

2022 Directors' Remuneration Policy

Our Remuneration strategy sets out to ensure strong alignment with our strategic priorities and creation of value for shareholders whilst providing market competitive remuneration to enable the attraction and retention of top leadership talent.

The 2022 Remuneration Policy was subject to shareholder approval in the July 2022 AGM and received 93.11% votes in favour and will remain effective until such time as it is replaced by a new or updated policy, in line with the Corporate Governance requirements.

Our 2022 Policy, effective July 2022, continues to align Company performance and our shareholders' experience with remuneration outcomes and incorporates modest refinements to reflect the importance of the Company's responsible business strategy and ESG goals in both the short and long-term and the increasingly dynamic external context which advantages greater agility and flexibility.

We engaged widely with shareholders and proxy advisory service organisations and were grateful for the engagement, feedback, and positive support on our Policy proposals.

Policy tables – Executive Directors

Element	Operation	Maximum levels	Performance assessment
<p>Salary Purpose and link to business strategy: to attract, motivate and retain high-calibre individuals.</p>	<p>Salaries are generally reviewed annually and are targeted broadly at the mid-market of our peer group. However, a number of other factors are also taken into account:</p> <ul style="list-style-type: none"> • business performance and individual contribution; • the individual's skills and experience; • scope of the role, including any changes in responsibility; • market data, including base pay and total remuneration; and • opportunity in the relevant comparator group. 	<p>No prescribed maximum annual increase although increases are generally aligned to or below salary increases received by other Company employees and to market movements. Increases in excess of this may be made at the Committee's discretion in circumstances such as a significant change in responsibility, progression if more recently appointed in the role and alignment to mid-market levels.</p>	<p>Not applicable.</p>
<p>Benefits Purpose and link to business strategy: to provide competitive and cost effective benefits to attract and retain high-calibre individuals.</p>	<p>Benefits currently provided include:</p> <ul style="list-style-type: none"> • company car or a cash alternative (UK only); • use of a car and driver when required; • private medical insurance; • life assurance; • personal accident insurance (UK only); • opportunity to purchase additional benefits (including personal accident insurance for US) under flexible benefits schemes available to all employees; and • opportunity to participate in HMRC (UK) or Internal Revenue Service (US) tax-advantaged all-employee share plans. <p>UK Sharesave: Monthly contributions from net salary for a period of three or five years. The savings can be used to purchase shares at a discounted price set at the launch of each plan period.</p> <p>Share Incentive Plan: UK employees may use gross salary to purchase shares. These shares are placed in trust.</p> <p>Employee Stock Purchase Plan (ESPP) (423(b) plan): eligible US employees may purchase ADSs on a monthly basis at a discounted price.</p> <p>Other benefits may be offered at the discretion of the Committee. In circumstances where an Executive Director is located outside of the UK, benefits will be set such that they are competitive in the local market.</p>	<p>The cost of providing benefits will vary from year to year in line with market.</p> <p>Participation in tax-advantaged all-employee share plans is subject to limits set by relevant tax authorities.</p>	<p>Not applicable.</p>
<p>Pension Purpose and link to business strategy: to reward sustained contribution and assist in attraction and retention.</p>	<p>Externally hired Executive Directors may participate in a DC arrangement or alternatively choose to receive cash in lieu.</p> <p>In cases of internal promotion to the Board, the Company will recognise legacy DB pension arrangements of existing employees in both the UK and US where these have been provided under an existing arrangement.</p> <p>In line with market practice, pensionable pay for UK-based Executive Directors includes base salary only and for US-based Executive Directors it includes base salary and APP awards.</p>	<p>UK Directors: DC: annual contributions for new appointments and existing Executive Directors of up to 12% of base salary. Executive Directors may take a full or partial cash supplement in lieu.</p> <p>Life assurance of four times base salary and a dependant's pension of one third of basic salary is provided. Executives with HMRC pension protection may be offered lump sum life assurance only, equal to four times base salary.</p> <p>US Directors: DC contributions of up to 9% of basic salary plus APP award with additional 401(k) plan match up to 4%.</p> <p>DB: no additional DB entitlements will be earned over the financial years from the date of appointment, other than an increase for price inflation due under the pension scheme rules and legislation. Under the terms of the pension scheme, if the Executive Director satisfies the ill-health requirements, or is made redundant, a pension may be payable earlier than the normal retirement date. A lump sum death in service benefit is also provided in respect of these DB entitlements.</p>	<p>Not applicable.</p> <p>None of the current Executive Directors are active members of a defined benefit plan.</p>

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Element	Operation	Maximum levels	Performance assessment
<p>Annual Performance Plan Purpose and link to business strategy: to incentivise and reward the achievement of annual financial measures and strategic non-financial measures including the delivery of annual individual objectives and demonstration of our Company leadership qualities and values.</p>	<p>The APP comprises reward for achievement against financial and non-financial measures and achievement against individual objectives.</p> <p>Financial and non-financial performance measures and targets are normally agreed at the start of each financial year and are aligned with strategic business priorities. Targets are set with reference to the business plan and strategy. Individual objectives and associated targets are normally agreed also at the start of the year.</p> <p>APP awards are paid in June.</p> <p>At least 50% of the APP award is paid in shares, which (after any sales to pay associated income tax) must be retained until the shareholding requirement is met, and in any event for two years after receipt.</p> <p>Awards are subject to malus and clawback provisions.</p>	<p>The maximum award is 125% of base salary in respect of a financial year.</p> <p>The payout levels at threshold, target and stretch performance levels are 0%, 50% and 100%, respectively.</p> <p>In exceptional circumstances, (such as the recruitment of an Executive Director), the Committee has the flexibility to award up to an additional 50% of base salary as incentives and this can be applied across the APP and or LTPP in any given year but for one year only. Therefore, in exceptional circumstances, the annual maximum award opportunity under the annual bonus can be up to 175% of base salary assuming all 50% of the exceptional max is used and allocated to APP.</p>	<p>At least 50% of the APP is based on performance against financial measures.</p> <p>The Committee may use its discretion to set financial and non-financial measures that it considers appropriate in each year.</p> <p>Notwithstanding the level of award achieved, the Committee has the discretion to modify the formulaic amount payable, to reflect wider financial and business performance, demonstration of leadership qualities and our values, or to take account of a significant event.</p>
<p>Long-Term Performance Plan Purpose and link to business strategy: to drive long-term business performance, aligning Executive Director incentives to key strategic objectives and shareholder interests over the longer term.</p>	<p>Awards of shares may be granted each year, with vesting subject to long-term performance conditions.</p> <p>The performance measures which are chosen are those that the Committee believes reflect the creation of long-term value within the business. Targets are set for each award with reference to the business plan and strategy.</p> <p>Participants may receive ordinary dividend equivalent shares on vested shares, from the time the award was made, at the discretion of the Committee.</p> <p>Participants must retain vested shares (after any sales to pay associated income tax) until the shareholding requirement is met, and in any event for a further two years after vesting.</p> <p>Awards are subject to malus and clawback provisions.</p>	<p>The normal annual maximum award limits that may be granted are 350% of salary for the CEO and 300% of salary for other Executive Directors.</p> <p>For each performance measure, threshold performance will trigger up to 20% of the award to vest; 100% will vest if maximum performance is attained.</p> <p>In exceptional circumstances (such as the recruitment of an Executive Director), the Committee has the flexibility to award up to an additional 50% of base salary as incentives and this can be applied across the APP or the LTPP in any given year but for one year only. Therefore, in exceptional circumstances, the annual maximum award opportunity can be up to 400% of base salary for a CEO role and 350% of salary for other Executive Directors assuming all 50% of the exceptional max is used and allocated to LTPP.</p>	<p>The Committee will review performance measures for each award cycle prior to grant to ensure continued alignment with the Company's strategy. As such, different performance measures, targets and/or weightings may be set to reflect the business strategy and the regulatory framework operating at that time.</p> <p>Awards have a three-year performance period followed by a two-year holding period post-vesting.</p> <p>Notwithstanding the level of award achieved, the Committee has the discretion to modify the formulaic amount vesting, to reflect wider financial and business performance, demonstration of leadership qualities and our values, or to take account of a significant event.</p>
<p>Malus and clawback</p>	<p>The Committee has discretion to determine whether exceptional circumstances exist which justify whether any or all of an award should be forfeited, even if already paid. Examples of exceptional circumstances include, but are not limited to:</p> <ul style="list-style-type: none"> • discovery of a material misstatement resulting in an adjustment in the audited accounts of the Company or any Group company; • the assessment of any performance condition, or condition in respect of a payment or award under the APP or LTPP, that was based on error, inaccurate or misleading information; • the discovery that any information used to determine the APP or LTPP award was based on error, inaccurate or misleading information; • action or conduct of a participant which amounts to fraud or gross misconduct; • event or behaviour of a participant leading to the censure of the Company by a regulatory authority or has had a significant detrimental impact on the reputation of any Group company, provided that the Board is satisfied that the relevant participant was responsible for the censure or reputational damage and that the censure or reputational damage is attributable to the participant; and • a material failure or risk management and/or corporate failure. <p>Where the Committee in its absolute discretion determines that exceptional circumstances exist that justify doing so:</p> <ul style="list-style-type: none"> • in respect of all or part of an award that has yet to be paid or vested ('malus'), as applicable, the Committee may determine the award, or part of it, will be forfeited; and • in respect of all or part of an award that has been paid or has vested ('clawback'), as applicable, the Committee may determine the award, or part of it, will be forfeited and may reclaim an amount considered appropriate through means deemed appropriate to those specific circumstances. 		
APP – cash	Malus applies in the year the bonus is earned and clawback for two years thereafter		
APP – deferred shares	Malus applies until the end of two years following the financial year in which the bonus is earned and clawback for two years thereafter		
LTPP	Malus applies up to vesting and clawback during the two-year holding period		

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Shareholding requirement – in employment

The requirement of Executive Directors to build up and hold a significant value of National Grid shares ensures they share a significant level of risk with shareholders and aims to align their interests. Executive Directors are required to build up and retain shares in the Company. The level of holding required is 500% of salary for the CEO and 400% of salary for the other Executive Directors. Unless the shareholding requirement is met, Executive Directors will not be permitted to sell shares, other than to pay income tax liabilities on shares just vested or in exceptional circumstances approved by the Committee.

Shareholding requirement – post employment

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

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

Our peer group

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

Policy tables – Non-executive Directors (NEDs)

Element	Operation	Maximum levels	Performance metrics, weighting and time period applicable
Fees for NEDs Purpose and link to business strategy: to attract NEDs who have a broad range of experience and skills to oversee the implementation of our strategy	NED fees (excluding those of the Chair) are set by the Group Executive Committee in conjunction with the Chair. The Chair fees are set by the Committee. Fee structure: <ul style="list-style-type: none"> • Chair fee (all inclusive); • basic fee; • Committee chair fee; • Committee membership fee; • Senior Independent Director fee; and • additional Board responsibilities. Fees are reviewed every year taking into account those in companies of similar scale and complexity. The Chair is eligible to receive benefits as deemed appropriate and necessary in respect of the role, which may include, for example, private medical and personal accident cover, the use of a company car and driver, and financial advice. NEDs do not participate in incentives, pension or any other benefits. However, they are eligible for reimbursement for all Company-related travel expenses. In instances where these costs are treated by HMRC as taxable benefits, the Company also meets the associated tax cost to the Non-executive Directors through a PAYE settlement agreement with HMRC. NEDs who also sit on National Grid subsidiary boards may receive additional fees related to service on those boards.	There are no prescribed maximum fee levels although fee increases are generally aligned to salary increases received by other Company employees and market movement for NEDs of companies of similar scale and complexity. The cost of benefits provided to the Chair is not subject to a predetermined maximum since the purchase cost will vary from year to year.	Not applicable.

Legacy arrangements

For the avoidance of doubt, the Committee may approve payments to satisfy commitments agreed prior to the approval of this Remuneration Policy, for example, those outstanding and unvested incentive awards which have been disclosed to shareholders in previous Remuneration Reports and any commitment made to a person before that person became an Executive Director.

Operation of the policy

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

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Other features of the Remuneration Policy

Policy on recruitment remuneration

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

Where appropriate, salaries may be set below market level initially, with the Committee retaining discretion to award increases in salary in excess of the wider workforce and inflation to progressively bring the salary up to the market level over time, where this is justified by individual and Company performance. Any such increases will be disclosed accordingly, along with a supporting rationale where appropriate.

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

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

Ongoing incentive pay (APP and LTPP) for new Executive Directors will be in accordance with the approved Remuneration Policy in force at the time of appointment. This means the normal maximum APP award in any year would be 125% of salary and the normal maximum LTPP award would be 350% of salary for the CEO and 300% of salary for other Executive Directors. In exceptional recruitment circumstances, the Committee has the flexibility to award up to an additional 50% of basic salary as incentive pay and this can be applied across the APP/LTPP in any given year but for one year only. The total maximum variable pay in any year will be 525%, excluding any buyout awards.

For an externally appointed Executive Director, the Company may offer additional cash or share-based payments that it considers necessary to buy out current entitlements from the former employer that will be lost on recruitment to National Grid. Any such arrangements would, so far as practicable, reflect the delivery mechanisms, time horizons and levels of conditionality of the remuneration lost. In order to facilitate buy-out arrangements, existing incentive arrangements will be used to the extent possible, although awards may also be granted outside of these shareholder-approved schemes if necessary and as permitted under the Listing Rules.

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

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

Service contracts/letters of appointment

In line with our Policy, all Executive Directors have service contracts which are terminable by either party with 12 months' notice commencing immediately after announcement. Non-executive Directors are subject to letters of appointment. The Board Chair's appointment is subject to six months' notice by either party; for other Non-executive Directors, notice is one month. Both Executive Directors and Non-executive Directors are required to be re-elected at each AGM.

Examples of circumstances which could trigger 'good leaver' treatment include: redundancy, retirement, illness, injury, disability and death. In these circumstances, awards will be released to the departing Executive Director or, in the case of death, to their estate. Long-term share plan awards held by 'good leavers' will normally vest, subject to performance measured at the normal vesting date and be reduced pro-rata for completed time of service starting on the date of grant, as per the plan rules. Such awards would vest at the same time as for other participants, apart from circumstances in which the award recipient has died, in which case the awards may vest as soon as practicable (based on a forecast of performance).

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

No compensation would be paid for loss of office of Directors on a change of control of the Company.

No compensation is payable to the Chair or Non-executive Directors if they are required to stand down or are not re-elected at the AGM.

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

Policy on payment for loss of office

The contracts contain provisions for payment in lieu of notice, at the sole and absolute discretion of the Company. Such contractual payments are limited to payment of salary only for the remainder of the notice period. In the UK, such payments would usually be phased on a monthly basis, over a period not greater than 12 months, and the Executive Director would be expected to mitigate any losses where employment is taken up during the notice period. In the US, for tax compliance purposes, the policy is to make any payment in lieu of notice as soon as reasonably practicable, and in any event within two and a half months of the later of 31 December and 31 March immediately following the notice date.

In the event of a UK Director's role becoming redundant, statutory compensation would apply and the relevant pension plan rules may result in the early payment of an unreduced pension. On termination of employment, no APP award would generally be payable. However, the Committee has the discretion to deem an individual to be a 'good leaver', in which case a pro-rata discretionary payment could be paid, based on performance (as measured at the end of the financial year) and the achievement of individual objectives during the financial year up to termination.

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In the UK, any discretionary payment would generally be paid at the normal time. In the US the payment may be made earlier if required for tax compliance purposes, in which case the Committee would apply discretion to determine an appropriate level of financial performance. Examples of circumstances which could trigger 'good leaver' treatment include redundancy, retirement, illness, injury, disability and death. The Committee may apply discretion to determine if any pro-rata discretionary payment should be made sooner than it would normally be paid, for example, in the case of death.

On termination of employment, outstanding awards under the share plans will be treated in accordance with the relevant plan rules approved by shareholders. Unvested share awards would normally lapse. 'Good leaver' provisions apply at the Committee's discretion and in specified circumstances.

External appointments

Executive Directors may, with the approval of the Board, accept one external appointment as a Non-executive Director of another company and retain any fees received for the appointment. Experience as a board member of another company is considered to be valuable personal development, which in turn is of benefit to the Company.

Corporate and share capital events

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

Total remuneration opportunity

The total remuneration for each of the Executive Directors that could result from the 2022 Remuneration Policy under three different performance levels (below threshold, when only fixed pay is receivable, on target and maximum) is shown below. The maximum receivable assuming 50% share price growth (or a reduction) in LTPP awards over a three-year performance period, and the basis for this calculation, is set out in the notes below.

John Pettigrew				Andy Agg					
Fixed pay	100%		£1,439	Fixed pay	100%		£855		
On target	33%	15%	52%	£4,416	On target	33%	17%	50%	£2,618
Maximum	21%	21%	58%	£6,628	Maximum	22%	23%	55%	£3,930

◆ Fixed pay ◆ APP ◆ LTPP
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Notes:

- Fixed pay consists of salary, pension and benefits in kind as provided under the Remuneration Policy. Salary is that to be paid in 2022/23, taking account of the increases that will be effective from 1 July 2022 as shown on page 129 of the Annual report and accounts 2021/22. Benefits in kind and pension are as shown in the Single Total Figure of Remuneration table for 2021/22 on page 114 of the Annual report and accounts 2021/22.
- APP calculations are based on 125% of salary for the period 1 April 2022 to 31 March 2023. APP payout is 0% for threshold performance, 50% for on-target performance and the maximum of 100% is for achieving stretch.
- LTPP calculations are based on awards with a face value of 350% of 1 July 2022 salary for John Pettigrew and 300% of 1 July 2022 salary for Andy Agg. LTPP payout is 20% for threshold performance and the maximum of 100% is for achieving stretch and straight line vesting between. Excludes changes in share price and dividend equivalents.
- For LTPP calculations, assuming either a 50% share price growth (or reduction) over the three-year performance period, the increase (or decrease) in LTPP value and maximum total compensation for each of the Executive Directors would be (all amounts expressed as £'000):
 - John Pettigrew: LTI value would increase (or decrease) from £3,824 to £5,736 (or £1,912) and maximum total compensation would rise (or reduce) from £6,628 to £8,540 (or £4,716) respectively
 - Andy Agg: LTI value would increase (or decrease) from £2,157 to £3,236 (or £1,079) and maximum total compensation would rise (or reduce) from £3,930 to £5,008 (or £2,809) respectively.

Consideration of remuneration policy elsewhere in the Company

The design and implementation of executive remuneration takes into consideration the wider workforce context and remuneration strategy to ensure they are mutually reinforcing. Our executive Remuneration Policy is well aligned to policies for our non-unionised workforce, and the Committee actively considers employee feedback and views on executive pay. The Company issues an employee engagement survey each year, which includes remuneration as a topic, and regularly engages with employees on a variety of topics including remuneration to ensure employees have an opportunity to share their feedback and views.

All employees are entitled to base salary, benefits, and pension contributions. The approach to assessing salaries, benefits, pensions and other elements of remuneration is consistent across the Group with an objective to ensure they remain competitive at relevant mid-market levels for all job bands/roles, including roles that are subject to union negotiation. We are pleased to report that National Grid continues to be accredited by the Living Wage Foundation as a real Living Wage employer for our UK businesses (excluding the recent acquisition of WPD, now known as Electricity Distribution "ED"). Further plans and efforts are underway to achieve equivalent accreditations for ED and the rest of our global businesses in the US.

Middle to senior leaders are eligible to participate in our long-term incentive plans either through performance share awards or restricted share awards (under the LTPP) to incentivise and reward their individual contributions toward the Company's longer-term strategic priorities. Performance measures for the LTPP are consistent with measures set for Executive Directors to ensure strong alignment and focus on the Company's strategic goals.

Across the wider workforce, a greater emphasis and focus is placed on delivery of the Company's annual operational and financial business plans. As such, the majority of employees are eligible to participate in the APP. Performance measures for annual incentives are cascaded through the organisation and designed to ensure they incentive elements of business performance within an individual's control and are aligned to employee's annual goals. All Company employees are encouraged to become shareholders through a number of all-employee share plans and a significant proportion of our employees participate annually. These plans include Sharesave and the SIP in the UK and the 401(k) and 423(b) plans in the US.