Annual Performance Plan (APP)

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

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

Directors' Remuneration Report continued

Directors' remuneration policy – for approval 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 2/3rds and Group RoE represents 1/3rd 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 5/6ths and Group RoE represents 1/6th of the total vesting outcome. For awards made in 2016 which will vest in 2019, the performance measures and percentage weightings are: Group Value Growth (50%) and Group RoE (50%) for the CEO and CFO; Group Value Growth (50%), Group RoE (25%) and UK or US RoE (25%) for the UK and US Executive Directors respectively. For awards made in 2017 and 2018 which will vest in 2020 and 2021 respectively, the performance measures were Group Value Growth and Group RoE, equally weighted, for all Executive Directors. All awards have a three-year performance period. For each performance measure, threshold performance will trigger only 20% of the award to vest; 100% will vest if maximum performance is attained. Notwithstanding the level of award achieved against the performance conditions, the Committee may use its discretion to modify the amount vesting to reflect wider financial and business performance and take account of a significant event and/or compliance with the dividend policy.

Malus and clawback

The Committee has discretion to determine whether exceptional circumstances exist which justify whether any or all of an award should be forfeited, even if already paid. Examples of exceptional circumstances include, but are not limited to, material misstatement, misconduct of the participant, a significant environmental, health and safety or customer issue, 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.

Future policy table – Non-executive Directors (NEDs)

Fees for NEDs

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

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

Shareholding requirement – in employment

The requirement of Executive Directors to build up and hold a significant value of National Grid shares ensures they share a significant level of risk with shareholders and aims to align their interests.

Executive Directors are required to build up and retain shares in the Company. The level of holding required is 500% of salary for the CEO and 400% of salary for the other Executive Directors.

Unless the shareholding requirement is met, Executive Directors will not be permitted to sell shares, other than to pay income tax liabilities on shares just vested or in exceptional circumstances approved by the Remuneration Committee.

Shareholding requirement – post employment

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

Unless the post-employment shareholding requirement is met, Executive Directors will not be permitted to sell shares, other than to pay income tax liabilities on shares just vested or in exceptional circumstances approved by the Remuneration Committee.

Consideration of remuneration policy elsewhere in the Company

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

As would be expected, we have differences in pay and benefits across the business which reflect specific accountabilities and labour markets. There are elements of remuneration policy which apply to all, for example, flexible benefits and share plans.

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

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

The Company has a number of all-employee share plans that provide employees with the opportunity to become, and to think like, a shareholder. These plans include Sharesave and the Share Incentive Plan (SIP) in the UK and the 401(k) and 423(b) plans in the US. Further information is provided on page 74.

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

Policy on recruitment remuneration

Salaries for new Executive Directors appointed to the Board will be set in accordance with the terms of the approved remuneration policy in force at the time of appointment, and in particular will take account of the appointee's skills and assessment of the experience as well as the scope and our assessment of the market rate for the role.

Where appropriate, salaries may be set below market level initially, with the Committee retaining discretion to award increases in salary in excess of those of the wider workforce and inflation to bring the salary to the market level over time, where this is justified by individual and Company performance.

Benefits consistent with those offered to other Executive Directors under the approved remuneration policy in force at the time of appointment will be offered, taking account of local market practice. The Committee may also agree that the Company will meet certain costs associated with the recruitment, for example legal fees, and the Committee may agree to meet certain relocation expenses or provide tax equalisation as appropriate.

Pension contributions for new Executive Directors appointed to the Board will be set in accordance with the terms of the approved remuneration policy in force at the time of appointment.

Ongoing incentive pay (APP and LTPP) for new Executive Directors will be in accordance with the approved remuneration policy in force at the time of appointment. This means the maximum APP award in any year would be 125% of salary and the maximum LTPP award would be 300% of salary (350% of salary for the CEO).

For an externally appointed Executive Director, the Company may offer additional cash or share-based payments that it considers necessary to buy out current entitlements from the former employer that will be lost on recruitment to National Grid. Any such arrangements would reflect the delivery mechanisms, time horizons and levels of conditionality of the remuneration lost.

In order to facilitate buy-out arrangements as described above, existing incentive arrangements will be used to the extent possible, although awards may also be granted outside of these shareholder-approved schemes if necessary and as permitted under the Listing Rules.

For an internally appointed Executive Director, any outstanding APP awards will be determined according to the original terms but paid at the end of the year. Any outstanding LTPP awards will be paid according to the original terms.

Fees for a new Chairman or Non-executive Director will be set in line with the approved policy in force at the time of appointment.

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.

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.

Directors' Remuneration Report continued

Directors' remuneration policy – for approval by shareholders in 2019 continued

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

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

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

No compensation would be paid for loss of office of Directors on a change of control of the Company. Further details are provided at page 221.

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.

Copies of Directors' service contracts and letters of appointment are available for inspection at the Company's registered office.

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.

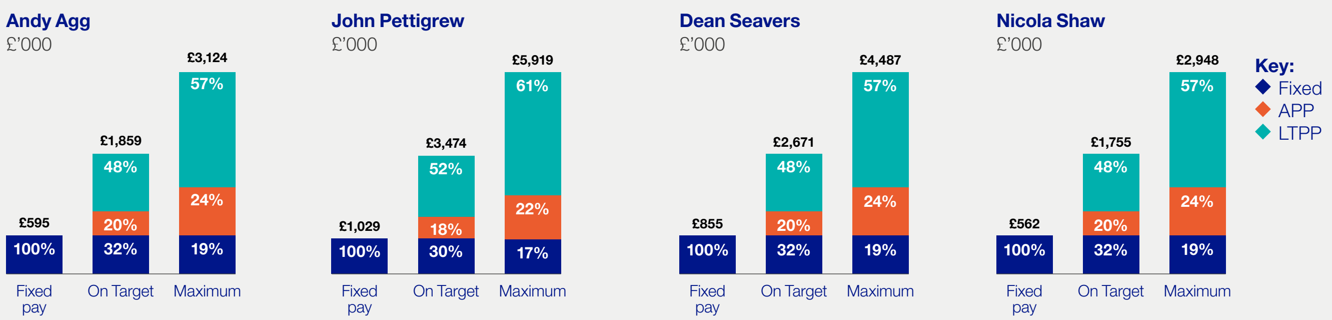
Total remuneration opportunity

The total remuneration for each of the Executive Directors that could result from the remuneration policy in 2019 under three different performance levels (below threshold, when only fixed pay is receivable, on target and maximum) is shown below. The maximum receivable assuming 50% share price growth (or a reduction) in LTPP awards over a three-year performance period, and the basis for this calculation, is set out in note 6 below.

Corporate and share capital events

The Group's employee share plans (including the LTPP) contain standard provisions that allow awards (and where relevant their exercise prices) to be adjusted, or in some cases vest or be exchanged, on the occurrence of a corporate or share capital event such as a capitalisation or rights issue, sub-division, consolidation or reduction of share capital, demerger, special dividend or distribution, listing or change of control, normally at the discretion of the Committee.

Total remuneration opportunity, by Executive Director



Notes:

1. Fixed pay consists of salary, pension and benefits in kind as provided under the remuneration policy.
2. Salary is that to be paid in 2019/20, taking account of the increases that will be effective from 1 June 2019 as shown on page 89.
3. Benefits in kind and pension are as shown in the Single Total Figure of Remuneration table for 2018/19 on page 79.
4. APP calculations are based on 125% of salary for the period 1 April 2019 to 31 March 2020. APP payout is 50% for on-target performance and the maximum of 100% is for achieving stretch.
5. LTPP calculations are based on awards with a face value of 350% of 1 June 2019 salary for John Pettigrew and 300% of 1 June 2019 salary for all other Executive Directors. Share price value used 837.34p / ADS price used $54.73 / exchange rate used $1.3054:£1. LTPP payout is 50% for on-target performance and the maximum of 100% is for achieving stretch. Excludes changes in share price and dividend equivalents.
6. For LTPP calculations, assuming either a 50% share/ADS price growth (or reduction) over the three-year performance period, the increase (or decrease) in LTPP value and maximum total compensation for each of the Executive Directors would be (all amounts expressed as £'000):
   Andy Agg: LTI value would increase (or decrease) from £1,785 to £2,677 (or £892) and maximum total compensation would rise (or reduce) from £3,124 to £4,016 (or £2,231) respectively
   John Pettigrew: LTI value would increase (or decrease) from £3,603 to £5,405 (or £1,802) and maximum total compensation would rise (or reduce) from £5,919 to £7,721 (or £4,118) respectively
   Dean Seavers: LTI value would increase (or decrease) from £2,564 to £3,846 (or £1,282) and maximum total compensation would rise (or reduce) from £4,487 to £5,769 (or £3,205) respectively
   Nicola Shaw: LTI value would increase (or decrease) from £1,685 to £2,527 (or £842) and maximum total compensation would rise (or reduce) from £2,948 to £3,790 (or £2,106) respectively.

Statement of implementation of remuneration policy in 2018/19

Key

AUDITED

Audited Information

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

Role of Remuneration Committee

The Committee is responsible for recommending to the Board the remuneration policy for Executive Directors, the other members of the Executive Committee and the Chairman, and for implementing this policy. The aim is to align the remuneration policy to Company strategy and key business objectives, and ensure it reflects our shareholders', customers' and regulators' interests. The members of the Remuneration Committee in 2018/19 were Nora Mead Brownell (until April 2019), Jonathan Dawson (chair), Pierre Dufour (until July 2018 AGM), Earl Shipp (from January 2019) and Mark Williamson.

The Committee's activities during the year

Meeting	Main areas of discussion
April	2017/18 individual objectives scoring for Executive Committee Approval of 2018/19 objectives for Executive Committee Discussion on 2017/18 expected incentive plan outturns Discussion on 2019 remuneration policy
May (three meetings)	2017/18 APP financial outturns and confirmation of awards for Executive Committee Discussion on expected 2015 LTPP outturns Annual salary review and LTPP proposals for Executive Committee Review and approval of Chairman's fees Items related to outgoing CFO and interim CFO appointment
September	Discussion on 2019 remuneration policy including the impact of the new UK Corporate Governance Code
October	Discussion on 2019 remuneration policy
November	Discussion on expected outturns for outstanding LTPP awards Review of gender and ethnicity pay gaps
December	Items related to CFO appointment and new Executive Committee appointment
January	Approval of refinements to remuneration policy following investor consultation Items related to new Executive Committee appointment
March	Market data review for Executive Committee remuneration and initial proposals for base salary increases First review of 2019/20 individual objectives of Executive Committee

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Single Total Figure of Remuneration – Executive Directors

The following table shows a single total figure in respect of qualifying service for 2018/19, together with comparative figures for 2017/18:

	Salary £'000		Benefits in kind £'000		APP £'000		LTPP £'000		Pension £'000		Total £'000	
	18/19	17/18	18/19	17/18	18/19	17/18	18/19	17/18	18/19	17/18	18/19	17/18
Andy Agg	**149**	–	**4**	–	**158**	–	**19**	–	**30**	–	**360**	–
Andrew Bonfield	**255**	768	**23**	69	**0**	787	**0**	2,183	**77**	230	**355**	4,037
John Pettigrew	**944**	887	**94**	85	**994**	919	**2,247**	1,491	**283**	266	**4,562**	3,648
Dean Seavers	**825**	771	**30**	24	**457**	740	**1,551**	1,398	**138**	142	**3,001**	3,075
Nicola Shaw	**515**	484	**15**	14	**552**	383	**959**	–	**155**	145	**2,196**	1,026
Total	**2,688**	2,910	**166**	192	**2,161**	2,829	**4,776**	5,072	**683**	783	**10,474**	11,786

Notes:

Salary: Base salaries were last increased on 1 June 2018 other than for Andrew Bonfield, who was not eligible to receive a salary increase due to leaving the business. Andy Agg's salary reflects the time in his role as CFO, 1 January to 31 March 2019. Andrew Bonfield's salary reflects the period before he left the business, 1 April to 31 July 2018.

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. There were no Sharesave options granted to any of the Executive Directors during 2018/19. Andy Agg's BIK reflects the time in his role as CFO, 1 January to 31 March 2019. Andrew Bonfield's BIK reflects the period before he left the business, 1 April to 31 July 2018.

APP: Andy Agg's APP reflects his contribution for the three months of his appointment as CFO, 1 January to 31 March 2019. Andrew Bonfield was not eligible to receive an award due to leaving the business.

LTPP: The 2016 LTPP is due to vest in July 2019. The average share price over the three months from 1 January 2019 to 31 March 2019 of 837.34p ($54.73 per ADS) has been applied. The 2017/18 LTPP figures have been restated because last year they were estimated using the average share price (January-March 2018) and they now include the actual share price on vesting at 1 July 2018 and all dividend equivalent shares. Due to a higher share price at vesting of 841.07p versus the estimate of 787.8p (and the additional dividend equivalent shares added for the dividend with a record date of 1 June 2018 with a dividend rate of 30.44p per share), the actual value at vesting was £189,419 and £129,414 higher than the estimate (last year) for Andrew Bonfield and John Pettigrew, respectively. Despite a lower ADS price at vesting of $54.936 versus the estimate of $55.16, the actual value at vesting was £36,581 higher than the estimate (last year) for Dean Seavers. This is because the change in price was more than offset by the additional dividend equivalent ADSs for the dividend with a record date of 1 June 2018 with a dividend rate of $2.0606 per ADS. For Andy Agg the LTPP value shown in the table is prorated 3/36ths in relation to his time as CFO since 1 January 2019.

Impact of share price change: The impact of share price change for the 2016 LTPP, comparing the share price at grant (of 1,021.00p for Andy Agg and John Pettigrew and 1,105.07p for Nicola Shaw, who received her award on 12 July 2016, and $69.1825 for Dean Seavers) versus the average share price for the period 1 January 2019 to 31 March 2019 (837.34p and $54.73), was a reduction of 183.66p (18%) per share, 267.73p per share (24%) and $14.4525 per ADS (21%) respectively. This results in an estimated reduction in value (including dividend equivalents) of £4,267 for Andy Agg (prorated), £492,852 for John Pettigrew, $534,390 for Dean Seavers and £306,658 for Nicola Shaw.

Pension: Andy Agg's pension reflects the time in his role as CFO, 1 January to 31 March 2019. Andrew Bonfield's pension reflects the period before he left the business, 1 April to 31 July 2018.

Directors' Remuneration Report continued

Statement of implementation of remuneration policy in 2018/19 continued

AUDITED

Annual Performance Plan (APP)

Performance against targets for APP 2018/19

APP awards are earned by reference to the financial year and 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 income tax) must be retained until the shareholding requirement is met, and in any event for two years after receipt. Threshold, target and stretch performance levels for the financial measures 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 target performance and target and stretch performance. Target and stretch performance levels for the individual objectives are also predetermined by the Committee, and an assessment of the performance relative to the target and stretch performance levels and outturns is made at the end of the performance year on each objective.

The outcomes of APP awards earned for financial and individual performance in 2018/19 are summarised in the table below:

Performance measure	Proportion of max opportunity	Threshold	Target	Stretch	Actual	Proportion of max achieved
CEO and CFO						
Adjusted EPS (p/share)	35%	52.7	56.2	59.7	59.0	90.0%
Group RoE (%)	35%	11.24	11.64	12.04	11.91	83.7%
Executive Director, UK						
UK Value Added (£m)	23.3%	1,638	1,698	1,758	1,758	100.0%
UK RoE (%) (Percentage points above average allowed regulatory return)	23.3%	1.75	2.00	2.25	2.71	100.0%
Underlying UK Operating Profit (£m)	23.3%	1,362	1,412	1,462	1,433	71.0%
Executive Director, US						
US Value Added (£m)	23.3%	1,330	1,380	1,430	1,563	100.0%
US RoE (%)	23.3%	8.9	9.1	9.3	8.8	0.0%
Underlying US Operating Profit (£m)	23.3%	1,683	1,743	1,803	1,644	0.0%
All Executive Directors						
Individual objectives (%)	30%	Detail expanded in tables below				70%-81%

Notes:
Adjusted EPS: Technical adjustments have been made increasing the target by 2.1p to reflect the net effect of currency adjustments, the reclassification of the Group's 39% interest in Cadent as held for sale and discontinued operations, the impact of timing and major storm costs, certain actuarial assumptions on pensions, and to ensure the consistency of accounting treatment.
Group RoE: Technical adjustments have been made to reflect the net effect of the reclassification of the Group's 39% interest in Cadent as held for sale and discontinued operations, the true-up of opening equity, and to ensure consistency of accounting treatment.
UK financial measures: Technical adjustments have been made to ensure consistency of accounting treatment (and in the case of operating profit, to also reflect the net effect of certain actuarial assumptions on pensions).
US financial measures: Technical adjustments have been made to US operating profit to reflect the net effect of currency adjustments and to ensure consistency of accounting treatment. A technical adjustment has been made to US RoE to true-up the equity weighting element of the calculation.

Individual Objectives

For 2018/19, the individual objectives of the Executive Directors when taken together were designed to deliver against each of our business priorities. Performance against these objectives is set out in the tables below and on the following page. As with the financial measures, the achievement of 'stretch' performance and 'target' performance results in 100% and 50% respectively of the maximum payout.

Key — achievement against objective

- not achieved
- below target outcome
- target outcome
- between target and stretch outcome
- stretch outcome

Andy Agg

Individual objective & performance commentary	Weighting	Outturn
Drive the efficiency of the business • Major cost efficiency programmes across the Group have been substantially delivered • Enhanced controls in our UK business	25%	
Engage with investors • Established himself as CFO with investors and undertook an extensive investor engagement campaign	25%	
Delivering value for investors • Successfully agreed sale for our 25% minority stake in Cadent, delivering strong cash returns • Provided excellent support to RIIO-T2 and US rate case teams	25%	
Develop more diversity in talent • Significantly increased both the gender and ethnic diversity among the leadership population in the Finance function	25%	
Summary		
Andy Agg has made a strong start in the role, both as Interim CFO and, following his appointment, as CFO. In particular, he delivered investor value through the sale of our remaining stake in Cadent and through efficiency programmes in both the US and UK. Andy also enhanced controls in our UK business, supported the acquisition of Geronimo Energy in the US, provided excellent support to the RIIO-T2 and US rate case teams, and increased the diversity of our employees in the Finance function.	100%	81%

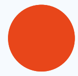
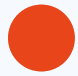
John Pettigrew

Individual objective & performance commentary	Weighting	Outturn
Delivering value for investors • Successfully completed sale for 25% minority stake in Cadent, delivering strong cash returns • Implemented operating model changes in both the US and UK, leading to early cost efficiencies, and on track to deliver future reductions in operational expenditures • Conducted comprehensive strategy and finance review to continue to support investor proposition	40%	
Engaging with external stakeholders • Supported US business to successfully complete new rate cases, and established and/or maintained strong engagement with multiple US stakeholders, albeit with some difficulties in relation to the labour dispute in Massachusetts • As in 2017/18, continued to support UK business with positive management of key stakeholders and debate on RIIO-T2, though there remains more work to be done to achieve an acceptable outcome on Hinkley-Seabank	20%	
Driving our corporate social responsibility agenda • Initiated review to drive enhanced focus on social purpose. Grid 4 Good simulations and pilots established with growing awareness across the business • Established strong understanding across workforce of what it means to be a purpose-led organisation	20%	
Driving our people agenda • Increased gender and ethnic diversity among leader population • Created a Senior Leadership Development Programme to strengthen succession and leadership capabilities • More work to be done to strengthen the pipeline of credible successors throughout organisation	20%	
Summary		
John Pettigrew has had a strong year, delivering investor value and continuing to engage successfully with key external stakeholders, with some difficulties due to the labour dispute in Massachusetts. John made significant progress in driving our corporate social responsibility and people agendas.	100%	78%

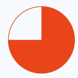
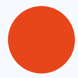
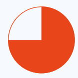
Directors' Remuneration Report continued

Statement of implementation of remuneration policy in 2018/19 continued

Dean Seavers

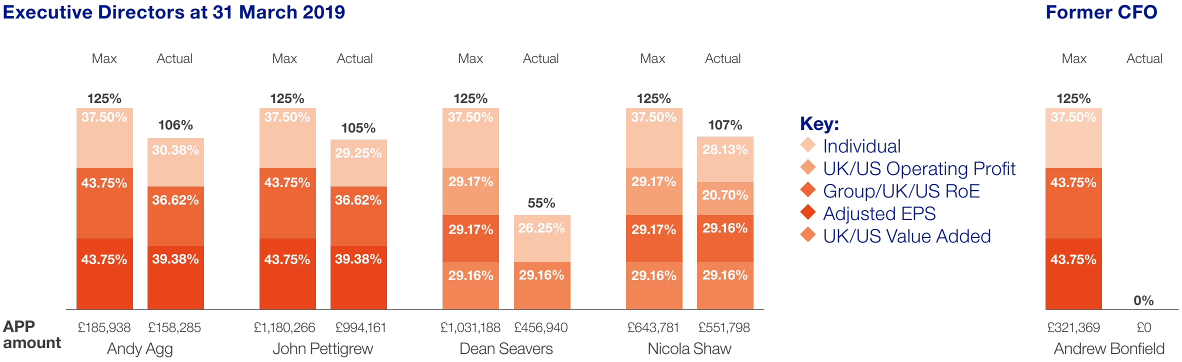
Individual objective & performance commentary	Weighting	Outturn
Deliver a step change in customer delivery • Successfully delivered customer strategy. Significant enhancements have been made in the distributed generator connection process in particular. However, changes in First Contact Resolution, which were key components of this objective, were below target	25%	
Define and implement a revised operating model • Completed operating model work ahead of schedule • Identified cost efficiencies to enable growth in a sustainable way with no detrimental impact on reliability and safety	25%	
Deliver successful outcomes in rate case filings for Massachusetts and Rhode Island • Delivered both Massachusetts and Rhode Island rate cases successfully with potential to earn 9.5% RoE • Reviewed impact of tax reform to mitigate negative impact for National Grid's US business	25%	
Develop more diversity in talent • Significantly increased both the gender and ethnicity diversity of the US Leadership Team	25%	
Summary		
Dean Seavers delivered considerable enhancements in customer initiatives, a revised operating model, and successful rate cases in MA and RI. He also significantly increased the gender and ethnicity diversity of the US Leadership Team. The US had some difficulties due to the labour dispute, but under Dean's leadership the US maintained strong reliability and safety performance.	100%	70%

Nicola Shaw

Individual objective & performance commentary	Weighting	Outturn
Deliver a step change in customer delivery • Improved customer satisfaction scores; maintained Net Promoter Score • Successfully delivered customer strategy	25%	
Deliver a step change in operational performance • Delivered change in operational performance (including £24 million cost reduction) in line with plan while managing all key risks and the legal separation of our Electricity System Operator business	25%	
Deliver successful regulatory outcomes • Strong engagement with key stakeholders related to Hinkley-Seabank though there remains more to do • Progressed engagement with Ofgem on RIIO-T2 regulatory arrangements, including a thorough response to Ofgem's consultation document	25%	
Develop our talent and people • Strong leadership through period of significant change • Developed and delivered people initiatives, though employee enablement and engagement scores, which were key components of this objective, declined over the year	25%	
Summary		
Nicola Shaw has delivered enhancements in the areas of customer delivery, operational performance, and engagement with Ofgem and other key stakeholders. In particular, Nicola has successfully undertaken and managed a significant change programme in the UK this year and the legal separation of our Electricity System Operator business. During this period, project delivery and safety, reliability and environmental performance have been strong.	100%	75%

2018/19 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.



Note:
1. US RoE/US Value Added/US Operating Profit pertain to Dean Seavers Executive Director, US, and UK RoE/UK Value Added/UK Operating Profit pertain to Nicola Shaw, Executive Director, UK. US Operating Profit and US RoE payouts are zero for 2018/19.
2. The APP award shown for Andy Agg relates to his appointment as CFO from 1 January to 31 March 2019.

AUDITED

2018/19 LTPP performance

The LTPP value included in the 2018/19 single total figure relates to anticipated vesting of the conditional LTPP awards granted in 2016.

2016 LTPP

The 2016 award is determined by performance over the three years ended 31 March 2019 of RoE (50% weighting) and Group Value Growth (50% weighting), which will vest on 1 July 2019. LTPP vesting is based upon the position held at the award date. For the UK and US Executive Directors in position at the award date, the RoE component is split equally between Group RoE and UK and US RoE respectively. For the CEO and the CFO in position at the award date, the entire RoE component is based on Group RoE.

The performance achieved against the 2016 LTPP award performance targets was:

Performance measure	Threshold – 20% vesting	Maximum – 100% vesting	Actual/expected vesting	Actual/expected proportion of maximum achieved
Group RoE (50% weighting for the CEO and CFO, 25% weighting for the Executive Director, UK, and the Executive Director, US)	11.0%	12.5% or more	11.9%	69.8%
UK RoE (25% weighting for the Executive Director, UK)	RoE is 1 percentage point above the average allowed regulatory return	RoE is 3.5 percentage points or more above the average allowed regulatory return	RoE is 2.4 percentage points above the average allowed regulatory return	65.9%
US RoE (25% weighting for the Executive Director, US)	90% of the average allowed regulatory return	105% of the average allowed regulatory return	92% of the average allowed regulatory return	28.1%
Group Value Growth (50% weighting)	10.0%	12.0% or more	11.97%	98.7%

The Group Value Growth vesting includes an amount, consistent with the vested awards disclosed in the 2016/17 and 2017/18 reports, to reflect the value added from the sale of a majority interest in the UK Gas Distribution business in 2016/17, as this event occurred within the three-year 2016–2019 performance period measured.

Directors' Remuneration Report continued

Statement of implementation of remuneration policy in 2018/19 continued

AUDITED

The amounts expected to vest under the 2016 LTPP for the performance period ended on 31 March 2019 and included in the 2018/19 single total figure are shown in the table below. The valuation is based on the average share price over the three months from 1 January 2019 to 31 March 2019 of 837.34p ($54.73 per ADS).

	Original number of share awards in 2016 LTPP	Overall vesting percentage	Number of awards vesting	Number of dividend equivalent shares	Total value of awards vesting and dividend equivalent shares (£'000)
Andy Agg	2,448	84.2%	2,061	261	19
John Pettigrew	282,810	84.2%	238,126	30,224	2,247
Dean Seavers (ADSs)	44,447	73.8%	32,802	4,179	1,551
Nicola Shaw	122,164	83.2%	101,640	12,900	959

Note:
The total value of awards vesting and dividend equivalent shares are subject to a two-year holding period.
Andy Agg: The 2016 LTPP vest has been prorated by 3/36ths in relation to his time as CFO since 1 January 2019.

AUDITED

Total pension benefits

Andy Agg, Andrew Bonfield, John Pettigrew and Nicola Shaw received a cash allowance in lieu of participation in a pension arrangement. Dean Seavers participated in a defined contribution pension arrangement in the US. 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. At 31 March 2019, John Pettigrew's accrued DB pension was £159,759 per annum and his accrued lump sum was £479,276. 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, an unreduced and immediate 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

Single total figure of remuneration – Non-executive Directors

The following table shows a single total figure in respect of qualifying service for 2018/19, together with comparative figures for 2017/18:

	Fees £'000		Other emoluments £'000		Total £'000	
	2018/19	**2017/18**	**2018/19**	**2017/18**	**2018/19**	**2017/18**
Nora Mead Brownell	**100**	98	**8**	8	**108**	106
Jonathan Dawson	**108**	106	**2**	0	**110**	106
Pierre Dufour	**33**	99	**3**	13	**36**	112
Therese Esperdy	**138**	136	**15**	15	**153**	151
Sir Peter Gershon	**523**	511	**83**	74	**606**	585
Paul Golby	**101**	100	**5**	4	**106**	104
Amanda Mesler	**77**	–	**–**	–	**77**	–
Earl Shipp	**25**	–	**3**	–	**28**	–
Mark Williamson	**130**	128	**6**	6	**136**	134
Total	**1,235**	1,178	**125**	120	**1,360**	1,298

Notes:
Receiving the US-based Board fee: Nora Mead Brownell, Pierre Dufour, Therese Esperdy and Earl Shipp.
Receiving the UK-based Board fee: Jonathan Dawson, Paul Golby, Amanda Mesler and Mark Williamson.
Nora Mead Brownell: Nora Mead Brownell stepped down in April 2019.
Pierre Dufour: Pierre Dufour stepped down at the 2018 AGM.
Therese Esperdy: Fees for 2018/19 include £25,000 in fees for serving on the National Grid USA Board.
Sir Peter Gershon: Other emoluments comprise private medical insurance and the use of a car and driver when required. Effective 1 April 2018 the Chairman waived his entitlement to receive a cash allowance in lieu of a car. The Chairman continues to have the use of a car and driver, when required.
Amanda Mesler: Amanda Mesler joined the Board on 17 May 2018.
Earl Shipp: Earl Shipp joined the Board on 1 January 2019.
Other emoluments: In accordance with the Company's expenses policies, Non-executive Directors receive reimbursement for their reasonable expenses for attending Board meetings. In instances where these costs are treated by HMRC as taxable benefits, the Company also meets the associated tax cost to the Non-executive Directors through a PAYE settlement agreement with HMRC and these costs are included in the table above.

The total emoluments paid to Executive and Non-executive Directors in the year was £11.8 million (2017/18: £12.8 million).

AUDITED

Other Remuneration Disclosures

2018 LTPP (conditional award) granted during the financial year

The face value of the awards is calculated using the volume weighted average share price at the date of grant (28 June 2018) (£8.374083 per share and $55.2239 per ADS) and is used to determine the value of the awards granted.

	Basis of award	Face value '000	Proportion vesting at threshold performance	Number of shares	Performance period end date
Andy Agg	200% of salary	£920	20%	109,886	31 March 2021
John Pettigrew	350% of salary	£3,336	20%	398,398	31 March 2021
Dean Seavers (ADSs)	300% of salary	$3,246	20%	58,786 (ADSs)	31 March 2021
Nicola Shaw	300% of salary	£1,560	20%	186,263	31 March 2021

Notes:
The 2018 LTPP grant will vest on 1 July 2021. The total value of awards vesting and dividend equivalent shares are subject to a two-year holding period.
Andy Agg: Andy Agg's award is based upon his position as interim CFO at 28 June 2018 and not as an Executive Director.

AUDITED

Performance conditions for LTPP awards granted during the financial year

	Conditional share awards granted – 2018		
Performance measure	Weighting for all Executive Directors	Threshold 20% vesting	Maximum 100% vesting
Group RoE	50%	11.0%	12.5% or more
Group Value Growth	50%	10.0%	12.0% or more

AUDITED

Payments for loss of office

There were no payments made for loss of office during 2018/19.

Andrew Bonfield stepped down from the Board on 30 July at the AGM and was paid his salary and contractual benefits until 31 July 2018. Since his departure was due to resignation, which does not qualify as 'good leaver' status, he was not eligible for an APP award for 2018/19 and his 2016 LTPP and 2017 LTPP awards were forfeited. His 2015 LTPP award vested on 1 July 2018, and since Andrew was employed on the vesting date of 1 July 2018, he was eligible to receive the vested shares and these are disclosed in the single total figure of remuneration table.

Payments to past Directors

Steve Holliday stepped down from the Board and retired from the Company on 22 July 2016. He held a 2015 LTPP award prorated for time served.

Past Director	Prorated number of share awards	Overall vesting percentage	Number of awards vesting	Number of dividend equivalent shares	Total value of awards vesting and dividend equivalent shares (£'000)
Steve Holliday					
2015 LTPP	141,813	86.00%	121,959	19,767	1,192

Note:
The overall vesting percentage is in line with other Executive Directors and specifically relates to the CEO role at the award date. The total value of awards vesting has been calculated using the actual share price at 1 July 2018 and includes dividend equivalent shares.

Post-employment share ownership requirements

Andrew Bonfield stepped down from the Board at the 2018 July AGM and left the Company on 31 July 2018. He is required to maintain a holding in National Grid shares to the value of at least 200% of his salary (at the time of leaving) for a period of three years ending on 31 July 2021. At 31 March 2019, Andrew Bonfield had continued to meet this requirement.

Shareholder dilution

Where shares may be issued or treasury shares reissued to satisfy incentives, the aggregate dilution resulting from executive share-based incentives will not exceed 5% in any 10-year period. Dilution resulting from all incentives, including all-employee incentives, will not exceed 10% in any 10-year period. The Committee reviews dilution against these limits regularly and under these limits the Company, as at 31 March 2019, had headroom of 3.91% and 7.83% respectively.

Directors' Remuneration Report continued

Statement of implementation of remuneration policy in 2018/19 continued

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 2019 and the salary used to calculate the value of the shareholding is the gross annual salary as at 31 March 2019.

As Andy Agg was only appointed to the Board in January 2019, he is not expected to meet the requirement until 2024. Nicola Shaw is also relatively new in post and is expected to meet the requirement in 2023. Dean Seavers is expected to meet the requirement in 2021. John Pettigrew is expected to meet his requirement in 2020. This is one year earlier than reported last year because the calculation carried out last year used the share price of 802.2p which projected the date of meeting the required shareholding as 2021. The calculation this year has used a share price of 850.8p which means the value of his shareholding has increased resulting in the projection to meet the shareholding requirement moving forward to 2020. These projections assume on-target performance/vesting outturns. Executive Directors will not be allowed to sell shares until this requirement is met. Non-executive Directors do not have a shareholding requirement.

The normal vesting dates for the conditional share awards subject to performance conditions are 1 July 2019, 1 July 2020 and 1 July 2021 for the 2016 LTPP, 2017 LTPP and 2018 LTPP respectively. In April 2019, a further 18 shares were purchased on behalf of each of Andy Agg, John Pettigrew and Nicola Shaw and again in May 2019. These shares were purchased via the Share Incentive Plan (an HMRC approved all-employee share plan), thereby increasing their beneficial interests. There have been no other changes in Directors' shareholdings between 1 April 2018 and 15 May 2019.

Directors	Share ownership requirements (multiple of salary)	Number of shares owned outright (including connected persons)	Value of shares held as a multiple of current salary	Number of options held under the Sharesave Plan	Conditional share awards subject to performance conditions (LTPP 2016, 2017 & 2018)
Executive Directors					
Andy Agg	400%	96,056	136%	4,045	188,348
Andrew Bonfield (at 31 July 2018)	400%	633,091	693%	3,230	0
John Pettigrew	500%	482,758	428%	4,286	1,004,413
Dean Seavers (ADSs)	400%	53,341	275%	–	152,527
Nicola Shaw	400%	21,153	35%	4,070	459,536
Non-executive Directors					
Nora Mead Brownell (ADSs)	–	4,583	–	–	–
Jonathan Dawson	–	38,787	–	–	–
Therese Esperdy (ADSs)	–	1,587	–	–	–
Sir Peter Gershon	–	95,238	–	–	–
Paul Golby	–	2,291	–	–	–
Amanda Mesler	–	0	–	–	–
Earl Shipp (ADSs)	–	0	–	–	–
Mark Williamson	–	47,460	–	–	–

Notes:

Andy Agg: On 31 March 2019 Andy Agg held 4,045 options under the Sharesave Plan. 4,045 options were held at a value of 749p and they can be exercised at 749p per share between April 2020 and September 2020. The number of conditional share awards subject to performance conditions is as follows: 2016 LTPP: 29,382; 2017 LTPP: 49,080; 2018 LTPP: 109,886.

Andrew Bonfield: The number of shares owned (633,091) and options held (3,230) are stated as at 31 July 2018. Conditional awards totalling 458,493 in respect of 2016 and 2017 LTPP have lapsed due to Andrew's resignation.

John Pettigrew: On 31 March 2019 John Pettigrew held 4,286 options under the Sharesave Plan. 1,252 options were held at a value of 599p per share and they can be exercised at 599p per share between April 2019 and September 2019. 3,034 options were held at a value of 749p per share and they can be exercised at 749p per share between April 2020 and September 2020. The number of conditional share awards subject to performance conditions is as follows: 2016 LTPP: 282,810; 2017 LTPP: 323,205; 2018 LTPP: 398,398.

Dean Seavers: The number of conditional share awards (ADSs) subject to performance conditions is as follows: 2016 LTPP: 44,447; 2017 LTPP: 49,294; 2018 LTPP: 58,786.

Nicola Shaw: On 31 March 2019 Nicola Shaw held 4,070 options under the Sharesave Plan. 4,070 options were held at a value of 737p per share and they can be exercised at 737p per share between April 2022 and September 2022. The number of conditional share awards subject to performance conditions is as follows: 2016 LTPP: 122,164; 2017 LTPP: 151,109; 2018 LTPP: 186,263.

Dean Seavers, Nora Mead Brownell, Therese Esperdy and Earl Shipp: Holdings and, for Dean Seavers, awards are shown as ADSs and each ADS represents five ordinary shares. Nora Mead Brownell stepped down from the Board on 8 April 2019.

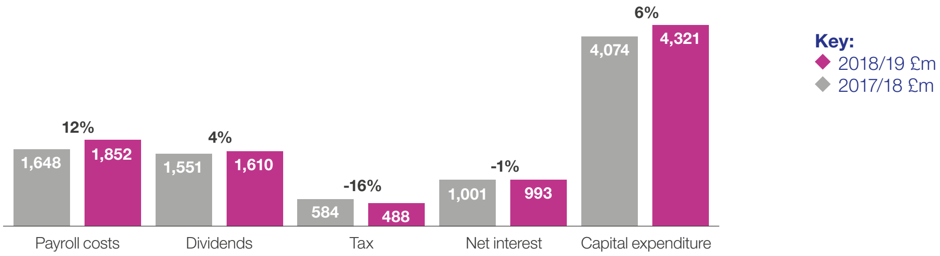
External appointments and retention of fees

The table below details the Executive Directors (at 31 March 2019) who served as Non-executive Directors in other companies during the year ended 31 March 2019:

	Company	Retained fees
John Pettigrew	Rentokil Initial plc	£60,000
Dean Seavers	Albermarle Corporation (from 8 May 2018)	£68,818 ($89,835)
Nicola Shaw	International Consolidated Airlines Group S.A.	£105,861 (€120,000)

Relative importance of spend on pay

The chart below shows the relative importance of spend on pay compared with other costs and disbursements (dividends, tax, net interest and capital expenditure). Given the capital-intensive nature of our business and the scale of our operations, these costs were chosen as the most relevant for comparison purposes. All amounts exclude exceptional items and remeasurements.

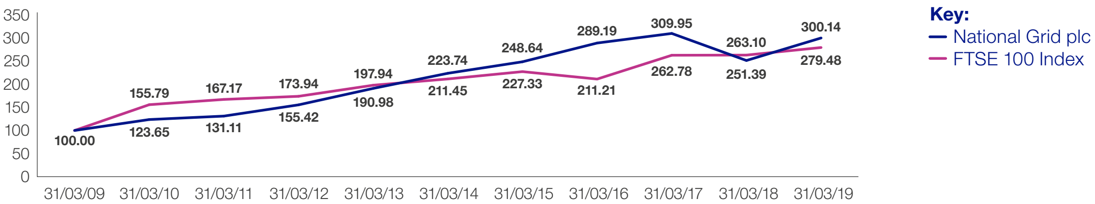


Notes:
1. The Dividends figure for 2017/18 has been restated at £1,551 million (from £1,522 million) to reflect the actual value of dividends paid.
2. 2017/18 comparators for tax and net interest have been restated to reflect the classification of our retained interest in Quadgas HoldCo Limited as a discontinued operation in the current financial period.
3. Percentage increase/decrease of the costs between years is shown.
4. The reduction in the underlying tax charge reflects the lowering of the federal tax rate in the US as a result of US Tax reform.

Performance graph

This chart shows National Grid plc's ten-year annual Total Shareholder Return (TSR) performance against the FTSE 100 Index since 31 March 2009. The FTSE 100 Index has been chosen because it is the widely recognised performance benchmark for large companies in the UK. The TSR level shown at 31 March each year is the average of the closing daily TSR levels for the 30-day period up to and including that date. It assumes dividends are reinvested.

Total shareholder return



Note:
Data source: The data source for the above graph has been changed for 2018/19 from FactSet to DataStream. This has not resulted in any changes to prior year figures.

Chief Executive's pay in the last ten financial years

Steve Holliday was CEO throughout the seven-year period from 2009/10 to 2015/16. John Pettigrew became CEO on 1 April 2016.

	Steve Holliday							John Pettigrew		
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Single total figure of remuneration (£'000)	3,931	3,738	3,539	3,170	4,801	4,845	5,151	4,623	3,648	4,562
Single total figure of remuneration including only 2014 LTPP (£'000)								3,931		
APP (proportion of maximum awarded)	95.33%	81.33%	68.67%	55.65%	77.94%	94.80%	94.60%	73.86%	82.90%	84.20%
PSP/LTPP (proportion of maximum vesting)	100.00%	65.15%	49.50%	25.15%	76.20%	55.81%	63.45%	90.41%	85.20%	84.20%

Notes:
Single total figure 2018/19: The figure for 2018/19 for John Pettigrew is explained in the single total figure table for Executive Directors.
Single total figure 2017/18: The figure for 2017/18 has been restated to reflect actual share price at 1 July 2017, consistent with comparative figures shown in this year's single total figure of remuneration table.
2014 LTPP: The 2016/17 LTPP figure includes both the 2013 LTPP award and the 2014 LTPP award due to a change in the vesting period of three years to four years between the 2013 LTPP and 2014 LTPP.
PSP/LTPP plans: Prior to 2014, LTPP awards were made under a different LTI framework which incorporated a four-year performance period for the RoE element of the awards. The last award under this framework was made in 2013 and was fully vested in 2017. Awards made from 2014 are subject to a three-year performance period. The first of these awards vested in 2017.

Directors' Remuneration Report continued

Statement of implementation of remuneration policy in 2018/19 continued

Percentage change in CEO's remuneration

The table below shows how the percentage change in the CEO's salary, benefits and APP between 2017/18 and 2018/19 compares with the percentage change in the average of each of those components of remuneration for non-union employees in the UK and the US. The Committee views this group as the most appropriate comparator group, as this group excludes employees represented by trade unions whose pay and benefits are negotiated with each individual union.

	Salary			Taxable benefits			APP		
	2018/19 £'000	2017/18 £'000	Change	2018/19 £'000	2017/18 £'000	Change	2018/19 £'000	2017/18 £'000	Change
John Pettigrew	944	887	6.4%	94	85	10.6%	994	919	8.2%
Non-union employees (average increase)			1.6%			0.9%			1.2%

Notes:
Non-union employees: The population is not a constant comparator group due to external hires and promotions which skew the salary data calculation. Calculating the salary change comparing employees that were employed throughout the period results in a 4.8% change. Pay data for US employees have been converted at $1.3054:£1.

CEO pay ratio

Ahead of the mandatory reporting requirements we have voluntarily disclosed our UK 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). The ratios have been calculated in accordance with the Companies (Miscellaneous Reporting) Regulations 2018, which were published during 2018 and will first formally apply to National Grid's financial year beginning 1 April 2019.

2019 – voluntary	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
UK	Option A	96:1	76:1	58:1
Group			48:1	

The comparison with UK employees is specified by the regulations. US employees represent approximately 74% of our total employees. Our median pay ratio on a Group-wide basis is 48:1, calculated on the same basis as the UK pay ratios and an exchange rate of $1.3504:£1. Excluding estimated 2016 LTPP vesting our median pay ratios are 38:1 and 24:1 for the UK and Group respectively. The lower Group median pay ratio versus the UK reflects the higher labour cost in the US versus the UK, which is further influenced by the US locations in which we operate which have even higher labour costs than the US on average. The ratio of the pay of our Executive Director, UK, to the median UK employee is 36:1 and excluding the estimated 2016 LTPP vesting is 20:1.

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

Pay data	Base salary	Total pay & benefits
CEO remuneration	£944,213	£4,562,987
UK employee 25th percentile	£33,250	£47,339
UK employee 50th percentile	£43,795	£60,376
UK employee 75th percentile	£59,577	£78,091

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 and short-term and long-term incentives applicable for the financial year 1 April 2018 – 31 March 2019. The reference employees at the 25th, 50th and 75th percentile have been determined by reference to the last day of the financial year, 31 March 2019, though estimates have been used for the 2018/19 APP payouts and performance outturns of the 2016 Long Term Performance Plan and dividend equivalents.

This year the 2016 LTPP vesting represents some 53% of the CEO's single total figure. However, only 2% of UK-based employees will receive an estimated 2016 LTPP vest in our pay ratio calculations and all of these employees are in the upper quartile of our ranked list and so are not selected as a 75th percentile (or below) reference employee. Removing the impact of LTPP vesting in our calculations results in lower ratios for the reference employees of 49:1, 38:1 and 30:1 at the 25th, 50th and 75th percentiles respectively. As employees advance through the Company there will be the opportunity to receive higher rewards commensurate with increased accountability and market practice. 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 voluntarily 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.

Statement of implementation of remuneration policy in 2019/20

It is intended that the remuneration policy for approval at the 2019 AGM will be implemented during 2019/20 as described below.

Salary

Salary increases will normally be in line with the increase awarded to other employees in the UK and US, subject to performance. Higher salary increases may also be awarded for a change in responsibility. Additionally, in line with the policy on recruitment remuneration, salaries for new directors may be set below market level initially and aligned to market level over time (provided the increase is merited by the individual's contribution and performance).

	From 1 June 2019	From 1 June 2018	Increase
Andy Agg	£595,000	N/A	N/A
John Pettigrew	£1,029,461	£953,205	8.0%
Dean Seavers	$1,115,690	$1,082,144	3.1%
Nicola Shaw	£561,524	£519,930	8.0%

APP measures for 2019/20

The APP targets are considered commercially sensitive and consequently will be disclosed in the 2019/20 Directors' Remuneration Report.

John Pettigrew and Andy Agg	Weighting
Underlying EPS	35%
Group RoE	35%
Individual objectives	30%

Dean Seavers and Nicola Shaw	Weighting
UK or US Value Added	23.3%
UK or US RoE	23.3%
UK or US Operating Profit	23.3%
Individual objectives	30.0%

Performance measures for LTPP to be awarded in 2019

	Weighting for all Executive Directors	Threshold 20% vesting	Maximum 100% vesting
Group RoE	33.33%	11.0%	12.5% or more
Group Value Growth	66.67%	10.0%	12.0% or more

Note:
Group RoE will be measured over the first and second years of the three-year performance period and Group Value Growth will be measured over the entire three-year performance period, determining 1/3rd and 2/3rds of the total vesting outcome for the 2019 LTPP, respectively.

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.

Role	From 1 June 2019 £'000	From 1 June 2018 £'000	Increase
Chairman	540.2	525.0	2.9%
Senior Independent Director	23.1	22.5	2.7%
Board fee (UK-based)	69.5	67.5	3.0%
Board fee (US-based)	82.1	79.7	3.0%
Committee membership fee	10.8	10.5	2.9%
Chair Audit Committee	31.2	30.3	3.0%
Chair Remuneration Committee	31.2	30.3	3.0%
Chair (other Board Committees)	23.9	23.3	2.6%

Note: From June 2019 the respective committee chair fee and committee member fee have been combined into a single fee. Accordingly, the 2018 figures have been restated as follows: chair fee for Audit and Remuneration Committees have been restated to £30,300 (being the sum of £19,800 plus £10,500 stated last year) and the chair fee for other committees has been restated to £23,300 (being £12,800 plus £10,500 stated last year).

Directors' Remuneration Report continued

Statement of implementation of remuneration policy in 2018/19 continued

Advisors to the Remuneration Committee

The Committee received advice during 2018/19 from independent consultants Willis Towers Watson. Willis Towers Watson was selected by the Committee to become its independent advisor from 23 October 2017 following a competitive tendering process.

Willis Towers Watson is a member of the Remuneration Consultants Group and has signed up to that group's code of conduct. The Committee is satisfied that any potential conflicts were appropriately managed.

Work undertaken by Willis Towers Watson in its role as independent advisor to the Committee has included providing market information for the Executive Directors and other senior employees and governance matters. This work has incurred fees of £189,704. The Committee reviews the objectivity and independence of the advice it receives from its advisors each year. It is satisfied that Willis Towers Watson provided credible and professional advice. Willis Towers Watson also provided general and technical remuneration services in relation to employees below Board and Group Executive Committee level.

The Committee considers the views of the Chairman on the performance and remuneration of the CEO, and of the CEO on the performance and remuneration of the other members of the Executive Committee. The Committee is also supported by the Group General Counsel and Company Secretary who acts as Secretary to the Committee, the Chief Human Resources Officer, the Group Head of 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 2016/17 Directors' Remuneration Policy adopted at 2017 AGM

The voting figures shown refer to votes cast at the 2017 AGM and represent 61.62% of the issued share capital. In addition, shareholders holding 9.4 million shares abstained.

	For	Against
Number of votes	2,060,765,320	52,015,518
Proportion of votes	97.54%	2.46%

Voting on 2017/18 Directors' Remuneration Report at 2018 AGM

The voting figures shown refer to votes cast at the 2018 AGM (in respect of our current remuneration policy adopted in 2017) and represent 60.51% of the issued share capital. In addition, shareholders holding 8.2 million shares abstained.

	For	Against
Number of votes	1,971,102,408	62,185,956
Proportion of votes	96.94%	3.06%

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

Jonathan Dawson

Jonathan Dawson
Committee Chairman
15 May 2019