Letter from the Chairman

Corporate Governance contents

Corporate Governance	41
Board and Committee evaluation	46
Audit Committee	49
Finance Committee	56
Safety, Environment and Health Committee	57
Nominations Committee	58
Diversity	59
Management committees	60
Statement of compliance with the UK Corporate Governance Code	61
Index to the Directors' Report and other disclosures	62
Directors' Remuneration Report	63

Structure of the report

This report sets out how we are governed and the Board's key governance activities during the year. Further information on our compliance with the UK Corporate Governance Code for 2017/18 is set out on pages 61-62.

Special dividend

This year we returned some £4 billion to shareholders following the sale of a 61% stake in our UK Gas Distribution business, through a combination of a share consolidation, a special dividend and share buybacks.

Sir Peter Gershon
Chairman

Dear shareholders,

This year the Board has continued to focus on providing effective leadership and oversight of the Company as it seeks to achieve its strategic priorities and create value for our shareholders during an ongoing period of external regulatory and political uncertainty. These external changes have influenced the Board's agenda during the year, as we considered, among other matters, the impact of US tax reform, Ofgem's 'minded-to' consultation on the delivery model for the Hinkley-Seabank project, Brexit and the threat of renationalisation.

Risk

As a Board we are responsible for determining the nature and extent of the principal risks we are willing to take to achieve our strategic priorities. In addition to its usual ongoing oversight of the Company's risk management and internal control systems and assessment of our principal risks, the Board this year undertook a risk management review to revalidate our principal risks and rethink our risk appetite framework. You can read about the outcome of our work on risk during the year on page 41.

Culture

Like risk management, I believe that focusing on the Company's culture is part of doing good business and is intrinsic to everything we do. We reported last year on the outcome of the Board's previous performance evaluation, which focused on culture, and it remained a focus area for the Board this year; particularly how we oversee, shape and monitor culture. You can read more about this on page 47.

As Chairman, promoting a culture of openness and debate 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 making sure that good governance, which underpins a healthy culture, is established. The right culture and governance can support us in achieving our purpose and strategic priorities. It is also integral to creating sustainable value in a way that is consistent with our values: every day we do the right thing and find a better way.

Corporate Governance

Your Board remains committed to the highest standards of corporate governance and alignment with best practice, and this requires ongoing focus as the corporate governance landscape continues to develop. We are cognisant of this changing environment and are an active participant in it – in February we responded to the Financial Reporting Council's consultation on its proposed revision to the UK Corporate Governance Code.

I believe that strong corporate governance supports long-term value creation for shareholders and is key to balancing the interests of our shareholders with those of our wider stakeholders. Your Board recognises the importance of our wider stakeholders and takes its responsibility and duty to them under section 172 of the Companies Act 2006 very seriously. On page 6, we set out who our key stakeholders are, why they are important to us and how we create value for them over the long term.

Engagement with our stakeholders continues to be an important priority for us. This year, the Board has reviewed who the Company's key stakeholders are; our current stakeholder engagement activities; the appropriateness of this engagement; how this engagement is reported to the Board; the mechanisms used to feedback to our stakeholders; and whether there is a need for greater engagement at Board level. You can read about this on page 48.

I believe that the Board should choose a stakeholder engagement model best suited to the needs of the Company, and for us that means it should reflect that more than two-thirds of our employees now work in, and more than 60% of our capital expenditure is in, the US. We will continue to engage with our stakeholders in a way that is guided by our purpose, vision and values.

Board changes and diversity

As reported last year, Ruth Kelly stepped down from the Board in July 2017. I would like to thank Ruth for her significant contribution to the Board and Committees during her tenure. As previously announced, Andrew Bonfield will step down from the Board at the conclusion of the 2018 AGM. Andy Agg, currently Group Tax and Treasury Director, will be appointed as Interim Finance Director pending the appointment of a permanent Finance Director. Andy will not join the Board, but will become a member of the Executive Committee.

We also announced on 15 May 2018 that Pierre Dufour will step down from the Board at the conclusion of the 2018 AGM due to ill health.

On 17 May 2018 we will welcome Amanda Mesler on to the Board as a Non-executive Director. The Nominations Committee oversaw the rigorous selection process for Amanda's appointment. You can read more about this on page 59. Amanda's appointment is part of our ongoing commitment to build and maintain an effective Board which is high quality in terms of expertise, diversity and background. As a result, shareholders will continue to benefit from strong governance and stewardship.

We remain focused on maintaining an inclusive and diverse culture. We believe this improves effectiveness, encourages constructive debate, delivers superior performance and enhances the success of the Company. At its January meeting, the Nominations Committee approved amendments to our Board diversity policy and discussed progress made against our diversity objectives. You can read more about this on page 59.

Sir Peter Gershon
Chairman

Matters considered by the Board

Examples of Board focus during the year included:

Key areas of activity	Matters considered	Outcome
Business performance oversight	The Board has received regular updates on how our operational businesses have performed and progressed against our strategic priorities, as we find new ways of optimising our operational performance, look for opportunities to grow our core business and make sure we are better equipped for the future. This included performance updates from our UK and US businesses as well as the inaugural update from our newly created division, National Grid Ventures, as it focuses on the development of new growth opportunities and strengthening our commercial and partnership capabilities. Our strategic focus is predicated on our customers, and the Board was kept up to date with business performance relative to customer expectations and against our customer ambitions throughout the year. As part of this, the Board considered how we could learn from industry leaders to support our US customer transformation initiative and position the US business for future success, while capturing appropriate value for the Company and its shareholders.	• Board review and challenge of business performance against the Company's performance targets and strategic priorities.
Strategy	The Board has participated in two interactive sessions this year in addition to the time allocated during Board meetings. These strategy sessions focused on ensuring the Board remains up to date on the changing energy landscape and the implications on the Company's portfolio and strategy, and the entry and growth strategies for National Grid Ventures so it can help us deliver against our strategic priorities and deliver shareholder value. At its April 2018 meeting the Board considered the external energy landscape further and endorsed the strategic priority areas for management focus for 2018/19.	• Board approval of the Company's strategy. • Board endorsement of the strategic priority areas for management focus for 2018/19.
Risk	The Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving the Company's strategic priorities. It reviews the Company's principal risks and the management of significant risks as part of its risk management and monitoring process through bi-annual review and challenge sessions. This year, the Board and Executive Committee, with the assistance of an external risk advisor, have undertaken a risk management review to revalidate our principal risks and rethink our risk appetite framework. The Board discussed the Group risk profile in September and March and considered any changes to existing risks, any emerging risks, and whether the agreed principal risks were consistent with the Company's risk appetite levels. The Board also reviewed the testing of the Company's principal risks and the impact on the Company's viability over a five-year viability period.	• Agreed risk appetite profile and principal risks, including two new principal risks. • Agreed enhancements to Board reporting, utilising risk appetite. • Approved a new risk appetite framework for implementation across the business. • Board approval of the Group risk profile and confirmation that a five-year viability period was appropriate. • Approved the Company's viability statement.
Political and regulatory environment	This year, the Board continued to focus on how to promote the success of the Company during further developments in our external environment. Following the UK General Election in June 2017, the Board discussed the impact of its outcome on the Company and its business environment. During the year, the Board also had regular updates on risks and opportunities posed by Brexit and our continued engagement activities with our stakeholders on this issue. The Board also reviewed the impact of US tax reform on the Company, including on our regulatory strategy, and on our US customers. Ahead of our next UK regulatory price control, the Board considered the key elements of Ofgem's RIIO-T2 framework review consultation, published in March 2018, and scrutinised the Company's UK regulatory strategy, providing feedback, guidance and support for its ongoing development. The Board also discussed Ofgem's 'minded-to' consultation on the delivery model for the Hinkley-Seabank project and our response to the consultation. At its March 2018 meeting, the Board received an update on the key political, policy and regulatory issues in the UK and US to which the Company was responding.	• Board input on, support for and monitoring of the UK and US regulatory strategy. • Political sub-group of Executive Committee established to take a more hands-on approach.
Culture	The Board has spent much time this year on how it shapes, monitors and assesses culture of the Company, which you can read more about on page 47. This included reviewing and approving a proposed culture 'scorecard' which could be considered regularly by the Board. The Board reviewed the first culture 'scorecard' at its April 2018 meeting, which showed trends and gave an assessment of areas of strength and areas for further focus.	• Board endorsement of a culture 'scorecard' to support the Board in shaping, monitoring and assessing culture.
Cyber security	The Board continued to focus on the evolving cyber security landscape during the year, with a regular cadence of Board reporting and review in place, supported by engagement with the Company's Chief Information and Digital Officer. This included review of the external and internal cyber threat environment, our key cyber risks and the Company's cyber strategy. The Board was also updated on the activities of the Company's Cyber Operational Research Establishment (CORE), a joint initiative between our UK business and Digital Risk & Security function. The Board has also considered how the Company measures its approach to cyber security and how this is used to manage cyber security risk, and how cyber risk is reported to the Board and Executive Committee.	• Board review of and input on cyber security measurement and reporting, including a cyber 'scorecard'.
Technology and innovation	To support our response to the threat and opportunities presented by emerging technology, this year the Board reviewed the organisation and governance of our Technology and Innovation function. This included how we learn from and leverage innovation that is occurring externally; how we enhance the effectiveness of internally generated innovation; and how we measure the success of our efforts in this area. Our focus has been on enabling an innovative culture with rapid decision-making and the acceleration of internally sourced ideas. At its April 2018 meeting, the Board considered, and provided input on, the Company's technology and innovation strategy.	• Board review and endorsement of the organisation and governance for the Group Technology and Innovation function. • Board review of and input on the Company's technology and innovation strategy.

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

- continued regular reviews of safety activities;
- UK, US and National Grid Ventures 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 Brexit;
- our UK and US regulatory strategy and preparation for RIIO-T2;
- Ofgem's recommendations and decisions regarding the delivery model for the Hinkley-Seabank project;
- technology and innovation;
- cyber security updates;
- results of the 2018 employee engagement survey;
- monitoring and assessing the Company's culture, supported by our culture 'scorecard';
- our stakeholder engagement model; and
- addressing changes to the UK Corporate Governance Code and other corporate governance policy developments.

Corporate Governance

Our Board

Sir Peter Gershon CBE FREng (71)
Chairman

Appointed: 1 August 2011 as Deputy Chairman and became Chairman with effect from 1 January 2012.
Tenure: 6 years

Career and experience: Sir Peter has held senior positions spanning both public and private sectors in the healthcare, technology and telecommunications industries. His previous senior board level appointments include Chairman of Tate and Lyle plc, Chief Executive of the Office of Government Commerce, Managing Director of Marconi Electronic Systems and a member of the UK Defence Academy Advisory Board.

Skills and competencies: In this role he draws on his broad business and governance experience from the executive and non-executive senior positions he has held. His leadership as Chairman is pivotal in creating an effective Board by encouraging robust debate. Sir Peter has a commitment to strong corporate governance and has regular constructive engagement with investors through the Company's shareholder networking programme. Sir Peter actively engages with employees across our operational sites.

External appointments: Sir Peter currently holds external appointments as a Non-executive Chairman of the Aircraft Carrier Alliance Management Board, Trustee of The Sutton Trust, Trustee of the Education Endowment Foundation and Chairman of Join Dementia Research (JDR) Partnership Board. He is also a board member of the Investor Forum.

Committees: Chairman of the Nominations Committee.

John Pettigrew FEI FIET (49)
Chief Executive

Appointed: 1 April 2014 and became Chief Executive with effect from 1 April 2016.
Tenure: 4 years

Career and experience: John is a Fellow of the Energy Institute and of the Institution of Energy and Technology. He joined the Group in 1991 and has progressed through a variety of senior management roles. These include Director of Engineering in the UK, Chief Operating Officer and Executive Vice President for the US Electricity Distribution & Generation business, Chief Operating Officer for UK Gas Distribution and UK Chief Operating Officer from 2012 to 2014.

Skills and competencies: With his extensive operational experience of the Group and in depth understanding of both the US and UK energy and utility industries, John brings significant know-how and commerciality to his leadership of the executive team. John is responsible for the implementation of strategy and the continued growth of our businesses. He maintains a productive dialogue with institutional investors on Group strategy and performance.

External appointments: John is a member of the Government's Inclusive Economy Partnership and the CBI's Presidents Committee and Non-executive Director of Rentokil Initial plc.

Committees: Member of the Finance Committee.

Nicola Shaw CBE (48)
Executive Director, UK

Appointed: 1 July 2016
Tenure: 1 year

Career and experience: Nicola has served in senior management roles, as Chief Executive Officer of HS1 and Managing Director of UK Business Division at FirstGroup plc. She was also an independent Non-executive Director of Ellevio AB and Aer Lingus Group plc. Nicola's career, both in the UK and overseas, has included roles at the Strategic Rail Authority, Office of the Rail Regulator, Bechtel Ltd, Halcrow Fox, the World Bank and London Transport.

Skills and competencies: Nicola has a broad range of experience and strong track-record working with the UK Government, the European Commission and Parliament and industry regulators, as well as leading large regulated businesses. This enables her to draw on her diverse experience and knowledge to assist the Board and, in particular, the Executive Committee.

External appointments: Non-executive Director of International Consolidated Airlines Group, S.A., Director of Major Projects Association and member of the Audit Committee of English Heritage.

Andrew Bonfield (55)
Finance Director

Appointed: 1 November 2010
Tenure: 7 years

Career and experience: Andrew is a chartered accountant with significant financial experience, having previously held the position of Chief Financial Officer at Cadbury plc and five years as Executive Vice President and Chief Financial Officer at Bristol Myers Squibb. Andrew also has prior experience in the energy sector as Finance Director of BG Group plc.

Skills and competencies: Andrew has significant listed company and financial experience at board level both in UK and overseas. This enables him to contribute to financial discussions during Board meetings.

He has a strong focus on corporate responsibility and investor relations from a finance perspective. He is also Chairman of the 100 Group of Finance Directors.

External appointments: Non-executive Director and Chairman of the Audit Committee at Kingfisher plc to 12 June 2018 and Non-executive Director and a member of the Audit Committee at Reckitt Benckiser Group plc as of 1 July 2018.

Committees: Member of the Finance Committee.

Dean Seavers (57)
Executive Director, US

Appointed: 1 April 2015
Tenure: 3 years

Career and experience: Dean began his career at the Ford Motor Company. From there he held a series of leadership roles before moving to Tyco International Ltd, where he held various senior management positions before joining General Electric Company and United Technologies Corporation. He was President and Chief Executive Officer of General Electric Security and then President, Global Services of United Technologies Fire & Security. Dean was also a member of the Board of Directors of the National Fire Protection Association.

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.

External appointments: Advisor to the board at City Light Capital, Board member of Red Hawk Fire & Security, LLC and Non-executive Director of Albemarle Corporation.

Nora Mead Brownell (70)
Non-executive Director; Independent

Appointed: 1 June 2012
Tenure: 5 years

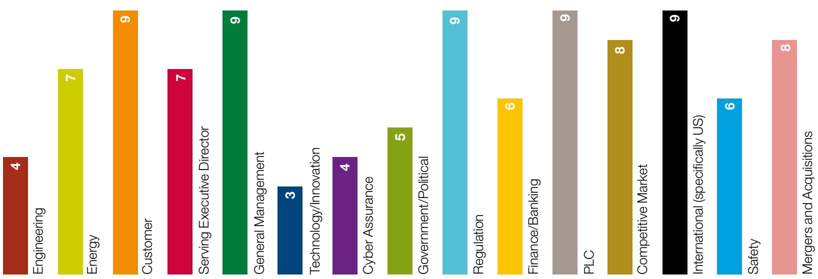
Career and experience: Nora has substantial senior management experience gained in a variety of roles, including Commissioner of the Pennsylvania Public Utility Commission, the Federal Energy Regulatory Commission (FERC) and former President of the National Association of Regulatory Utility Commissioners. Most recently, Nora sat on the Boards of ONCOR Electric Delivery Holding Company LLC and Comverge, Inc.

Skills and competencies: Nora brings to the Board significant expertise in the US utilities industry, in particular from her role as a Commissioner with FERC. Her first-hand regulatory experience, combined with her non-executive directorships, provides the Board with valuable strategic insights into regulation and US government relations. This allows her to scrutinise performance and provide an additional perspective for the Board's discussions.

External appointments: Board member of Spectra Energy Partners LP, the Strategic Advisory Council of the NewWorld Capital Group, LLC, the Advisory Board of Morgan Stanley Infrastructure Partners as well as a partner in ESPY Energy Solutions, LLC.

Committees: Member of the Nominations, Remuneration and Safety, Environment and Health Committees.

Skills and experience



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

Tenure as at 31 March 2018

Charts and committee membership as at 16 May 2018

This graph, together with the biographies above, 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.

Jonathan Dawson (66)
Non-executive Director; Independent

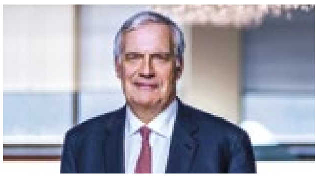
Appointed: 4 March 2013
Tenure: 5 years

Career and experience: Jonathan started his career in the Ministry of Defence before moving to Lazard where he spent more than 20 years. He was a Non-executive Director of Galliford Try plc, National Australia Group Europe Limited and Standard Life Investments (Holdings) Limited. Most recently, Jonathan was Chairman of the Remuneration Committee and Senior Independent Director of Next plc and Senior Independent Director and Chairman of the Audit & Risk Committee of Jardine Lloyd Thompson Group plc.

Skills and competencies: Jonathan has wide-ranging financial services, pensions and non-executive director experience, and he brings significant and in-depth understanding in remuneration and financial matters to his role as Chairman of the Remuneration Committee. As a Non-executive Director his contribution is essential to the successful operation of the Board and through his specialisms he delivers scrutiny, additional challenge and independent oversight to the Board.

External appointments: Chairman of River and Mercantile Group PLC, Chairman of Trustees of the Royal Albert Hall pension scheme and Chairman and a founding partner of Penfida Limited.

Committees: Chairman of the Remuneration Committee, member of the Finance and Nominations Committees.



Pierre Dufour (63)
Non-executive Director; Independent

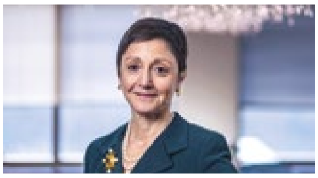
Appointed: 16 February 2017
Tenure: 1 year

Career and experience: Pierre started his career at SNC Lavalin Group. He joined Air Liquide in 1997, later going on to roles such as Chief Executive of the US operations, Chairman of the Board of Air Liquide Canada and several different positions within Air Liquide where he had responsibility for North American operations, while also overseeing safety and industrial risk management and operations in South America, Africa and the Middle East. Pierre then became Senior Executive Vice President of the Air Liquide group with responsibility for all Air Liquide activities across The Americas, Middle East, Africa and Asia.

Skills and competencies: Pierre brings to the Board a deep understanding and knowledge of safety and engineering from his previous roles. His international management experience is an asset to the Board. This, coupled with his record of successfully delivering large-scale capital projects, provides a wider perspective to Board debates and strategic discussions.

External appointments: Non-executive Director of Archer Daniels Midland, Director of Airgas Inc., an Air Liquide subsidiary and Director and Chairman of the Environment and Society Committee of Air Liquide S.A.

Committees: Member of the Nominations, Remuneration and Safety, Environment and Health Committees.



Therese Esperdy (57)
Non-executive Director; Independent

Appointed: 18 March 2014, and appointed to the Board of National Grid USA from 1 May 2015
Tenure: 4 years

Career and experience: Therese started her banking career at Lehman Brothers, then moved to Chase Securities in 1997. She subsequently held a variety of senior roles at JPMorgan Chase & Co. including Head of US Debt Capital Markets and Global Head of Debt Capital Markets, co-head of Banking, Asia Pacific at JPMorgan and Global Chairman of the Financial Institutions Group, JPMorgan Chase & Co.

Skills and competencies: 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 Chairman of the Finance Committee. This enables her to contribute a constructive viewpoint to Board debates with her sharp and incisive thinking.

External appointments: Non-executive Director of Imperial Brands PLC.

Committees: Chairman of the Finance Committee and member of the Audit and Nominations Committees.

Dr Paul Golby CBE FREng FIET, FIMechE, FEI, FCGI (67)
Non-executive Director; Independent

Appointed: 1 February 2012
Tenure: 6 years

Career and experience: Paul is a Chartered Engineer with a doctorate in Mechanical Engineering, Fellow of the Royal Academy of Engineering, the Institution of Engineering and Technology, the Institution of Mechanical Engineers, the Energy Institute and City of Guilds. He was awarded honorary degrees from Aston University and Cranfield University. Paul was an Executive Director of Clayhithe plc, before going on to join E.ON UK plc where he was Chief Executive and later Chairman. Paul also held previous appointments as Non-executive Chairman of AEA Technology Group plc and Chairman of EngineeringUK.

Skills and competencies: Paul has a lifelong passion for engineering and innovation, and has spent his career in the energy, governmental and regulatory sectors. He brings the skills of an experienced Chairman and Chief Executive to his role as a Non-executive Director. He adds a valuable perspective to debates on UK regulatory and strategic issues. His deep understanding and specific experience in safety and risk management is crucial to his role as Chairman of the Safety, Environment and Health Committee.

External appointments: Chairman of Costain Group plc, the UK National Air Traffic Services, the Engineering and Physical Sciences Research Council and a member of the Prime Minister's Council for Science and Technology.

Committees: Chairman of the Safety, Environment and Health Committee, member of the Audit and Nominations Committees.

Mark Williamson (60)
Non-executive Director and Senior Independent Director

Appointed: 3 September 2012
Tenure: 5 years

Career and experience: Mark is a chartered accountant with considerable financial and managerial experience. He has a deep knowledge of operating within highly regulated industries from his time as the Group Financial Controller of Simon Group plc, Chief Financial Officer of International Power plc and Non-executive and Senior Independent Director of Alent plc.

Skills and competencies: Mark's role as Senior Independent Director is essential to the successful operation of the Board. He has an excellent understanding of investor expectations and significant experience in managing relationships with investor and financial communities. During the course of his career, Mark has gained a broad knowledge within the utilities sector as well as extensive city, international and accounting experience; this makes him ideally suited to his role as Chairman of the Audit Committee. Mark also brings the skills of an experienced Chairman to his role as a Non-executive Director.

External appointments: Chairman of Imperial Brands PLC and Chairman of Spectris plc.

Committees: Chairman of the Audit Committee, member of the Nominations and Remuneration Committees.

Alison Kay (54)
Group General Counsel and Company Secretary

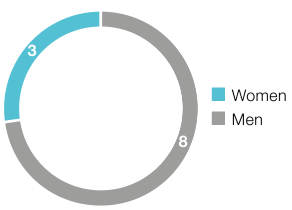
Appointed: 24 January 2013

Career and experience: Alison joined National Grid in 1996 and has undertaken several roles including UK General Counsel and Company Secretary from 2000 to 2008 and Commercial Director, UK Transmission from 2008 to 2012. Prior to joining the Group, she was a corporate/commercial solicitor in private practice.

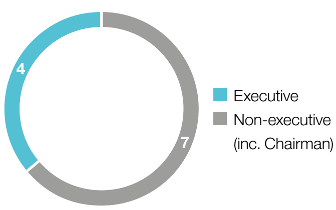
Skills and competencies: Alison is responsible for the legal, compliance and governance framework for the Group. She is an experienced commercial lawyer and brings a wealth of practical advice and guidance to her current role as Group General Counsel and Company Secretary. She also has expertise in regulatory and contractual law and legal risk management from her experience at National Grid. Alison provides support and advice to the Directors, Board and its Committees. She brings rigour around corporate governance and ensures that Board procedures and policies are complied with.

External appointments: Member and Vice-Chair of the Association of General Counsel and Company Secretaries working in FTSE 100 Companies.

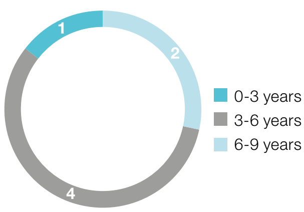
Board gender



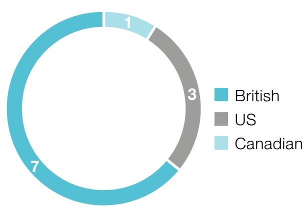
Executive and Non-executive Directors



Non-executive Directors' tenure



Board members by nationality



Corporate Governance

Board composition

The successful delivery of our strategy depends upon attracting and retaining the right talent. This starts with having a high-quality Board. Balance is an important requirement for the composition of the Board, not only in terms of the number of Executive and Non-executive Directors, but also in terms of expertise, diversity and backgrounds. Our Board is comprised of a majority of independent Non-executive Directors whose diverse skills and experience are vital to constructive challenge, debate and for the robust scrutiny of management performance and proposals.

While traditional diversity criteria such as gender and ethnicity are important, we also value diversity of skills, experience, knowledge and thinking styles. You can read about our Board diversity policy in the Nominations Committee report on page 58.

We will welcome Amanda Mesler on to the Board as a Non-executive Director from 17 May 2018. Andrew Bonfield and Pierre Dufour will step down from the Board at the conclusion of the 2018 AGM.

Governance structure

The schedule of matters reserved for the Board is available on the Corporate Governance section of our website, together with the terms of reference for each Board committee: www.nationalgrid.com

Reports from each of the Board committees, together with details of their activities are set out on the following pages.

Governance framework: Structure and responsibilities

Board	**The role of the Board** Our Board is collectively responsible 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 that will help achieve long-term success and deliver sustainable shareholder value. The Board recognises that to promote success over the long term we must earn and keep the trust and confidence of our employees, customers, the communities in which we operate and wider stakeholders. The Board sets the risk appetite and determines the principal risks for the Company and takes the lead in areas such as safeguarding the reputation of the Company and its financial policy, as well as making sure we maintain a sound system of internal control and risk management (see pages 18-21). The Board also plays a key role in setting and leading the Company's culture. For more information see page 47.				
Board committees	**Audit Committee** oversees the Company's financial reporting and internal controls and their effectiveness, together with the procedures for identifying, assessing and reporting risks. It also oversees the services provided by the external auditors and their remuneration.	**Nominations Committee** considers the structure, size and composition of the Board and committees and succession planning. It identifies and proposes individuals to be Directors and executive management, and establishes the criteria for any new position.	**Remuneration Committee** responsible for recommending to the Board the remuneration policy for Executive Directors and other members of the Executive Committee and for the Chairman; and for implementing this policy.	**Finance Committee** sets policy, approves strategy and grants authority for financing decisions (including treasury, tax and pensions), credit exposure, hedging and foreign exchange transactions, guarantees and indemnities.	**Safety, Environment and Health Committee** reviews the strategies, policies, initiatives, risk exposure, targets and performance of the Company and, where appropriate, of its suppliers and contractors in relation to safety, environment and health.
Management committees	**Executive Committee**				
	Disclosure Committee; Investment Committee; Share-schemes Sub-Committee				

In focus

Details of the management committees can be found on page 60

Our Board and its committees

In order that it can operate efficiently and give the right level of attention and consideration to relevant matters, the Board delegates authority to its Board committees. Committee agendas and schedules of items to be discussed at future meetings are prepared in accordance with the terms of reference of each committee and take account of other topical and ad hoc matters.

In addition to the vertical lines of reporting, the committees communicate and work together where required. For example, the Finance Committee and the Audit Committee both review the going concern assumptions and provide recommendations to the Board.

At Board committee meetings, items are discussed and, as appropriate, endorsed, approved or recommended to the Board, by the committee. Following Board committee meetings, the chairman of each committee provides the Board with a summary of the main decisions and discussion points and the minutes of committee meetings are made available so the non-committee members are kept up to date with the work undertaken by each Board committee.

Management committees

To help make sure we allocate time and expertise appropriately, the Company has a number of management committees, including the Executive Committee and Disclosure Committee. You can read more about these committees on page 60.

Board and committee membership and attendance

The table overleaf sets out the Board and committee attendance during the year to 31 March 2018. Attendance is shown as the number of meetings attended out of the total number of meetings possible for the individual Director during the year.

If any Directors are unable to attend a meeting, they are encouraged to communicate their opinions and comments on the matters to be considered via the Chairman of the Board or the relevant committee chairman. The one instance of non-attendance during the year was considered and determined as being reasonable due to individual circumstances; Paul Golby was unable to attend an Audit Committee meeting due to the meeting being called at short notice and him having a prior commitment.

Board and committee membership and attendance continued

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	–	–	–
Andrew Bonfield[1]	8 of 8	–	4 of 4	–	–	1 of 1
Dean Seavers	8 of 8	–	–	–	–	–
Nicola Shaw	8 of 8	–	–	–	–	–
Nora Mead Brownell	8 of 8	–	–	7 of 7	6 of 6	4 of 4
Jonathan Dawson	8 of 8	–	4 of 4	7 of 7	6 of 6	–
Pierre Dufour	8 of 8	–	–	7 of 7	6 of 6	4 of 4
Therese Esperdy	8 of 8	6 of 6	4 of 4	7 of 7	–	–
Paul Golby[2]	8 of 8	5 of 6	–	7 of 7	2 of 2	4 of 4
Ruth Kelly[3]	2 of 2	2 of 2	2 of 2	2 of 2	–	–
Mark Williamson	8 of 8	6 of 6	–	7 of 7	6 of 6	–

1. Andrew Bonfield stepped down from the Safety, Environment and Health Committee on 21 April 2017.
2. Paul Golby stepped down from the Remuneration Committee on 15 May 2017.
3. Ruth Kelly stepped down from the Board and relevant Board committees with effect from 31 July 2017.

Directors' induction and training

Directors' induction programme

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

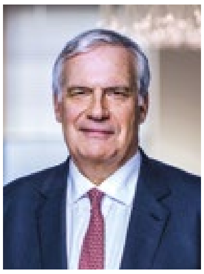
A tailored induction programme will be created for Amanda Mesler and monitored accordingly.

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.

To strengthen the Directors' knowledge and understanding of the Company, Board meetings regularly include updates and briefings on specific aspects of the Company's activities. In January the Board participated in its second EU Market Abuse Regulation training session to ensure it remained up to date with market abuse obligations and emerging best practice. Examples of other topics on which Board members received training during the year included: remuneration and corporate governance developments; culture; and corporate reporting.

Updates on corporate governance and regulatory matters are also provided at Board meetings, along 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. During the year, site visits were made by Board members to a range of the Company's projects and sites in the UK and US, such as to our London Power Tunnels project and our Long Island Gas Control Centre.



Pierre Dufour
Non-executive Director

Pierre Dufour – Non-executive Director induction

Pierre, appointed in February 2017, underwent a tailored induction programme covering a range of areas of the business, some examples of which are detailed below. This included matters pertinent to his role on the Safety, Environment and Health Committee.

Governance and remuneration
- Received a briefing from our legal advisors which included company law and directors' duties; corporate governance; the Market Abuse Regulation; and listing and disclosure obligations.
- Met key employees in our Reward team to understand our reward strategy, remuneration policy and current market practice.

Business and functions
- Met employees across the UK, US and National Grid Ventures businesses and undertook site visits, such as to our Isle of Grain LNG site.
- Met with the Group Head of Assurance and discussed the key risk and compliance issues.
- Met with the Director of Investor Relations.

Safety
- Met employees throughout the business and in key safety roles to discuss safety matters.
- Undertook a number of site visits in the UK and US which enabled Pierre to become familiar with our approach to safety and safety culture.
- Received a briefing on our Process Safety Management System.

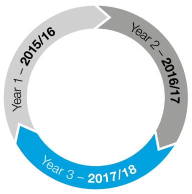
Stakeholder matters
- Engaged with employees across the business, including during multiple site visits in the UK and US.
- Met with the Group HR Director.
- Met key employees in the UK and US in regulatory roles.
- Met with the Director of Procurement and discussed our key suppliers and how we engage with them.

Performance evaluation

Board and Committee evaluation

This was the third year of our three-year performance cycle, as shown in the diagram below. We undertook an internal Board performance evaluation, led by Mark Williamson, Senior Independent Director.

Review cycle:



Year 1 – Externally facilitated evaluation
Year 2 – Internal evaluation
Year 3 – Internal evaluation

Evaluation Process: Year 3 of review cycle

1. Comprehensive questionnaire completed by the Board

2. Results collated, evaluated and reported

3. Board review of outcome

4. Action plan agreed

5. Committee performance evaluations, led by the committee Chairs

6. Individual performance reviews with the Chairman

7. Assessment of Chairman, led by the Senior Independent Director

1. Comprehensive questionnaire completed by the Board

Board members completed a structured questionnaire with a series of questions designed to understand the Board members' views on:

- the right skills, capabilities and expertise needed in the Boardroom;
- the effectiveness of Board meetings in terms of frequency, Board papers and content;
- the effective use of risk in Board decision-making processes;
- the agreed Company strategy and progress on strategy execution;
- the Board's priorities; and
- other actions to improve Board effectiveness.

2. Results collated, evaluated and reported

The individual responses to the performance evaluation questionnaire were reviewed and analysed by the Senior Independent Director together with the Group General Counsel and Company Secretary. A confidential and non-attributable report was then compiled with recommended improvement actions for discussion by the Board.

3. Board review of outcome

The Board discussed the findings of the year's evaluation and agreed a number of actions for the coming year as set out below. The Board also discussed its performance generally and agreed that the Board had worked well together as a unit, discharged its duties and responsibilities effectively, and worked effectively with the Board committees.

4. Action plan agreed for 2018/19

- Increase the opportunities for the Board to engage with external experts on key strategic topics
  Responsibility: Chairman/Group General Counsel and Company Secretary
- Consider Board agendas and, in particular, whether more time can be devoted to strategic issues
  Responsibility: Chairman/Group General Counsel and Company Secretary
- Review whether enhancements could be made to how risk appetite is incorporated into Board papers where a decision is required
  Responsibility: Chairman/Group General Counsel and Company Secretary
- Improve the efficiency and speed of Board decision-making by continuously assessing the quality of Board papers
  Responsibility: Chief Executive/Group General Counsel and Company Secretary

5. Committee evaluation

An evaluation of committee performance was also conducted by the chairman of each of the Board committees. The process broadly followed that conducted by the Board with each committee using a tailored questionnaire.

Actions were identified as appropriate and agreement reached that the committees continued to operate effectively. Progress against the action plans will be monitored throughout the year by the respective committee and the Board.

6. Individual performance

The Chairman held performance meetings with each Board member to discuss their individual 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 that each Director demonstrated commitment to the role and that their performance continued to be effective.

Following recommendations from the Nominations Committee, the Board determined that all Directors continue to be effective, committed to their roles and have sufficient time available to perform their duties.

7. 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, given he is also chairman of the Aircraft Carrier Alliance Management Board and of the Join Dementia Research (JDR) Partnership Board, Trustee of The Sutton Trust and the Education Endowment Foundation and a board member of the Investor Forum. It was concluded that the Chairman showed effective leadership of the Board and his actions continued to positively influence the Board and wider organisation. Mark Williamson discussed the feedback and areas for development with the Chairman.

Progress against actions from 2016/17 – culture

Last year's internally facilitated evaluation focused on the Company's culture, as well as the role of the Board in shaping, monitoring and overseeing the culture and a clear action plan was agreed. Throughout the year, the Board has discussed the progress of the actions identified, which have also been monitored by the Group General Counsel and Company Secretary and the Chairman. A commentary regarding the Board's work in this area and reviewing progress against each action from last year's review is set out below. Progress against actions arising from last year's Board Committee evaluation has also been monitored throughout the year.

Actions	Commentary
Develop a common definition of 'culture' for the Board and Executive Committee. **Responsibility:** Chief Executive/Group General Counsel and Company Secretary/Human Resources.	The Board discussed and agreed a common definition of 'culture' for the Company, which reflects that culture results from the purpose, values, beliefs and behaviours that characterise our Company and guide our practices. Culture is evidenced and promoted by behaviours and actions of employees at all levels. As a purpose-led organisation, we are guided by our purpose and vision, which set out why we exist and how we create value for our shareholders, customers and wider society, and by our values, which shape how we expect to achieve our purpose and vision. Additionally, our leadership qualities build upon our values and are the common expected behaviours of our leaders. Ensuring clarity of these expectations and that the behaviours and actions of our employees are aligned to these expectations is a continuous focus for us.
Determine the Board's role in guiding the culture of the Company. **Responsibility:** Chairman/Chief Executive/Group General Counsel and Company Secretary/Human Resources/ Corporate Affairs.	The Board considered the importance of the leadership role it plays in influencing and monitoring the Company's culture, setting the standards of good behaviour that align with our values, reinforcing these formally in the Boardroom and supporting management to embed our values, beliefs and behaviours throughout the organisation. The Board also reviewed the work that had already been undertaken during the current and previous financial year in relation to culture, including embedding the articulation of our purpose and the evolution of our vision and values across the Company. The Board discussed and agreed areas of focus for how it could specifically help to set the right tone from the top and support our culture, both within and outside the Boardroom, including how our Chairman's Awards and other formal and informal engagement events could be used to achieve this. The Board discussed the areas where the Board plays a key role in shaping and overseeing our culture and agreed an action plan to target these areas (set out below). The Board also considered the importance of remuneration strategy and diversity in supporting the desired culture, being areas where the Board has a clear role.
Develop a method for the Board to track culture within National Grid. **Responsibility:** Executive Directors/Human Resources.	The Board reviewed and endorsed a scorecard that would be used to monitor and assess culture and which would be regularly reviewed by the Board. The measurement system will highlight where our culture is currently, using both internal and external data, and generate insights that can lead to action.
Assist with the establishment of a desired culture throughout the National Grid businesses. **Responsibility:** Executive Directors/Group General Counsel and Company Secretary.	Following agreement of the role and areas of focus for the Board to influence and monitor culture, the Board has targeted these actions to set the tone at the top: **Visible leadership on culture and open communication about the Board's priorities, activities and the tone set from the top** • continue with Board dinners to informally engage with the business leaders; • actively promote the Chairman's Awards as the values-based recognition system; and • conduct on-site employee interactions aligned to Board meeting agendas and more informal engagement as appropriate. **Alignment of the recruitment and appointment of Board and Executive Committee members with the desired culture** • evaluate and recommend candidates for Board and Executive Committee roles on cultural fit, based on values and leadership qualities (balanced with technical qualifications and diversity). In addition, the Board considered how specific business areas, such as the core businesses and National Grid Ventures, should be encouraging our culture in a consistent and targeted way to achieve strategic priorities.

Investor engagement

We believe it is important to maintain effective channels of communication with our debt and equity institutional investors and individual shareholders. This engagement helps us to understand their views about the Company and allows us to make sure they are provided with timely and appropriate information on our strategy, performance, objectives, financing and other developments.

Institutional investors

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 executive and operational management.

This includes:
- meetings, presentations and webinars;
- attendance at investor conferences across the world;
- holding road shows in major investor centres, mainly in the UK, Europe and the US; and
- offering the opportunity for individual stewardship meetings.

In the last year, our engagement programme has focused on updating investors on the progress of our US rate case filings, raising the profile of the US business, and communicating the value presented by the UK business against the challenging UK political and regulatory backdrop.

In July 2017, we held a governance and stewardship event designed to update major investors on our activities over the year and future plans. It provided the opportunity for attendees to ask questions and meet Non-executive members of the Board and for our Non-executive Directors to further develop their understanding of our shareholders' views.

During the year, we also held a teach-in event for our New York business, hosting investors and analysts in London and New York. This event was designed to update investors and analysts on our rate filing progress in New York and provide context for the growth and opportunities in the New York regulated business. Following the success of the engagement programme over the last year, we will be hosting similar events this year, with an investor teach-in about our UK business, scheduled for September 2018. A copy of our event presentations and associated materials are available in the Investors section of our website.

In his capacity as Chairman of the Remuneration Committee, Jonathan Dawson engaged with a number of our investors during the year regarding the resolutions put to shareholders at the 2017 Annual General Meeting in relation to the approval of the Company's remuneration policy and Remuneration Report.

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.

Debt investors

Over the last year, senior group treasury representatives have met 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 hosted debt investors in New York at our teach-in event for our New York business and met with debt investors at various conferences over the course of the year.

We also communicated with our debt investors through regular announcements and the debt investor section of our website. This contains bond information, credit ratings and materials relating to the subsidiary year-end reports, and information about our long-term debt maturity profile, so investors can see our future refinancing needs.

Individual shareholders

Engagement with individual shareholders, who represent more than 95% of the total number of shareholders on our share register, is led by the Group General Counsel and Company Secretary.

Shareholders are invited to learn more about the Company through our shareholder networking programme. The programme includes visits to UK operational sites, presentations by senior managers and employees over two days and an opportunity to engage with Board members.

In November, Sir Peter Gershon hosted members of the UK Shareholders' Association for presentations given by John Pettigrew, Chief Executive, and Aarti Singhal, Director of Investor Relations, on our business operations; purpose, vision and values; and financial performance.

For information on the 2018 Annual General Meeting, please see page 62.

In focus

368

meetings held with institutional and private investors during the year in 11 countries

Further details on:
investors.nationalgrid.com

Effective communications with engaged shareholders – dividend reunification programme

During 2017 we undertook a dividend reunification programme to reunite our shareholders with unclaimed dividend payments and to also find shareholders who had lost contact with us. Through the programme, we were able to reunite our shareholders with almost £2.5 million of unclaimed dividends during the year.

Stakeholders

Engagement with our stakeholders continues to be an important priority for us; it supports us in achieving our purpose and vision and is informed by our values.

The needs of our customers, shareholders and communities are at the heart of everything we do, and our vision statement clearly describes the challenge we have set ourselves – we will exceed the expectations of our customers, shareholders and communities today and make possible the energy systems of tomorrow.

As the owner and operator of regulated utilities and other large-scale infrastructure assets, we have a significant number of important stakeholders and you can read about who our key stakeholders are, why they are important to us and how we create value for them over the long-term on page 6.

The Board continues to be very mindful of the need to create value for our shareholders within a framework of high standards of corporate governance, and recognises our responsibilities to our wider stakeholders.

In addition to existing stakeholder engagement and reporting of this to the Board, a review of our current stakeholder engagement activities was undertaken and reviewed by the Board in April 2018. The review considered:
- who the Company's key stakeholders are;
- our engagement activities with each key stakeholder and the appropriateness of this engagement;
- the information the Board receives on our stakeholders, including as to the outcome of engagement activities;
- that stakeholder engagement is a two-way process and whether appropriate stakeholder feedback loops are in place; and
- whether there was a need for greater engagement with any stakeholders at Board level.

During 2018/19, the Board will further consider the Company's stakeholder engagement model and any appropriate enhancements to strengthen the views of our stakeholders in the Boardroom, including in relation to employees. Following the Government's announcement that it will be taking steps to strengthen stakeholder engagement and the development of a new UK Corporate Governance Code, the Board will also review the final legislative and Code changes and report on our activities accordingly.

In focus

2018 Annual General Meeting:
For more information on the 2018 AGM, please see page 62, and the Investor section of our website:
investors.nationalgrid.com

Audit Committee

Mark Williamson
Committee Chairman

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

This report provides an insight into the work of the Audit Committee over the year in relation to the UK and US businesses, the external auditors, and our role overseeing the Company's internal assurance functions, as well as the significant issues relating to the financial statements which were debated by the Committee during the year.

In November 2017 and January 2018, the Group Chief Information and Digital Officer attended our meeting to discuss cyber risk and improvements being made to access controls across all financial systems. Also in January 2018, I visited the UK Finance team, principally to better understand the progress being made in improving the control environment in the UK.

Continued focus on internal controls relating to financial reporting

We have continued to focus on improvements to the Group's financial controls, receiving regular reports from both management and Deloitte throughout the year. As noted in last year's Annual Report and Accounts, during the second half of 2016/17 the Group launched a comprehensive review of the design, operation and documentation in respect of its key controls relating to financial reporting, the SOX refresh programme (the Sarbanes-Oxley Act 2002 (SOX)).

As part of the SOX refresh, we have focused on improving the Group's IT access controls and controls in the UK finance 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 SOX. You can read more about these significant issues on the following pages.

Auditor transition

Following a formal tender process, Deloitte were appointed as our external auditors at the 2017 AGM. We have received regular updates from management and Deloitte on the transition process, including observations around the Company's processes, controls and accounting judgements. Management have worked closely with Deloitte through the transition and are establishing a strong transparent relationship. We welcome and encourage the insight and challenge Deloitte bring.

IFRS reporting matters

We spent time considering the impact of US tax reform, the Group's accounting in respect of its retained interest in the UK Gas Distribution business, and the judgements and methodologies applied by management in selecting discount rates in relation to long-term environmental provisions and for defined benefit pension scheme accounting.

The Committee also received regular updates on preparations for and the impact of the new accounting standards which will come into effect in 2018 and 2019 – IFRS 9 (Financial Instruments), IFRS 15 (Revenue from contracts) and IFRS 16 (Leases).

An additional meeting was held in January 2018 in advance of the year end to provide an update on the Group's implementation of IFRS 9 and IFRS 15 and a summary of the key matters where judgement, complexity or a change in the basis of accounting had been identified.

Use of Alternative Performance Measures ('APMs' or 'non-IFRS measures')

The Committee has played a key role in reviewing and challenging the APMs presented by management. At the September meeting we discussed the Company's response to a comment letter received from the SEC in relation to the 2016/17 Annual Report, recognising the need to maintain a careful balance between the ongoing scrutiny on the use of non-IFRS measures and the Company's ability to articulate the performance of the business and our results under IFRS. Planned enhancements to disclosures agreed by the Company have been implemented for the 2017/18 Annual Report.

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 access controls.

New IFRS accounting standards
The changes introduced by IFRS 9 and IFRS 15 were implemented with effect from 1 April 2018. We will receive reports from both management and Deloitte with regard to the effectiveness of the changes to processes, controls, and systems that have been implemented as a result of the new requirements.

IFRS 16, which will be implemented with effect from 1 April 2019 brings its own challenges around transition to the new standard, specifically that US GAAP and IFRS are not identical. Management's implementation timeline for this standard sees significant activity during 2018/19 and we will receive further updates in the coming year.

Climate-related financial disclosures
Following the publication of the final recommendations of the Financial Stability Board's Task force on Climate-related Financial Disclosures (Task Force, TCFD) a management working group has been meeting regularly to develop our roadmap to implementing the recommendations, as well as keeping abreast of other relevant developments. While the recommendations are not binding, they are seen as highly desirable and the Company has publicly committed to implement the recommendations, although there is a clear expectation that organisations will take time to implement the recommendations in full. We received progress reports from management in September 2017 and March 2018 and we will continue to receive updates in the coming year. The related financial disclosures included on page 192 are our first steps in the implementation of the recommendations.

Mark Williamson
Committee Chairman

In focus

Terms of Reference:
You can view the Audit Committee Terms of Reference on the Corporate Governance section of our website: www.nationalgrid.com

Areas of focus	Matters considered	Outcome and action
Significant issues The most significant issues the Committee considered in relation to the financial statements are set out in the table below. In addition to commentary in these areas, the independent auditor's report (pages 83-91) also includes other areas of focus, including net pension obligations, environmental provisions, revenue recognition, classification of capital costs and treasury derivative transactions which were also considered by the Committee during the year.		
Internal controls relating to financial reporting, including the year-end SOX attestation	The Committee received reports at the May 2017, September 2017 and March 2018 meetings on the key findings and observations arising from the SOX refresh programme. The most significant findings related to IT access controls across the Group and specific observations in respect of certain business controls in UK Finance. Further details are provided below. The Committee has continued to receive updates from management on the progress to remediate the control deficiencies identified in the US financial controls environment (building on previous years). The Committee noted that good progress had been made in the US Finance team to recruit new talent to add further strength and depth to the team. At year end the Committee was pleased to note the historical US control deficiencies had been remediated. The SOX refresh programme had resulted in observations across a number of key UK processes and included a focus on the reliance placed on the data used in controls and on third-party reports, and the precision of key review controls. In response, the UK Executive leadership defined a comprehensive multi-year control programme to identify and implement solutions to optimise the UK business control environment while continuing to focus on the real-time need of addressing the findings of the SOX refresh programme in the short term. In September 2017, the UK CFO presented an update to the Committee on key developments in the UK Finance team, with a particular focus on financial controls. The Committee considered all the above matters as part of its final SOX conclusions.	The Committee asked management to explain the incremental increases in the number of processes and IT systems considered to be in scope for SOX purposes. The Committee challenged management on its progress on mitigating control observations as they arose and requested additional insight into areas which were subject to shorter-term fixes. The Committee sought additional context from management on its assessment of the severity of the matters identified (in particular the IT control matters noted below), the identification of mitigating controls and the impact on the year-end aggregation exercise for SOX purposes. Following the update in September, the Committee asked management to look to lessons learned from the US finance transformation plan and improvements in the US financial control environment and how these could be applied to the UK financial control environment. The Committee noted the outcome of management's exercise to assess the impact of the control matters identified individually and in aggregate, and the conclusions of the relevance of these to the year-end SOX attestation (as described further on page 52). The Committee was pleased to note in May 2018 that there were no business control findings. After careful consideration the Committee concurred with management's overall assessment that the Group's internal control over financial reporting is effective.
IT controls	A number of improvements were identified as necessary by management and Deloitte in respect of access to the Group's financial systems. The Committee was provided with a specific update by the Group Chief Information & Digital Officer in January 2018 which focused on the key themes arising and management's action plans. Further updates were provided to the Committee in March and May. The extent of improvements required was more pronounced in the UK, primarily as a result of the UK's complex legacy IT infrastructure coupled with the US having benefited from a focus on the financial control environment in recent years. The IT control findings related primarily to six key focus areas: privileged access, segregation of duties, user access management, user access reviews, third-party general IT controls, and the quality of the information used in the control. This year, in conjunction with testing performed by Deloitte, the Company observed access control improvements required in the infrastructure layer relating to our finance administrative systems which are administered by outsourced service providers.	At its November meeting the Committee challenged management on the number of outstanding control improvement actions in the IT control environment. The Committee noted that to ensure appropriate and immediate focus on the matters identified, management had established governance mechanisms across the IS and Finance leadership. At its March meeting the Committee requested that a short and longer-term remediation plan to deliver sustainable IT-related controls, in particular user access, be presented to the Committee in May. Recognising the risk and criticality of executing the outstanding actions, the Committee continues to monitor progress closely and has requested regular updates from management.
US tax reform	On 22 December 2017 the Tax Cuts and Jobs Act (US tax reform) was signed into law, taking effect from 1 January 2018. The Committee received an update in March on the main impact on the Company's IFRS financial results: Exceptional gain from rate reduction: The principal impact under IFRS concerned the impact of the reduction in the headline federal tax rate from 35% to 21%. The change in the tax rate has given rise to a circa $2 billion exceptional gain as deferred tax assets and liabilities are remeasured downwards accordingly. Reduction in US effective tax rate: The reduction in the federal tax rate has also resulted in a reduction in the statutory, adjusted and underlying effective tax rates this year, as a blended headline federal tax rate is applied to the US business's IFRS earnings.	The Committee noted the report received from management on the impact of this change on the Company. The Committee challenged the appropriateness of the recognition of a $2 billion exceptional credit to income, in view of the fact that the Company will, over time, be required to return this benefit to customers. The Committee was satisfied that the treatment applied was in line with IFRS and requested that management ensure that adequate disclosures of the Company's commercial and regulatory arrangements be included in the Annual Report and Accounts to allow users of the financial statements to understand the economic impact of tax reform on the Company.
Carrying value of interests in Quadgas HoldCo Limited	On 30 April 2018, the Group signed an agreement with Quadgas Bidco Holdings Limited (the vehicle through which the Consortium hold their 61% interest in Quadgas HoldCo Limited) in relation to the potential sale of our remaining 25% interest (the Remaining Acquisition Agreement). At its May 2018 meeting the Committee considered the implications of this arrangement on the 2017/18 financial statements and, in particular, the £110 million derivative fair value gain recognised in relation to the Further Acquisition Agreement, and the £213 million impairment charged against the carrying value of the Group's equity interests in Quadgas HoldCo Limited.	The Committee reviewed and concurred with the accounting undertaken by management, noting that after accounting for our share of profits, and all other movements, the aggregate carrying value of our interests was £2.1 billion at 31 March 2018, consistent with management's initial determination of the fair value of the interests as at 31 March 2017.

Areas of focus	Matters considered	Outcome and action
Other areas of focus		
External auditors	The Committee is responsible for reviewing and monitoring the appropriateness of the provision of non-audit services by the external auditors in the context of reviewing the auditors' independence. You can read more about how the independence and objectivity of the external auditors is safeguarded on page 54 and the non-audit services provided by the external auditors on page 55. The Committee is also responsible for the external auditors selection procedure and making recommendations regarding the appointment and re-appointment of the external auditors to the Board for shareholder approval. For further details of how the external auditors' performance was reviewed and the outcome, see page 54.	Deloitte's audit plan for the Group audit, including the identification of significant audit risks and key areas of focus, was formally approved by the Committee in September 2017 and minor amendments to the plan in January and March 2018. In May 2018, the Committee considered an assessment by the Corporate Audit team of controls in place to ensure that our external auditors, Deloitte, are independent from National Grid. The controls testing did not find any items that would impact the auditors' objectivity and independence. The Committee Chairman also provided an oral update to the May Board meeting on the outcome of the audit and explained how the audit had contributed to the integrity of the year-end financial statements and the Committee's role in that process.
Financial reporting	The Committee monitors the integrity of the Group's financial information and other formal documents relating to its financial performance and makes appropriate recommendations to the Board before publication. An important factor in the integrity of financial statements is making sure that suitable and compliant accounting policies are adopted and applied consistently on a year-on-year basis and across the Group. While there have been no new significant corporate transactions in the year, and no new accounting standards are yet applicable, there were a number of changes to the basis of accounting compared with the 2016/17 financial statements that the Committee considered: • changes in pension assumptions since 31 March 2017; • the presentation of the results of National Grid Ventures (NGV); and • the adoption of a 'three column' approach for our consolidated Income Statement showing results before and after exceptional items and remeasurements. Under its Terms of Reference, the Committee is required to review the Annual Report and Accounts and any other report filed with the SEC containing financial statements, and make recommendations to the Board with respect to the disclosures contained therein. Alongside its consideration of the Annual Report and Accounts 2017/18, when reviewing the draft Form 20-F the Committee considered what information would be disseminated to the SEC at year-end, the basis of the preparation of the Form 20-F and the principal SEC disclosure matters considered this year.	The Committee noted that the change in the calculation performed to determine the discount rate and other assumptions applied to the UK pension obligations had resulted in a material reduction in the liabilities and had increased the net asset position reported for the UK pension schemes. Following consideration of the appropriateness of the change in pension assumptions, the Committee concurred with management's approach. The Committee discussed whether the results of NGV should be reported as a separate segment. The Committee noted that for the time being, management had chosen not to voluntarily report the results of NGV as a reportable segment, and that NGV would continue to be aggregated with 'Other activities' for segment disclosure purposes. The Committee agreed with management's approach. Additional disclosures have been added in the footnotes to the operating segment note (see pages 109-110) to show how NGV has contributed to revenue, operating profit and capital expenditure. The Committee approved management's proposal to amend the way in which the consolidated Income Statement was presented to adopt a three column approach showing results before and after exceptional items and remeasurements. The Committee noted that this would provide a more user-friendly approach to presenting results. The Committee recommended the Annual Report and Accounts 2017/18 and the Form 20-F for approval by the Board at its meeting in May 2018.
Fair, balanced and understandable	At its May 2018 meeting, the Committee considered the requirement of the Code to ensure that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable in the context of the applicable accounting standards and that it provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. When considering this requirement the Committee took into consideration the viability statement, going concern statement and an update on significant accounting matters from management.	The Committee discussed and provided input to management on the disclosure and presentation of APMs and non-IFRS measures. The Committee noted the challenges faced by management in reflecting the economic performance of the Company within the confines of IFRS. This needed to be in the context of the regulations and guidance issued by the FRC, ESMA and the SEC concerning the need to ensure at least equal prominence between IFRS and non-IFRS measures. The Committee Chairman in his oral report to the Board in May confirmed that the Committee considered that the Annual Report and Accounts, taken as a whole, was fair, balanced and understandable.
Viability statement	The Code requires the Board to confirm that it has undertaken a robust assessment of the principal risks facing the Company. The impact of these risks over the assessment period was tested to determine whether or not there was a reasonable expectation that the Company would be able to continue to operate and meet its liabilities as they fall due during that period. This review then informed the wording of the viability statement in the Annual Report and Accounts. The Committee received a draft viability statement in March and May 2018 for its review and comment in advance of the Board's consideration of the statement in May. In support of this review the Committee also received an update on the process and a summary of the outcome of the annual testing of our principal risks.	The Committee reviewed and challenged the clarity and completeness of the viability statement to be included in the Annual Report and Accounts at its meetings in March and May 2018 and provided comments for management to address. The Committee Chairman in his oral report to the Board in May recommended the statement to the Board for approval. You can find the viability statement on page 26.

Areas of focus	Matters considered	Outcome and action
Going concern statement	At half and full year the Board is required to consider whether the going concern assumption is appropriate in preparing the Group's financial statements. In support of this, at its November and May meetings, the Committee received a report on the Group's short-term liquidity and capital to assist in the going concern determination for the half and full-year financial information.	The Committee reviewed the paper and confirmed that it considered it appropriate to adopt the going concern basis in the half and full-year financial statements. The Committee Chairman made recommendations in this respect to the November and May Board meetings. The Board considered and approved the Committee's recommendation. The Company's going concern statement is set out on page 104, note 1A.
Sarbanes-Oxley Act 2002 (SOX) testing and attestations	The Sarbanes-Oxley Act requires the Company to undertake an annual assessment of the effectiveness of internal control over financial reporting. The Committee received regular updates on the status of testing as well as the identified deficiencies (including those discussed in the significant issues above). The Committee received updates on the SOX control findings in September, March and May. See page 21 for the Company's statement on the effectiveness of internal control over financial reporting.	In May the Committee noted and agreed with the conclusions of the review of the effectiveness of internal control over financial reporting as required under s.302 and s.404 of the Sarbanes-Oxley Act and the Disclosure and Transparency Rules and management's opinion on the effectiveness of these controls. The Committee Chairman reported this conclusion to the Board at its May meeting at which the effectiveness of the internal control and risk management processes were considered.
Disclosure Committee reports	The Committee receives a report from the Disclosure Committee on matters relevant to the half and full-year announcements in November and May. In November 2017 and May 2018, the Disclosure Committee reviewed the half and full-year results statement and the planned presentations, having regard to the European Securities and Markets Authority (ESMA) guidance and SEC guidance in relation to the presentation of statutory and adjusted measures. The Disclosure Committee also reports the results of its evaluation of the effectiveness of the Company's disclosure controls to the Audit Committee. See page 60 for more information on the role of the Disclosure Committee.	The Committee took into consideration the oral report received from the secretary to the Disclosure Committee when reviewing the half and full-year announcements. The Committee noted that the Disclosure Committee considered that the Company's disclosure controls had operated effectively over the year.
Corporate Audit	The Committee received regular controls updates from the Corporate Audit team. As set out above, this year there has been significant control remediation activity relating to SOX controls, driven by the refresh programme. These efforts have focused heavily on the UK finance and IS control environment and the audit findings highlighted the same focus areas. Corporate Audit have been supporting management's remediation plans in a number of ways, for example several audits provided direct insight around how to improve the control environment and by providing advisory support (subject to retaining independence). In March 2018, risk driven changes to the audit plan were proposed: audits added to the audit plan; audits merged due to linkage of business process; audits removed due to a reduced risk profile; and audits deferred to the following financial year due to business change. In accordance with best practice, the Corporate Audit Charter was reviewed against the Institute of Internal Auditors (IIA) international standards and the IIA model charter. The purpose of the review is to assess if the purpose, authority and responsibility, as defined in the charter, are sufficient to enable the Corporate Audit function to complete its objectives. No changes to the charter were proposed. As part of its annual review of the effectiveness of risk management and internal controls, the Committee assesses the effectiveness of Corporate Audit and satisfies itself that the function has the quality, experience and expertise appropriate for the business. See page 55 for more details on the work of the Corporate Audit team.	When considering the updates from the Head of Corporate Audit during the year, the Committee challenged management in relation to the progress made in closing the outstanding actions identified by Corporate Audit, in particular in relation to remediation of the significant issues as set out above. Management has prioritised the actions on controls required as part of SOX remediation as well as continuing work on the broader key strategic initiatives. The Committee considered and approved the proposed changes to the audit plan. The Committee considered the charter to be appropriate and noted that no changes were proposed. When assessing the effectiveness of Corporate Audit the Committee noted the annual self-assessment of the function against the IIA standards had resulted in a 'generally conforms' rating, the highest achievable, and that all the External Quality Assessment actions raised last year had been implemented. The Committee confirmed that it was satisfied that the Corporate Audit function had the quality, experience and expertise appropriate for the business. Additionally, in accordance with the Committee's Terms of Reference, the Committee considered and approved the appointment of the Head of Corporate Audit in September. The Committee also met privately with the Head of Corporate Audit during the year.

Areas of focus	Matters considered	Outcome and action
Risk management and internal control	The Committee has been delegated responsibility by the Board 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. When undertaking its review of the effectiveness of the risk management and internal control processes (which included financial, operational and compliance controls) the Committee noted the sources of assurance and various controls that had operated during the last 12 months and the matters raised in the CEO's Certificate of Assurance (CoA). In September the Committee received a proposal from management to change the frequency of the CoA process from bi-annual to annual. The CoA provides a 'top-down' assurance process, which complements the core compliance and risk management procedures. Removing the requirement for the half yearly CoA process would enable the business to focus that time and resource on core compliance and risk management procedures and initiatives. You can read more about our risk management process and the review of effectiveness of our internal control and risk management on pages 18-21. Details of our internal control systems, including those relating to the financial reporting process, can be found on page 21.	The Committee noted that the planned enhancements continued to be developed and embedded into business processes to strengthen the management of our most important risks. For example risk classification had been added to the risk identification process. This classification system helps to identify accumulations of similar risks and which strategies, tactics and operations are most vulnerable, and guides the approach to risk mitigation. Following consideration of the significant aspects of the internal control and risk management systems and processes for the year under review, the Committee confirmed that the processes provided sufficient assurance and that the sources of assurance had sufficient authority, independence and expertise. The Committee Chairman reported to the May Board meeting on the outcome of its annual review and confirmed that management's process for monitoring and reviewing internal control and risk management processes are functioning effectively. The Committee approved the change in frequency of the CoA process to annual. When making this decision the Committee took into consideration the significant improvements made to the risk and compliance management processes over the last couple of years and the increased focus on risk and compliance in the business. The Committee will continue to receive regular reports and updates on the core risk and compliance management procedures.
Cyber security risk management	A report providing insight into the cyber risk control environment of the Company was presented to the Committee in September and March. The reports provided insight into the cyber risk control environment within the Company based on the findings of Corporate Audit. Additionally, following the Committee's discussion on cyber risk at the March 2017 meeting, Deloitte was asked to comment on the reporting Audit Committees receive on this subject at other complex companies. The report from Deloitte was presented to the Committee in November along with a paper from management commenting on the findings of the report.	The Committee noted the progress made by management during the year on the cyber security strategy and that Corporate Audit continued to deliver a balanced programme of audits across cyber risk. In relation to the matters identified by the audits, management had been remediating these issues and managing the associated risks, in line with the agreed action plans. In respect of the report from Deloitte, the Committee noted that reporting to the Board and Audit Committee was aligned with current market practice in terms of frequency and content. Reporting to the Executive Committee was a potential area for improvement which management was reviewing.
Compliance management	The Committee receives bi-annual reports on compliance with external legal obligations and regulatory commitments. In September management reported that there had been a significant increase in issues compared with the previous period. The majority of these issues were related to control framework and data issues as a result of preparing for compliance with the new EU General Data Protection Regulation (GDPR) that would come into effect in May 2018. Management would continue to improve and embed compliance obligations into the business to ensure that robust control frameworks are in place, understood and adhered to by the business.	Despite the increase in incidents, the Committee noted that significant improvements had been made in compliance performance as indicated by the overall reduction of new issues during the year, increased closure of issues, progress of action plans, and overall continued engagement on compliance issues within the business. The Committee also noted that the majority of action plans were on track to resolve the identified compliance issues.
Business separation compliance	National Grid Gas's Gas Transportation Licences require business separation between UK Gas Transmission and UK Gas Distribution to prevent any unfair advantage being obtained by the UK Gas Distribution business over other independent distribution networks. Reporting on this matter continues to be required as Ofgem considers that the Company's continued minority shareholding in Quadgas HoldCo Limited (Cadent) gives rise to a potential conflict of interest. Business separation compliance reports were submitted to the Committee twice in the year, in May 2017 and November 2017. In March 2018 management set out a proposal to the Committee that, instead of sending separate reports, the reports on business separation compliance be combined with the wider compliance reports which are provided to the Committee in March and September.	The Committee considered the reports received and noted that a high level of compliance was being maintained and no material business separation issues had been reported during the period. The Committee approved the proposal to include the business separation compliance reports in the wider compliance reports noting that the compliance reports already covered business separation and that any specific incidents which the Committee should be aware of would continue to be reported on an exceptional basis, as at present.
Business conduct	Ethics and business conduct programmes are part of the internal controls in place to ensure business conduct issues are identified and effectively managed. The Committee receives a bi-annual ethics and business conduct report so that it can monitor the management and mitigation of business conduct issues as part of the wider control framework. The reports provide a summary of significant cases and draw out any underlying themes and action plans to mitigate future occurrences. The Committee reviews the reporting and whistleblowing procedures annually to make sure that complaints are treated confidentially and that a proportionate, independent investigation is carried out in all cases. The Committee also received annual reports on the Company's anti-bribery procedures and reviewed their adequacy.	In March the Committee received a business conduct report for consideration which also included the whistleblowing report. This was following a request from the Committee earlier in the year that these reports be combined. The Committee noted the ethics and business conduct updates and concurred with management's view that the whistleblowing procedures continued to be effective. The Committee noted the procedures currently in place for the prevention and detection of bribery and that none of the investigations over the last 12 months had identified cases of bribery.
Committee performance evaluation	The Committee received updates on the action plan agreed following the 2016/17 Committee performance evaluation at its November 2017 and March 2018 meetings and noted the progress made against the actions identified. The 2017/18 Board and committee evaluation was conducted internally, see page 46 for more details.	The Committee considered its performance over the year generally and determined that it had operated effectively through the year. The recommended actions from the 2017/18 evaluation were considered and agreed by the Committee in March. The Committee will monitor progress against the action plan over the year.

External audit

The Committee is responsible for overseeing relations with the external auditors, including the proposed external audit plan, the approval of fees, and makes recommendations to the Board on their appointment or reappointment. Details of total remuneration paid to auditors for the year, including audit services, audit-related services and other non-audit services, can be found in note 3(e) of the consolidated financial statements on page 113.

Following a formal tender process concluded in November 2015, Deloitte was appointed by shareholders as the Group's statutory auditors at the AGM in July 2017.

The Company confirms that it complied with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 for the financial year under review.

Auditor transition

Deloitte's transition plan focused on developing a deeper understanding of the Group's businesses, processes and controls, and leveraging the experience and knowledge of PwC during the shadowing period. Deloitte shadowed PwC during the 2016/17 year-end close process and attended Audit Committee meetings in January, March and May 2017. They also undertook a review of the PwC audit files in the UK and US and held meetings with key management.

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 in to account the observations, recommendations and conclusions drawn by Deloitte, in particular in relation to the findings arising from the SOX refresh and concluded that the performance of Deloitte reflected the relevant skills, rigour, perseverance and robustness expected.

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 in accordance with the Company's policy on the provision of non-audit services. The Committee receives updates to each regular meeting on all non-audit services approved and confirmed in May 2018 that it is satisfied that the non-audit fees do not impair the auditors' independence.
- ensuring 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.
- monitoring the changes in legislation related to auditor objectivity and independence to help ensure we remain compliant.
- providing a business conduct helpline that employees can use to report any concerns, including those relating to the relationships between Company personnel and the external auditors.
- the rotation of the lead engagement partner at least every five years. Douglas King, the current lead partner, will be required to rotate off in 2022.
- consideration of Deloitte's annual independence letters.
- independent reporting lines from Deloitte to the Committee and the opportunity to meet with the Committee privately. The Committee chairman has regular meetings with the auditors to discuss agenda items and other matters of importance.
- an annual review by Corporate Audit of the independence of the external auditors. They review compliance against the non-audit services policy and the recruitment of employees from the external auditors by National Grid into financial reporting oversight roles. Testing did not identify any items that would impact the objectivity and independence of the external auditors.

Audit quality

How the external auditors have demonstrated an appropriate mindset, the degree of challenge to management and the communication of contentious issues are all critical to delivering a high-quality audit.

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

Deloitte's audit plan was formally approved by the Committee in September 2017 and minor amendments were approved in January and March 2018.

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

On a continuous basis throughout the year, the Committee looks at the quality of the auditors' 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 provides the opportunity for open dialogue. This also gives the Committee the opportunity to monitor the performance of the lead engagement partner both in and outside Committee meetings.

Auditor performance

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

Since Deloitte are in the first year of their appointment, the Committee did not take length of tenure into account when assessing their independence and objectivity. In forming its conclusions, the Committee solicited views from the senior finance team members most directly involved in the year-end audit.

A more detailed feedback process involving a wider range of individuals from within the Company will take place in summer 2018. The feedback from this process will be taken into account in Deloitte's planning for the 2018/19 audit cycle.

Auditor appointment

Following consideration of the auditors' independence and objectivity, the audit quality and the auditors' performance, the Committee was satisfied with the effectiveness, independence and objectivity of Deloitte and recommended to the Board their reappointment for the year ended 31 March 2019. A resolution to re-appoint Deloitte and giving authority to the Directors to determine their remuneration will be submitted to shareholders at the 2018 AGM.

The Statutory Auditors and Third Country Auditors Regulations 2016 require that the external audit contract is put out to tender at least every 10 years and that the auditors are changed at least every 20 years. The audit will be put out to tender in accordance with the requirements.

Non-audit services provided by the external auditors

Last year the Committee approved changes to the Company's policy on the provision of non-audit services by the auditors to take account of the implementation of the EU Audit Regulation and Directive on non-audit services. The revised policy includes a cap on the financial value of non-audit services to 70% of the average annual audit fees paid in the last three financial years. The cap will be implemented once we have three years of history of fees charged by Deloitte, and so will be effective for the financial year ending in March 2021.

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.

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 FRC. For any services which 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 pre-approval can be sought relate to:

- audit, review or attest services. These are services that 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 they are 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 that a list of all approved non-audit work requests is presented 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.

Approval for the provision of non-audit services is given on the basis the service will not compromise independence and is a natural extension of the audit, or if there are overriding business or efficiency reasons making the external auditors most suited to provide the service. Certain services are prohibited from being performed by the external auditors.

Total billed non-audit services provided by Deloitte during the year ended 31 March 2018 were £1.9 million, representing 14% of total audit and audit-related fees. In 2016/17, PwC billed £17.3 million for non-audit services (87% of total audit and audit-related fees), a substantial proportion of which related to work associated with the disposal of the UK Gas Distribution business.

The most significant element of non-audit services provided by Deloitte relates to services provided to the UK property business, principally evaluating possible options for the use of property assets and support in the preparation and submission of planning applications and responses to resulting questions. The Company's relationship with Deloitte Real Estate in the UK dates back several years and Deloitte were advisors to the Company in 2014 on the establishment of the Group's St William joint venture (in partnership with the Berkeley Group), through which Deloitte have developed a detailed understanding of our UK property portfolio.

Following the appointment of Deloitte as external auditor, all existing projects were carefully considered through our independence processes throughout the auditor transition period. In particular, the Committee requested confirmation from both management and Deloitte that there are no valuation services or other prohibited services being provided, and no reliance is placed on analysis provided by Deloitte for any assessments in respect of asset carrying values for financial reporting purposes. These processes have continued throughout the year and the same confirmations have been provided for each service procured.

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.

Internal (corporate) audit

The corporate audit function provides independent, objective assurance to the Audit, Safety, Environment and Health and Executive Committees on whether our existing control and governance frameworks are operating effectively in order to meet our strategic priorities. In the provision of independent assurance, corporate audit reports functionally to the Chairman of the Audit Committee and represents the third line of defence within our three lines of defence model (see page 21). Assurance work is conducted and managed in accordance with the IIA international standards for the Professional Practice of Internal Auditing and Code of Ethics.

To keep the Committee informed of trends identified from the assurance work and to update on progress against the corporate audit plan, the Head of Corporate Audit reports to the Committee at least twice each year. 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.

In order to meet the objectives set out in the Corporate Audit Charter, audits of varying types and scopes are conducted as part of the annual corporate audit plan. The audit plan is based on a combination of risk-based cyclical reviews, reviews of emerging risks and business change activity, together with a small amount of work that is mandated, typically by US regulators. The audit plan is agile and regularly reviewed to prioritise audits relevant to the needs of and to reflect evolving risks and changes to the business.

Inputs to the audit plan include principal risks, risk registers, corporate priorities, external research of emerging risks and trends, and discussions with senior management to make sure the plan aligns with the Committee and Company's view of risk. The audit plan is considered and approved by the Committee annually and progress against the plan is monitored throughout the year.

To ensure that the audit plan remains agile and focused on key risks facing the business we have undertaken periodic reviews of our planned audit assurance activities. Our reviews take into account changes to risk registers, hot spots and emerging risks in the industry and changes based on engagement with the business.

Any in-year change to our audit plan therefore ensures Corporate Audit adds greater value to the business and can provide greater assurance to the Audit Committee. As a result of our reviews since the year end there have only been minor changes to the audit plan approved by the Committee in March 2017.

Finance Committee

Therese Esperdy
Committee Chairman

Review of the year

Following the successful sale of a majority interest in the UK Gas Distribution business, this year the Committee focused on supporting the reshaped Group in achieving its key business and strategic objectives. This included reviewing the Company's financing strategy and its interest rate risk management approach, to ensure they would continue to support the Company's earnings and dividend policy. The Committee also remained cognisant of changes in the external regulatory and political environment, including Brexit, tax reform in the US, and the ongoing debate around renationalisation, focusing on any resulting financial risk.

The Committee has continued to oversee key financial aspects of optimising our core business performance. In July, we reviewed the capital structure of our US operating companies, including how this benchmarked externally and how it is managed to reflect our regulatory filings. We received updates on the significant funding activity across our US business, with new long-term bonds issued across a number of different operating companies.

During the year, the Committee received a report from external advisors in relation to feedback from debt investors on Company performance and other factors that could impact the Company's funding programme. Management continue to undertake an extensive debt investor engagement programme, more details of which can be found on page 48.

In its role of monitoring financial risk, during the year and at its last meeting in April 2018, the Committee discussed and approved enhancements to how it assesses financial risk and how it gains assurance as to management decision-making and execution within the agreed financial risk appetite set by the Board. The Committee discussed the potential financial risks to the Company created by Brexit; the possible impact of Brexit on the Company's risk management activities; and the proposed actions to be taken in preparation for the outcome of the Brexit negotiation process.

In April 2017 and January 2018, the Committee also considered the potential impact of the upcoming UK bank ring-fencing reforms on the Company's risk management activities.

Following final approval in December 2017 of the US Tax Cuts and Jobs Act, and prior to wider consideration by the Board, the Committee reviewed the potential impact on the Company and its financing activities of tax reform, together with the actions being considered by management in response to the legislative changes. Our review included an assessment of the potential impacts on credit ratings across the Group as part of our ongoing focus in this area given the importance to the Company of maintaining appropriate ratings.

Following the appointment of a new Group Head of Pensions, the Committee received a report covering his proposed focus areas across the Company. At subsequent meetings, we have focused on scheme valuations, potential future risk management strategies and a review of organisational changes within the Pensions team. As noted on page 145, the Committee also received a summary of the proposed longevity swap in relation to the UK Electricity pension scheme and this was successfully enacted in March 2018.

The Committee continued to review the Company's insurance strategy and received updates on the captive optimisation programme, which was a key priority for the business this year. In order to ensure that we remained informed about insurance market conditions, we received a briefing from senior representatives of a global insurance broker on the current position and outlook for the wider insurance market for the coming year.

Examples of other key matters the Committee considered during the year included:
- funding requirements for the US, UK and National Grid Ventures businesses;
- engagement sessions with UK and US finance employees;
- preparations for the next UK regulatory price control;
- financial and treasury controls, including Sarbanes-Oxley controls;
- credit ratings of Group companies;
- treasury performance updates;
- publication of our tax strategy;
- the draft going concern statement for the half and full year results prior to consideration by the Board; and
- US energy procurement and UK energy trading activities.

Therese Esperdy
Committee Chairman

2017/18 key areas of focus

- **Oversight of financial risk**

Outcome: enhanced Committee oversight of financial risk and increased assurance over management decision-making and execution within the agreed financial risk appetite.

- **US tax reform**

Outcome: scrutiny and shaping of management's proposed response to US tax reform.

- **Pensions**

Outcome: review of future pension strategy and approval of scheme valuations.

- **Insurance**

Outcome: supervision of delivery of the Company's insurance captive optimisation programme and monitoring of implementation of the insurance renewal programme.

2018/19 key areas of focus

- The potential financial implications of the next UK regulatory price control;
- Financing strategy for ongoing capital programme;
- Oversight and assurance around potential Brexit financial risks and response;
- The implications of US tax reform; and
- Update of our long-term pension funding strategy.

In focus

Terms of Reference:
You can review the Finance Committee Terms of Reference on the Corporate Governance section of our website: www.nationalgrid.com

Safety, Environment and Health Committee

Paul Golby
Committee Chairman

Review of the year

During the year, the Committee has seen the Company make progress in improving its safety culture throughout the businesses, with specific focus on two key areas. Firstly, the simplification of key procedures, where we have encouraged the proposed development of new Business Management Systems (BMS) Standards to provide simple and fit for purpose procedures in relation to safety, process safety, environmental sustainability and wellbeing and health. Secondly, the Company has undertaken work to develop and encourage key safety leadership behaviours across the Group. We have ensured that time and attention is being focused on incidents with high potential for harm and the Committee will continue to monitor the progress in this area.

The Group employee lost time injury frequency rate at 0.10 remains in line with last year. However, November marked a year since the death of an employee working in our UK Electricity Transmission business. Since my report last year, the Committee has spent considerable time with the business to understand the cause of this fatality, to consider the findings of investigations and to monitor the implementation across the Company of the lessons learnt from this incident. The Committee received a closeout report on the progress at its April 2018 meeting.

The Committee has reviewed the impact of culture on safety and the behaviours underpinning this. For example, whether employees feel able to speak out where there might be safety concerns. We found that while our people are generally good at speaking out, encouragement of positive behaviour still needs to be increased. To further understand this issue, in September, the Committee held a workshop with external behavioural safety experts, which considered how to promote a positive and engaging safety culture across the Company. The Committee is pleased to note that this workshop has been cascaded to all senior leadership across the Company.

The US business continues to focus on switching errors, which although slightly improved from last year, still remains at an unacceptable level. I previously reported that the US business had engaged an external consultant to review these issues and through this five key categories have been identified to drive improvements. The Committee continues to monitor progress in this area.

The process safety management systems of the Company remain an area of focus for the Committee. In January, the Committee members received a briefing and reviewed the process safety management systems currently in place. Areas for simplification and improvement were identified and the Committee will receive further updates to demonstrate the implementation of the new BMS Standards in this area. The Committee has also continued to receive updates on the measures being taken to address and mitigate levels of risk for major hazard assets, including key US LNG plants and the Company's US gas pipeline safety compliance programme.

In relation to the environment, the Committee continues to review the Company's strategy and approach to sustainability, as well as its external reporting of environmental performance, including greenhouse gas emissions (GHG). The Committee has been pleased to see progress against the Company's continued ambition to reduce GHG while also challenging the businesses on GHG reduction activities. The Committee approved a Group target of a 70% reduction in GHG emissions by 2030, including those from electricity system energy losses, to provide a clear milestone between the 2020 and 2050 Company targets. The Company continues to drive this reduction through mains replacement programmes, reductions in SF_6 leakage and energy efficiency measures and the Committee will continue to monitor progress.

In terms of health, the Committee has seen a continued focus by the Company in this area, particularly around mental health where the Committee noted that 12% of the workforce are now trained in mental health first aid. Interest and support in this area remains strong throughout the Company.

Examples of other matters the Committee reviewed during the year included:
- compliance and risk reporting for safety, environment and health matters;
- consideration of the introduction of new EU legislation on EU Security of Gas supply regulations which came into force in September 2017;
- Engineering Assurance Committee Reports on Electricity and Gas; and
- review of the Company's environmental strategy. (You can read about the Company's response to the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures on page 192.)

Paul Golby
Committee Chairman

2017/18 key areas of focus

- **US Gas Pipeline Safety:**
Outcome: Supervision of delivery of the Company's US gas pipeline safety compliance programme.

- **Carbon Reduction:**
Outcome: The Committee approved a Group target of 70% reduction in GHG emissions by 2030.

- **Health and wellbeing:**
Outcome: Monitoring of the Company's move from its previous five year programme structure to a rolling one year analysis of the health challenges in the business.

- **Engineering Assurance:**
Outcome: Monitoring measures being taken to mitigate risks at major hazard sites, including key US LNG plants.

2018/19 key areas of focus

- Monitoring the implementation of key Safety, Environment and Health BMS Standards
- Development of leading indicators of safety
- Monitoring action plan to achieve long-term carbon reduction targets
- Analysis and understanding of near miss incidents
- Monitoring the progress of switching error improvements in the US business

In focus

Terms of Reference:
You can view the Safety, Environment and Health Committee Terms of Reference on the Corporate Governance section of our website: www.nationalgrid.com

Nominations Committee

Sir Peter Gershon
Committee Chairman

Review of the year
Succession planning has remained the main area of focus for the Committee this year. It is important for the Board to anticipate and prepare for the future and to ensure that the skills, experience and knowledge at Director and senior management level reflect the changing demands of the business.

Board composition
We recognise that the success of the Company begins with a high-quality Board and senior management team. Key to this is the make up of the individual members.

During the year a formal process was undertaken by the Committee to find an appropriate new Non-executive Director, to strengthen the experience and skills on the Board and its Committees.

Following a thorough and rigorous process, Amanda Mesler was appointed as a Non-executive Director to the Board with effect from 17 May 2018. Amanda brings a wealth of experience in different sectors to National Grid's Board, in particular in the area of the application of technology.

Amanda's appointment is part of our ongoing commitment to build and maintain an effective Board which is high-quality in terms of expertise, diversity and background. On appointment Amanda will join the Audit, Finance and Nominations Committees. See opposite for more details on the search and appointment process.

Talent pipeline
During the year the Committee received an update on the current strength of the pipeline to our Executive Committee roles and specific actions to mitigate succession risk including development of internal candidates and the viability of external hiring as part of the longer-term succession plan.

The succession pipeline to the Executive Committee and health of the talent pool further down the organisation is discussed at quarterly Executive Global Talent Pool meetings. Each member of the Executive Committee has specific 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.

Diversity
The creation of an inclusive and diverse culture supports the attraction and retention of talented people, improves effectiveness, delivers superior performance and enhances the success of the Company.

While traditional diversity criteria such as gender, age and ethnicity are important, we also value diversity of thought, skills, experience, knowledge and expertise including educational and professional backgrounds.

Our Board diversity policy sets out our approach to diversity on the Board and senior management of National Grid. You can read more about our Board diversity policy and progress towards our objectives opposite.

Sir Peter Gershon
Committee Chairman

In focus

Terms of Reference:
You can view the Nominations Committee Terms of Reference on the Corporate Governance section of our website: www.nationalgrid.com

2017/18 key areas of focus
- Board succession planning
- Non-executive Director search and appointment
- Review of Executive Committee succession
- Updates on the external reviews on diversity
- Review of the Chairman's performance, led by Mark Williamson, the Senior Independent Director
- Review of Director independence and potential conflicts

2018/19 key areas of focus
- Board succession planning to optimise the regeneration of the Board while maintaining a degree of continuity of knowledge and experience through the next UK regulatory review
- Executive Committee succession planning and the development of high potential internal candidates
- Meeting high potential employees below Executive Committee level

Non-executive search and appointment process

Spencer Stuart were appointed to undertake a search for a new Non-executive Director, together with a small US boutique firm specialising in technology, Hobbs & Towne, Inc.

- The Committee reviewed and agreed the Non-executive Director candidate profile which was formulated taking into account the current skills matrix of the Board members.
- The search agencies conducted initial searches and produced a list of potential candidates which was reduced to a shortlist by the Chairman.
- At the November 2017 Committee meeting it was agreed that the Chairman would interview the shortlisted candidates and a sub-group of the Nominations Committee (John Pettigrew, Therese Esperdy, Mark Williamson and Jonathan Dawson) would interview the final candidate(s).
- At the January 2018 Committee meeting, the shortlisted candidates from Spencer Stuart were reviewed and the Committee members gave feedback on the prospective candidates they had met.
- Following discussion, it was agreed one candidate would progress to the next stage of the process to meet with the Nominations Committee sub-group.
- Subsequent to the January meeting, one further candidate from Spencer Stuart and two candidates from Hobbs & Towne, Inc. were selected to meet with the Chairman in March.
- At the March 2018 Committee meeting, Committee members and the Chairman gave feedback on the initial shortlisted candidates. The Chairman met with the preferred candidate shortly after the March Committee meeting to further test the candidate's credentials and ensure that the majority of requirements set out in the specification would be met by the appointment.
- The Committee agreed the preferred candidate and made a recommendation to the Board in April 2018.
- The Board approved the recommendation and Amanda Mesler was appointed to the Board with effect from 17 May 2018.

Board diversity policy

As reported last year, in April 2017 the Committee approved updates to the Board diversity policy and the associated objectives.

In January 2018, the Nominations Committee approved a few minor updates to the policy including valuing diversity of age and educational and professional backgrounds, expanding the remit of the policy to include the Executive Committee and its direct reports, and adding a new item in relation to the development of the talent pipeline to the Board and the senior management team in support of the two objectives approved last year.

The policy applies to the Board, the 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 will be made on merit, in the context of the skills and experience that are needed for the Board to be effective.
- We will only engage executive search firms who have signed up to the UK Voluntary Code of Conduct on Gender Diversity. Hobbs & Towne, Inc., a small US firm, is not a signatory to the UK Voluntary Code of Conduct on Gender Diversity (but they did provide us with a number of diverse candidates). This deviation from the policy was felt to be appropriate to ensure a comprehensive search of the marketplace in the niche area of technology and innovation. Our new Non-executive Director, Amanda Mesler, was a candidate from Spencer Stuart.
- 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 in the Annual Report and Accounts along with details of initiatives to promote gender and other forms of diversity among 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 37.

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** Following the departure of Ruth Kelly from the Board in July 2017 the percentage of women on the Board has fallen to 27.3%. Following the recent appointment of Amanda Mesler to the Board there will be 33.3% 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% women on our Executive Committee and 31% women direct reports to the Executive Committee. 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 mind set when discussing talent moves and promotions. • 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 one Director 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 persons from non-white ethnic minorities in the future.

Our Executive Committee

Membership Key

- Member of the Board and Executive Committee
  Full biographies on page 42
- Secretary to the Board and member of the Executive Committee
  Full biography on page 43
- Member of Executive Committee

John Pettigrew
Chief Executive and Committee Chairman

Andrew Bonfield
Finance Director

Dean Seavers
Executive Director, US

Nicola Shaw
Executive Director, UK

Alison Kay
Group General Counsel and Company Secretary

Badar Khan
Group Director, Corporate Development and National Grid Ventures

Badar joined the Company in 2017. He is responsible for competitive businesses globally including interconnectors, LNG, metering, renewables and distributed energy. He also leads group strategy and technology & innovation globally. Previously, he worked at Centrica plc for 14 years in the UK and US, including 4 years as CEO of Direct Energy, the North American subsidiary which provides electricity, natural gas and home services.

External Appointments: None.

Mike Westcott
Group Human Resources Director and Group Commercial Property Director

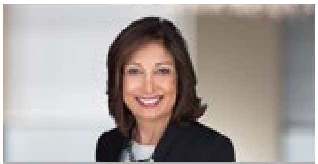
Mike is responsible for setting and delivering the global HR agenda and driving long-term sustainable value from our surplus property portfolio. Previously, he worked for Diageo plc for 14 years in a number of senior HR roles, including HR Director at Diageo International Markets and HR Director for North America.

External Appointments: Board of Trustees at SportsAid and Board of Centrepoint.

George Mayhew
Group Corporate Affairs Director

George is responsible for setting and delivering the Group's public policy, legislative and communications strategy. Prior to joining National Grid, he worked at BAE Systems plc, Centrica plc and Granada Media Group undertaking a number of corporate and public affairs roles.

External Appointments: None.



Adriana Karaboutis
Group Chief Information and Digital Officer

Adriana is responsible for the development of a Group-wide digital strategy, delivery of information systems and services, digital security and risk as well as overall security. Previously, she worked as an innovative technology executive and a business leader for Biogen, Dell, Ford, and General Motors.

External Appointments: Board of Directors of Perrigo Company plc and of Advance Auto Parts.

Examples of key areas of focus during 2017/18

- Progress towards a generative safety culture.
- Delivering improved operational performance.
- Delivering successful regulatory outcomes.
- Building capacity and capability to enable future growth and deepening succession cover.
- Progressing the execution of our corporate strategy.

Examples of key areas of focus for 2018/19

- Continue progress towards a generative safety culture.
- Drive our operational and customer performance.
- Deliver on our regulatory strategy.
- Develop and source talent and leaders to deliver our strategy and vision.
- Position National Grid as a purpose-led business and as a leading voice in energy transformation.

Led by the Chief Executive, the Executive Committee oversees the safety, operational and financial performance of the Company. It is responsible for making day-to-day management and operational decisions it considers necessary to safeguard the interests of the Company and to furthering the strategy, business objectives and targets established by the Board. It approves expenditure and other financial commitments within its authority levels and discusses, formulates and approves proposals to be considered by the Board.

The nine Committee members have a broad range of skills and expertise, which are updated through training and development. Some members also hold external non-executive directorships, giving them valuable board experience. As previously announced, Andrew Bonfield will be stepping down from his role on the Board and the Committee at the end of the 2018 AGM. Andy Agg, currently Group Tax and Treasury Director, will be appointed as Interim Finance Director pending the appointment of a permanent Finance Director and will become a member of the Committee.

The Committee officially met 12 times this year, but the members interact much more regularly. Those members of the Committee who are not Directors regularly attend Board and committee meetings for specific agenda items. This means that knowledge is shared and all members are kept up to date with business activities and developments.

Disclosure Committee

The Disclosure Committee assists the Chief Executive and the Finance Director in fulfilling their responsibility for overseeing the accuracy and timeliness of disclosures made – whether in connection with our presentations to analysts, financial reporting obligations, or other material stock exchange announcements, including the disclosure of price sensitive information. The Committee is chaired by the Finance Director and its members are the Group General Counsel and Company Secretary, the Group Tax and Treasury Director, the Group Financial Controller, the Director of Investor Relations and the Head of Corporate Audit. Others attended as appropriate.

This year the Committee met to consider the announcements for the full and half-year results as well as the announcement relating to completion of the sale of the UK Gas Distribution business and the issue of the notice of the General Meeting to approve the return of cash following the sale. The Committee reported on relevant matters to the Audit Committee.

The Committee reports the results of its evaluation of the effectiveness of the Company's disclosure controls to the Audit Committee.

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

For the year ended 31 March 2018, the Board considers that for the period under review it has complied in full with the provisions of the UK Corporate Governance Code 2016 (the Code), available in full at www.frc.org.uk. Our statement of compliance 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 and complied with the provisions in the Code. The Corporate Governance report also explains compliance with the Disclosure Guidance and Transparency Sourcebook. The index on page 62 sets out where to find each of the disclosures required in the Directors' Report in respect of Listing Rule 9.8.4.

A. Leadership

A.1 The role of the Board

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

The Board sets the risk appetite and principal risks for the Company and takes the lead in areas such as safeguarding the reputation of the Company and its financial policy, as well as making sure we maintain a sound system of internal control and risk management (see pages 18-21).

There is a clear schedule of matters reserved for the Board and a schedule of delegation, which were both reviewed and updated in January 2018. The schedule of matters reserved for the Board is available on our website, together with other governance documentation.

A.2 A clear division of responsibilities

The Board supports the separation of the roles of the Chairman and Chief Executive. The key responsibilities are clearly documented and reviewed when appropriate. The Chief Executive is responsible for the executive leadership and day-to-day management of the Company and the Group's businesses, to ensure the delivery of the strategy agreed by the Board. The Chairman manages and leads the Board (see below for more information).

A.3 Role of the Chairman

The Chairman, who was independent on appointment, is responsible for the leadership and management of the Board and its governance. He makes sure the Board is effective in its role by promoting a culture of openness and debate, facilitating the effective contribution of all Directors and helping to maintain constructive relations between Executive and Non-executive Directors. The Chairman sets the Board's agenda making sure consideration is given to the main challenges and opportunities facing the Company, and adequate time is available to discuss all agenda items, including strategic issues.

A.4 Role of the Non-executive Directors

Independent of management, our Non-executive Directors bring diverse skills and experience, vital to constructive challenge and debate. Exclusively, they form the Audit, Nominations and Remuneration Committees, and their views are actively sought when developing proposals on strategy. The Non-executive Directors monitor the delivery of the agreed strategy and objectives within the risk and governance framework set by the Board.

Our Senior Independent Director (SID) acts as a sounding board for the Chairman and serves as an intermediary for the other Directors, as well as shareholders when required.

Around each of the eight scheduled Board meetings, the Chairman held meetings with the Non-executive Directors without the Executive Directors present.

B. Effectiveness

B.1 The composition of the Board

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 individual biographies and committee membership are set out on pages 42-43. Board and committee attendance during the year to 31 March 2018 is set out on page 45. 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 the Non-executive Directors were independent in character and judgement. As such the Board confirmed that with the exception of the Chairman, whose independence is only determined on appointment, all Non-executive Directors remained independent throughout the year as defined in the Code.

B.2 Appointments to the Board

The Nominations Committee, which comprises the Chairman and Non-executive Directors, 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. As they will have been Board members for more than six years by the time of the 2018 AGM, a particularly rigorous review of Sir Peter Gershon, Paul Golby and Nora Mead Brownell was undertaken, taking into account the need for progressive refreshing of the Board.

Further details of the formal, rigorous and transparent appointment processes for Amanda Mesler and the role of the Nominations Committee can be found on page 59. Spencer Stuart, Hobbs & Towne, Inc and Korn Ferry provided external search consultancy services in relation to the appointment of a new Non-executive Director. Hobbs & Towne, Inc does not have any other connections with the Company. Spencer Stuart provided other recruitment services to the Company's subsidiaries and Korn Ferry provided other HR-related services for example, the employee engagement survey and consultancy services to the Company and its subsidiaries.

B.3 Time commitment

Non-executive Directors are advised of the time commitment and travel, expected from them on appointment. The time commitment of each Director is kept under review by the Nominations Committee. 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 42-43. As part of the evaluation of the Chairman, the Non-executive Directors, with input from the Executive Directors, assessed his ability to fulfil his role as Chairman, taking into account other significant appointments.

With the agreement of the Board, Executive Directors gain experience of other companies' operations, governance frameworks and boardroom dynamics through non-executive appointments. The fees for these positions are retained by the individual. For further details about the Directors' service contracts and letters of appointment, see page 70 of the Directors' Remuneration Report.

B.4 Development

All new Directors are provided with a full and tailored induction programme when they are appointed to the Board. Details of Director induction and ongoing development can be found on page 45.

B.5 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. To support discussion and decision-making, Board and committee members receive papers sufficiently in advance of meetings so that they can prepare for and consider agenda items. Additionally, the Chairman holds a short meeting with the Non-executive Directors before each Board meeting to discuss the focus of the upcoming meeting as well as afterwards to share feedback from the meeting. Similarly, the Chief Executive holds a short meeting with the Executive Directors and the Group General Counsel and Company Secretary after each meeting and shares the feedback from these meetings with the Chairman. A clear set of guidelines is in place to assist the Executive Directors and management on the content and presentation of papers to the Board and committees; and the quality of Board and committee reporting is an area of continuous focus for management to ensure the Board receives timely, clear and accurate information.

B.6 Evaluation
The 2017/18 performance evaluations of the Board, Board Committees and individual Directors were carried out internally. Led by the SID, and with input from the Executive Directors, the Non-executive Directors reviewed the Chairman's performance. See pages 46-47 for more information on this year's Board, Committee, individual Director and Chairman performance evaluations.

Following the evaluation process, it was agreed that the Board and its Committees continue to operate effectively and that each Director, including the Chairman, contributes effectively and demonstrates commitment to their role.

In line with the Corporate Governance code, the Board expects that the 2018/19 Board performance evaluation will be carried out externally.

B.7 Election/re-election
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 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, Amanda Mesler will seek election and all other Directors (with the exception of Andrew Bonfield and Pierre Dufour) will seek re-election at the 2018 AGM.

C. Accountability

C.1 Financial and business reporting
The requirement for Directors to state that they consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, remains a key consideration in the drafting and review process. The coordination and review of the Annual Report and Accounts is 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 82. The independent auditor's report is on pages 83-91 and the Company's business model is on page 2.

C.2 Internal control and risk management
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 19-20.

The Board also sets the Company's risk appetite, internal controls and risk management processes. The Board monitors the Company's risk management and internal control systems and undertakes a review of their effectiveness annually. Further details are set out on pages 18-21.

The activities of the Audit Committee, which assists the Board with its responsibilities in relation to risk and assurance, are set out on pages 49-55.

C.3 Audit Committee and auditors
The Audit Committee is comprised entirely of independent Non-executive Directors. In accordance with 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 chairman 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. In reaching a determination regarding the Committee's competence, the skills and experience of the Committee members were considered.

The report on pages 49-55 sets out details of how the Committee has discharged its duties during the year, matters reviewed by the Committee and how it ensures the auditors' objectivity, effectiveness and continued independence.

D. Remuneration

D.1 The level and components of remuneration
The Remuneration Committee, comprised entirely of independent Non-executive Directors, is responsible for recommending to the Board the remuneration policy for Executive Directors and other members of the Executive Committee and for the Chairman, and for implementing this policy. The aim is to align remuneration policy to Company strategy and key business objectives and make sure it reflects our shareholders', customers' and regulators' interests.

The Remuneration Report on pages 63-79 sets out key aspects of the remuneration policy as approved by shareholders at the 2017 AGM and outlines the activities of the Committee during the year.

D.2 Procedure
For further information on the work of the Remuneration Committee and Directors' remuneration packages, see the Directors' Remuneration Report on pages 63-79.

E. Relations with shareholders

E.1 Dialogue 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. We believe that effective channels of communication with the Company's debt and equity institutional investors and individual shareholders are very important. More information about our approach to relations with shareholders can be found on page 48.

E.2 Constructive use of General Meetings
The AGM provides a key opportunity for the Board to communicate with and meet shareholders. Shareholders are able to learn more about the Company through exhibits and can ask questions directly of the Board both formally and informally. Company representatives and our Registrar are also on hand to answer any questions shareholders might have.

Our AGM will be held on Monday, 30 July 2018, at The International Convention Centre in Birmingham, and broadcast via our website. The Notice of Meeting for the 2018 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.

Index to Directors' Report and other disclosures

AGM	62
Articles of Association	197
Audit information	82
Board of Directors	42
Business model	2
Change of control provisions	203
Code of Ethics	203
Conflicts of interest	203
Contractual and other arrangements	186
Directors' indemnity	203
Directors' service contracts and letters of appointment	70
Directors' share interests	76
Diversity	37
Dividends	8
Events after the reporting period	198
Financial instruments	135
Future developments	4
Greenhouse gas emissions	16
Human rights	204
Important events affecting the Company during the year	10
Internal control	18
Internal control over financial reporting	21
Listing Rule 9.8.4 R cross reference table	204
Material interests in shares	199
People	36
Political donations and expenditure	204
Research and development	204
Risk management	18
Share capital	199

Annual statement from the Remuneration Committee Chairman

Jonathan Dawson
Remuneration Committee Chairman

Introduction

Last year, our shareholders approved National Grid's remuneration policy for the period 2017 to 2020, with over 97% in favour. At the same time, more than 87% approved the annual Remuneration Report. The Remuneration Committee and the whole Board are grateful to shareholders for their support for our policy and our implementation of it. This year, through the annual advisory shareholder vote, we are seeking shareholder support for the implementation of the approved remuneration policy during 2017/18.

National Grid has had another successful year, delivering on all our key measures. Underlying operating profit was up by around 6% in constant currency terms to around £3.5 billion and underlying EPS was up by more than 3% to 60.4p despite adverse movements in exchange rates. Strong Return on Equity (RoE) was achieved at 12.3% and dividends were increased in line with policy. Value Added of £2 billion was achieved in the year and contributed to the three-year measure of Value Growth of 11.8%. Value Growth is an internal equivalent to Total Shareholder Return (TSR). We also invested £4.3 billion into the business this year, growing our asset base by 6%.

What is our remuneration policy seeking to achieve?

Our objective in developing our remuneration policy is to ensure we pay our senior executives in a way that incentivises stretching performance, is fully aligned to the way National Grid earns its returns for shareholders, and actively supports our strategy and values.

The main features of our remuneration policy are as follows:

1. Significant weighting towards business performance over the long term

Nearly three quarters of John Pettigrew's variable pay opportunity is represented by the Long Term Performance Plan (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.

Most of senior executives' variable pay is settled in National Grid's shares. For Executive Directors, some 85% of their variable pay opportunity is delivered in shares.

We also 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, which is 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, which is 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 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.

The largest element of our incentive pay, the LTPP, is measured against the two components through which National Grid earns returns for our shareholders. These are RoE, which measures management's ability to grow the business profitably; and Value Growth, which comprises growth in assets, less net debt plus dividends paid. The two measures are designed to provide a balance, deterring excessive debt-financed asset growth, while incentivising management to maintain an efficient balance sheet.

Consistent with our approach for aligning executive interests to the long term, LTPP awards are determined after a three-year performance period. Furthermore, the shares that are then allocated to Executive Directors have to be held for at least a further two years.

2. Achievement of short-term (APP) and long-term (LTPP) incentive opportunities are linked to National Grid financial performance

We focus largely on visible financial measures to assess the level against which incentive payouts are determined. Over 90% of John Pettigrew's potential incentive pay is calculated on that basis.

3. Discretion and independent judgement is applied

As a committee, we are willing to exercise discretion when approving remuneration outcomes for Executive Directors. We reflect on whether the Company's overall performance is correctly represented by the financial measures we have set, and we shall take account of the performance of non-financial measures, and the demonstration of leadership qualities and living our values, before agreeing APP awards.

Last year, for example, we reduced senior executives' APP awards to acknowledge the importance of maintaining a strong safety culture following the tragic fatality of one of National Grid's employees in the UK. Also last year, we included within the LTPP a portion of the Value Added from the sale of a majority interest in the UK Gas Distribution business to reflect the Executive Directors' role in crystallising shareholder value from the Gas Distribution sale.

This year, the Committee has not exercised discretion either positively or negatively. I also wish to confirm that the LTPP and APP plans both state that the Committee has absolute 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 or health and safety issue, failure of risk management, and if certain other facts emerge after termination of employment. We would not hesitate to use this ability to clawback incentive awards paid to executives where we determine that the payment levels were unjustified given new information.

To summarise, in setting Executive Director pay, we take account of a wide range of factors to inform decisions that are fair given each executive's accountabilities, individual contribution, business performance, and the wider workforce pay outcomes. We illustrate this overleaf.

Directors' Remuneration Report

How our variable pay is determined

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

How do we report on Directors' remuneration?

Our aim is to be highly transparent so shareholders can assess whether remuneration paid to executives is appropriate, given both the financial and operational performance of the Company and executives' individual performance. We have reviewed feedback from last year's report and have further enhanced how we analyse and describe executives' individual performance.

A particular focus has been to provide further detail of their individual objectives, as set out on pages 71-73. This includes an explanation both on positive aspects and on areas where we consider performance fell short of stretch targets. We continue to include full retrospective disclosure of performance against the financial targets we set last year in respect of the APP, as set out on page 71.

Review of performance for the year

APP

APP payouts for Executive Directors comprise 70% based on the achievement of Company financial measures and 30% based on the achievement of individual objectives. As in prior years, technical adjustments are made to the EPS outturn to account for the impact of timing and storms, and to target to reflect the net effect of currency adjustments, certain actuarial assumptions on pensions, scrip dividend uptake, and to ensure consistency of accounting treatment. Thus, the reported figure was adjusted down from 59.5p to 58.0p and the target was reduced from 57.7p to 57.0p. Technical adjustments have also been made to Group RoE which has resulted in an increase to target of 0.2% primarily to reflect the net effect of currency adjustments and to ensure consistency of accounting treatment. This year there have been no discretionary adjustments made by the Committee to any of the APP financial results.

The performance of the respective financial measures has resulted in outturns ranging from 58.7% to 85.0% of the maximum for the financial portion. The performance against individual objectives has resulted in outturns ranging from 74.0% 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 2018 range from 63% to 83% of the maximum award which amounts to payments of between 79% and 104% of salary. Details of the APP payouts are presented on pages 71-73, including the full range of performance levels for each of the financial measures and also commentary on each of the Executive Directors' performance against individual objectives.

LTPP

The 2015 LTPP awards vest in July 2018. The three-year performance period ended on 31 March 2018 and vesting outcomes ranged from 66.3% to 86.0%. As with last year, this year's LTPP vesting also benefitted from the inclusion of a portion of the value arising from the sale of a majority interest in the UK Gas Distribution business in 2016/17 in the Value Growth measure, as this event occurred within the 2015-2018 performance period measured.

Executive Director alignment

As I stated above, a key element in our remuneration strategy is to require senior executives to have a substantial shareholding in the Company. The purpose of this is to make sure executives share the benefit of any growth in the share price and the effects of any fall. The last year has seen a decline in our share price. We have examined carefully whether this was a consequence of executives' performance or the result of other factors. We concluded that the decline in the share price over the period was driven by a combination of factors, including rises in bond yields and negative sentiment around political and regulatory uncertainty in the UK. Additionally, we noted the continued strong operational and financial performance of the Company. This includes Group RoE and Value Growth, which are key performance indicators for the Company and key measures of value creation for shareholders.

We also noted that during the year, the value of John Pettigrew's shareholding, taking account of the value of shares after the share consolidation exercise and shares vested in the year, fell by some £750,000 – equivalent to around 160% of his post-tax salary. This serves to illustrate powerfully what we mean by alignment of interest with shareholders and why we regard it as a central feature of our remuneration strategy.

Annual salary review

As I have stated in the last two remuneration reports, the Committee decided not to award John Pettigrew and Nicola Shaw salaries at our assessment of the appropriate levels for their roles when they were initially appointed. Instead, I wrote that over time we would make increases in excess of the managerial salary increase budget, subject to their individual performance. This approach is consistent with that for the wider employee population, where employees may begin a role at up to 20% below our assessment of market levels, but subsequently may receive significantly larger salary increases than budget when justified by individual performance.

Last year, following a review of both John Pettigrew's and Nicola Shaw's performance in their respective roles, the Committee increased their base salaries by 9% (comprising the UK budget of 2.6% and a further 6.4%). I indicated that we would follow a similar approach this year, and we have therefore considered John Pettigrew's and Nicola Shaw's individual performance during the year to assess whether this approach continues to be justified.

In John Pettigrew's case, the Committee concluded that in his second year as CEO he had continued to build on his strong first year in the role. We considered, taking account also of the employee opinion survey, that he had made robust progress in developing National Grid as both a purpose and performance-led organisation. He has focused the US business on advancing its strategy, with successful new rate case filings and new capital delivery and gas enablement capabilities.

The US is now a critical part of National Grid's growth strategy. It has an annual capital expenditure of some £2.5 billion, has some 16,000 employees, and is delivering a strong and growing return on equity. In the UK, John has been actively engaged on consultations over RIIO-T2 and making good progress in preparing our business to operate successfully in the RIIO-T2 period. John has also overseen the work culminating in the recent announcement of an option agreement with Quadgas for the potential sale of the remaining 25% stake in Cadent.

He has also focussed National Grid in both the US and the UK on the new energy agenda, the challenges and opportunities brought by the emergence of new technology and their implications for transmission and distribution. National Grid Ventures, established as a new business in 2017/18, has taken shape and begun to deliver on its strategic priorities. He has also further strengthened the senior team, in particular appointing Adriana Karaboutis our new Chief Information and Digital Officer, while developing our talented people across the Company.

As Executive Director for the UK, Nicola Shaw has led the complex and time-critical work with Ofgem on preparing for the successful separation of the Electricity System Operator from the rest of the UK business. She has also enhanced our focus on making the UK regulated businesses more responsive to the needs of our customers.

Nicola has made excellent progress in leading the development of plans that will enable the UK regulated transmission network businesses to operate successfully in the anticipated RIIO-T2 environment. She has facilitated the smooth decoupling of the Gas Distribution business from National Grid and its success in establishing itself as an independent company, while ensuring our interests as a minority shareholder were properly protected. In addition, she has significantly strengthened the pool of our talented people across the UK business.

For the coming year, the Committee has decided to reflect progress in role and to reduce the gap to our mid-market policy level by awarding a salary increase of 6% to each of John Pettigrew and Nicola Shaw. This comprises, as last year, an element representing the overall UK managerial salary increase budget which this year is 2.2%, coupled with a further 3.8%. We intend to apply a similar approach next year, subject again to individual performance, which should result in salaries that are in line with the Committee's assessment of the appropriate salaries for the roles. Our expectation is that from 2020, we shall employ the same approach as for the other Executive Directors, i.e. setting increases that are aligned to the managerial salary increase budget, again subject to individual performance.

The Committee agreed a salary increase for Dean Seavers of 3% in line with the US managerial salary increase budget.

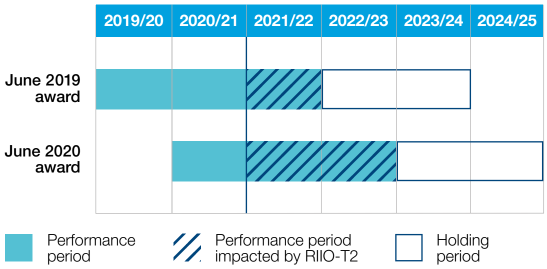
Resignation of Andrew Bonfield
As has been announced, Andrew Bonfield will be leaving National Grid at the end of July to take up a new role in the United States. In accordance with our policy for executive resignations he will not be eligible to receive a June 2018 salary increase, a 2018 LTPP award, or a discretionary prorata APP payment in respect of his four months' contribution within the 2018/19 financial year. Andrew remains eligible for an APP award in respect of the 2017/18 financial year and he is also eligible to receive the 2015 LTPP shares that will vest on 1 July 2018. Details of the values of these awards can be found on pages 71-74. He will forfeit all unvested LTPP shares granted to him under the 2016 LTPP and 2017 LTPP. Andrew is subject to a 12 months' notice period and as a condition for releasing him early the Committee has required him to maintain a holding in National Grid shares to the value of at least 200% of his current salary for a period of three years ending on 31 July 2021. This reflects the significance of Andrew's role to date within National Grid, in particular regarding our preparation for the RIIO-T2 regulatory period which commences in April 2021.

Committee membership
There has been no change in the composition of the Committee since the end of last year. Pierre Dufour is not seeking re-election and will leave the Board on 30 July.

Developments for 2018/19
Looking ahead, the Committee's work will be dominated by considering the impact of RIIO-T2 on our remuneration structure.

Shareholders will know that National Grid's first eight-year RIIO regulatory period in the UK will conclude on 31 March 2021. Given the bulk of senior executive remuneration comes from the LTPP, we shall need to consider what arrangements should be made for the LTPP awards whose performance periods straddle the two regulatory periods.

The challenge is illustrated below:



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.

We shall not know what Ofgem will determine as National Grid's regulatory allowances for RIIO-T2 at the time the 2019 grant is made, so we shall need to agree the most suitable set of measures to put to shareholders at the 2019 AGM. We are assessing several alternative ways of addressing this challenge and I anticipate consulting our leading shareholders from late autumn of 2018 to establish what would be the most suitable approach. Our proposals will be put to shareholders at the 2019 AGM for policy approval. We shall also take the opportunity at that time to review all aspects of our policy.

Separately, we have already decided to make a small change to the composition of the financial measures for the APP for the performance year 2018/19. Last year, I said we were planning to sharpen the focus on regional business performance by adopting a combination of business specific Value Added and business specific regional Return on Equity as the primary financial measures for senior executives with responsibilities specific to a business unit. We have decided to augment this approach this year by adding a further measure – business specific operating profit. The financial measures together will continue to represent 70% of the overall APP award for all Executive Directors, the other 30% being based on achievement of personal objectives. We shall be reporting on this in the 2019 Remuneration Report. We are not making any changes to the financial measures for the CEO or Finance Director.

Conclusion
We have carefully considered the outcomes of the APP and LTPP for this year and we believe they are a fair reflection of the performance of the senior executive team. We also consider that the shareholding requirement for senior executives has ensured that they have been significantly exposed to the fall over the last year in National Grid's share price, thereby demonstrating real alignment with the wider shareholder body.

Accordingly, on behalf of the Committee, I commend this report to you and ask for your approval at the AGM in July.

Jonathan Dawson
Committee Chairman

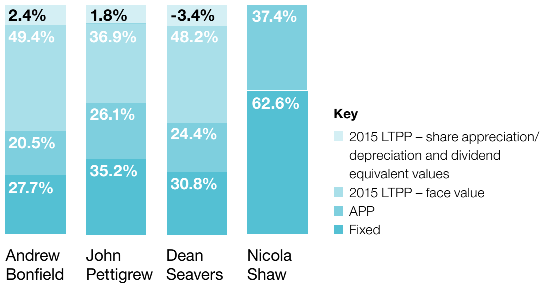
At a glance

Performance

A comparison of the total 2017/18 single figure of remuneration with the maximum remuneration if variable pay had vested in full is set out below for the four Executive Directors in office for the full year. For Dean Seavers a depreciation in 2015 LTPP value is shown due to a reduction in ADS price between the grant price, $66.9618 and the estimated vesting price of $55.1600.

Total remuneration

Executive Director	Maximum if variable pay vested in full £'000	2017/18 single figure remuneration £'000
Andrew Bonfield	4,345	3,847
John Pettigrew	3,945	3,519
Dean Seavers	3,952	3,038
Nicola Shaw	1,247	1,026



	Key features of remuneration policy	Annual report on remuneration for 2017/18
Salary	• Target broadly mid-market against FTSE 11-40 for UK Directors and general industry and energy services companies with similar revenue for US Directors	• Salary increases of 2.6% for Andrew Bonfield and 2.5% for Dean Seavers. These increases (June 2017) being in line with the respective budgets for UK and US managerial employees • Salary increases of 9.0% for each of John Pettigrew and Nicola Shaw (June 2017). These higher increases were awarded to help reduce the gap and bring their pay closer to appropriate levels for their roles and based on assessment of strong individual performance
Annual Performance Plan (APP)	• Maximum opportunity is 125% of salary • 50% paid in cash, 50% paid in shares which must be retained until later of two years and meeting shareholding requirement • Subject to both clawback and malus	• 70% based on financial measures and 30% based on individual objectives • Financial metrics for CEO and Finance Director comprise 35% adjusted EPS and 35% Group RoE • Financial metrics for Executive Director, US and Executive Director, UK comprise 35% US/UK Value Added respectively and 35% US/UK RoE respectively • Individual objectives cover putting our customers first, optimising the performance of our core business, seeking out growth opportunities in a disciplined way and evolving the business for the future
Long Term Performance Plan (LTPP)	• Maximum award level is 350% of salary for CEO and 300% for other Executive Directors • Vesting subject to long-term performance conditions over a three-year performance period • Shares must be retained until later of two years from vesting and meeting shareholding requirement • Subject to both clawback and malus	• 2017 LTPP award, 50% Group RoE and 50% Value Growth • 2015 LTPP vesting in 2018, 50% RoE and 50% Value Growth - 50% Group RoE for CEO and Finance Director - 25% Group RoE and 25% US/UK RoE for Executive Director, US and Executive Director, UK respectively
Pension and other benefits	• Eligible to participate in defined contribution (or defined benefit if already a member) • Pensionable pay is salary only in UK and salary and APP in US in alignment with market • Other benefits as appropriate	• UK cash allowance (Andrew Bonfield, John Pettigrew and Nicola Shaw): 30% of pensionable pay • US defined contribution (Dean Seavers): 9% of pensionable pay with additional match of up to 4% • 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 • 400% of salary for other Executive Directors	• Andrew Bonfield has a shareholding of 632% and has met his shareholding requirement • John Pettigrew, Dean Seavers and Nicola Shaw have not yet met their shareholding requirement due to their relatively short time in role; their shareholdings are 326%, 144% and 13% respectively

Directors' remuneration policy – approved by shareholders in 2017

Key aspects of the Directors' remuneration policy, along with elements particularly applicable to the 2017/18 financial year are shown on pages 67 to 69 for ease of reference only. This policy was approved for three years from the date of the 2017 AGM, held on 31 July 2017. A shareholder vote on the remuneration policy is not required in 2018. A copy of the full remuneration policy is available within the 2016/17 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.

Our peer group

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

Approved policy table – Executive Directors

Salary

Purpose and link to strategy: to attract, motivate and retain high-calibre individuals, while not overpaying.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Salaries are targeted broadly at mid-market level. They are generally reviewed annually. Salary reviews take into account: • business and individual contribution; • the individual's skills and experience; • scope of the role, including any changes in responsibility; and • market data in the relevant comparator group.	No prescribed maximum annual increase. Any 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 in the role and alignment to market level.	Not applicable.

Benefits

Purpose and link to 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; • opportunity to purchase additional benefits under flexible benefits schemes available to all employees; and • opportunity to participate in the following HMRC (UK) or Internal Revenue Service (US) tax-advantaged all-employee share plans: 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. Incentive Thrift Plans (401(k) plans): US employees may participate in these tax-advantaged savings plans. They are DC pension plans in which employees can invest their own and Company contributions. 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.	Benefits have no predetermined maximum, as the cost of providing these varies from year to year. 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 strategy: to reward sustained contribution and assist attraction and retention.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Pension for an Executive Director will reflect whether they were internally promoted or externally appointed. If internally promoted: • retention of existing DB benefits without enhancement, with capping of pensionable pay increases following promotion to the Board; or • retention of existing UK DC benefits with discretion to enhance contribution rate to up to 30%; or • cash in lieu; or • retention of existing US DC benefits plus 401(k) plan match, provided through 401(k) plan and non-qualified plans. If externally appointed: • UK DC benefits or equivalent cash in lieu; or • US DC benefits plus 401(k) plan match. In line with market practice, pensionable pay for UK-based Executive Directors includes salary only and for US-based Executive Directors it includes salary and APP award.	UK DB: a maximum pension on retirement, at age 60, of two thirds final capped pensionable pay or up to one sixtieth accrual. On death in service, a lump sum of four times pensionable pay and a two thirds dependant's pension is provided. UK DC: annual contributions of up to 30% of salary. Life assurance provision of four times pensionable salary and a dependant's pension equal to one third of the Director's salary are provided on death in service. Cash in lieu: annual payments of up to 30% of salary. Life assurance and dependant's pension in line with UK DC (or UK DB where the Director was previously a member of a UK DB scheme). US DB: an Executive Supplemental Retirement Plan provides for an unreduced pension benefit at age 62. For retirements at age 62 with 35 years of service, the pension benefit would be approximately two thirds of 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). US DC: annual contributions of up to 9% of base salary plus APP with additional 401(k) plan match of up to 4%.	Not applicable.

Annual Performance Plan

Purpose and link to strategy: to incentivise and reward the achievement of annual financial and strategic business targets and the delivery of annual individual objectives.

Operation	Maximum levels	Performance metrics, weighting and time period applicable
Performance metrics and targets are agreed at the start of each financial year and are aligned with strategic business priorities. Targets are set with reference to the budget. Awards are paid in June. 50% of awards are 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 clawback and malus provisions.	The maximum award is 125% of salary.	A majority of the APP is based on performance against corporate financial measures, with the remainder based on performance against individual objectives. Individual objectives are role-specific. The Committee may use its discretion to set measures that it considers appropriate in each financial year and reduce the amount payable, taking account of significant safety or customer service standard incidents, environmental and governance issues. The payout levels at threshold, target and stretch performance levels are 0%, 50% and 100%, respectively.

Long Term Performance Plan

Purpose and link to strategy: to drive long-term performance, aligning Executive Director incentives to key strategic objectives and shareholder interests.

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 metrics have been chosen as the Committee believes they reflect the creation of long-term value within the business. Targets are set each year with reference to the business plan. Participants may receive ordinary dividend equivalents on vested shares at the discretion of the Committee. Awards are subject to clawback and malus provisions. Notwithstanding the level of award achieved against the performance conditions, the Committee may use its discretion to reduce the amount vesting, and in particular will take account of compliance with the dividend policy. 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.	The maximum award for the CEO is 350% of salary and it is 300% of salary for the other Executive Directors.	For awards from 2017, the performance measures are Value Growth and Group RoE for all Executive Directors. All are measured over a three-year period. The weightings of these measures may vary year to year, but would always remain such that the Value Growth metric would never fall below a 25% weighting and never rise above a 75% weighting. Only 20% of the award vests at threshold.

Approved policy table – Non-executive Directors (NEDs)

Fees for NEDs

Purpose and link to 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; • basic fee, which differs for UK- and US-based NEDs; • committee membership fee; • committee chair fee; and • Senior Independent Director fee. Fees are reviewed every year taking into account those in companies of similar scale and complexity. NEDs do not participate in incentive, pension or benefit plans. 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. Additionally, the Chairman is covered by the Company's private medical and personal accident insurance plans and receives a fully expensed car or cash alternative to a car, and the use of a car and driver, when required. NEDs who also sit on National Grid subsidiary boards may receive additional fees related to service on those boards. There is no provision for termination payments. NEDs stand for re-election every year.	There are no maximum fee levels. The benefits provided to the Chairman are not subject to a predetermined maximum cost, as the cost of providing these varies from year to year.	Not applicable.

Shareholding requirement

The requirement of Executive Directors to build up and hold a relatively high 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.

Annual report on remuneration

Statement of implementation of remuneration policy in 2017/18

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 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 2017/18 were Nora Mead Brownell, Jonathan Dawson (chair), Pierre Dufour, and Mark Williamson.

The Committee's activities during the year

Meeting	Main areas of discussion
April	2016/17 individual objectives scoring for Executive Committee Approval of 2017/18 objectives for Executive Committee Discussion on 2016/17 expected incentive plan outturns
May	2016/17 APP financial outturns and confirmation of awards for Executive Committee Approval of 2017/18 objectives for new Executive Committee appointment Annual salary review and LTPP proposals for Executive Committee Review of Chairman's fees
June	Items related to new Executive Committee appointment
January	Review of 2018/19 APP financial measures
March	Market data review for Executive Committee remuneration Discussion of measures and targets for 2018 LTPP First review of 2018/19 individual objectives of Executive Committee Review first draft of Committee Chairman's Annual Statement and Directors' Remuneration Report

Service Contracts

In line with our policy, all Executive Directors have service contracts which are terminable by either party with 12 months' notice. Appointment of 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.

Single Total Figure of Remuneration – Executive Directors (audited information)

The following table shows a single total figure in respect of qualifying service for 2017/18, together with comparative figures for 2016/17:

	Salary £'000		Benefits in kind £'000		APP £'000		LTPP £'000		Pension £'000		Other £'000		Total £'000	
	17/18	16/17	17/18	16/17	17/18	16/17	17/18	16/17	17/18	16/17	17/18	16/17	17/18	16/17
Andrew Bonfield	**768**	749	**69**	60	**787**	684	**1,993**	4,154	**230**	225	**–**	–	**3,847**	5,872
John Pettigrew	**887**	825	**85**	497	**919**	762	**1,362**	2,291	**266**	248	**–**	–	**3,519**	4,623
Dean Seavers	**771**	800	**24**	25	**740**	694	**1,361**	1,553	**142**	145	**–**	–	**3,038**	3,217
Nicola Shaw	**484**	338	**14**	23	**383**	315	**–**	–	**145**	101	**–**	485	**1,026**	1,262
Total	**2,910**	2,712	**192**	605	**2,829**	2,455	**4,716**	7,998	**783**	719	**–**	485	**11,430**	14,974

Notes:

Salary: Base salaries were last increased on 1 June 2017. The decrease in Dean Seavers' salary is due to exchange rate fluctuations ($1.3578:£1 for 2017/18 and $1.2767:£1 for 2016/17).

Benefits in kind: Benefits in kind 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. For John Pettigrew the 2016/17 figure (as disclosed last year) includes reimbursement for costs relating to his relocation to London on appointment as CEO. Nicola Shaw's 2016/17 benefits in kind figure has been restated to include a Sharesave option award granted on 22 December 2016. There were no Sharesave options granted to any of the Executive Directors during 2017/18.

LTPP: The 2015 LTPP is due to vest in July 2018. The average share price over the three months from 1 January 2018 to 31 March 2018 of 787.8 pence ($55.16 per ADS) has been applied. 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 four years to three years between the 2013 LTPP and 2014 LTPP awards. The 2016/17 LTPP figures have been restated because last year they were estimated using the average share price (January-March 2017) and they now include the actual share price on vesting at 1 July 2017 and all dividend equivalent shares. Due to a lower share price at vesting of 954.0 pence versus the estimate of 963.0 pence, the actual value at vesting was £18,911 and £13,146 lower than the estimate (last year) for Andrew Bonfield and John Pettigrew, respectively. Due to a higher ADS price at vesting of $62.40 versus the estimate of $59.84, the actual value at vesting was £52,065 higher than the estimate (last year) for Dean Seavers.

Other: The 2016/17 'Other' figure for Nicola Shaw of £485,000 was disclosed last year and is a cash payment to compensate her for the forfeiture of short-term and long-term incentive cash awards at her former employer that were due to vest in June 2016.

Nicola Shaw: Nicola Shaw joined on 1 July 2016 and therefore the 2016/17 figures stated for salary, benefits in kind, APP and pension are all prorated based on her start date. Additionally, Nicola did not receive a 2015 LTPP award.

Performance against targets for APP 2017/18 (audited information)
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 pre-determined 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 pre-determined 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 2017/18 are summarised in the table below:

Performance measure	Proportion of max opportunity	Threshold	Target	Stretch	Actual	Proportion of max achieved
CEO and Finance Director						
Adjusted EPS (p/share)	35%	54.5	57.0	59.5	58.0	70.0%
Group RoE (%)	35%	11.2	11.6	12.0	12.32	100.0%
Executive Director, UK						
UK Value Added (£m)	35%	1,566	1,619	1,672	1,629	59.4%
UK RoE (%) (Percentage points above average allowed regulatory return)	35%	1.75	2.00	2.25	2.04	58.0%
Executive Director, US						
US Value Added ($m)	35%	1,463	1,513	1,562	1,513	50.0%
US RoE (%)	35%	8.5	8.7	8.9	8.92	100.0%
All Executive Directors						
Individual objectives (%)	30%	Detail expanded in tables below				74%-81%

Notes:
Adjusted EPS: Technical adjustments have been made reducing adjusted EPS actual by 1.5 pence to account for the impact of timing and storms, and reducing the target by 0.7p to reflect the net effect of currency adjustments, certain actuarial assumptions on pensions, scrip dividend uptake, and to ensure consistency of accounting treatment.
Group RoE: Technical adjustments have been made to increase the target by 0.2% primarily to reflect the net effect of currency adjustments and to ensure consistency of accounting treatment.
UK RoE and Value Added: No adjustments have been made.
US RoE and Value Added: No adjustments have been made to US RoE. The target for US Value Added has been increased by $109m to ensure consistency of accounting treatment.

For 2017/18, 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 overleaf. As with the financial measures, the achievement of 'stretch' performance and 'target' performance results in 100% and 50% respectively of the maximum payout.

Andrew Bonfield

Individual objective & performance commentary	Weighting
Optimising the performance of our core UK business • Financing workstream has been a key input to RIIO-T2 regulatory framework development • UK Business Services launched during the year • £4 billion of capital was returned to investors following the partial sale of UK Gas Distribution	30%
Evolving the business for the future • Operating model successfully revised and new Business Excellence function and communities of practice developed and implemented, resulting in third party cost reductions • New Business Management System (BMS) and business reporting process implemented to ensure effective and efficient controls across the company • Improvement on identification and development of high potential talent. Further strides yet to be made in relation to employee enablement	25%
Optimising the performance of our core US business • Facilitated successful rate case filings for Massachusetts Gas and Rhode Island Gas during the year • Financing successfully executed with cost savings against budget • Responded quickly to US tax reform, updating rates for jurisdictions with rate filings underway	20%
Optimising the performance of the Group • Sarbanes-Oxley refresh has been completed • Further work is required on delivering more efficient controls and in improving employee enablement	15%
Seeking out growth opportunities in a disciplined way • Board approved a finance strategy for growth with stakeholder communication plan developed	10%
Summary	
Andrew Bonfield has provided excellent support to the US and UK businesses on regulatory agreements this year. Strong management of the balance sheet has been exhibited, as has a focus on driving efficiency. Additionally, Andrew has delivered on business initiatives key to delivering on National Grid's business strategy for the future. Further work is required on ensuring controls are efficient and in improving employee enablement. **As a result, the proportion of maximum achieved is 75%.**	

John Pettigrew

Individual objective & performance commentary	Weighting
Evolving the business for the future • Clear articulation of long-term drivers of success for leadership teams and external stakeholders: Customer first; Performance Optimisation; Growth; Evolve for the Future • Clear succession plans in place, improvement in identification and development of high potential talent • Implemented revised operating model and new Business Excellence function • Further work remains on strengthening employee enablement and to implement outcomes of a talent strategy review that was conducted	30%
Optimising the performance of our core US business • Guided on the development of new regulatory strategy. NIMO rate filing completed with allowed RoE of 9% and capex allowance of $2.5 billion over three years • Established new Capital Delivery function taking learnings from UK, to deliver construction projects more efficiently • Developed organisation structure and processes that benefit from synergies of scale. US jurisdictions reinforced with stronger and more focused operational support	25%
Optimising the performance of our core UK business • Drove strong focus on performance optimisation, a key theme for all senior leadership engagement • Supported UK with positive management of key stakeholder engagement and debate on regulatory frameworks, e.g. SO legal separation, RIIO-T2, though there is more work to be done to achieve an acceptable position on Hinkley-Seabank • Ensured recognition of the Group's significant customer-led investment and strong operational performance	25%
Seeking out growth opportunities in a disciplined way • New National Grid Ventures team set up to support evolution of National Grid and drive incremental growth opportunities with similar risk/reward profile • Established National Grid's voice as a leader in the energy industry, with National Grid Ventures now fully recognised internally and externally giving National Grid more visibility and leadership on the energy transition agenda • Further progress to be made in emerging technologies	20%
Summary	
John Pettigrew has had a strong year, cementing himself as a leader to the Company and in the industry, developing National Grid as both a purpose and performance led organisation, successfully engaging with regulatory and political change, and achieving significant milestones across the individual businesses, including the creation of a new business in National Grid Ventures. Further work is to be done on Hinkley-Seabank arrangements, implementing our talent strategy and emerging technologies. **As a result, the proportion of maximum achieved is 78%.**	

Dean Seavers

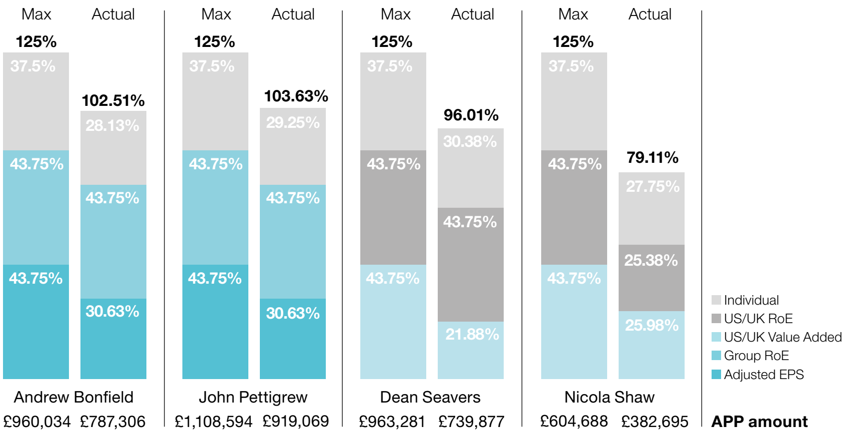
Individual objective & performance commentary	Weighting
Optimising the performance of our core US business • Achieved new rates for 80% of the core US business, including Niagara Mohawk, Massachusetts Gas, and Rhode Island Gas • Capital Delivery function implemented • Improvements have been made in relation to safety, with a reduction in switching errors year on year, although there remains more to do on injury rates • Material work order issues were addressed during the year, although further process efficiencies are still to be implemented	40%
Evolving the business for the future • An advanced analytics team has been set up and a refreshed US strategy was developed and agreed • Filings made on Electric Vehicles in all jurisdictions • New agile reporting process has improved ability to assess and manage performance against key indicators • Employees' understanding of the Company's purpose, vision and values has been embedded, as evidenced by results from employee surveys • Succession plans were delivered; however, further improvements are needed in relation to employee enablement and driving a performance culture through continuous feedback	35%
Putting our customers first • In-year milestones for the Gas Enablement programme met to improve customer service • Implementation of a pilot programme to significantly improve end-to-end customer experience • While operational model changes have been introduced, more needs to be done to fully embed them	25%
Summary	
Dean Seavers has delivered strong results in the execution of a sustainable improvement plan, driven by the advancement of the regulatory strategy and successful rate filings. In addition to achievement of his objectives, Dean led a strong response to major winter storms with good restoration times for the vast majority of our customers. Further work is needed on process efficiency implementation and in embedding the operational model changes. **As a result, the proportion of maximum achieved is 81%.**	

Nicola Shaw

Individual objective & performance commentary	Weighting
Optimising the performance of our core UK business • A continued focus on efficiency and removing unnecessary processes contributed to savings in the year • New electricity balancing system delivered, though some implementation aspects have taken time to resolve • The safety action plan was implemented in line with the agreed milestones and focus on a 'generative' safety culture was good during the year; however, there remains more to do in this area • Cadent performing in line with expectation and risk managed appropriately	50%
Putting our customers first • Customer satisfaction scores have been strong and customer journeys have been mapped, albeit slightly behind planned timescales • There has been a constructive approach to RIIO-T2 with Ofgem, with our focus of putting consumers at the centre of the process in line with Ofgem's proposals. There is more work to be done to achieve an acceptable position on Hinkley-Seabank, despite the work of the UK regulation team • The new regime for System Operator incentives has been agreed with Ofgem and work on the legal separation of the electricity System Operator has progressed in line with expectation	20%
Evolving the business for the future • Strategic initiatives are on track, employees' understanding of the Company's purpose, vision and values is strong based on employee survey results, and strides have been made in the identification and development of high potential talent in the organisation • Further work remains in relation to realising the potential of emerging technologies to enhance the effectiveness of our operations and strengthening employee engagement and enablement	20%
Seeking out growth opportunities in a disciplined way • Gas Transmission published the 'Future of Gas' as well as developing an asset health plan to the agreed timescales, with implementation on track	10%
Summary	
Nicola Shaw has led the UK business strongly this year. There has been strong progress on key initiatives relating to safety and focus on our customers, with good progress too on regulatory topics other than Hinkley-Seabank. Further work is to be done in certain areas, e.g. improving employee engagement and enablement. **As a result, the proportion of maximum achieved is 74%.**	

2017/18 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: US RoE and US Value Added pertain to Dean Seavers Executive Director, US and UK RoE and UK Value Added pertain to Nicola Shaw, Executive Director, UK.

2017/18 LTPP performance (audited information)

The LTPP value included in the 2017/18 single total figure relates to vesting of the conditional LTPP awards granted in 2015.

2015 LTPP

The 2015 award is determined by performance over the three years ending 31 March 2018 of RoE (50% weighting) and Value Growth (50% weighting), which will vest on 1 July 2018. 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 Chief Executive Officer and the Finance Director in position at the award date, the entire RoE component is based on Group RoE.

The performance achieved against the 2015 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 Finance Director, 25% weighting for the Executive Director, UK and the Executive Director, US)	11.0%	12.5% or more	12.1%	78.7%
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	2.7 percentage points above the average allowed regulatory return	75.5%
US RoE (25% weighting for the Executive Director, US)	90% of the average allowed regulatory return	105% of the average allowed regulatory return	88% of the average allowed regulatory return	0.0%
Value Growth (50% weighting)	10.0%	12.0% or more	11.83%	93.3%

The Value Growth outturn includes an amount 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 2015-2018 performance period measured.

The amounts expected to vest under the 2015 LTPP for the performance period ended on 31 March 2018 and included in the 2017/18 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 2018 to 31 March 2018 of 787.80 pence ($55.16 per ADS).

	Original number of share awards in 2015 LTPP	Overall vesting percentage	Number of awards vesting	Number of dividend equivalent shares	Total value of awards vesting and dividend equivalent shares (£'000)
Andrew Bonfield	259,668	86.0%	223,314	29,697	1,993
John Pettigrew	179,072	85.2%	152,569	20,289	1,362
Dean Seavers (ADSs)	44,801	66.3%	29,714	3,786	1,361

Note:
Nicola Shaw was appointed in July 2016 and therefore did not receive any share awards under the 2015 LTPP.

Total pension benefits (audited information)

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.

In addition, John Pettigrew has accrued defined benefit (DB) entitlements. He opted out of the DB arrangement on 31 March 2016 with a deferred pension and lump sum payable from the normal retirement date. At 31 March 2018, John Pettigrew's accrued DB pension was £153,761 per annum and his accrued lump sum was £461,285 payable at the normal retirement date of 26 October 2031. There have been no increases to these benefits over the period, other than an increase for inflation due under the Scheme rules and legislation. Under the terms of the Scheme, were he to satisfy the Scheme's ill health requirements, an unreduced pension would be payable or he may receive an unreduced pension from age 50 if made redundant. A lump sum death in service benefit may also be payable.

Single total figure of remuneration – Non-executive Directors (audited information)

The following table shows a single total figure in respect of qualifying service for 2017/18, together with comparative figures for 2016/17:

	Fees £'000		Other emoluments £'000		Total £'000	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
Nora Mead Brownell	**98**	96	**8**	9	**106**	105
Jonathan Dawson	**106**	102	**0**	1	**106**	103
Pierre Dufour	**99**	11	**13**	–	**112**	11
Therese Esperdy	**136**	133	**15**	12	**151**	145
Sir Peter Gershon	**511**	499	**74**	68	**585**	567
Paul Golby	**100**	105	**4**	8	**104**	113
Ruth Kelly	**28**	84	**–**	0	**28**	84
Mark Williamson	**128**	124	**6**	5	**134**	129
Total	**1,206**	1,154	**120**	103	**1,326**	1,257

Notes:
Therese Esperdy: Fees for 2017/18 include £25,000 in fees for serving on the National Grid USA Board.
Sir Peter Gershon: Other emoluments comprise private medical insurance, cash in lieu of a car and the use of a car and driver when required.
Ruth Kelly: Ruth Kelly stepped down at the 2017 AGM.
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. Amounts for travel expenses relating to both 2017/18 and 2016/17 have been provided in the table above (the figures for 2016/17 have been restated to include these). Nora Mead Brownell, Pierre Dufour and Therese Esperdy are US-based Non-executive Directors.

The total emoluments paid to Executive and Non-executive Directors in the year was £12.8 million (2016/17: £19.5 million). The 2016/17 figure includes both the 2013 and 2014 LTPP award for Executive Directors.

2017 LTPP (conditional award) granted during the financial year (audited information)

The face value of the awards is calculated using the volume weighted average share price at the date of grant (28 June 2017) (£9.738 per share and $63.94 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
Andrew Bonfield	300% of salary	£2,314	20%	237,610	31 March 2020
John Pettigrew	350% of salary	£3,147	20%	323,205	31 March 2020
Dean Seavers (ADSs)	300% of salary	$3,152	20%	49,294 (ADSs)	31 March 2020
Nicola Shaw	300% of salary	£1,471	20%	151,109	31 March 2020

Note:
The 2017 LTPP grant will vest on 1 July 2020.

Performance conditions for LTPP awards granted during the financial year (audited information)

	Conditional share awards granted – 2017		
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

Payments for loss of office (audited information)

There were no payments made for loss of office during 2017/18.

Payments to past Directors (audited information)

Steve Holliday stepped down from the Board and retired from the Company on 22 July 2016. Mr Holliday held awards over shares that were prorated for time served. Nick Winser stepped down from the Board at the 2014 AGM and left the Company on 31 July 2015. Tom King stepped down from the Board and left the Company on 31 March 2015. Both Mr Winser and Mr King held awards over shares and ADSs, respectively, that were prorated according to their departure. The vesting of all these awards will occur at the normal vesting dates subject to satisfaction of their specified performance conditions at that time.

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					
2013 LTPP (RoE portion)	57,711	50.00%	28,855	5,553	328
2014 LTPP	271,425	84.89%	230,412	33,066	2,514
Tom King (ADSs)					
2014 LTPP	11,917	67.44%	8,036	1,206	452
Nick Winser					
2013 LTPP (RoE portion)	19,451	50.00%	9,725	1,871	111

Note:
The 2013 LTPP (RoE portion) is the remaining 25% of the 2013 LTPP award which vested on 1 July 2017. The 2014 LTPP fully vested on 1 July 2017.

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 2018, had headroom of 3.95% and 7.73% respectively.

Statement of Directors' shareholdings and share interests (audited information)

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 (as Non-executive Directors do not have a shareholding requirement). The shareholding is as at 31 March 2018 and the salary used to calculate the value of the shareholding is the gross annual salary as at 31 March 2018.

Andrew Bonfield has met his shareholding requirement of 400% of base salary. As John Pettigrew, Dean Seavers and Nicola Shaw are relatively new in post, they have not yet met the requirement, but are expected to do so in 2021, 2021 and 2023 respectively. They will not be allowed to sell shares until this requirement is met.

The normal vesting dates for the conditional share awards subject to performance conditions are 1 July 2018, 1 July 2019 and 1 July 2020 for the 2015 LTPP, 2016 LTPP and 2017 LTPP respectively. In April 2018, a further 18 shares were purchased on behalf of each of Andrew Bonfield, John Pettigrew and Nicola Shaw and again in May 2018. 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 16 May 2018.

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 granted under the Sharesave Plan	Conditional share awards subject to performance conditions (LTPP 2015, 2016 & 2017)
Executive Directors					
Andrew Bonfield	400%	607,810	632%	3,230	718,161
John Pettigrew	500%	358,897	320%	4,286	785,087
Dean Seavers (ADSs)	400%	26,764	144%	–	138,542
Nicola Shaw	400%	8,270	13%	4,070	273,273
Non-executive Directors					
Nora Mead Brownell (ADSs)	–	4,583	n/a	–	–
Jonathan Dawson	–	36,705	n/a	–	–
Pierre Dufour (ADSs)	–	3,700	n/a	–	–
Therese Esperdy (ADSs)	–	1,508	n/a	–	–
Sir Peter Gershon	–	90,128	n/a	–	–
Paul Golby	–	2,291	n/a	–	–
Mark Williamson	–	47,460	n/a	–	–

Notes:
Andrew Bonfield: On 31 March 2018 Andrew Bonfield held 3,230 options granted under the Sharesave Plan. 1,208 options were granted at a value of 745 pence per share and they can be exercised at 745 pence per share between April 2019 and September 2019. 2,022 options were granted at a value of 749 pence and they can be exercised at 749 pence per share between April 2020 and September 2020. For Andrew Bonfield, the number of conditional share awards subject to performance conditions is as follows: 2015 LTPP: 259,668; 2016 LTPP: 220,883; 2017 LTPP: 237,610. However, in consequence of his resignation only the 2015 LTPP is now eligible for vesting in July 2018.
John Pettigrew: On 31 March 2018 John Pettigrew held 4,286 options granted under the Sharesave Plan. 1,252 options were granted at a value of 599 pence per share and they can be exercised at 599 pence per share between April 2019 and September 2019. 3,034 options were granted at a value of 749 pence per share and they can be exercised at 749 pence per share between April 2020 and September 2020. The number of conditional share awards subject to performance conditions is as follows: 2015 LTPP: 179,072; 2016 LTPP: 282,810; 2017 LTPP: 323,205.
Dean Seavers: The number of conditional share awards subject to performance conditions is as follows: 2015 LTPP: 44,801; 2016 LTPP: 44,447; 2017 LTPP: 49,294.
Nicola Shaw: On 31 March 2018 Nicola Shaw held 4,070 options granted under the Sharesave Plan. 4,070 options were granted at a value of 737 pence per share and they can be exercised at 737 pence 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.
Dean Seavers, Nora Mead Brownell, Pierre Dufour and Therese Esperdy: Holdings and, for Dean Seavers, awards are shown as ADSs and each ADS represents five ordinary shares.

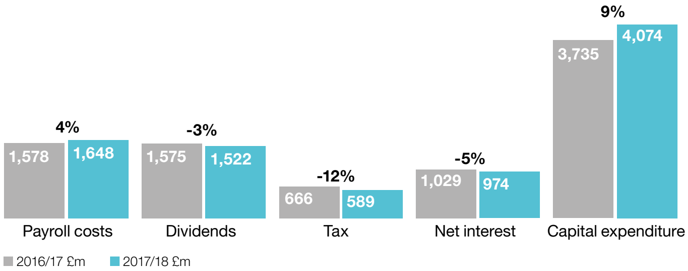
External appointments and retention of fees

The table below details the Executive Directors who served as non-executive directors in other companies during the year ended 31 March 2018:

	Company	Retained fees (£)
Andrew Bonfield	Kingfisher plc	£83,917
John Pettigrew	Rentokil Initial (from 1 January 2018)	£15,000
Nicola Shaw	Ellevio AB (until 31 December 2018) International Consolidated Airlines Group S.A. (from 1 January 2018)	£34,398 (SEK 377,434) £26,498 (Euros 30,000)

Relative importance of spend on pay

This chart 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 and amounts relating to the UK Gas Distribution business which was sold on 31 March 2017, including the subsequent special dividend.

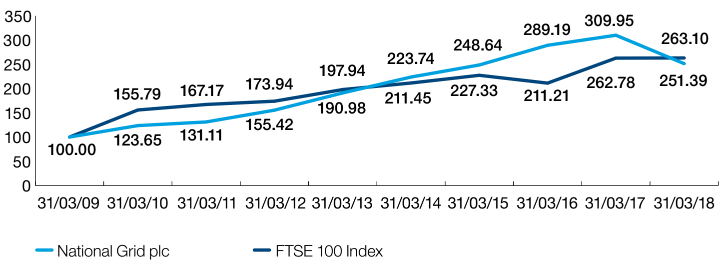


Note:
The Dividends figure for 2016/17 has been restated at £1,575 million (from £1,572 million) to reflect the actual value of dividends paid.

Performance graph

This chart shows National Grid plc's nine-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



Source: FactSet

Note:
The data source for the above graph has been changed for 2017/18 from Thomson Reuters to FactSet. This has not resulted in any changes to prior year figures.

Chief Executive's pay in the last nine 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
Total single figure of remuneration (£'000)	3,931	3,738	3,539	3,170	4,801	4,845	5,151	4,623	3,519
APP (proportion of maximum awarded)	95.33%	81.33%	68.67%	55.65%	77.94%	94.80%	94.60%	73.86%	82.90%
PSP/LTPP (proportion of maximum vesting)	100.00%	65.15%	49.50%	25.15%	76.20%	55.81%	63.45%	90.41%	85.20%

Notes:
Total single figure 2017/18: The figure for 2017/18 for John Pettigrew is explained in the single total figure table for Executive Directors.
Total single figure 2016/17: The 2016/17 single figure includes both the 2013 LTPP and the 2014 LTPP and 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.
Vesting: The vesting outcome for 2016/17 of 90.41% reflects the combined (actual) vesting performance outcomes for the 2013 LTPP (90.00%) and the 2014 LTPP (90.58%) as stated last year.
PSP/LTPP plans: Prior to 2014, LTPP awards were made under a different LTI framework which incorporated a four-year performance period for the RoE element of the awards. The last award under this framework was made in 2013 and was fully vested in 2017. Awards made from 2014 are subject to a three-year performance period, the first of these awards vested in 2017.

Percentage change in CEO's remuneration

The table below shows how the percentage change in the CEO's salary, benefits and APP between 2016/17 and 2017/18 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		
	£'000 2017/18	£'000 2016/17	Change	£'000 2017/18	£'000 2016/17	Change	£'000 2017/18	£'000 2016/17	Change
John Pettigrew	887	825	7.5%	85	497	-82.9%	919	762	20.6%
Non-union employees (average increase)			2.8%			3.9%			1.9%

Notes:
Chief Executive Officer: Taxable benefits for John Pettigrew in 2016/17 include a one-time relocation benefit.
Non-union employees: Pay data for US employees have been converted at $1.3578:£1.

Statement of implementation of remuneration policy in 2018/19

The remuneration policy adopted at the 2017 AGM will be implemented during 2018/19 as described below.

Salary

Salary increases, subject to individual performance, will normally be in line with the increase awarded to other employees in the UK and US, unless there is a change in role or responsibility. 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 2018	From 1 June 2017	Increase
Andrew Bonfield	£771,285	£771,285	n/a
John Pettigrew	£953,205	£899,250	6.0%
Dean Seavers	$1,082,144	$1,050,625	3.0%
Nicola Shaw	£519,930	£490,500	6.0%

Note:
Andrew Bonfield: Andrew will be leaving at the end of July 2018 and therefore is not eligible to receive a 1 June 2018 salary increase.

APP measures for 2018/19

The APP targets are considered commercially sensitive and consequently will be disclosed in the 2018/19 Directors' Remuneration Report.

John Pettigrew	Weighting
Adjusted 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 2018

	Weighting for all Executive Directors	Threshold 20% vesting	Maximum 100% vesting
Group RoE	50%	11.0%	12.5% or more
Value Growth	50%	10.0%	12.0% or more

Fees for NEDs
Committee chair fees are in addition to committee membership fees. 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 2018 £'000	From 1 June 2017 £'000	Increase
Chairman	525.0	513.0	2.3%
Senior Independent Director	22.5	22.0	2.3%
Board fee (UK-based)	67.5	66.0	2.3%
Board fee (US-based)	79.7	78.0	2.2%
Committee membership fee	10.5	10.3	1.9%
Chair Audit Committee	19.8	19.4	2.1%
Chair Remuneration Committee	19.8	19.4	2.1%
Chair (Other Board Committees)	12.8	12.5	2.4%

Advisors to the Remuneration Committee
The Committee received advice during 2017/18 from independent consultants as follows: firstly, New Bridge Street (NBS), a trading name for Aon Hewitt Ltd (part of Aon plc), provided advice until stepping down on 31 July 2017; secondly, following a competitive tendering process, Willis Towers Watson was selected by the Committee to become its independent advisor from 23 October 2017.

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

Work undertaken by NBS and Willis Towers Watson in their role as independent advisors to the Committee included providing market information for the Executive Directors and other senior employees and governance matters. This work has incurred fees of £14,063 for NBS, and of £136,283 for Willis Towers Watson. The Committee also received legal advice from Linklaters LLP and this has incurred fees of approximately £15,000.

The Committee reviews the objectivity and independence of the advice it receives from its advisors each year. It is satisfied that they all provided credible and professional advice.

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 Group HR Director, 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 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 2016/17 Directors' Remuneration Report at 2017 AGM
The voting figures shown refer to votes cast at the 2017 AGM and represent 61.18% of the issued share capital. In addition, shareholders holding 24.5 million shares abstained.

	For	Against
Number of votes	1,828,221,066	269,507,926
Proportion of votes	87.15%	12.85%

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

Jonathan Dawson
Committee Chairman
16 May 2018