



Tax Strategy

March 2020

nationalgrid

As part of the requirement under the 2016 Finance Act, we are publishing our tax strategy for the year ended 31 March 2020. National Grid's tax strategy does not change significantly from year to year and remains in line with the Group's purpose and values. It is a global tax strategy and the principles apply across all our relevant jurisdictions including the UK.

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Introduction

Who are we



Andy Agg
Group Chief Financial Officer

National Grid plc is one of the world's largest investor-owned energy utilities, committed to delivering electricity and gas safely, reliably and efficiently to the customers and communities we serve. National Grid operates at the heart of the energy system, connecting millions of people to the energy they use. As an electricity and gas utility focused on transmission and distribution business, we have activities in both the UK and the US.

UK regulated – We own and operate the high-voltage electricity transmission network in England and Wales. We also own and operate the high-pressure gas transmission network in Great Britain. On 1 April 2019, our role and activity as the Electricity System Operator was transferred into a separate company within National Grid.

US regulated – We both own and operate electricity transmission facilities, electricity distribution and gas distribution networks across various north-eastern US states.

National Grid Ventures and Other activities – National Grid Ventures manages our diverse portfolio of energy businesses that are adjacent to our core regulated operations. The business comprises all commercial operations in energy metering, transporting primarily renewable energy long distances through our electricity interconnectors and storing liquefied natural gas (LNG) in the UK. In November 2018, we established National Grid Partners with a focus on investment and future activities in emerging growth areas. Other activities mainly relate to UK property activities.

For us, being a responsible business means being a good citizen and being involved in social progress, which covers every aspect of our work. In today's world, business needs to be a positive force for good. This belief is critical to the way we work and why we do what we do. We believe the way our Company affects the economy, environment and society is just as important as our financial returns.

We believe all companies should act responsibly by playing an active role in the communities where they operate and where employees live. We work hard to help communities by supporting initiatives that are important to them and that will help deliver long-term benefits to society. In May 2018, we launched our first Responsible Business Policy to help govern our responsible business activities.

Our values are unambiguous: every day we do the right thing and find a better way and they define the mindset and behaviours important to our business and guide us to achieve the right outcomes and our desired culture. Our key values underpin our published Code of Ethical Business Conduct which sets out the standards and behaviours we expect at National Grid. In fact, National Grid was recognised as one of "The World's Most Ethical Companies" in 2020 on a list assessed and compiled by The Ethisphere Institute.

Implicit in our values is our commitment to build trust amongst stakeholders and to operate ethically, responsibly, and transparently. These values carry over to the manner in which we manage our tax affairs, as we recognise that our tax contribution supports public services and the wider economy. The long-term success of our business is critically dependent on the way we work with our stakeholders.



National Grid continues to take a responsible approach to tax. We endeavour to manage our tax affairs so that we pay and collect the right amount of tax, at the right time, in accordance with the tax laws in all of the territories in which we operate.

Our approach to tax

‘Do the right thing’



Therese Esperdy
Finance Committee Chairman

As a regulated public utility and a group whose shares are listed on the London Stock Exchange, we are conscious of the need to manage our tax affairs responsibly in the eyes of our stakeholders. The way we do this seeks to comply with relevant legislation and effectively manage our tax risk.

National Grid has a strong governance framework that extends to how our tax affairs are managed. Our internal control and risk management framework helps us manage risks, including tax risk, appropriately.

We aim to comply with all relevant tax laws, regulations and tax reporting requirements. We do not enter into artificial arrangements that lack commercial purpose or where the sole purpose is to achieve tax savings.

Furthermore, we will not enter into arrangements that could have a negative effect on the Group's reputation, brand, corporate and social responsibilities, or relationships with stakeholders such as HMRC and OFGEM.

We take a conservative approach to tax risk to keep it at a low level.

We act with openness and honesty when engaging with relevant tax authorities. We prefer to seek clarity through timely discussion and prompt disclosure of all relevant information, so we can reach an accurate assessment of the tax implications of our activities.

We engage proactively in developments on external tax policy and engage with relevant bodies where appropriate.

This strategy, which is aligned with our values, is owned by the Chief Financial Officer and is overseen and approved by the Finance Committee, a sub-committee of the National Grid Board.



Our approach to tax is consistent with the Group's broader commitment to be a responsible and sustainable business and therefore continues to be guided by our purpose and values.

Total Tax Contribution

The amount of taxes we pay and collect globally is significantly more than just the corporation tax we pay on our profits. We contribute taxes in two ways, collectively referred to as total tax contribution:

- **taxes borne** – tax paid by National Grid
- **taxes collected** – tax collected and paid to tax authorities on behalf of customers, suppliers and employees.

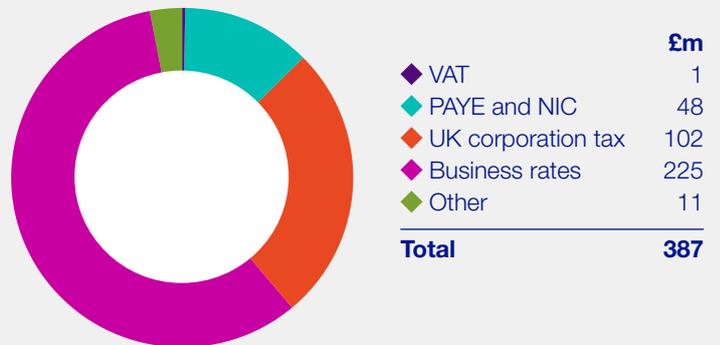
Within the total, we include other taxes paid such as business rates, taxes on employment, together with employee taxes and other indirect taxes.

You can read more about this in our Annual Report and Accounts. This includes the split of our tax contribution by type of tax, and also the reason why the tax charge disclosed in our accounts is generally different to the amount of cash payments made to the tax authorities (including HMRC).

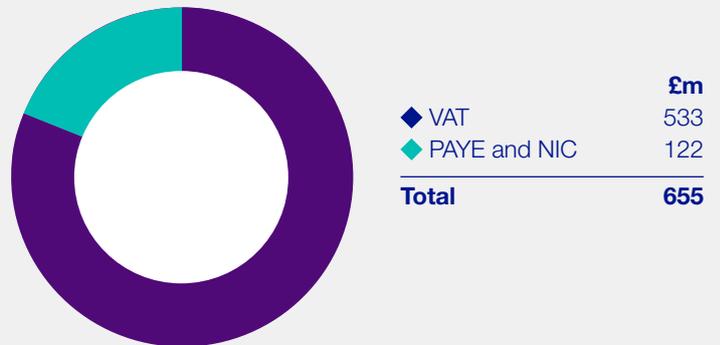
Our Annual Report and Accounts can be found [here](#).

UK total tax contribution 2018/19 (taxes paid/collected)

Taxes borne



Taxes collected



Governance and management of tax risk

Roles and responsibilities

Day-to-day responsibility of the Group's tax affairs, including the application of our Tax Strategy, is delegated to the Chief Financial Officer. He provides regular updates to the Finance Committee (which meets quarterly) on tax matters affecting the Group, and the Finance Committee is responsible for authorising any material tax transactions.

Day-to-day tax activities are carried out by a team of appropriately qualified and experienced tax professionals. Where tax related activities are carried out outside the Group Tax department (e.g. HR), staff are appropriately qualified and experienced.

Decisions relating to tax matters are made at the appropriate level based on the value and potential impact on the business. They follow the Group's delegation of authority procedures and are supported by appropriate documentation and, where necessary, external advice from appropriate professional service providers.

Tax risks

As a large group we are exposed to and need to manage a variety of tax risks, across categories such as the following:

- **compliance and reporting risk** – ensuring we meet all our compliance and reporting obligations, including paying the right amount of tax, at the right time, in the right place;
- **operational risk** – ensuring we have effective internal processes and controls and appropriately qualified/experienced personnel;
- **transactional risk** – ensuring transactions are undertaken with appropriate consideration of tax consequences;
- **reputational risk** – ensuring actions or decisions do not have an adverse impact on the perception of National Grid from the perspective of our stakeholders including our shareholders, HMRC, OFGEM, our customers and the general public;
- **technical judgement risk** – ensuring tax analyses use the appropriate interpretation of relevant tax law and regulations; and
- **changes in tax landscape** – ensuring that we monitor and keep up to date with changes in tax law and/or accounting standards so we can assess the impact to the group. Additionally, we ensure that we have appropriate processes and systems in place to interpret the changes correctly and comply with them.

Our internal control and risk management framework helps us manage these risks appropriately.



Ultimate responsibility and oversight of our taxation strategy and governance rests with the Finance Committee, which is a sub-committee of the National Grid Board. Executive management is delegated to the Chief Financial Officer who is a member of the Finance Committee.

Internal control and risk management framework

Accepting that it is not possible to identify, anticipate or eliminate every risk that may arise and that risk is an inherent part of doing business, our risk management process aims to provide reasonable assurance that we understand, monitor and manage the main uncertainties that we face in achieving our objectives, including in our tax affairs. Our risk management process provides a framework through which we can consistently identify, assess and prioritise, manage, monitor and report risks.

An important feature of our risk management process is our three lines of defence model, which is designed to avoid the likelihood of a risk not being detected or effectively managed. The three lines of defence at National Grid are:

- **Business function** – control owner who is responsible for the operation of the control and management of the particular risks in their area of the business;
- **Central risk management team** – control framework design authority which implements risk process and independently challenge principal risk assessments and actions taken to manage/mitigate risk;
- **Internal audit** – independent assessment of the effectiveness of our risk management and internal control systems.

We have a number of processes to support our internal control environment. Oversight of these activities is provided through regular review and reporting to the Board and appropriate Board committees. Where we identify deficiencies, these are reported and corrected at the appropriate level. The Audit Committee is responsible for keeping under review and reporting to the Board on the effectiveness of:

- reporting;
- internal control policies;
- Sarbanes-Oxley Act procedures;
- Bribery Act procedures;
- appropriateness of financial disclosures and procedures for risk and compliance management;
- business conduct; and
- Internal Audit.

The Board assesses the Company's principal risks and monitors the risk management process through risk review and challenge sessions twice a year.

You can find more information about our internal control and risk management framework in our Annual Report and Accounts.

Specifically, in respect of tax risk, we carry out continuous review and monitoring, and make recommendations/updates for improvements to a control or process or to take account of changes in the tax landscape. Where a new tax risk is identified, we document and implement proposed action and/or control to mitigate the risk.

We also help people around our business (such as commercial, strategy, treasury, HR, Finance and Legal) understand the Tax department's approach to tax risk management. By adopting this Business partnering approach and pro-actively engaging with internal stakeholders, we ensure we have comprehensive knowledge of their activities and that tax is always considered when undertaking business decisions. This process therefore allows us to capture any legislative or operational driven changes or transactions and consider the tax impact.



Risks are assessed by considering the financial and reputational impacts, and how likely the risk is to materialise. Consideration is given to the impact on the external environment and the effect on our stakeholders. Where we identify a risk, we take actions to manage and monitor the risk, assess the adequacy of existing risk processes and controls and remediate deficiencies.

Attitude to tax planning

Our reputation, corporate social responsibilities and brand are crucial considerations when dealing with tax matters. We will not enter into arrangements that could have a negative effect on the Group's reputation, brand, corporate and social responsibilities, or relationships with stakeholders such as HMRC and OFGEM. Additionally, when making decisions on tax matters, we follow the CBI's Statement of Tax Principles.

We take legislative and regulatory requirements into account, as well as their tax consequences when we are considering business developments. We consider the tax implications as early as we can in our business decision making. We aim to comply with all relevant tax laws, regulations and tax reporting requirements. We do not enter into artificial arrangements that lack commercial purpose or where the sole purpose is to achieve tax savings. This is in line with our Company values and our Ethical Business Code of Conduct.

We acknowledge that there are circumstances where tax matters may be complex or unclear. So, we may seek advice from reputable professional advisers to provide clarity around the interpretation, particularly where the matter is material to the Group.

We mainly operate in the UK and US and we believe we have the appropriate people and resources for activities undertaken in these locations. We endeavour to make sure that our profits are taxed and therefore paid in the right place, namely in the country in which the economic activity generating the profit takes place.

We do not have operations in tax havens or low tax jurisdictions without commercial purpose.

We have two active captive insurance companies, which are resident for tax purposes in Isle of Man and US and which are subject to tax in the UK and US respectively. Our captive companies fulfil a commercial purpose for the Group providing enhanced risk and claims management. In particular they provide more flexibility of cover where certain risks could be challenging to insure if we approached the commercial market directly. In line with industry standards, Isle of Man has been chosen as the location for the business as the regulatory regime in the jurisdiction recognises captive insurers and has a well established captive infrastructure with good local technical knowledge and expertise, and accessibility to the regulator. Our US captive company insures our local US business risks.

The full list of National Grid subsidiaries is disclosed in our Annual report and Accounts with their country of incorporation. We have a small number of subsidiaries in a few jurisdictions outside the UK and US and the majority of those entities no longer have any activities and as part of our continued company rationalisation process, should be placed into liquidation in due course.



We will claim valid tax reliefs and incentives where these are applicable to our business operations, but only where they are widely accepted through the relevant tax legislation such as those established by government to promote investment, employment and economic growth.

Level of acceptable tax risk

We assess the level of acceptable tax risk on a case by case basis within our governance framework and risk appetite, as set by the Board.

When assessing tax risk, we consider the following equally important considerations:

- scale;
- complexity;
- our reputational risk;
- our corporate responsibility obligations; and
- impact on our stakeholders.

If we believe a tax position is uncertain, we apply appropriate risk assessment procedures so that we follow appropriate governance. We may seek the opinion of reputable professional advisers, and where necessary, seek clearance from the relevant tax authority.



We take a conservative approach to tax risk. However, there is no prescriptive level or pre-defined limit to the amount of acceptable tax risk.



Approach to dealings with tax authorities

We seek to work with tax authorities on a real-time basis and aim to disclose facts or issues that could result in additional tax liabilities as soon as possible. We may also seek advance clearance from the relevant tax authority on significant or relevant tax matters so we can reduce the risk of incorrect treatment or tax purposes.

We aim to respond promptly to any enquiries or requests for further information from tax authorities to facilitate a prompt resolution of tax matters. For example, this may include facilitating meetings or on site business visits to assist the tax authority's understanding of our business or area of uncertainty. Where any inadvertent errors in submitted tax filings are identified, we will make full and timely disclosure to the relevant tax authority to resolve the matter.

Development of tax policy

We are committed to the continued development of a coherent and transparent tax policy, so we are continuously monitoring and contributing to the changing tax landscape.

In addition to making direct representations on behalf of National Grid to bodies such as OECD and other tax forums, we are a member of a number of industry groups that participate in the development of future tax policy. This enables us to voice our opinion on relevant tax policy matters so we can ensure that tax policy writers understand the position of our business. It also helps us understand the intentions behind new tax laws and verify our interpretation of the changes, so National Grid remains compliant with the new tax legislation.

As part of this process, we will review the tax impact of the proposals and the evolving tax landscape for National Grid, so we can mitigate any risks the business faces from the changes and to ensure compliance with any changes. As part of that, we have also been looking into other areas of tax digitisation and tax technology as enablers for process improvements and risk management as we recognise tax authorities are embracing digitisation and look to place greater emphasis on the integrity of company data.



We aim to maintain a collaborative and open relationship with all relevant tax authorities including HMRC. This includes regular meetings (which varies by jurisdiction), and communications, and updates on developments in our business.



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