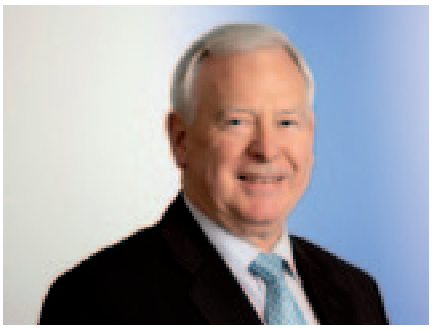
2010/11

Annual Report and Accounts

Corporate Governance

national**grid**

Corporate Governance



Chairman's foreword

I am delighted to report we are again compliant with the Combined Code and have made preparations for our future reporting under the UK Corporate Governance Code.

I have always endeavoured to take my responsibilities as Chairman seriously and to lead the Board by example. I review and discuss with each Director the outcomes of the annual performance evaluation process and continually look for enhancements to the way we function and perform to ensure we are as effective as we ought to be. The Non-executive Directors constructively challenge our Executive team and continue to be highly engaged in developing strategy.

The Nominations Committee and I regularly review the balance of skills, experience, independence and knowledge on the Board and its Committees. These will continue to be important factors when pursuing our diversity objectives on the Board. In this regard, we have conducted a review of the recommendations in the Davies Review 'Women on boards', are committed to the principles and will be publishing our aspirational goals by the end of September.

Our new Finance Director, Andrew Bonfield, has had a varied induction programme including meetings with senior management across the Company, briefings on key processes such as audit, governance, human resources and risk, together with meetings with external stakeholders such as the auditors, corporate brokers and analysts. Combined with his previous international experience and his clear capabilities, this induction programme has assisted him in making a valuable early contribution to our business.

The Board is collectively responsible for the long-term success of the Company. We take decisions only after the necessary level of information has been made available to us and with due consideration of all the relevant facts including the risk profile. The Board is always mindful of its obligations to act in the best interests of the Company, its shareholders and all its stakeholders.

We continually strive for best practice in our communications and I truly hope you find the revised format of the Corporate Governance report transparent and informative.

Sir John Parker
Chairman

Board focus during the year

- safety, including actions taken to reduce risks and improve performance;
- the rights issue and subsequent investor reaction;
- reorganisation of the Company and associated changes in Executive Director responsibilities announced 31 January 2011;
- risks associated with the political and regulatory landscape, including the US rate cases; and
- the performance evaluation process, including how the Board and its Committees could operate more effectively.

Expected Board focus for the next year

- safety, as part of the Chief Executive's monthly report;
- monitoring implementation of the reorganisation, including progress with anticipated efficiencies and associated employee relations issues;
- strategy sessions, including business development;
- UK and US regulatory updates;
- impact of the Bribery Act 2010;
- reviewing and implementing as appropriate the recommendations of the Davies Review;
- updates on the allocation of US expenses; and
- monitoring and discussing progress with Ofgem on price controls.

Governance framework

The Company is committed to operating our businesses in a responsible and sustainable manner. Our corporate governance framework forms an integral part of this approach in order to safeguard shareholder value. Our Company wide policies and procedures including risk management, which are referred to later in this report, are considered as part of the overall governance of the business. This report focuses on the Company's approach to corporate governance as provided in the Combined Code on Corporate Governance as revised in 2008 (the Code) which is applicable to the Company for the financial year being reported. The Company also has regard to, and regularly reviews, developing corporate governance best practice including matters contained in various investor guidelines.

The Board considers that it complied in full with the provisions of the Code during the year.

This report explains key features of the Company's governance structure and how it applies the principles of the Code, and includes reporting required by the Disclosure and Transparency Rules. The location within the Annual Report and Accounts of each of the disclosures required in the Directors' Report is set out in the index at the top of the following page.

Our Board

During the year, Steve Lucas retired following 10 years' service and Andrew Bonfield was appointed as Finance Director. Additionally, Mark Fairbairn stepped down from the Board at the year end, in conjunction with the reorganisation of the Company to a regional model. The Directors during the year are as set out on page 85.

Balance is considered a key requirement for the composition of the Board, not only in terms of the Executives and Non-executives, but also with regard to the mix of skills, experience, knowledge, independence and diversity. Biographical details for all the Directors can be found on pages 8 and 9, together with details of Board Committee memberships.

The role of the Board

During the year, the Board has reviewed its role and matters reserved for its consideration as part of a review of the Delegations of Authority. As a result of this review, minor changes to add clarity and update terminology were made to the matters reserved to the Board in September 2010.

The Board reserves a number of matters for its sole consideration where these matters impact the strategic direction and effective oversight of the Company and its businesses. Examples include:

- corporate governance, including policy and procedure statements, codes of conduct, the Delegations of Authority, the Framework for Responsible Business and Doing the Right Thing – Our Standards of Ethical Business Conduct;
- overall business strategy;
- financial policy, the budget and business plan;
- acquisitions or divestments;
- shareholder documents;
- Director/employee issues such as Director succession planning, with input and recommendations from the Nominations Committee; and
- stock exchange and listing requirements such as approval/recommendation of dividend and approval of results announcements, interim management statements and the Annual Report and Accounts.

A full description of the matters reserved to the Board and the framework and standards described above, together with other documentation relating to the Company's governance, are available on our website at www.nationalgrid.com.

In addition to the above matters reserved to the Board, certain items of strategic, operational or governance importance are considered at every scheduled Board meeting including:

- safety, health and the environment;
- financial status of the Company;
- operational headlines from the Company's businesses, together with a detailed update from one of the business areas on a rotating basis;
- business development and strategy implementation;
- external matters affecting the Company and any legal or new risk issues;
- reports from the Board Committees; and
- updates on the governance of the Company and its businesses.

The Board and its Committees

In order to operate effectively and to give appropriate attention and consideration to matters, the Board has delegated authority to its Committees to carry out certain tasks as defined in, and regulated by, the Committees' terms of reference, which are available on our website at www.nationalgrid.com. The Board has delegated to the Executive Committee responsibility for day-to-day management decisions. The Committee structure is set out on pages 84 and 85.

The Board is kept apprised by the Committee chairmen through the provision of a summary of the issues discussed and decisions taken by the Committee. Minutes of Committee meetings are circulated to other Directors once available and as appropriate.

Board members are required to attend Board and Committee meetings regularly in order to ensure they are kept up to date with the business and accordingly can contribute to meetings. Should any Director be unable to attend a meeting, the Chairman and Committee chairman are informed and the absent Director is encouraged to communicate opinions and comments on the matters to be considered. Instances of non attendance during the year were considered and determined as being reasonable in each case due to the individual circumstances.

In order to have the opportunity to discuss matters, for example relating to governance, independently of management, the Chairman and other Non-executive Directors meet formally at least once a year without Executive Directors or other members of management present. The Chairman and Non-executive Directors also meet formally at least once a year with the Chief Executive. Ad hoc meetings may also be held as required.

Non-executive Director independence

In order for the Non-executive Directors to contribute fully, and in particular to challenge the Executive Directors over strategic matters where appropriate, it is important the Non-executive Directors bring experience, probity and independence to the Board. Accordingly, the independence of the Non-executive Directors is considered at least annually along with their character, judgement, commitment and performance on the Board and relevant Committees.

The Board in its deliberations specifically took into consideration the Code and examples of indicators of potential non independence including length of service, with a particularly rigorous review for those Directors who have served greater than six years. Following this evaluation, each of the Non-executive Directors at year end has been determined by the Board to be independent notwithstanding that Ken Harvey, George Rose and Stephen Pettit have served on the Board for more than nine years when their appointments as directors of Lattice Group plc are included. The Board believes they have retained independent character and judgement and recognise the significant changes in the Company's operations over the years noting that Lattice Group plc had limited overseas operations and no electricity businesses. The Board acknowledges that some of its Non-executive Directors have been in tenure for a number of years and the Nominations Committee will be actively considering Board and Committee composition in the year ahead. The Board considers the varied and relevant experience of all the Non-executive Directors to be of great benefit to the Company.

Roles of the Chairman, Chief Executive and Senior Independent Director

In order to avoid the potential for apparent concentration of power in one individual, the Chairman and the Chief Executive have separate roles and responsibilities, which have been approved by the Board. The Chairman's main responsibility is the leadership

Corporate Governance continued

and management of the Board and its governance, ensuring a culture of openness which encourages active debate. He chairs the Board meetings ensuring that, for example, the forward agendas are appropriate, relevant business is brought to the Board for consideration in accordance with the schedule of matters reserved to the Board, the Delegations of Authority and the Board's strategic remit, and each Director has the opportunity to consider the matters brought to the meeting and to contribute accordingly.

The Chief Executive, as head of the Company's Executive team, retains responsibility for the leadership and day-to-day management of the Company and the execution of its strategy as approved by the Board. In addition to the other Executive Directors, key corporate executives report directly to the Chief Executive.

The Senior Independent Director, Ken Harvey, was appointed to this role in 2004. His responsibilities include leading the Non-executive Directors' annual consideration of the Chairman's performance and holding discussions with Non-executive Directors without Executive Directors or other members of management present as well as acting as a sounding board for the Chairman. He is also available to shareholders in the event they feel it inappropriate to communicate via the Chairman, the Chief Executive or the Finance Director. The Senior Independent Director did not meet with shareholders during the year.

Director induction, development and support

The Chairman, with the support of the Company Secretary & General Counsel, is responsible for the induction of new Directors and involved with ongoing development of all Directors. This includes a discussion on any personal development needs at the one-to-one meetings held with the Chairman as part of the performance evaluation process. On appointment to the Board, new Directors receive a tailored induction programme including one-to-one meetings with other Directors and senior management, and a Directors' information pack to provide background information on the Company's businesses and operations including issues relating to corporate responsibility. For further details of Andrew Bonfield's induction programme, see Chairman's foreword on page 80. Board meetings are regularly held at the Company's sites and additional visits are organised in order for the Directors to develop their understanding of the business.

Ongoing development for Non-executive Directors includes:

- informing them at each Board meeting of the latest training courses which may be of interest;
- attendance at key site visits;
- providing updates on legal, economic, corporate governance and best practice matters; and
- tailored management presentations.

For Executive Directors, coaching and development programmes include:

- external coaching;
- attendance at external training; and
- experience of other boardrooms through non-executive appointments.

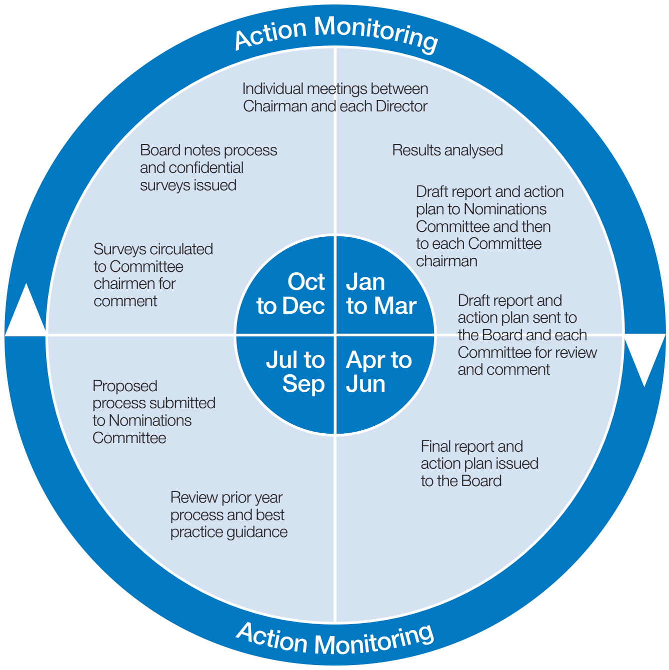
Accordingly, as part of their development and with the agreement of the Board, Steve Holliday, Andrew Bonfield, Nick Winser and the Company Secretary & General Counsel hold other directorships as set out on pages 8 and 9. The fees for these positions are retained by the Directors and the Company Secretary & General Counsel and details for Directors are on page 101.

The number and perceived responsibility of other directorships are considered annually to satisfy the Board that Directors do not have excessive commitments that could potentially affect the time they are able to devote to the Company. Prior to any new commitment, agreement is sought from the Chairman. The Board is satisfied that the Chairman and other Non-executive Directors, if required, would be available as needed outside their contracted hours.

The Company Secretariat is available to provide assistance and information on governance, corporate administration and legal matters to Directors as appropriate. Directors may also seek, at the Company's expense, advice directly from independent professional advisors should they so wish. This is in addition to the advice provided by independent advisors to the Board Committees. No such requests for external professional advice were received during the year.

Performance evaluation

Continuous improvement and development through a cycle of action monitoring and engagement is key to ensuring the Board and Board Committee processes, procedures and governance structures remain in line with best practice. Following a review of the appropriateness of the internal process, the Nominations Committee agreed the performance evaluation process remains robust. This year, the Board survey was supplemented with additional questions following Professor Andrew Kakabadse's (Professor of International Management Development, Cranfield School of Management) review last year and the Committee questionnaires were enhanced to reflect the UK Corporate Governance Code. The Nominations Committee also considers if an external party should be engaged to facilitate and/or perform the annual performance evaluation and going forward will take into account the requirements of the UK Corporate Governance Code to conduct an external evaluation at least every three years.



The 2010/11 process, led by the Chairman and assisted by the Company Secretary & General Counsel, was a formal and rigorous evaluation of the performance of the Board, its Committees and the Directors. A summary of the annual cycle for this process is set out in the diagram above.

A positive set of results was recorded once again across all surveys, indicating the Board and Committees are working effectively.

Examples of actions completed in 2010/11 and actions identified as a result of this year's evaluation are set out in the tables below.

Area	Actions completed 2010/11
Training and development	Enhancement of the Non-executive Directors' familiarity and interaction with each line of business. Responsibility: Board
Information and support	Development of a more standard presentation format for in depth line of business reviews, in order to promote consistency and ease of comparison. Responsibility: Executive Directors
Information and support	Greater transparency of key performance indicator data provided to the Board. Responsibility: Chief Executive

Area	Actions for 2011/12
Training and development	Ongoing review and assessment of training and development opportunities for Board members, including any areas of interest for training sessions to be delivered by internal or external parties. Responsibility: Board
Board composition	Review and agree clarity of succession planning focus between the Nominations Committee and the Board. Responsibility: Board and Nominations Committee
Role and structure	Continue to monitor and review advice from, and effectiveness of, advisors including appropriateness of each advisor. Responsibility: Remuneration and Risk & Responsibility Committees

Taking into account the views of the Executive Directors, the Non-executive Directors, led by the Senior Independent Director, reviewed the Chairman's performance at a private meeting. The Chairman's leadership and performance were considered to have been of a high standard.

Director appointment and election

Shareholders have the opportunity to consider the appointment and performance of each Director by voting in relation to their election or re-election as a Director at the Annual General Meeting (AGM). Following Andrew Bonfield's appointment during the year, he will seek election at the AGM. In accordance with best practice and our commitment last year, all Directors, with the exception of John Allan, will seek re-election this year as set out in the Notice of 2011 AGM.

In order to ensure transparency regarding the terms of their appointment, the service contracts (Executive Directors) and letters of appointment (Non-executive Directors) are available to our shareholders and may also be inspected at the AGM prior to the meeting. For further details regarding the Directors' service contracts and letters of appointment see pages 101 and 102 in the Directors' Remuneration Report.

Conflicts of interest

The Board continues to monitor and note possible conflicts of interest that each Director may have and Directors are reminded of their continuing obligations in relation to conflicts at each Board meeting. Potential conflicts are considered and, if appropriate, approved and noted, with the conflicted Director not voting on the matter. During the year ended 31 March 2011, the Board has been advised by the Directors of a number of situations in relation to which no actual conflict of interest was identified and has therefore authorised such situations in accordance with its powers.

Directors' indemnity

In addition to the Directors' and Officers' liability insurance cover for each Director, the Company has arranged, in accordance with the Companies Act 2006 and the Articles of Association, qualifying third party indemnities against financial exposure that Directors may incur in the course of their professional duties.

Code of Ethics

In accordance with US legal requirements, the Board has adopted a Code of Ethics for senior financial professionals. This code is available on our website at www.nationalgrid.com (where any amendments or waivers will also be posted). There were no amendments to, or waivers of, our Code of Ethics during the year.

Change of control provisions

No compensation would be paid for loss of office of Directors on a change of control of the Company. As at 31 March 2011, the Company had undrawn borrowing facilities with a number of its banks of £1.8 billion and a further £1.2 billion of drawn bank loans which, on a change of control of the Company following a takeover bid, may alter or terminate. All the Company's share plans contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time. No other agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid are considered to be significant in terms of their potential impact on the business as a whole.

Articles of Association

The Articles of Association set out the internal regulation of the Company and cover such matters as the rights of shareholders and the conduct of the Board and general meetings. Copies are available upon request and are displayed on the Company's website at www.nationalgrid.com. In accordance with the Articles of Association, Directors can be appointed or removed by the Board or shareholders in general meeting. Amendments to the Articles of Association have to be approved by at least 75% of those voting in person or by proxy at a general meeting of the Company. Subject to company law and the Articles of Association, the Directors may exercise all the powers of the Company, and may delegate authorities to Committees and day-to-day management and decision making to individual Executive Directors. The Committee structure is set out on pages 84 and 85.

Post balance sheet events

There have been no material post balance sheet events.

Corporate Governance continued

Our Board and Committee governance structure

The Board

The Board provides effective oversight of the Company and its businesses and determines the governance structure and strategic direction of the Company.

In order to operate efficiently and to give appropriate attention and consideration to matters, the Board has delegated authority to its Committees to carry out tasks as summarised below, with further details on the following pages.

Listed below is the Committee membership and attendance together with details of the other attendees who are invited to ensure the respective Committees receive relevant updates and background information.

Executive Committee

Role and focus
The Committee oversees the financial, operational and safety performance of the Company, taking management action it considers necessary to safeguard the interests of the Company and to further the strategy, business objectives and targets established by the Board.

Membership and attendance

Name	Attendance*
Committee chairman	
Steve Holliday	11 of 11
Executive Directors	
Andrew Bonfield **	5 of 5
Tom King	11 of 11
Nick Winser	11 of 11
Steve Lucas ***	8 of 8
Mark Fairbairn ****	11 of 11
Other members	
David Lister chief information officer	11 of 11
Helen Mahy Company Secretary & General Counsel	11 of 11
George Mayhew corporate affairs director	11 of 11
Mike Westcott global human resources director	11 of 11
Alison Wood global director of strategy and business development	11 of 11

Other attendees:
Senior management as necessary to keep the Committee fully apprised of the Company's businesses.

Finance Committee

Role and focus
The Committee sets policy and grants authority for financing decisions, bank accounts, credit exposure, control mechanisms for hedging and foreign exchange transactions, guarantees and indemnities and approves, or if appropriate recommends to the Board, other treasury, tax, pensions and insurance strategies.

Membership and attendance

Name	Attendance*
Committee chairman	
Maria Richter	5 of 5
Executive Directors	
Steve Holliday	5 of 5
Andrew Bonfield **	3 of 3
Steve Lucas ***	3 of 3
Non-executive Directors	
John Allan	5 of 5
Stephen Pettit	5 of 5

Other attendees:
- global director of tax and treasury;
- head of group tax;
- head of risk and insurance;
- global head of retirement plans;
- external advisors as appropriate; and
- management, as required.

Nominations Committee

Role and focus
The Committee is responsible for considering the structure, size and composition of the Board and for identifying and proposing individuals to be Directors and senior management, together with establishing the criteria for any new position.

Membership and attendance

Name	Attendance*
Committee chairman	
Sir John Parker	5 of 5
Non-executive Directors	
Ken Harvey	5 of 5
Maria Richter	5 of 5
George Rose	4 of 5

Other attendees:
- Chief Executive;
- global human resources director; and
- external advisors, as required.

Board composition, attendance and independence

Non independent

Name	Attendance*
Non-executive Chairman	
Sir John Parker	10 of 10
Chief Executive	
Steve Holliday	10 of 10
Executive Directors	
Andrew Bonfield **	4 of 5
Tom King	10 of 10
Nick Winser	9 of 10
Steve Lucas ***	7 of 7
Mark Fairbairn ****	10 of 10

Independent

Name	Attendance*
Non-executive Directors	
Ken Harvey (Senior Independent Director)	10 of 10
Linda Adamany	10 of 10
Philip Aiken	10 of 10
John Allan	10 of 10
Stephen Pettit	10 of 10
Maria Richter	10 of 10
George Rose	8 of 10

* Attendance is expressed as number of meetings attended out of number possible or applicable for the individual Director
** Andrew Bonfield was appointed to the Board on 1 November 2010
*** Steve Lucas retired on 31 December 2010
**** Mark Fairbairn left the Company on 31 March 2011

Remuneration Committee

Role and focus
The Committee is responsible for developing policy regarding executive remuneration, and determining the remuneration of the Executive Directors and certain executives below Board level. It also has oversight of the remuneration policies for other employees and provides direction over the Company's employee share plans.

Membership and attendance

Name	Attendance*
Committee chairman	
John Allan	9 of 9
Non-executive Directors	
Ken Harvey	9 of 9
Stephen Pettit	9 of 9
George Rose	8 of 9

Other attendees:
- Chairman;
- Chief Executive;
- global human resources director and global head of compensation & benefits; and
- independent external advisors.

Risk & Responsibility Committee

Role and focus
The Committee monitors and reviews the Company's non-financial risks and interfaces with the Audit Committee. The Committee is responsible for reviewing the strategies, policies, targets and performance of the Company within its Framework for Responsible Business.

Membership and attendance

Name	Attendance*
Committee chairman	
Stephen Pettit	4 of 4
Non-executive Directors	
Linda Adamany	4 of 4
Philip Aiken	4 of 4
Ken Harvey	4 of 4

Other attendees:
- Chief Executive;
- Company Secretary & General Counsel;
- director of UK safety, health and environment;
- US senior VP safety, health, environmental services;
- Executive Directors, as appropriate; and
- director of corporate audit or corporate affairs director on an alternate basis.

Audit Committee

Role and focus
The Committee has oversight of the Company's internal controls and their effectiveness, together with financial reporting and the procedures for the identification, assessment and reporting of risks. It also has oversight of the services provided by the external auditors and their remuneration.

Membership and attendance

Name	Attendance*
Committee chairman	
George Rose	6 of 6
Non-executive Directors	
Linda Adamany	6 of 6
Philip Aiken	6 of 6
Maria Richter	6 of 6

Other attendees:
- external auditors;
- Chairman;
- Chief Executive;
- Finance Director;
- director of corporate audit, financial controller, Company Secretary & General Counsel; and
- other Executive Directors, global director of tax and treasury, chief accountant and global head of risk management, as appropriate.

Reporting line

Disclosure committee

See page 88

Corporate Governance continued

Executive Committee

Steve Holliday
Committee chairman

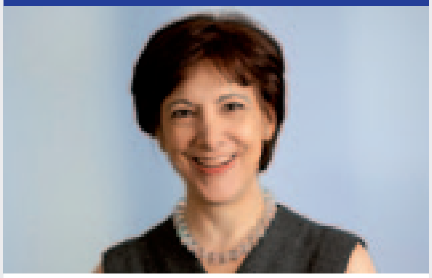
Review of the year
Examples of matters the Committee considered during the year include:

- the financial, operational, safety and environmental performance of the Company and its businesses, including process safety improvements;
- strategic business development and implementation, in particular the redesign of our organisational structure;
- approving capital and operational expenditure under the authorities delegated to it by the Board;
- global regulatory matters, including the UK price controls RIIO –T1 and RIIO –GD1, and US rate filings;
- business conduct, risk and compliance reports, including adequacy and effectiveness of internal control and risk management;
- employee issues such as inclusion and diversity, employee reward and succession planning; and
- global information systems strategic issues.

"Our focus this year has been on the delivery of our strategic actions, including the step up in our capital plan and regulatory developments. We have also reviewed and redesigned our organisational structure from a global line of business model to a regional model, as our customers and regulators look for a business more closely tuned to their needs. This represents an evolution in the way we run our business. We will of course continue to collaborate to share best practice and knowledge and maintain the value that we have gained from our global lines of business."

Steve Holliday

Finance Committee



Maria Richter
Committee chairman

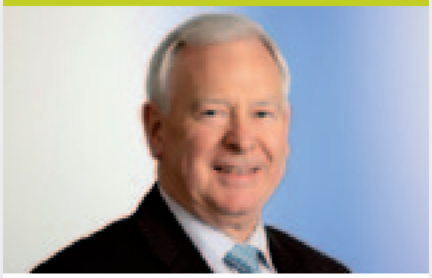
Review of the year
Examples of matters the Committee considered during the year include:

- transaction structure for the rights issue;
- debt management policy, with policy changes to take advantage of market conditions, an external presentation on the 2010 debt capital markets and key drivers for 2011;
- UK and US tax strategy;
- activities of the energy procurement risk management committee in the US;
- pensions update, including the funding status of all plans, discussions on actions to address funding deficits and their treatment in price control reviews;
- insurance, including a review of premium levels and liability policy limits; and
- approved financing to meet the Company's anticipated increased role in US energy efficiency programmes.

"It has been a particularly busy year for the Committee. We've considered several proposals between the scheduled meetings to enable the Company to remain competitive with its financing activities and to secure the best market deals available. Despite the uncertainties within the economy, I am pleased to say that our specialist finance, treasury, tax, insurance and pensions teams have all risen to the challenges and we remain well placed for the year ahead."

Maria Richter

Nominations Committee



Sir John Parker
Committee chairman

Review of the year
Appointment during the year
Andrew Bonfield was appointed to the Board on the recommendation of the Nominations Committee, which deemed him to be the most suitable candidate. The selection process undertaken in relation to this appointment was formal and rigorous with due regard to diversity, skills, experience and other time commitments. External recruitment consultants were engaged to ensure the widest possible candidate pool.

Examples of other matters the Committee considered during the year include:

- the size of the Board, its structure and composition;
- aspects of the performance evaluation process, see pages 82 and 83 for details;
- ongoing succession planning for Board members and senior management; and
- development plans for senior management, as proposed by the Chief Executive and global human resources director.

"Succession planning ensures the Company continues to be managed by people with the necessary skills, experience and knowledge and that the Board itself has the right balance of skills and experience to be able to perform its duties effectively. With the renewed focus on Board gender diversity, the Committee will continue to review Board succession aiming to ensure that, following the Davies Review, we can meet our aspirational goals."

Sir John Parker

Remuneration Committee

John Allan
Committee chairman

Review of the year
Examples of matters the Committee considered during the year include:

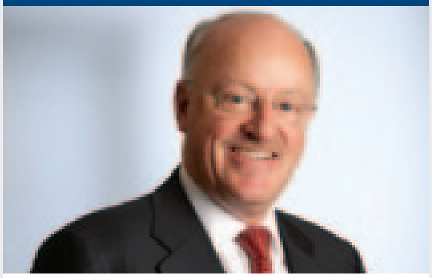
- impact of the rights issue on the employee share plans, including on the earnings per share performance condition in the Performance Share Plan;
- salary review proposals and performance objectives;
- compensation and benefit arrangements for departing and new Executive Directors;
- market trends in remuneration and benchmarking of individual roles;
- long-term ill health benefits within the defined contribution section of The National Grid UK Pension Scheme; and
- impact of UK income tax relief changes on pensions.

See Directors' Remuneration Report on pages 96 to 108 for further details on remuneration and remuneration policy, including Directors' interests in shares and in options to receive shares, and any changes that have occurred since 31 March 2011.

"Remuneration at Board and senior management level has again been firmly in the public eye over the last year. The Committee acknowledges that there is considerable focus on this topic and that decisions it makes must be fully justifiable. We have continued to consider the interests of shareholders, customers, regulators and other stakeholders as appropriate, which has been illustrated by the consultation with major shareholders in respect of the new Long Term Performance Plan."

John Allan

Risk & Responsibility Committee



Stephen Pettit
Committee chairman

Review of the year
Examples of matters the Committee considered during the year include:

- serious incident and near miss reports, such as an electric arc flash incident at a US substation, noting root causes and associated learning;
- climate change strategy, performance against targets and the challenges related to Scope III emissions;
- safety, health and environment audit plans and findings from such audits;
- progress toward embedding a security culture and actions being taken to improve digital and asset security;
- changes in the non-financial risk profile of the Company; and
- findings from the new external safety advisor and subsequent response from management.

"We undertook a number of site visits during the year starting with a tour of a US LNG site, which focused on process safety. We also went to a London electricity substation, where we gained a greater understanding of the issues associated with the failure of certain types of transformer and the actions being taken to manage them. Later in the year, we visited a Gas Distribution training centre in the UK, where we observed the work under way to increase our level of performance in the field. During all these visits, we were impressed by the commitment of everyone we met to safety – of themselves, their colleagues and the public."

Stephen Pettit

Audit Committee

George Rose
Committee chairman

Experience
As required, the Board has determined that George Rose, finance director of BAE Systems plc until 31 March this year, has recent and relevant financial experience and is a suitably qualified financial expert.

Review of the year
Examples of matters the Committee considered during the year include:

- developments in the US finance environment including recruitment to strengthen capabilities;
- accounting for goodwill, including an outline of the approach adopted for goodwill impairment testing;
- implications of the Bribery Act 2010, including a review of policies and procedures to ensure adequate controls are in place;
- the risk management process in Transmission, noting the principal risks; and
- the rights issue, including the transaction structure and the external auditors' review of working capital projections.

"The role and responsibilities of audit committees have come under continued scrutiny. During the year, the bodies responsible for oversight of financial reporting, both in the UK and internationally, have consulted on initiatives to improve the accountability and transparency of companies' reporting. We have observed closely and participated in these processes and aim to be at the forefront of transparent financial reporting. The Committee will continue to consider best practice reporting to stakeholders as an integral part of its business."

George Rose

Corporate Governance continued

Audit Committee

The Audit Committee, in accordance with the authority delegated to it by the Board, together with the Risk & Responsibility Committee, supports the Board with oversight of the risks facing the Company. It has primary responsibility for consideration of the transparency of reporting of financial performance of the Company to its stakeholders.

Regular updates are provided by management where issues are ongoing, as was the case with the Ofgem investigation into the inaccurate reporting of the gas mains replacement data and is currently the case with the review of the allocation of expenses in the US. Management is also required to demonstrate how the lessons learned from certain events have been implemented, including changes to systems and processes, in order to provide satisfactory assurance to the Committee, the Board and other stakeholders.

Financial reporting

The Audit Committee is responsible for reviewing the Company's results statements, interim management statements, Performance Summary and Annual Report and Accounts before publication, and making appropriate recommendations to the Board following review. The financial information in such documents, including in particular the consolidated accounts, is prepared and reviewed by experienced accountants in a specialist financial control team. When considering the financial information to be published, the director of investor relations attends the Audit Committee meeting and provides it with the opportunity to review particular drafting and content. In addition, the Committee also reviews reports of, and discusses any issues raised by, the disclosure committee (see below for more information).

Accounting policies are reviewed in the context of international accounting developments and regular reports are provided to the Committee on topical financial reporting matters from management and the external auditors. The Committee also considers best practice in light of the Company's operations and business environment. If there is scope under the accounting regulations for assumptions or judgements, the Committee is informed of management's suggested position in reporting financial performance and the views of the external auditors are also considered.

Disclosure committee

The role of the Company's disclosure committee is to assist the Chief Executive and the Finance Director in fulfilling their responsibility for oversight of the accuracy and timeliness of the disclosures made by the Company whether in connection with its financial reporting obligations or other material stock exchange announcements and presentations to analysts. It is chaired by the Finance Director and its members are the Company Secretary & General Counsel, the global director of tax and treasury, the financial controller, the director of investor relations, the director of corporate audit and the corporate counsel together with such other attendees as may be appropriate.

Accordingly, during the year the committee reviewed the process and controls over external disclosures and key documents before their release including the Annual Report and Accounts, the preliminary and half year results statements and the interim management statements, as well as the changes in Executive Directors and Company reorganisation. Additionally, the committee considered the announcement for the rights issue, as well as the financial information contained in the rights issue prospectus and the presentations made by the Chief Executive and the Finance Director on the day of announcement.

Confidential reporting procedures and whistleblowing

Any employee may, via National Grid's confidential helplines (one of which is run internally and one by an independent third party), raise concerns relating to potential fraud, health and safety, harassment, discrimination, security or any other matter. Such concerns can be raised anonymously if the employee wishes and employees are protected from any retaliation. The Company also ensures that a proportionate and independent investigation is undertaken in each case with disciplinary or other follow up action being taken as appropriate.

The Audit Committee reviews at least annually the procedures for the receipt, retention and treatment of complaints received to ensure that all concerns raised by employees are treated confidentially and are investigated and reported appropriately. Matters relating to business conduct and other relevant subjects within the Risk & Responsibility Committee's terms of reference are reported to the Audit Committee as appropriate.

All instances of alleged fraud, irrespective of the amounts involved, and actions taken as a result of fraud investigations, including consequential amendments to processes by management, are considered and reviewed by the Audit Committee.

Internal (corporate) audit

The Committee is responsible for monitoring and reviewing the effectiveness of internal audit activities. This includes discussions with the director of corporate audit without management present on the remit of the internal audit function and issues arising from its activities.

The appointment and removal of the director of corporate audit is subject to the approval of the Committee and that person is accountable to the Committee and works closely with it. The Committee receives, reviews and approves the corporate audit charter, the plan for the upcoming year's activities and ensures that the corporate audit function has sufficient resources to carry out its work effectively. The internal auditors provide regular reports on key control issues and significant control findings and management's response to such matters.

External audit

The Committee is responsible for making recommendations to the Board on the appointment, reappointment and fees of the external auditors, which are then subject to shareholder approval each year at the AGM. The lead partner from the external auditors and other senior representatives are invited to attend meetings to provide additional information to aid the Committee's discussions. Additionally, meetings of the Committee without management present are held at least annually so that the external auditors have the opportunity to raise any matters in confidence.

Auditor independence and objectivity

Safeguards are in place to eliminate, or reduce to an acceptable level, any threat to objectivity and independence in the conduct of the audit resulting from the provision of non-audit services by the external auditors, with this work being subject to prior approval by the Audit Committee. The engagement of the external auditors for non-audit services is also restricted by the Sarbanes-Oxley Act 2002, which prohibits them from providing certain services. Where a service is permissible, the Company's policy is that the external auditors will not be used for non statutory audit work unless it can be demonstrated as part of the approval process the engagement will not compromise independence, is a natural extension of their audit work or there are other overriding reasons that make them the most suitably qualified to undertake it. The non-audit services in the year ended 31 March 2011 related primarily to work in connection with the rights issue and tax advice. Approval was given for the provision of non-audit services by the external auditors where the services were legally required to be provided, as in the case of the rights issue, were otherwise closely related to the statutory audit, or where the Audit Committee was satisfied that the external auditors were able to provide better value for money or had specialist knowledge not available from other providers. Details of the fees paid to the external auditors for non-audit work carried out during the year can be found in note 2(e) to the consolidated financial statements on page 128.

An annual review is conducted by the Committee of the level and constitution of external audit and non-audit fees and the independence and objectivity of the external auditors, including an evaluation of the external audit process globally, incorporating a review of the expertise of the audit firm and our relationship with them.

Following the latest annual review, the Committee is satisfied with the effectiveness, objectivity and independence of the external auditors, who have been engaged since the merger with Lattice Group plc in 2002, and they will be recommended to shareholders for reappointment at the AGM. There are no contractual obligations restricting the Company's choice of external auditors and no auditor liability agreement has been entered into by the Company. The external auditors are required to rotate the audit partner responsible for the Company every five years and a new partner was appointed during the year.

In addition to the annual review of the service provided by the external auditors, the Committee considers formally at least every three years whether the audit might be provided more efficiently or effectively by an alternative audit firm. However, the Company may put the audit out to tender at any time.

Audit information

Having made the requisite enquiries, so far as the Directors in office at the date of the signing of this report are aware, there is no relevant audit information of which the auditors are unaware and each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Internal control, risk and compliance

The Audit Committee regularly considers the effectiveness of the Company's financial reporting, internal controls and compliance with applicable legal requirements. The Committee monitors risk and compliance management procedures across the Company and reviewed specific risks during the year, details of which can be found below and on pages 91 to 93.

The Committee also receives reports from the business separation compliance officer via the compliance committees as required under National Grid Gas plc's gas transporter licences. The Committee oversees the business separation compliance officer's role in ensuring that no unfair commercial advantage is conferred by the UK regulated gas transportation businesses on any National Grid business. Robust systems are in place to prevent this and the business separation compliance officer monitors the situation and reports his findings to the Committee.

The Committee reviews the Company's systems for risk identification, how the risks are graded and what methods are employed to mitigate those risks. During the year, the Committee also received regular updates on the status of the risks and any changes, including lessons learned from other companies and industries and the Bribery Act 2010.

As with the risk management process, the Audit Committee also reviews the compliance management process at least once a year and reports on this to the Board. The compliance management process also contributes toward the entity level testing that is performed under the Sarbanes-Oxley Act 2002, as well as some of the Company's other internal assurance activities.

Risk management and internal control

The Board is committed to the long-term success of the Company and the protection of the value of our reputation and assets. The Board ensures that the Company maintains a sound system of internal control in order to safeguard the interests of our shareholders. An effective system of operational and financial controls, including the maintenance of qualitative financial records, is an important element of internal control.

In order to understand the risks and potential control issues facing the Company, the following sections as well as pages 36 and 37 in the Operating and Financial Review should be considered. The system of internal control, and in particular the risk management policy, has been designed to manage rather than eliminate material risks to the achievement of our strategic and business objectives while also recognising that any such process can provide only reasonable, and not absolute, assurance against material misstatement or loss. This process complies with the Turnbull working party guidance, revised October 2005, and additionally contributes to our compliance with the obligations under the Sarbanes-Oxley Act 2002 and other internal assurance activities.

Framework

In accordance with the Code and the schedule of matters reserved to the Board, the Board retains overall responsibility for the Company's system of internal control and monitoring its effectiveness. There is an established system of internal control throughout the Company and its businesses. This system is based on thorough and systematic processes for the identification and assessment of business critical risks and their management and monitoring over time. In depth reports are provided from both line managers and certain internal assurance providers such as corporate audit and risk and compliance. These reports are provided to the Board Committees in relation to their specific areas of responsibility. The Committees then, in turn, provide reports to the Board.

Review

The Board reviews the internal control process, including around financial reporting, and its effectiveness on an annual basis to ensure it remains robust and to identify any control weaknesses. The latest review covered the financial year to 31 March 2011 and included the period to the approval of this Annual Report and Accounts.

This review includes:

- the receipt of a Letter of Assurance from the Chief Executive, which consolidates key matters of interest raised through the year-end assurance process;
- assurance from its Committees as appropriate, with particular reference to the reports received from the Audit Committee and Risk & Responsibility Committee on the reviews undertaken at their respective meetings; and
- assurances in relation to the certifications required under the Sarbanes-Oxley Act 2002 as a result of the Company's NYSE listing.

Corporate Governance continued

Risk management

Our risk management programme is designed to protect value and enhance performance by building vigilance, agility and resilience into our management process. We continue to have a well established, enterprise wide risk management process that ensures our business leaders look to the future to identify risks to our strategic plan. Once identified, the process ensures that risks are assessed against a uniform set of criteria, continuously managed and regularly reported in a visible and structured manner. We rely on the output of this process both to inform management decisions and to provide assurance to management and the Board, thus helping to safeguard our assets and reputation.

The risk management process is based on comprehensive bottom-up and top-down assessments of a wide range of risks, which typically include operational (including safety and reliability), financial, strategic and project. All businesses and the corporate and global functions that support them, prepare and maintain risk registers that capture their key risks and the actions being taken to manage them. Executive Directors and other senior management review, challenge and debate these bottom-up results, thereby producing an overall evaluation of the risks facing the Company. The Executive, Audit and Risk & Responsibility Committees review the risk profile and any changes to it in accordance with their terms of reference, and the Audit Committee reviews the overall risk management process.

The risk management process is subject to regular review. In the last year, a comprehensive assessment of the process has been undertaken and we are currently implementing a number of enhancements. A closer alignment with the activities of the corporate strategy, corporate audit and Sarbanes-Oxley compliance functions has been achieved as a result. Additionally, new analytical tools that support the strategic planning process have been developed, together with a risk based process to better evaluate the safety risks associated with key facilities, such as electricity generation plants, LNG facilities and compressor stations. Also in progress is the implementation of a state of the art governance risk and compliance system that will improve our ability to link risks, automate risk metrics and capture a full range of assurance data.

Compliance management

Our enterprise wide compliance management process is comprehensive, well established and continues to provide visibility on performance against key internal and external obligations. The process provides assurance to senior management on the effectiveness of control frameworks to manage key internal and external obligations and also highlights any instances of significant non compliance with those obligations. Our external obligations are driven primarily by key legal and regulatory requirements, whereas our internal obligations focus on compliance with the Company's own corporate policies and procedures.

In examining a business area's compliance performance, we look for any actual or potential instances of non compliance and consult with other assurance providers such as internal and external auditors, and frequently review the effectiveness of communications and training programmes. Before issuing an opinion on an area's compliance control framework, we obtain the views of experts in the field such as internal safety and environmental experts.

The compliance management process is consistent with, and complementary to, our risk management process and provides, among other things, a more detailed breakdown of the risk of non compliance with laws, regulations, standards of service, corporate policies and procedures.

The Executive, Risk & Responsibility and Audit Committees each receive a report twice a year setting out the key internal and external compliance obligations across the Company and any significant non compliance with those obligations, together with compliance opinions and action plans to improve controls where necessary.

Internal control

Internal control – information assurance

The Board considers that it is imperative to have accurate and reliable information within the Company to enable informed decisions to be taken that further the Company's objectives. Key elements in managing information assurance risks include education, training and awareness.

These initiatives emphasise the importance of information security, the quality of data collection and the affirmation process that supports our business transactions, evidencing our decisions and actions. All communication channels, including training for our newly revised Doing the Right Thing, make it clear that the accurate and honest reporting of data must never be compromised. These initiatives are supported by the Letter of Assurance process in which managers affirm, among other things, that they have control frameworks in place to ensure data is reported accurately.

The Company continues to work collaboratively with a variety of organisations and professional bodies to develop and implement best practice, examples being the Institute of Business Ethics in the UK and the Ethics and Compliance Officer Association in the US.

Internal control over financial reporting – Sarbanes-Oxley

National Grid has carried out an assessment of its internal control over consolidated financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act 2002 and the Disclosure and Transparency Rules. The management of the Company, which is responsible under the Sarbanes-Oxley Act 2002 for establishing and maintaining an adequate system of internal control over consolidated financial reporting, evaluated the effectiveness of that system using the Committee of Sponsoring Organizations of the Treadway Commission framework. Based on that evaluation, the management of the Company expects to conclude in its Annual Report on Form 20-F filing with the US Securities and Exchange Commission that the system of internal control over consolidated financial reporting was effective as at 31 March 2011.

Risk factors

Our risk management process has identified the following risk factors that could have a material adverse effect on our business, financial condition, results of operations and reputation, as well as the value and liquidity of our securities. Not all of these factors are within our control. Any investment decision regarding our securities and any forward-looking statements made by us should be considered in the light of these risk factors and the cautionary statement set out on the back cover.

Changes in law or regulation and decisions by governmental bodies or regulators

Many of our businesses are utilities or networks that are subject to regulation by governments and other authorities.

Changes in law or regulation or regulatory policy and precedent in the countries or states in which we operate (including the new RIIO approach in the UK) could materially adversely affect us. Decisions or rulings concerning, for example:

- whether licences, approvals or agreements to operate or supply are granted or are renewed or whether there has been any breach of the terms of a licence, approval or regulatory requirement; and
- timely recovery of incurred expenditure or obligations, the ability to pass through commodity costs, a decoupling of energy usage and revenue and other decisions relating to the impact of general economic conditions on us, our markets and customers, implications of climate change, remuneration for stranded assets, the level of permitted revenues and dividend distributions for our businesses and in relation to proposed business development activities,

could have a material adverse impact on our results of operations, cash flows, the financial condition of our businesses and the ability to develop those businesses in the future.

For further information, see the Operating and Financial Review and, in particular, the operating environment section.

Potentially harmful activities, the environment and climate change

Aspects of our activities are potentially dangerous and could potentially harm members of the public and our employees, such as the operation and maintenance of electricity generation facilities and electricity lines and the transmission and distribution of gas. We are subject to laws and regulations in the UK and US governing health and safety matters protecting the public and our employees. Electricity and gas utilities also typically use and generate in their operations hazardous and potentially hazardous products and by-products. In addition, there may be other aspects of our operations that are not currently regarded or proved to have adverse effects but could become so, such as the effects of electric and magnetic fields.

We are subject to laws and regulations relating to pollution, the protection of the environment, and the use and disposal of hazardous substances and waste materials. These expose us to costs and liabilities relating to our operations and our properties whether current, including those inherited from predecessor bodies, or formerly owned by us and sites used for the disposal of our waste. The cost of future environmental remediation obligations is often inherently difficult to estimate and uncertainties can include the extent of contamination, the appropriate corrective actions and our share of the liability. We are increasingly subject to regulation in relation to climate change and are affected by requirements to reduce our own carbon emissions as well as reduction in energy use by our customers.

We commit significant expenditure toward complying with these laws and regulations and to meeting our obligations under negotiated settlements. If additional requirements are imposed, or our ability to recover these costs under regulatory frameworks changes, this could have a material adverse impact on our businesses, results of operations and financial position. Furthermore, any breach of our regulatory or contractual obligations, or our climate change targets, or even incidents that do not amount to a breach, could materially adversely affect our results of operations and our reputation.

For further information about environmental, climate change and health and safety matters relating to our businesses, see the Corporate responsibility section of our website at www.nationalgrid.com.

Network failure or interruption, the inability to carry out critical non network operations and damage to infrastructure

We may suffer a major network failure or interruption or may not be able to carry out critical non network operations. Operational performance could be materially adversely affected by a failure to maintain the health of the system or network, inadequate forecasting of demand, inadequate record keeping or control of data or failure of information systems and supporting technology. This could cause us to fail to meet agreed standards of service or incentive and reliability targets or be in breach of a licence, approval, regulatory requirement or contractual obligation, and even incidents that do not amount to a breach could result in adverse regulatory and financial consequences, as well as harming our reputation.

In addition to these risks, we may be affected by other potential events that are largely outside our control such as the impact of weather (including as a result of climate change), unlawful or unintentional acts of third parties, insufficient supply or force majeure. Weather conditions, including prolonged periods of adverse weather, can affect financial performance and severe weather that causes outages or damages infrastructure will materially adversely affect operational and potentially business performance and our reputation. Malicious attack, sabotage or other intentional acts may also damage our assets or affect corporate activities and as a consequence have a material adverse impact on our results of operations and financial condition. Even where we establish business continuity controls, these may not be sufficient.

Corporate Governance continued

Business performance	Earnings maintenance and growth from our regulated businesses will be affected by our ability to meet or exceed efficiency and integration targets and service quality standards set by, or agreed with, our regulators. In addition, from time to time, we publish cost and efficiency savings targets for our businesses. If we are to meet these targets and standards, perform well against our peers, meet the expectations of our stakeholders and deliver our business plan, we must continue to improve operational performance, service reliability and customer service and continue to invest in our infrastructure and the development of our information technology. We are also restructuring our organisation and carrying out other major internal transformation projects. If we do not meet these targets and standards, deliver our business plan or implement the restructuring or transformation projects as envisaged, we may not achieve the expected benefits, our business may be materially adversely affected and our performance, results of operations and reputation may be materially harmed.
Exchange rates, interest rates and commodity price indices	We have significant operations in the US and we are therefore subject to the exchange rate risks normally associated with non domestic operations, including the need to translate US assets and liabilities, and income and expenses, into sterling, our primary reporting currency. In addition, our results of operations and net debt position may be affected because a significant proportion of our borrowings, derivative financial instruments and commodity contracts are affected by changes in exchange rates, interest rates and commodity price indices, in particular the dollar to sterling exchange rate. Furthermore, our cash flow may be materially affected as a result of settling hedging arrangements entered into to manage our exchange rate, commodity and interest rate exposure, or by cash collateral movements relating to derivative market values, which also depend on euro and other exchange rates. For further information see the financial performance section of the Operating and Financial Review.
Borrowing and debt arrangements, funding costs, tax, access to financing and holding company	Our business is financed through cash generated from ongoing operations, bank lending facilities and the capital markets, particularly the long-term debt capital markets. Some of the debt we issue is rated by credit rating agencies and changes to these ratings may affect both our borrowing capacity and the cost of those borrowings. In addition, restrictions imposed by regulators may limit the manner in which we service the financial requirements of our current businesses or the financing of newly acquired or developing businesses. The effective rate of tax we pay may be influenced by a number of factors including changes in law and accounting standards, the results of which could increase that rate and therefore have a material adverse impact on our results of operations. Financial markets can be subject to periods of volatility and shortages of liquidity and, if we were unable to access the capital markets or other sources of finance at competitive rates for a prolonged period, our cost of financing may increase, the uncommitted and discretionary elements of our proposed capital investment programme may need to be reconsidered and the manner in which we implement our strategy may need to be reassessed. The occurrence of any such events could have a material adverse impact on our business, results of operations and prospects. In addition, National Grid plc is a holding company and, as such, has no revenue generating operations of its own. As a result, National Grid plc depends on (i) the earnings and cash flows of its operating subsidiaries, (ii) the ability of its subsidiaries to pay dividends (which may be restricted due to legal or regulatory constraints or otherwise), (iii) subsidiaries repaying funds due to it and (iv) the maintenance by its subsidiaries of certain minimum credit ratings (which also depend on the credit rating of National Grid plc). If National Grid plc's subsidiaries are unable to achieve any of the foregoing, National Grid plc may be unable to pay dividends and there may be a material adverse impact on its operations, costs associated with financing or its ability to access the capital markets or other forms of bank financing at competitive rates.
Inflation	Our income under our price controls in the UK is linked to the retail price index. During a period of inflation our operating costs may increase without a corresponding increase in the retail price index and therefore without a corresponding increase in UK revenues. Our income under the rate plans in the US is not typically linked to inflation. In periods of inflation in the US, our operating costs may increase by more than our revenues. In both the UK and US such increased costs may materially adversely affect our results of operations.
Business development activity	Business development activities, including acquisitions and disposals, entail a number of risks, including an inability to identify suitable acquisition opportunities or obtain funding for such acquisitions, that such transactions may be based on incorrect assumptions or conclusions, the inability to integrate acquired businesses effectively with our existing operations, failure to realise planned levels of synergy and efficiency savings from acquisitions, unanticipated operational, financial and tax impacts (including unanticipated costs) and other unanticipated effects. We may also be liable for the past acts, omissions or liabilities of companies or businesses we have acquired, which may be unforeseen or greater than anticipated at the time of the relevant acquisition. The occurrence of any of these events could have a material adverse impact on our results of operations or financial condition, and could also impact our ability to enter into other transactions.

Funding of our pension schemes and other post-retirement benefits	We participate in a number of pension schemes that together cover substantially all our employees. In both the UK and US, the principal schemes are defined benefit schemes where the scheme assets are held independently of our own financial resources. In the US, we also have other post-retirement benefit schemes. Estimates of the amount and timing of future funding for these schemes are based on actuarial assumptions and other factors including the actual and projected market performance of the scheme assets, future long-term bond yields, average life expectancies and relevant legal requirements. The impact of these assumptions and other factors may require us to make additional contributions to these pension schemes which, to the extent they are not recoverable under our price controls or state rate plans, could materially adversely affect our results of operations and financial condition.
Customers and counterparty risk	Our operations are exposed to the risk that customers and counterparties to our transactions that owe us money or commodities will not perform their obligations, which could materially adversely affect our financial position. This risk is most significant where our subsidiaries have concentrations of receivables from gas and electricity utilities and their affiliates, as well as industrial customers and other purchasers and may also arise where customers are unable to pay us as a result of increasing commodity prices or adverse economic conditions. A substantial portion of our US electricity distribution and generation business's revenues are derived from a series of agreements with the Long Island Power Authority (LIPA) pursuant to which we manage LIPA's transmission and distribution system and supply the majority of LIPA's generating capacity. These agreements are largely scheduled to expire in 2013. If these agreements are not renewed, our income may be reduced and we may suffer stranded costs, for which we may not be remunerated.
Employees and others	Our ability to implement our long-term business strategy depends on the capabilities and performance of our personnel. Loss of key personnel or an inability to attract, train or retain appropriately qualified personnel (in particular for technical positions where availability of appropriately qualified personnel may be limited), or if significant disputes arise with our employees, our ability to implement our long-term business strategy may be affected and there may be a material adverse effect on our business, financial condition, results of operations and prospects. There is a risk that an employee or someone acting on our behalf commits a breach of anti-bribery legislation or otherwise commits a breach of our internal controls or internal governance framework. This could impact our results of operations, our reputation and our relationship with our regulators and other stakeholders.
Seasonal fluctuations	Our electricity and gas businesses are seasonal businesses and are subject to weather conditions. In particular, revenues from our gas distribution networks in the US are weighted towards the end of our financial year, when demand for gas increases due to colder weather conditions. As a result, we are subject to seasonal variations in working capital because we purchase gas supplies for storage in the first half of our financial year and must finance these purchases. Accordingly, our results of operations for this business fluctuate substantially on a seasonal basis. In addition, portions of our electricity businesses are seasonal and subject to weather and weather related market conditions. Sales of electricity to customers are influenced by temperature changes. Significant changes in heating or cooling requirements, for example, could have a substantial effect. As a result, fluctuations in weather and competitive supply between years may have a significant effect on our results of operations for both gas and electricity businesses.

Corporate Governance continued

Shareholder and share capital information

Shareholders

Our aim is to ensure the appropriate value of our business is fully reflected in our share price and that capital markets have up-to-date information on which to base their decisions.

The Company considers it has an effective and open process of engagement with all shareholders through its regular communications, the AGM and other investor relations activities.

In line with established best practice and in support of The UK Stewardship Code for institutional investors, the Board has responsibility for ensuring effective communication takes place with all shareholders and it considers carefully major announcements to the market. Relations with shareholders are managed mainly by the Chief Executive, Finance Director and director of investor relations. Meetings are held regularly throughout the year with institutional investors, fund managers and analysts to discuss the public disclosures and announcements made by the Company.

The Chairman also writes to major shareholders following the announcement of the Company's preliminary and half year results to offer them the opportunity to meet with him, the Senior Independent Director or any of the other Non-executive Directors. This enables major shareholders to take up with these individuals any issue they feel unable to raise with members of the Executive team.

The Board receives feedback from the Company's brokers and the director of investor relations to ensure that they are aware of and understand the views of our shareholders. An independent audit of investor sentiment is also undertaken on a periodic basis and presented to the Board in full. In addition, analysts' notes on the Company are also circulated regularly to Directors for their information.

During the year we conducted over 250 investor meetings in the UK and Europe and 220 investor meetings in the US, maintaining a presence at five UK and European conferences and at 10 North American conferences. We presented to 16 broker sales teams and held three web based presentations, covering UK and US regulation and the Company reorganisation. We also presented to debt investors in the major European financial centres, as well as across the US.

Following the appointment of Andrew Bonfield, a number of meetings were arranged, either as part of established roadshows or separately, to introduce him to major shareholders and analysts.

Issues relevant to our smaller shareholders are also considered by the Board. During the year ended 31 March 2011, the Company offered initiatives such as duplicate account amalgamation, a low cost share dealing service for sales and purchases, the shareholder networking programme and cost reduction of calls to Capita Registrars.

Shareholder networking

The shareholder networking programme, which is normally run twice a year with each event over two days, includes visits to UK operational sites and presentations by senior managers and employees. The costs of the programme (including shareholder travel to and from the event) are paid for by the Company. Open to UK resident shareholders, participation is by application and selection by ballot, with priority given to those who have not recently attended.

If you would like to take part please apply online at www.nationalgrid.com/corporate/Investor+Relations/ShareholderServices/ShareholderNetworking/. There is also the opportunity to apply in person at the AGM. Only those successful in the ballot will be contacted.

Annual General Meeting

National Grid's 2011 AGM will be held on Monday 25 July 2011 at The International Convention Centre in Birmingham. Details are set out in the Notice of AGM.

Share capital

The share capital of the Company consists of ordinary shares of $11\frac{17}{43}$ pence nominal value each and American Depositary Shares (ADSs) only. The ordinary shares and ADSs allow holders to receive dividends and vote at general meetings of the Company. Shares held in treasury do not attract a vote or dividends. There are no restrictions on the transfer or sale of ordinary shares.

Some of the Company's employee share plans, details of which are contained in the Directors' Remuneration Report, include restrictions on transfer of shares while the shares are subject to the plan.

Where, under an employee share plan operated by the Company, participants are the beneficial owners of the shares but not the registered owner, the voting rights may be exercised by the registered owner at the direction of the participant.

A number of our share plans have been reviewed this year. The all-employee share plans, namely the Sharesave Plan, Share Incentive Plan and Employee Stock Purchase Plan, are subject to shareholder approval or reapproval under corporate governance guidelines with minor, administrative changes being suggested. With respect to the Performance Share Plan, the long term incentive plan for the most senior employees, all aspects of the plan have been reviewed and a replacement plan, the Long Term Performance Plan, is to be presented for approval by shareholders at this year's AGM.

Further details of the operation of this new plan and changes to the other plans can be found in the Directors' Remuneration Report. Resolutions regarding the reapproval of the plan rules for the Share Incentive Plan and Employee Stock Purchase Plan and the approval of the plan rules for the Sharesave Plan and the new Long Term Performance Plan are set out in the Notice of AGM.

At the Company's 2010 AGM, shareholder authority was given to purchase up to 10% of the Company's ordinary shares. The Directors intend to seek shareholder approval to renew this authority at this year's AGM. No shares were repurchased during the year. Of the shares repurchased in prior years and held in treasury, 3,951,389 have been transferred to employees under the employee share plans and, as at the date of this report, 137,141,164 were held in treasury.

Shareholders also approved the authority for the Directors to allot relevant securities up to approximately one third of the issued share capital and a further third in connection with an offer by way of a rights issue. The Directors intend to seek shareholder approval to renew this authority at this year's AGM, details of which are contained in the Notice of AGM.

The Directors consider it desirable to have the maximum flexibility permitted by investor guidelines to respond to market developments. No issue of shares will be made which would effectively alter control of the Company without the sanction of shareholders in general meeting. Each authority will be subject to renewal annually.

The Directors currently have no intention of issuing new shares, or of granting rights to subscribe for or to convert any security into shares, except in relation to the Company's Scrip Dividend Scheme and in connection with the exercise of options under the Company's share schemes.

Dividends

The Company normally pays dividends twice each year, in accordance with the timetable set out on page 188. We encourage shareholders to elect to have their dividends paid directly into their bank or building society account. As well as being convenient for the shareholder, as the dividend will normally reach their account on the day of payment, there will be no delays from paying in or losing cheques.

Shareholders can elect to acquire further National Grid ordinary shares without payment of dealing charges or stamp duty reserve tax through the Scrip Dividend Scheme. Details and an application form are available from Capita Registrars for ordinary shareholders, or from Bank of New York Mellon for ADS holders, contact information is set out on the back cover. Ordinary shareholders can also elect to participate in the Scrip Dividend Scheme at www.nationalgridshareholders.com.

The Directors are recommending a final dividend of 23.47 pence per ordinary share ($1.9005 per ADS) to be paid on 17 August 2011 to shareholders on the register at 3 June 2011. Further details in respect of dividend payments can be found on pages 55 and 56.

Shareholdings

Shareholder analysis

The following table includes a brief analysis of shareholder numbers and shareholdings as at 31 March 2011:

Size of shareholding	Number of shareholders	% of shareholders	Number of shares	% of shares
1–50	190,832	17.3231	5,656,922	0.1551
51–100	309,117	28.0606	21,879,729	0.5997
101–500	475,163	43.1337	98,764,846	2.7071
501–1,000	62,591	5.6818	43,761,154	1.1995
1,001–10,000	60,728	5.5127	148,499,028	4.0703
10,001–50,000	2,095	0.1902	37,952,684	1.0403
50,001–100,000	204	0.0185	14,789,851	0.4054
100,001–500,000	424	0.0385	101,943,724	2.7942
500,001–1,000,000	155	0.0140	114,266,975	3.1320
1,000,001+	296	0.0269	3,060,824,562	83.8964
Total	**1,101,605**	**100**	**3,648,339,475**	**100**

Material interests in shares

As at the date of this report, National Grid had been notified of the following holdings in voting rights of 3% or more in the issued share capital of the Company:

	% of voting rights
Black Rock Inc	5.21
Capital Group Companies, Inc	5.04
Crescent Holding GmbH	4.31
Legal and General Group plc	3.99

No further notifications have been received.

Share dealing, individual savings accounts (ISAs) and ShareGift

A share dealing service is available from Capita Registrars. For more information please call 0800 022 3374 or +44 203 367 2693 if calling from outside the UK or visit www.capitadeal.com/nationalgrid. Lines are open from 8am to 4.30pm Monday to Friday. High street banks may also offer share dealing services. Corporate ISAs for National Grid shares are available from Stocktrade. For more information, call Stocktrade on 0131 240 0443 or 0845 213 4443, email isa@stocktrade.co.uk or write to Stocktrade, 81 George Street, Edinburgh EH2 3ES.

If you hold only a few shares and feel that it is uneconomical or otherwise not worthwhile to sell them, you could consider donating your shares to charity. ShareGift is an independent registered charity (no. 1052686) that provides a free service for shareholders wishing to give holdings of shares to benefit charitable causes. For more information please visit www.sharegift.org or call Capita Registrars, see contact details on the back cover.

These details are provided for information only and any action you take is at your own risk. National Grid cannot advise you on what action, if any, you should take in respect of your shares. If you have any doubt as to the action you should take, you are recommended to seek your own financial advice from your stockbroker, bank manager, accountant or other independent financial advisor authorised pursuant to the Financial Services and Markets Act 2000.

Corporate governance practices: differences from New York Stock Exchange (NYSE) listing standards

As the Company has a US listing, it is required to disclose differences in corporate governance practices adopted by the Company as a UK listed company, compared with those of a US company. The corporate governance practices of the Company are primarily based on UK requirements but substantially conform to those required of US companies listed on the NYSE. The principal differences between the Company's governance practices pursuant to the Code and UK best practice and the Section 303A Corporate Governance Rules of the NYSE are:

- different tests of independence for Board members are applied under the Code and Section 303A;
- there is no requirement for a separate corporate governance committee in the UK; all Directors on the Board discuss and decide upon governance issues and the Nominations Committee makes recommendations to the Board with regard to certain of the responsibilities of a corporate governance committee;
- while the Company reports compliance with the Code in each Annual Report and Accounts, there is no requirement to adopt and disclose separate corporate governance guidelines; and
- while the Audit Committee, having a membership of four independent Non-executive Directors, exceeds the minimum membership requirements under Section 303A of three independent Non-executive Directors, it should be noted that the quorum for a meeting of the Audit Committee, of two independent Non-executive Directors, is less than the minimum membership requirements under Section 303A.