

National Grid - Stakeholder Panel Statement

1. Introduction

National Grid commissioned Corporate Citizenship, a specialist corporate responsibility and sustainability consultancy, to undertake a rolling three year approach to corporate responsibility assurance. In 2011, with the commencement of a new three-year cycle, the company supplemented this approach to assurance with the creation of an external Stakeholder Panel.

The purpose of the Stakeholder Panel is to provide additional independent opinion on the performance of the company as well as make recommendations on where it could improve the future reporting of corporate responsibility-related issues and performance.

The Panel comprises 10 members drawn from the company's key UK and US stakeholders, including peer companies, suppliers, non-governmental organisations, investors and community partners (please see Appendix at the end of this document for a list of members). Members met in July 2011 to discuss National Grid's 2010/11 online Corporate Responsibility Report. This statement, which has been signed-off by all Panel members, is intended to give an overview of the key issues raised in discussions. This statement is not intended to be published by National Grid, however it will be presented to senior leadership to help inform future reporting and strategy.

2. Strengths in reporting

The Panel expressed positive views about many aspects of the report and overall thought it presented a wide-ranging and convincing picture of National Grid's commitment to corporate responsibility issues. Panel members highlighted the following specific strengths to this year's report.

2.1 Scope of reporting

Comprehensive and credible were words repeatedly used to describe National Grid's report. There was widespread agreement that the report provided good coverage of a broad range of issues that were material to the company. One member described how impressed he was by the level of disclosure within the

report and found it empowering to read as it increased his understanding of the business and its key issues. Members felt the report gave a clear representation of business priorities.

The level of detail provided on investor relations and the inclusion of key performance indicators related to shareholders were viewed positively. This was an area that National Grid was seen to be going further in its reporting compared to other companies and it was thought this would be welcomed by investors and analysts.

2.2 Directional CEO statement

Many Panel members noted that the CEO statement was very informative and engaging, giving audiences a clear sense of the company's overall corporate responsibility strategy. The CEO's perspective on the company's risks and opportunities demonstrated how corporate responsibility links directly to business objectives. Importantly, as one member stated, the statement presented a good picture of where the company is heading.

2.3 Key performance indicators

The level and scope of the key performance indicators reported was in general commended. Inclusion of metrics across key impact areas, together with trend data going back a number of years, showed a focus on measuring and tracking performance.

That said, the Panel highlighted a need for National Grid to provide more context to help the reader understand the factors contributing to data trends and shifts in performance. This point is raised in more detail in section 3.1 of this statement.

2.4 Framework for Responsible Business

National Grid's Framework for Responsible Business was viewed positively, providing a clear and coherent structure for guiding responsible business practices. Going forward, Panel members thought there was an opportunity to more closely integrate the Framework into the Corporate Responsibility Report.

3. Areas for improvement

Despite these positive comments about the overall scope and approach of the Report, Panel members did express some concerns and identified a number of areas where National Grid's corporate responsibility reporting could be improved. Overall, there were four substantive issues that Panel members thought deserved more extensive coverage. In addition, several comments were made about the accessibility of the on-line Report. Each of these improvement areas are discussed below.

3.1 Understanding the context

It was suggested that throughout the Report, there was a need to provide more context about the environment in which National Grid operates. At a strategic level, this would involve providing a clearer explanation of National Grid's business model, dealing with such issues as: how the utility sector operates; how the company generates wealth; and how the business differs across its two principal markets in the UK and the US.

Although this information is included in other areas of National Grid's corporate reporting, Panel members suggested a summary should be included in the Corporate Responsibility Report in order to understand better the issues facing the business. Related to this point, Panel members were keen to see greater coverage given to the regulatory environment and National Grid's interaction with regulators – including their stance on key public policy debates – in future reporting.

At a more tactical level, there were several requests for a more complete explanation of trends in data (such as waste, environmental fines, scope 3 carbon, contractor safety performance and latest BiTC CR Index scoring). When notable changes in performance occur, readers need to know the reasons why. If there is a positive improvement, what factors brought this about? If there is deterioration in performance, why has this happened and what is the company doing to manage the situation?

3.2 Understanding materiality

The second area of concern centred on understanding the materiality analysis which drives the reporting process. Although Panel members were impressed with the breadth of issues identified as the material non-financial impacts of the business, there was a request to understand more about the process by which these were selected for inclusion in the Report. Linked to this issue there were requests for greater disclosure of National Grid's sustainability governance structures, detailing who is responsible for different aspects of corporate responsibility across the organisation. It was suggested that, without understanding how the company monitors material risks and opportunities, the reader of the Report cannot judge how well-placed the business is to respond to future challenges in the operating environment.

3.3 Reporting on the value chain

There was a general view that audiences are increasingly concerned about how leading companies are addressing corporate responsibility issues throughout their value chain, as well as within their direct operations. Panel members felt that the report did not provide sufficient coverage to this aspect of performance and this should be a future area of focus.

National Grid's unique and significant power to educate and influence the behaviour of its many suppliers, contractors and customers on environmental and social issues, was highlighted as an immense opportunity and worthy of more attention within the Report. In particular, the Panel were interested to know more about the

company's work to educate customers on energy efficiency and how the Supplier Code of Conduct has helped to promote responsible practice amongst suppliers.

3.4 Demonstrating leadership and a forward-looking perspective

Discussion then turned to a consideration of the key issues that will face the business in the next 5 – 15 years. The Panel highlighted at least four important issues that National Grid should consider reporting on. These included:

- Having greater transparency on the link between corporate responsibility performance and executive remuneration
- Exploiting opportunities for innovation (through, for example, renewable energy and smart grids)
- Addressing the challenges of water usage and management
- Recruiting and developing skilled employees in the context of an ageing workforce.

Pursuing this point further, some Panel members thought it important for National Grid to show leadership in certain aspects of corporate responsibility or sustainability. Members did not come to a consensus on one specific issue for leadership; however National Grid's work around innovation in community investment programmes on education was highlighted as a potential contender. In particular, a focus on developing STEM skills (science, technology, engineering and maths) would be highly relevant to the business.

In addition, linked to the concept of demonstrating a longer-term perspective, there were requests for National Grid to set targets across all impact areas (e.g. waste and adaptation) and to explain the process for setting longer-term stretch targets.

3.5 Improving the user-experience

Finally, there were some criticisms about the style and presentation of the Report, with a number of suggestions for how future reports could be made more user-friendly and engaging for audiences. Generally, the overall tone of the 2010/11 Report was considered to be text-heavy, comprehensive yet uninspiring, and with very limited use of interactive components and imagery. Interestingly, Panel members felt the sombre tone of the report did not reflect the genuine culture of the company and their own experiences of National Grid, which they described as being very positive, upbeat and inspiring.

Key ideas noted included providing more stories and case studies integrated within the text (especially examples from the US) and using more visuals and interactive elements such as videos of the CEO and employees. The Panel thought these suggestions would help to show the 'human face' of National Grid. They also suggested the Report's navigation could be simplified to make information more accessible (key information should not be more than one click away according to some members) and enable readers to keep track of information already viewed on the website.

4. Next steps

Panel members welcomed the opportunity to provide feedback on National Grid's 2010/11 Corporate Responsibility Report and were positive about the process undertaken. It was suggested that sending high-level questions in advance of the next meeting could help the Panel prepare. In addition, the Panel noted it would be beneficial to have a representative from the stakeholder groups that had not attended this session – customers and regulators.

Looking ahead, the Panel are very keen to see how National Grid will respond to the points raised during the meeting and expressed a willingness to further engage with the company through this valuable consultation process. Finally, the Panel also encourages National Grid to go public with future opinion statements.

Corporate Citizenship London and New York, July 2011

Appendix – Panel Members

Alan Christie, Policy Director, *Equality & Human Rights Commission*, UK

Emma Walsh, Partnerships Manager, *Royal Academy of Engineering* UK

Briana Whitlock, Corporate Responsibility Officer *Centrica* UK (1)

Jonathan Garrett, Group Head of Sustainability, *Balfour Beatty* UK

Rory Adam, SRI Analyst, *Standard Life Investments* UK

Toby Shillito, Director, *Business in the Community* UK

Aman Singh Das, Senior Editor – CR, *Vault Career Intelligence* US

Constantina Bichta, Principal ESG Researcher, *Boston Common Asset Management* US

Michael Brown, Chief Executive Officer and Co-Founder, *City Year* US

Veena Ramani, Manager, Corporate Programs, *Ceres* US