

Corporate Governance report

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UK Corporate Governance Code (the 'Code') – 2022/23 Compliance Statement

The Company is subject to the Principles and Provisions of the Code, published by the Financial Reporting Council in July 2018 (available at frc.org.uk). For the year ended 31 March 2023, the Board considers it has complied in full with the Provisions of the Code. This Corporate Governance Report as a whole explains how the Company has applied the Principles and complied with the Provisions of the Code and the below acts as a guide to where the most relevant explanations are given:

Principles of the Code

1. Board leadership and company purpose

A. Leadership, long-term sustainable success, generating value for shareholders and contributing to wider society	6 – 7, 68 – 69
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2. Division of responsibilities

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4. Audit, risk and internal controls

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Details on information required for our US Securities and Exchange Commission filing and the Form 20-F can be found on page 230.

Chair's statement



Key highlights in 2022/23

100%

Board meeting attendance for the year ended 31 March 2023

42%

female representation on our Board as at date of report

17%

ethnicity representation on our Board as at date of report

Dear shareholders,

I am pleased to present to you the 2022/23 Corporate Governance Report.

The year in review

One has only to read the media in any country and realise that energy is at the forefront of challenges faced around the globe. The Board recognises that we must assure reliability and resilience on behalf of millions of people who depend on National Grid every day. Yet at the same time, the Board must be looking to the future and helping shape a strategy compatible with the momentum to decarbonise and electrify large portions of national economies. We are also ultimately responsible for monitoring and assessing the Group's culture and its alignment with the Group's purpose, values and strategy, with emphasis on delivery and accountability, and where diversity, equity and inclusion are championed.

As has been our practice, the Board continued to rely on a set of goals to guide our activities through the year, addressing major strategic issues such as: the pace and direction of the energy transition, regulatory and government policy, technology and digitisation, and market structure. We set aside time outside of normal Board meetings for enrichment sessions to deepen knowledge of technology and innovation, among other topics. During the year, we routinely brought external viewpoints into the boardroom, including regulators, investors, policymakers and energy experts, to provide important external context to our deliberations. The Board, through the People & Governance Committee, also worked on strengthening our oversight of management development and succession.

Board composition and changes

The Board has undergone a major refreshment over the past several years. We added one new Board member in the year; Iain Mackay, then Chief Financial Officer at GSK plc, joined the Board in July 2022. In January 2023, Iain became the Chair of the Audit & Risk Committee.

Having inducted seven new Board members over the last three years, we are keen to ensure a balance of longer and newer serving Directors to retain knowledge and experience. As such we have agreed with Thérèse Esperdy, who completed her nine years as a Director in March 2023, to remain on the Board until 31 December 2023 to provide an orderly succession, given her roles as Senior Independent Director and Chair of the Finance Committee (see page 82).

Keeping the Board refreshed is an ongoing process. The People & Governance Committee is responsible for ensuring that Board composition evolves in line with the skills and experience we need for the current and future strategy of the Company, as well as ensuring we continue to meet our diversity commitments in our Board Diversity, Equity and Inclusion Policy (Board DEI Policy). As we actively search for new Board members, these priorities will be reflected.

Purposeful engagement

It is a privilege to be able to meet a wide variety of colleagues in different roles with varying backgrounds and experiences. The Directors held a number of formal and informal engagement sessions throughout the year with colleagues. We feel that our alternative arrangement of 'Full Board Employee Voice' for Board workforce engagement remains appropriate for our organisation. I have travelled to operational sites and spoken with many of our colleagues. In addition, I continue to meet stakeholders including regulators, elected and appointed officials and customers.

All our Non-executive Directors are encouraged to visit our operational sites to get a better view of the challenges on the ground and gain an authentic sense of the organisation and our culture (see page 77 for the engagement during the year). Furthermore, through external speakers, we try and give the Board an opportunity to understand different stakeholder perspectives in order to strengthen our deliberations and discussions and, ultimately, the decisions we make.

Annual General Meeting (AGM)

Following the success of our hybrid AGM in 2022, shareholders will again be able to join the 2023 AGM online as well as in person. This uses technology to enable shareholders to participate fully in the business of the meeting without the necessity of appearing in person. Further details are outlined in the Notice of Meeting for the AGM available on the Company's website.

Looking forward

We have refreshed our Board goals to guide our activities throughout the year ahead. These include continuing our strategic discussions regarding the contours of the Group's future business, monitoring progress in our commitment to net zero, transforming our business in terms of technology, and business process improvement.

Paula Rosput Reynolds

Paula Rosput Reynolds
Chair

Corporate Governance overview

We have a high-functioning, diverse and balanced Board. Our governance framework ensures that the Board is effective in its decision making and maintaining oversight of the Group's activities, complementing our values of do the right thing, find a better way and make it happen.

Our governance framework



Governance structure



The schedule of matters reserved for the Board and the Terms of Reference for each Board Committee are available in our Board Governance document at: www.nationalgrid.com/about-us/corporate-information/corporate-governance

How the Board operates

Board of Directors

Our Board is collectively responsible for the effective oversight of the Group. It determines the Company's strategic direction and objectives, business plan, dividend policy, viability and governance structure to help achieve long-term success and deliver sustainable shareholder value. It also plays a major role in setting and leading the Company's culture and wider sustainability goals. It considers key stakeholders in its decision making and, in doing so, ensures that Directors comply with their duty under section 172 of the Companies Act 2006 (see page 74).

To operate efficiently and enable appropriate oversight and consideration over relevant matters, the Board delegates certain responsibilities to the Board Committees. Each Committee Chair reports to the Board on their respective Committee's activities after each meeting and papers and minutes are available to all Directors unless there is an actual or perceived conflict of interest.

Key matters considered by the Board include:

- establishing the vision, purpose, values and strategy for the organisation;
- the business strategy and long-term strategic objectives;
- overall corporate governance arrangements;
- risk appetite and determination and monitoring of Group Principal Risks;
- systems of internal control and risk management;
- ensuring legal compliance and ethical integrity;
- annual business plan and budget;
- significant changes in capital structure;
- ensuring the Company has adequate resources and that resources are managed responsibly;
- succession planning for the Board and the Group Executive Committee;
- half- and full-year results statements, Annual Report and Accounts and other statutory reporting;

- oversight of the Company's response to major crises and other significant challenges;
- oversight of material ESG issues;
- appointing new Directors and assessing Board and individual Director performance;
- ensuring dialogue with key stakeholders to keep in touch with stakeholder opinions, issues and concerns; and
- determination of the framework or policy for the remuneration of the Directors.

Board composition and roles

Our Board comprises a Non-executive Chair (independent on appointment), two Executive Directors (Chief Executive and Chief Financial Officer) and nine independent Non-executive Directors, as at the date of this report. There is a clear division of responsibilities between the Chair and Chief Executive. See the Board Governance document on our website for further details on the split of responsibilities. A list of our Directors' biographies can be found on pages 70 and 71.

P**People & Governance Committee**

Reviews the structure, size and composition of the Board and its Committees and advises the Board on its succession planning and that of the Group Executive Committee. It ensures the Board is diverse, with the appropriate balance of skills, experience, diversity, independence and knowledge and oversees the effectiveness of the Board's workforce engagement strategy. It monitors the Board's corporate governance framework.

Key matters considered:

- Board and Committee composition and succession planning.
- Board and Group Executive Committee appointments.
- Board workforce engagement.



Committee report
pages 80 – 82

A**Audit & Risk Committee**

Assists the Board in discharging its responsibilities for the integrity of the Company's financial statements, risk management, assessment of the effectiveness of internal controls and internal and external auditors.

Key matters considered:

- Financial reporting and statements.
- Internal controls, risk management and compliance.
- Corporate audit.
- External audit and assurance.
- Complaints and whistleblowing procedures.
- ESG and climate change-related disclosures.



Committee report
pages 83 – 87

S**Safety & Sustainability Committee**

Assists the Board in fulfilling its oversight responsibilities in respect of reviewing and challenging the strategies, policies, initiatives, risk exposure, targets and performance of the Company in relation to safety and sustainability.

Key matters considered:

- Safety policies and progress against initiatives and performance targets.
- Health and wellbeing of the workforce.
- Sustainability strategy, ESG and climate-related targets, disclosures and action plans.



Committee report
page 88

F**Finance Committee**

Monitors the financial risk of the Group and sets the finance policy.

Key matters considered:

- Financing policies and decisions.
- Credit exposure.
- Hedging.
- Foreign exchange transactions.
- Tax strategy and policy.
- Guarantees and indemnities.



Committee report
page 89

R**Remuneration Committee**

Determines the remuneration framework for the Chair, Executive Directors and Group Executive Committee members and oversees the remuneration practices and policies for the wider workforce.

Key matters considered:

- Setting and implementation of the Directors' Remuneration Policy.
- Incentive design and setting of remuneration targets.



Committee report
pages 90 – 106

Group Executive Committee and other management committees

Our Group Executive Committee oversees the safety, operational and financial performance of the Company. It is responsible for making the day-to-day management and operational decisions it considers necessary to safeguard the interests of the Company and to execute the strategy, business objectives and targets established by the Board.

It is supported by a number of other management committees including Safety, Health & Sustainability; Ethics, Risk & Compliance; Reputation & Stakeholder Management; Policy & Regulation; Investment; Disclosure.



Full biographies for the Group Executive Committee are available at:
www.nationalgrid.com/about-us/our-leadership-team/the-executive-committee

Our Board



P

Paula Rosput Reynolds (66)
Chair

Appointed: Chair with effect from 31 May 2021 and to the Board on 1 January 2021
Tenure: 2 years

Skills and competencies: Paula's strong business acumen is shown by her impressive track record of leading complex international businesses. In her board and leadership roles, Paula has demonstrated her decisive and pioneering nature, which is crucial in moving National Grid's vision forward, as it progresses its journey to enable the clean energy transition and net zero by 2050. Her knowledge of the energy market and experience supporting organisations through transitional periods is an asset to the Board, and her leadership was recognised as she was named FTSE 100 Non-executive Director of the year by The Times in March 2023. Paula is Chair of the People & Governance Committee and is pivotal in ensuring the succession and composition of the Board align to the culture, strategy and leadership needs of the Group. These skills combined with her insight into strategic and regulatory issues support her in leading and governing an effective board.

External appointments:

- Senior Independent Director and Chair of the Remuneration Committee of BP p.l.c.
- Non-executive Director of General Electric and Chair of the Governance and Public Affairs Committee
- President and CEO of PreferWest LLC



E F

John Pettigrew (54)
Chief Executive

Appointed: Chief Executive with effect from 1 April 2016 and to the Board from 1 April 2014
Tenure: 9 years

Skills and competencies: John joined National Grid as a graduate engineer in 1991, progressing through many senior management roles and demonstrating a strong track record of developing and implementing global strategies for profitable growth. John contributes widely into external industry discussions shaping energy policy and brings significant know-how and commerciality to his leadership of the executive team and management of the Company's businesses.

As Chief Executive, John leads on the implementation of the Group's strategy. Most recently, he progressed our strategic pivot with the successful acquisition of NGED, the sale of a majority stake in our UK Gas Transmission & Metering business and the sale of the Rhode Island electricity and gas business.

External appointments:

- Senior Independent Director of Rentokil Initial plc
- Member of the Electric Power Research Institute Board
- Member of the Edison Electric Institute Executive Committee



F A P

Thérèse Esperdy (62)
Senior Independent Director

Appointed: 18 March 2014
Tenure: 9 years

Skills and competencies: Thérèse has significant international investment banking experience, having held a variety of leadership roles spanning 27 years. Her career began at Lehman Brothers and in 1997 she joined Chase Securities and subsequently JPMorgan Chase & Co, where she held a number of senior positions. With a distinguished career in the investment banking sector, Thérèse brings significant banking, strategic and international financial management expertise and knowledge of financial markets to the Board and to her role as Chair of the Finance Committee.

Thérèse's specialist knowledge combined with her sharp and incisive thinking enables her to contribute to, and constructively challenge on, a wide range of Board debates.

External appointments:

- Chair of Imperial Brands PLC
- Non-executive Director of Moody's Corporation



R S

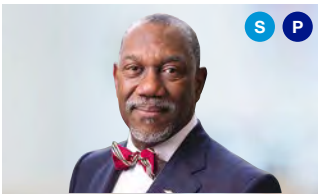
Anne Robinson (52)
Non-executive Director;
Independent

Appointed: 19 January 2022
Tenure: 1 year

Skills and competencies: Anne has over 20 years of legal experience in the financial services industry, where she has counselled senior executives on a wide range of legal, regulatory and business issues. She is also an advocate for sponsorship and mentorship of other women in the legal profession. Anne brings to the Board expansive and varied legal experience in the financial services and consulting fields as well as experience of working closely with boards and investors on a broad range of ESG issues. Anne earned a BS from Hampton University and a JD from Columbia University Law School.

External appointments:

- Managing Director, General Counsel and Corporate Secretary of The Vanguard Group, Inc.



S P

Earl Shipp (65)
Non-executive Director;
Independent

Appointed: 1 January 2019
Tenure: 4 years

Skills and competencies: With an extensive career in the chemicals industry and having held a senior leadership role in a safety-critical process environment, Earl brings significant safety, project management, environmental, sustainability and strategic expertise to the Board and its Committees, particularly in relation to operational safety management. This, combined with his innovative way of thinking, enables Earl to contribute on a wide range of issues to Board debates and to effectively chair the Safety & Sustainability Committee.

External appointments:

- Non-executive Director of Olin Corporation
- Non-executive Director of Great Lakes Dredge and Dock Co.



E F

Andy Agg (53)
Chief Financial Officer (CFO)

Appointed: 1 January 2019
Tenure: 4 years

Skills and competencies: Andy trained and qualified as a chartered accountant with PricewaterhouseCoopers and is a member of the ICAEW. He has significant financial experience, having held a number of senior finance leadership roles across the Group, including Group Financial Controller, UK CFO and Group Tax and Treasury Director. Andy has in-depth knowledge of National Grid, in both the UK and the US, and has broad experience across operational and corporate finance roles. Most recently he was instrumental in the successful acquisition of NGED, the sale of a majority interest in the UK Gas Transmission & Metering business and the sale of the Rhode Island electricity and gas business, to enable our strategic pivot towards electricity transmission and distribution.

External appointments:

- Member of The 100 Group Main Committee and Chair of the Tax Committee



A F

Liz Hewitt (66)
Non-executive Director;
Independent

Appointed: 1 January 2020
Tenure: 3 years

Skills and competencies: Liz qualified as a chartered accountant with Arthur Andersen & Co. In her executive career she worked in private equity for 3i Group plc, Gartmore Investment Management Limited and Citicorp Venture Capital Ltd gaining insights into a wide variety of industries. She gained global insight through her work at Smith & Nephew plc. She was seconded for a year to HM government. Liz's executive career in private equity provided her with insights into a wide variety of industries. Her broad industrial and global experience and her financial knowledge enable her to bring a wide perspective to the Board.

External appointments:

- Director of Silverwood Property Limited
- Non-executive Director of Glencore plc



R A F

Lord Ian Livingston (58)
Non-executive Director;
Independent

Appointed: 1 August 2021
Tenure: 1 year

Skills and competencies: Ian is a chartered accountant who qualified with Arthur Andersen & Co. He brings a wealth of experience to National Grid, having been Chief Financial Officer of both Dixons Group plc and Chief Executive and Chief Financial Officer of BT Group plc. In addition to a highly successful executive career, he has also had extensive non-executive board experience in both UK and US public companies, including as board chair, remuneration committee chair and audit committee chair. He has extensive experience of large, regulated companies operating in both the UK and internationally in a variety of sectors. He has a variety of non-commercial interests and involvement with a number of charities in education and social care.

External appointments:

- Non-executive Director of S&P Global
- Member of the House of Lords



A R

Iain Mackay (61)

Non-executive Director;
Independent

Appointed: 11 July 2022

Tenure: Less than 1 year

Skills and competencies: A member of the Institute of Chartered Accountants of Scotland, Iain also holds an MA in Business Studies and Accounting and received an Honorary Doctorate from Aberdeen University in Scotland. Iain has significant financial experience gained in a range of sectors and operating in regulated environments globally. He was most recently Chief Financial Officer at GSK plc, where he was a member of its board and leadership team and responsible for Global Finance and several of GSK's key global functions including Investor Relations and Technology. Prior to this, Iain was Group Finance Director at HSBC Holdings plc for eight years working across Asia, the US and Europe, and previously worked at General Electric, Dowell Schlumberger and Price Waterhouse. Iain's extensive background knowledge and financial expertise allows him to effectively Chair the Audit & Risk Committee.

External appointments:

- Member, Court of University of Aberdeen and Chair of its Remuneration Committee



A P

Jonathan Silver (65)

Non-executive Director;
Independent

Appointed: 16 May 2019

Tenure: 4 years

Skills and competencies: Jonathan has considerable knowledge of the US-regulated energy environment, experience and understanding of integrating public policy and technology into a utility as well as a strong background in finance. Previously, he was the head of the US government's \$40 billion clean energy investment fund. Jonathan's strong background in finance and government policy along with his long career at the intersection of policy, technology, finance, and energy bring innovative and positive insight to the Board's policy discussions and to its interaction with management.

External appointments:

- Independent Director of EG Acquisition Corp.
- Director of Plug Power Inc.
- Director of Intellihot Inc.
- Chair of Global Climate Council Apollo Global Management, Inc.



P S

Tony Wood (57)

Non-executive Director;
Independent

Appointed: 1 September 2021

Tenure: 1 year

Skills and competencies: Tony has proven business leadership credentials as an experienced CEO, and brings to the Board significant engineering experience; he is also a Fellow of the Royal Aeronautical Society. He was most recently CEO of Meggitt plc and led the operational and cultural transformation of the company, transitioning from an industrial holding structure to a focused and customer-led business, leveraging technology investment.

During his time at Rolls-Royce plc as President of its Aerospace division, Tony developed a strong reputation as an operator, turning around and growing several challenging business units and internationalising the company's footprint.

External appointments:

- Director of ADS Group Limited
- Non-executive Director of Airbus SE

Key

- A** Audit & Risk Committee
- F** Finance Committee
- P** People & Governance Committee
- R** Remuneration Committee
- S** Safety & Sustainability Committee
- E** Group Executive Committee
- Committee Chair**

Biographies, tenure and age as at 17 May 2023



R S

Martha Wyrsh (64)

Non-executive Director;
Independent

Appointed: 1 September 2021

Tenure: 1 year

Skills and competencies: Martha has held a number of senior positions in the energy industry and has significant experience of the US market, having been a fortune 100 General Counsel and Chief Executive of a major international gas transmission business, as well as leading the growth and development of Vestas' renewables business in the US.

Having held a number of director roles of publicly listed companies in both the UK and the US, Martha brings to the Board relevant experience across the renewable energy sector, as well as a strong understanding of the US regulatory environment, bringing enriching discussion and strategic thought to the Board.

External appointments:

- Independent Director of Quanta Services, Inc.
- Independent Director of First American Financial Corp.
- Advisor to Summit Carbon Solutions



E

Justine Campbell (52)

Group General Counsel &
Company Secretary

Appointed: 1 January 2021

Tenure: 2 years

Skills and competencies: Justine graduated from Trinity College Dublin before qualifying as a corporate lawyer and spending a number of years at Freshfields in London and Brussels. She has held senior executive positions with responsibility for legal, regulatory, compliance and public affairs matters at several international companies, including Telefonica, Vodafone and Centrica, and has particular expertise in regulated sectors.

Justine is responsible for safety, legal, risk, compliance and corporate governance activities across the Group.

External appointment:

- Member of the GC100 Group Executive Committee

Board meeting attendance

The table below sets out Director attendance at Board meetings during the year ended 31 March 2023.

Director	Attendance
Paula Rospit Reynolds ●	6/6
John Pettigrew	6/6
Andy Agg	6/6
Thérèse Esperdy	6/6
Liz Hewitt	6/6
Ian Livingston	6/6
Iain Mackay	5/5 ¹
Anne Robinson	6/6
Earl Shipp	6/6
Jonathan Silver	6/6
Tony Wood	6/6
Martha Wyrsh	6/6
Former Director	
Jonathan Dawson	1/1 ²
Amanda Mesler	1/1 ²

● Board Chair

1. Iain Mackay joined the Board on 11 July 2022.
2. Jonathan Dawson and Amanda Mesler retired from the Board at the 2022 AGM.

Board focus during the year

Our Board is collectively responsible for the effective oversight of the Company and its businesses. It is responsible for establishing the Company's strategy, purpose, values and culture. It considers key stakeholders in its decision making and, in doing so, ensures that Directors comply with their duty under section 172 of the Companies Act 2006 (see our Section 172(1) Statement).

Our stakeholders considered in Board discussions



Strategy	
Performance	The Board discussed with the Chief Executive his monthly report, which updates on the Group's overall performance, business unit operations, progress against strategy and engagement with stakeholders including colleagues. The Board also spent time with the different business unit Presidents, with a particular focus on being updated on the progress and key challenges and progress of the integration of UK ED.
Strategic priorities	<p>With a dynamic external environment, the Board has spent a lot of its time discussing our strategic priorities and the execution of these with management.</p> <p>External insights were provided throughout the year to enhance the Board's understanding of different stakeholder perspectives and increase knowledge on the industry and macro issues impacting the business in both the UK and the US to enable well-rounded Board discussions. This included discussions with externals in a wide range of areas – financial, political, business – and stakeholders such as regulators, government and investors.</p> <p>Whilst the Board considers strategy at every meeting, it holds an annual strategy meeting to focus on the main strategic questions and longer-term growth opportunities impacting the Group and the business units and the key areas of focus, challenges and risks to delivering our priorities and plans to address or mitigate these, including our financing strategy.</p>
Our commitment to reach net zero	<p>The Board discussed ESG matters, including key strategic enhancements to keep pace with stakeholder expectations and how these align with our commitments as a responsible business. The Safety & Sustainability Committee oversees our sustainability strategy and progress in this area which it reports to the Board.</p> <p>On the recommendation of the Safety & Sustainability Committee, the Board approved the Climate Transition Plan in May 2022 and recommended its approval to shareholders at the 2022 AGM (see page 75).</p>
Strategic Business Plan and budget	The Board discussed and approved the Strategic Business Plan, to promote alignment of financial performance, and the annual budget.
Dividend	The Board considered the dividend policy, which provides for growth of the dividend in line with UK CPIH. It also approved the 2022/23 interim and proposed 2022/23 final dividend.
RIIO-ED2	The Board discussed with management the impact and areas of challenge we would seek under the Draft Determination under RIIO-ED2. Further to the publication of the Final Determination, the Board undertook a thorough review with management on the impact and ability to deliver on these including whether to appeal. The Board decided that it would accept the price control arrangements in March 2023 (see page 75).
Impacts on the UK energy market	<p>As Russia's invasion of Ukraine continued throughout 2022/23, the Board was briefed on the significant impacts on the UK energy market, including the high and volatile prices, impact on consumers and impacts on Group and how we were mitigating against these. This included oversight of the impact on affordability and UK Security of Supply, cyber security and potential cost recovery.</p> <p>Following publication of the British Energy Security Strategy, the Board received updates on the impact of the increased ambition from the UK government and joined an enrichment session to consider the impact on the Group.</p>
Future System Operator	Further to the announcement of the planned separation of the UK ESO from the Group as an independent Future System Operator, the Board has been kept updated on progress of this, including the progress of the Energy Bill through Parliament, the ongoing engagement with the Department for Energy Security and Net Zero, the potential impact on employees and the implications for the Group.

Execution of strategy

Oversight and execution of strategy

The Board continued to keep under review the Group's portfolio to ensure we are best positioned to drive value for our shareholders. In particular, given the evolving regulatory and political landscape and stakeholder sentiment, the Board spent time discussing the opportunities and risks facing each of our businesses and how we are managing these. This included ensuring the political and regulatory frameworks in the jurisdictions in which we operate are supportive to enable the execution of our plans and capital investment. The Board is particularly mindful of this as we seek to develop the critical infrastructure needed to update the network on the East Coast.

Further to the approval of the sale of NECO and majority stake in UK Gas Transmission and Metering business last year, the Board was kept updated on the status of these transactions as they proceeded to completion.

The Board approved the sale of 26.25% equity interest in Millennium Gas Pipeline Company, LLC (see page 75).

Financial performance

The Board was updated by the CFO at each meeting on the current financial performance for the period against budget and full-year outlook.

The Board considered and approved the half-year and full-year results, including any external guidance.

The Board received regular reports on our top shareholders, movements in the share register, share price performance and how we are engaging with institutional investors and analysts. The interaction with debt investors is discussed with the Finance Committee.

Litigation and compliance

The Board was kept updated on internal compliance investigations and litigation and the impact on our stakeholders and reputation.

People and culture

Culture

The Board monitored and assessed both the culture of the Group and its alignment with the Company's purpose, values and strategy (see page 76).

Community and employee support

Given the backdrop of rising wholesale gas prices and increasing energy bills, the Board discussed, and approved, financial support packages to run across two years to our communities in both the UK and US. Together with management, it agreed to thank our colleagues with a £500/\$600 payment and establish other initiatives to support colleagues during the challenging winter period.

Safety

The Board with the support of the Safety & Sustainability Committee monitored safety performance throughout the year. Updates were received on the investigation into the fatality in Medford, Massachusetts. The learnings were shared with the whole organisation and we have changed our approach to safety through our Stand Up For Safety campaign.

Risk, controls and governance

Review and approval of Group Principal Risks and emerging risks

The Board with the support of the Audit & Risk Committee keeps under review the Group's systems of risk management including the GPRs and emerging risks and how we manage them. The Board agreed to add three new principal risks to our profile: (i) major project delivery; (ii) financing our business; and (iii) energy balancing. The Board reviewed and approved the effectiveness of the Group's risk management system, following recommendation from the Audit & Risk Committee. You can read more about our risks on pages 20 – 24.

As part of ensuring that the Board is comfortable with the Group's cyber security risk, it also met with the National Cyber Security Centre to discuss its role and strategy and how the Board can be comfortable with the assurance it gains from the organisation in this area.

Governance

The Board reviewed and approved changes to the composition of the Committees including the Committee chairs and undertook an annual review of the Terms of Reference approving any changes.

AGM

The Board approved the arrangements for our first hybrid AGM in 2022.

Annual Report and Form 20-F

The Board considered the Annual Report, which was subsequently approved on the recommendation of the Audit & Risk Committee (see page 83), on the basis that, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to accurately assess the Group's position and performance, business model and strategy. The Board also considered and approved the Annual Report on the Form 20-F.

Key decisions and engagement

Effective engagement with our stakeholders is key to successful achievement of the Group's strategy in the long term.

Section 172(1) Statement

During the year, the Directors acted in the way they considered, in good faith, most likely to promote the long-term success of the Company for the benefit of its members as a whole, with due regard to stakeholders and the matters set out in section 172 of the Companies Act 2006.

The Board recognises its responsibilities to each of the Group's stakeholder groups and to wider society. The Directors endeavour to ascertain the interests and views of our stakeholders and consider these when making decisions.

The Board acknowledges its responsibility for setting and monitoring the culture, values and reputation of the Group. Every day our colleagues seek to live by our values – do the right thing, find a better way and make it happen – and use these to guide how we make decisions. When making decisions, the Directors have regard to all stakeholders but also acknowledge that not every decision will result in each stakeholder's preferred outcome. The Board strives to balance the different and competing priorities and interests of our stakeholders in a way compatible with the long-term, sustainable success of the business and which maintains a standard of business conduct aligned to our values and purpose.

Pages 72 to 78 comprise our Section 172(1) Statement.



Further details on how we engage with our stakeholders can be found on **pages 36 to 37**









Our Board's engagement is detailed on **pages 77 to 78**

How the Board had regard to Section 172 factors

Section 172

Key examples

<p>A The likely consequence of any decisions in the long term</p>	<p> Our strategy and business model, pages 4 – 5 and pages 12 – 13</p>
<p>B The interests of employees</p>	<p> Workforce engagement, pages 77 – 78 Our people, page 34</p>
<p>C The need to foster the company's business relationships with suppliers, customers and others</p>	<p> Our commitment to being a responsible business, pages 33 – 35</p>
<p>D Impact of operations on the community and environment</p>	<p> Our commitment to being a responsible business, pages 33 – 35 TCFD, pages 38 – 51</p>
<p>E Maintaining a reputation for high standards of business conduct</p>	<p> Our commitment to being a responsible business, pages 33 – 35 How the Board operates, page 68</p>
<p>F The need to act fairly as between members of the company</p>	<p> Shareholder engagement, pages 36 – 37 and page 78</p>

Decisions taken during the year

The following table provides some examples of decisions taken by our Board during the year which demonstrate how section 172 has been taken into account as part of Board discussions and decision making. The Board's key focus areas for 2022/23 can be found on pages 72 and 73.

Key decisions

Sale of Millennium Gas Pipeline

Section 172 considerations

A B C D E F

Context
We owned 26.25% of Millennium Gas Pipeline Company, LLC, which owns and operates the Millennium Pipeline, a FERC-regulated natural gas pipeline in New York state. The stake was a non-operational, minority interest.

Stakeholder groups considered

Decision taken

The Board approved the sale of our 26.25% stake for a cash purchase price of \$552 million to DT Midstream, an existing partner. The Board noted that the supply to customers would be unaffected as National Grid will remain a shipper through the pipeline for the foreseeable future and the transaction allowed the Group to crystallise value from a non-core asset.

Acceptance of RIIO-ED2 Final Determination

Section 172 considerations

A B C D E F

Context
In November 2022, Ofgem published its Final Determination for the RIIO-ED2 framework covering our UKED regulated business for the period from April 2023 to March 2028. Management completed a detailed review of the full package to assess whether it incentivised sufficient investment to ensure safe, secure and reliable supply of electricity alongside the need to help transition to a low carbon domestic energy system, at the lowest cost to customers.

Stakeholder groups considered

Decision taken

The Board considered the assessment in detail, reviewing, inter alia, the detailed engagement with Ofgem, the longer-term financial impact of the proposed framework on the various stakeholders within our business and the associated risks to the Group. It approved that it would accept all of the RIIO-ED2 price control arrangements proposed by Ofgem in its Final Determination.

These price controls will further accelerate our delivery of smart, decarbonised electricity distribution networks in the UK, at the lowest-level cost to customers. They also form an important part of the Group's financial framework (see page 17), with up to £40 billion of investment between 2021 and 2026, as we continue the journey towards net zero, and a clean, fair and affordable energy future.

Climate Transition Plan (CTP)

Section 172 considerations

A B C D E F

Context
The Company has set, and is working towards, ambitious targets to reach net zero by 2050. The CTP sets out the Company's plans, actions and assumptions enabling it to achieve its Scope 1, 2 and 3 emissions reduction targets, aligned to the goals of the Paris Agreement.

Stakeholder groups considered

Decision taken

The Safety & Sustainability Committee considered the CTP and provided feedback on the key messages to ensure it reflected the Company's priorities. It also considered the importance of alignment to other reporting requirements around climate change.

It recommended the CTP to the Board who approved putting it to shareholders for an advisory vote at the 2022 AGM. The CTP received favourable support from over 98% of our shareholders.

Our Stakeholder groups



How the Board monitors culture

The Board plays a significant role in monitoring and assessing both the culture of the Group and its alignment with the Company's purpose, values and strategy. It is supported by the People & Governance Committee, which identifies opportunities to strengthen culture, and the capabilities that underpin it, in a way that serves the future strategic goals of the Company.

There has been a focus on leadership capabilities, development and succession. The People & Governance Committee Chair reports back to the full Board following each meeting, which also provides the opportunity for full Board input and ensures all Board members are actively engaged in monitoring corporate culture.

The Board assesses the Company's culture and the progress being made from two key data sources:

- lagging indicators from the Grid:voice survey and the Spencer Stuart culture diagnostic; and
- leading indicators taken from the culture change activity under way across the organisation.

Lagging indicators

The findings of this year's Grid:voice survey showed positive movement across nearly all indicators. Overall engagement remains six points above the high-performing norm in the Korn Ferry benchmark*. We have also maintained top-quartile performance for 'Safe to Say', consolidating a spirit of openness and trust across the organisation. Our colleagues feel they can express their views, opinions and concerns and have confidence that action will be taken where needed. This is a strength of National Grid's culture.

* The Korn Ferry benchmark comprises the average survey scores from over 700,000 employees in 55 high performing organisations around the world in a variety of industries.

Leaders have a disproportionate influence on engagement, so the tone set from the top of the organisation is critical. Strong focus has been placed on this over the past year and, as a result, the level of belief in our strategic direction at all levels of the Company and confidence in senior leader decision making have significantly increased. The progress we saw in our 'leadership index' in 2021/22 has continued in 2022/23, with more leaders than ever behaving in line with our values, at or above our expectations. Further plans are in place for an experienced leaders programme in 2023/24 to continue this positive trajectory.

We have strengthened both 'purpose' and 'results' focus, with the former now ingrained in the core behaviours of the organisation and its people, and the latter now being the dominant leadership style at National Grid. The trait that unifies the organisation remains 'order', vital for a utility delivering the safe and reliable flow of energy to homes and businesses. The fourth defining attribute of our culture is 'caring', less common in the energy sector but a unique strength for National Grid, which aspires to become one of the most diverse, equitable and inclusive companies of the 21st Century. Our focus going forward is to now consolidate and maintain the current culture.

Leading indicators of change

In addition to the quantitative data, the Board also monitors leading indicators of change. Throughout the year this has been through the results of the organisation's 'Living our Values Everyday' campaign, 'Untapped AI' personal development coaching activity and through the 'Team Effectiveness' facilitation programme.

Looking forward

In a world where affordability is more important than ever, we will be dialling up our focus on customers, to ensure we are increasingly responsive to their needs and that we deliver for them efficiently now and in the future, as we work to deliver net zero. We have updated the behaviour statements that sit under our three values to reflect our desire for genuine customer-centricity, and work to embed this is under way. We have also put in place performance contracts for each business unit and function that connect the dots between the work colleagues do and National Grid's overall vision and strategic priorities. So, whatever their role, each colleague can now understand the positive impact of their role on Company performance and society as a whole. The Board will continue to oversee this area and monitor the progress in this area.



For further information on culture see [page 34](#)



Non-executive Directors on a site visit to our LNG Plant in Providence, MA

Board engagement

Engagement is key to the Group's long-term success and the Board directly and indirectly engages with key stakeholders, ensuring it understands their interests and takes them into account in Board decision making. This complements other engagement with the workforce (as set out on page 37). You can read the Board's Section 172(1) Statement on page 74.

Workforce engagement

Throughout the year we continued with our 'Full Board Employee Voice' approach, utilising and enhancing existing colleague engagement methods and communication channels to ensure meaningful engagement across all parts of the business by our Board. During the year, the Board's engagement comprised:

Small group listening sessions

These consist of mixed role/level colleagues in attendance with different Non-executive Directors. Attendees are coordinated by HR and represent a diverse mix of colleagues across our workforce. The sessions can be open discussion or on specific themes.

Engagement in action

- Five Non-executive Directors, including the Remuneration Committee Chair, met colleagues in May 2022 for a remuneration themed engagement breakfast, providing an opportunity to discuss the Group's approach to remuneration.
- Five Non-executive Directors, including the Safety & Sustainability Committee Chair, met colleagues for a climate transition and net zero themed engagement breakfast in May 2022, providing an opportunity to discuss the Group's approach to these important topics.

Employee Resource Groups (ERG)

We are proud to have 16 ERGs split across the UK and US, representing a significant and diverse proportion of the workforce. Our Board interacts with the ERGs to better understand their key areas of focus and future direction.

Engagement in action

Two Non-executive Directors attended the first ERG summit held in London in July 2022. Members of the Board also supported and spoke at virtual ERG sessions in June 2022.

The Chair was a panel member at the International Women's Day – Leaders in Energy event hosted by our Women's ERG.

Site visits

We encourage our Non-executive Directors to visit operational and field sites to hear views from operational colleagues to provide a platform for meaningful engagement whilst enhancing their understanding of our vital operations.

Engagement in action

Our Non-executive Directors visited a number of sites during the year, including the London Power Tunnels and St John's Wood substation; the Gas Transmission Main Replacement Project and LNG Providence site in Massachusetts; our UK ED control room and contact centre in Cardiff.

Meeting talent

To enable our Board to meet our high-potential colleagues informally, we periodically have opportunities for members of the Board to meet the broader colleague population.

Engagement in action

Our Board met our UK ET leadership team for dinner in July 2022 and our New England leadership team for breakfast in September 2022. Members of the Audit & Risk Committee and Safety & Sustainability Committee also met with colleagues in the Finance and Safety and Sustainability teams respectively in Boston in September 2022.

Other activities

Our Board have undertaken other engagement activities throughout the year to reflect on our operational performance and significant achievements.

Engagement in action

- One Non-executive Director and the Chief Executive attended a dinner in October 2022 in Boston to recognise engineers involved in world-leading Energy Transition projects including T-Pylons, the UK's new nuclear power station and the Storm Eunice response. The event provided the opportunity for individuals to discuss a range of topics.
- Two Non-executive Directors toured the Company's storm response organisation in Buffalo, NY during an actual storm deployment; three Directors attended an event in Buffalo, NY hosted by our Chief Executive to recognise our US colleagues working during the significant storms experienced during the winter.
- Our Chair routinely visits our UK and US sites to meet with operating and planning teams.
- Our Chief Executive holds biannual colleague webcasts which provide all colleagues the opportunity to ask him questions on any subject in an informal forum. Alongside the CFO, he also holds monthly discussions with the Senior Leadership Group.

Feedback and engagement insight

Following engagement activities, the Board takes the time to discuss the views of the workforce and take these into consideration throughout wider Board and Committee discussions. To supplement direct engagement, periodic updates are shared by management on progress with engagement and culture through our two main colleague insight tools – the Grid:voice engagement survey and the employee culture diagnostic.



Further details on Grid:voice can be found on [page 34](#)

Looking ahead

The People & Governance Committee monitors the effectiveness of the programme and reviews our chosen mechanism under the Code. In January 2023, it reviewed the current mechanism and continued to feel that the variety of engagement is a great way of building and maintaining trust and communication whilst providing our colleagues with an appropriate forum to influence change and agreed that the current approach remained appropriate. For 2023/24, the Board has considered other opportunities to continue to refine and strengthen this and allow for Directors to continue to immerse themselves in the culture and operations of the Group.

Shareholder engagement

The Board is committed to maintaining strong communications with our investors (both equity and debt). The Company has a comprehensive investor relations programme where it meets a range of key investors in person or virtually at small meetings and larger investor roadshow events. The Chair has made routine contact with shareholders who are interested in discussing Board governance. In addition, Committee Chairs such as the Remuneration Committee Chair engage specifically on topics within their responsibility. Management also hosts webcasts for both our half-year and full-year results and takes questions from investors and analysts to ensure an open dialogue with the market. Presentations are given to analysts and investors covering the Group's results, along with all results and other regulatory announcements. This information can be found on our website at nationalgrid.com/investors

The Board gets regular reports on our top shareholders, movements in the share register, share price performance and how we are engaging with institutional investors and analysts. It also discusses shareholder issues with management and advisors and considers these as part of its decision making.

Investor events

We hold a range of events to provide engagement opportunities with our investors. This included continuing our 'Grid Guide to' series, which consists of short, virtual sessions covering our ambitions and progress across a range of themes. Some of the key sessions of our 2022/23 programme included:

- June 2022 – ESG Investor Webinar
- July 2022 – NY Investor Event
- January 2023 – GLIO Investor Seminar
- March 2023 – Grid Guide to Enabling EVs and modernising our networks in Massachusetts

Further details and supporting materials from these events can be found in the investor section on our website:

nationalgrid.com/investors/events/grid-guide

AGM

Our AGM is another opportunity for the Board to meet and engage with shareholders. We were pleased to hold our 2022 AGM as a hybrid meeting in London. This was the first meeting we were able to hold for in person attendance since the onset of the COVID-19 pandemic. We had a good number of shareholders attending electronically and asking questions which enables us to broaden our engagement with those who may not be able to be with us in person. The comprehensive support from our shareholders for our CTP was a great acknowledgement of our vital role in the energy transition and our pathway to becoming a net zero business by 2050.

We will once again look to hold the 2023 AGM as a hybrid meeting. Details are included in our Notice of Meeting which is made available to shareholders in advance of the meeting and available on our website.

Board performance evaluation

Our annual evaluation process provides the Board and its Committees with an opportunity to consider and reflect on the quality and effectiveness of their decision making, and for each member to consider their own contribution and performance. Following on from the externally facilitated evaluation in 2021/22, the Board again engaged Independent Board Evaluation (IBE) in 2022/23 as a continuation of the prior year evaluation, to check in on progress given the embedding of newer Directors and to consider further areas of strengthening the relationship and effectiveness of the Board.

A mix of meeting observation and interviews has been used, with individual feedback for each Director, including the Chair, on Board dynamics, working with management and effective use of Board time.

Neither the principal consultant nor IBE has any connection with the Company or individual Directors.

Findings of the Board evaluation

Our 2022/23 Board evaluation found that the focus on strategy has led to greater clarity and an agreed direction of travel between Board and management and the refreshment of the Board skills and a diversity of perspectives and views to our boardroom discussions. There are further opportunities to strengthen our focus on talent and succession. The findings also indicated a need to monitor performance metrics as various business units meet with the Board throughout 2023/24.

Performance of the Chair

As part of IBE's evaluation, in line with the Code, each individual Director's effectiveness was evaluated, including our Chair's performance. Detailed feedback was shared directly with the Senior Independent Director, Thérèse Esperdy. Thérèse also discussed the views of the Chair with each Director. An overview of the findings was shared during a private session between Thérèse and Paula.

Board performance evaluation – progress against 2022/23 actions

Focus area	Board actions for 2022/23	Progress against actions
Strategy	<ul style="list-style-type: none"> • Finalise Board strategic topics for 2022/23 and ensure agendas align. 	Agreed an area of strategic topics to be covered through the year and in particular the key questions to tackle with the Board as part of the annual Strategy meeting.
Capability	<ul style="list-style-type: none"> • Strengthen focus on talent and succession at all levels. Include regular reviews on People & Governance agendas and align with opportunities for the Board to meet high-potential employees. 	Continued the review of individual talent evaluations and succession plans. Reviewed the progress of increasing diversity in the workforce via the People & Governance Committee.
Culture	<ul style="list-style-type: none"> • Incorporate the results of the culture scorecard in People & Governance Committee deliberations. 	Positive shift in results focus across the organisation and our 'Purpose' is ingrained in our culture.
Employee engagement	<ul style="list-style-type: none"> • Review and refine the overall approach to employee engagement. • Ensure key insights from engagement opportunities are shared with the Board. 	The People & Governance Committee reviewed our current approach and believes it continues to be best for the Company (see page 77). The Board discussed and agreed areas to further refine and strengthen this for 2023/24.
Engagement with management	<ul style="list-style-type: none"> • Ensure effective communication flows to provide the right insights, including early sight of emerging issues when required. 	Updates are shared via the Chief Executive's monthly updates either at each Board meeting or as ad hoc notes when there is not a scheduled Board meeting. The Board is informed as appropriate on emerging issues through updates as required.
Process and meeting management	<ul style="list-style-type: none"> • Continue to improve discipline around Board papers and processes. • Routinely bring outside views into the boardroom. 	We continue to refine content and messaging within our Board papers. There have been a number of external speakers at both Board and Committee meetings and at engagements sessions outside of these.
ESG	<ul style="list-style-type: none"> • Ensure that ESG commitments are embedded in the Board's stewardship. 	Thorough review of our climate and related ambitions, goals, measurements and progress by the Safety & Sustainability Committee and discussion at each Board meeting regarding areas of focus.

Directors' induction, development and training

Together with the support of the Group General Counsel and Company Secretary and her team, the Chair has overall responsibility for ensuring that our Non-executive Directors receive a comprehensive induction and ongoing development and training. The induction programme and induction pack are tailored to their experience, background, Committee membership and requirements of their role. They are encouraged to engage with the business by visiting sites in the UK and US. As our internal and external business environment continues to change, it is important to ensure that Directors' skills and knowledge are refreshed and updated regularly.

As part of continuing to enhance their knowledge of the business, during the year, the Board attended a series of enrichment sessions on a number of topics including ESG, the British Energy Security Strategy, energy futures and US utility regulation, supply chain & inflation and winter outlook and preparedness. They also received corporate governance updates, investor guidelines and potential changes to legislation and regulation through updates to the Board or the relevant Committees.

Iain Mackay's induction

Iain received a comprehensive induction in which he met and heard from key stakeholders responsible for the delivery of the Group's strategy, key business operations and matters pertinent to his Committee roles. This is detailed in the table below. Specific focus was given to prepare Iain to step into the role of Chair of the Audit & Risk Committee from January 2023. Iain visited our LNG Plant in Providence, Massachusetts in September 2022 with some fellow Board members to observe our operations in action and meet colleagues to gain further insight into our culture.

Time commitment

The Board monitors and approves significant external appointments in advance and considers any potential conflicts of interest when it agrees that a Director can take on a new appointment (see page 229). On accepting their appointment with the Company, Directors must confirm they are able to allocate sufficient time to discharge their responsibilities effectively. Directors are expected to attend meetings of the Board and any Committees of which they are members and devote sufficient time to prepare for this in advance.

They also are encouraged to visit different offices and sites. Before accepting new external appointments, Directors are required to obtain the prior approval of the Board. The Board considered Liz Hewitt's proposed appointment as a non-executive director of Glencore plc in July 2022; Tony Wood's proposed appointment as a non-executive director of Airbus SE in December 2022; and Iain Mackay's proposed appointment as a non-executive director of Schroders plc in January 2024 in light of their other appointments and roles on the Board. It was concluded that the appointments would not impact their ability to perform their duties as a Non-executive Director of the Company, and accordingly the Board gave its prior approval in each instance.

Re-election of Directors

The People & Governance Committee considers, in respect of each Director, their skills and experience, time commitment and tenure as part of the Board's recommendation to shareholders for their re-election of Directors. Each Director has confirmed that they are willing to be re-elected. The Board believes that each Director who is being put forward for re-election at the 2023 AGM brings considerable knowledge, wide-ranging skills and experience to the Board, makes an effective and valuable contribution and continues to demonstrate commitment to their role. The Board also considered the continued independence of Non-executive Directors as part of its consideration of the re-election of Directors. The Board continues to consider all Non-executive Directors as being independent in line with the Code.

Director's induction – Iain Mackay

Induction area	Provided by	Topics covered
Governance and Directors' duties	<ul style="list-style-type: none"> Chair of the Board Group General Counsel & Company Secretary Head of Secretariat External Legal Counsel 	<ul style="list-style-type: none"> Priority areas for the Board Governance framework and corporate structure Overall legal matters Director duties for a listed company Market Abuse Regulation
Audit & Risk	<ul style="list-style-type: none"> Incumbent Chair of the Audit & Risk Committee CFO Group Head of Audit Chief Risk Officer Group Financial Controller External Auditor (Deloitte) Regional CFOs 	<ul style="list-style-type: none"> Priority areas for the Audit & Risk Committee Regulatory finance model Financial reporting framework Risk management framework and principal risks External audit including lead partner succession
Remuneration	<ul style="list-style-type: none"> Chair of the Remuneration Committee Chief People & Culture Officer Group Head of Reward External remuneration consultant (PwC) 	<ul style="list-style-type: none"> Priority areas for the Remuneration Committee Directors' Remuneration Policy Remuneration matters including broader workforce engagement
Safety & Sustainability	<ul style="list-style-type: none"> Group Head of Safety Group Chief Engineer 	<ul style="list-style-type: none"> Priority areas for the Safety & Sustainability Committee National Grid's approach to safety and sustainability Engineering assurance Climate change and climate risk
Strategy	<ul style="list-style-type: none"> Chief Strategy & External Affairs Officer Chief Sustainability Officer 	<ul style="list-style-type: none"> National Grid's strategy and transition to net zero

People & Governance Committee report



Key activities during the year

- Approved a new Non-executive Director appointment
- Reviewed and approved the refreshed Board Diversity, Equity and Inclusion (DEI) Policy and monitored progress against objectives
- Focused on executive succession planning

Composition and Committee attendance

The Committee is made up of four independent Non-executive Directors and the Chair of the Board.

Committee members	Attendance
Paula Rosput Reynolds ●	5/5
Thérèse Esperdy	5/5
Jonathan Silver	5/5
Earl Shipp	5/5
Tony Wood	5/5

● Committee Chair

Culture

High-performing organisations are characterised by, among other things, clarity on goals and performance. National Grid is purpose led, which reflects our long-term outlook in respect of the energy transition and our role as a responsible business. This is anchored in our core behaviours and is a unifying aspect of our culture. The Committee discussed the progress against our cultural ambitions during the year noting improvements in key elements and also areas where further progress is desirable.

See page 76 to read more about how we as a Board monitor culture.

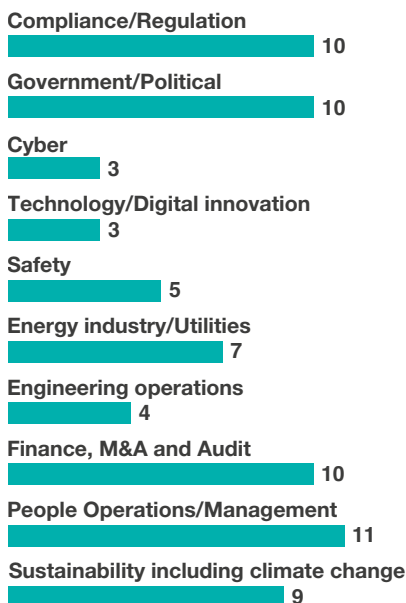
Board succession and composition

The Committee and I spent a fair amount of time during the year discussing succession planning and ongoing progressive Board refreshment. We are cognisant of having a Board that remains balanced in experience, skills, diversity, independence and tenure. We view diversity through a broader lens than just gender and ethnicity.

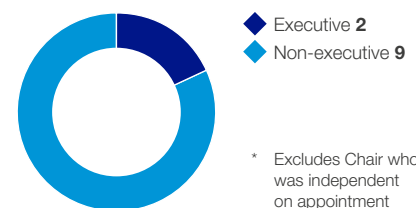
Board skills

In January 2023, we refreshed our Board skills matrix as part of ensuring it continues to reflect the skills required from the Board as a whole to support the business in line with its strategy and to meet future challenges. We sought to simplify and focus these to the top 10 key skills set out below. This matrix is used to inform searches for Non-executive Directors and consider the overall composition of the Board.

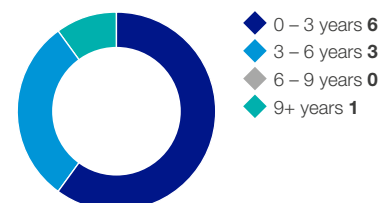
Board skills and experience



Board independence*



Non-executive Directors' tenure



Diversity, Equity and Inclusion (DEI)

We believe that DEI is a vital part of our efforts in building the talent and capabilities we need for the future to deliver on our purpose and strategic priorities. Our vision is to build and develop an inclusive culture and diverse workforce that is representative of the communities we serve. At each meeting, the Committee starts with a 'DEI moment' to focus attention on areas in which the Company is addressing and nurturing various aspects of the employee experience. Our Group Chief Diversity Officer has met with the Committee to review the global DEI strategy including the progress against our DEI commitments and changes to corresponding targets under the RBC.

Information on DEI throughout the organisation is set out on page 17.

We also recognise the Board's role in exemplifying its commitment to diversity at a leadership level and this is set out in the Board DEI Policy. The Committee monitored the Board's progress against its objectives:

Objectives	Progress as at 31 March 2023
The Board aspires to comprise at least 40% women on our Board.	Objective exceeded: There are five female Directors on the Board, resulting in 42% women on our Board.
The Board aspires to comprise at least one of the senior Board positions (Chair, Chief Executive, Chief Financial Officer or Senior Independent Director) is a woman.	Objective exceeded: The Chair and Senior Independent Director are both women.
The Board aspires to comprise at least one Director from a minority ethnic background.*	Objective exceeded: We currently have two Directors from a minority ethnic background.
The Board aspires to achieve 50% diversity** on our Board.	Objective met: We currently have 50% diversity on the Board.

* The following categories are used to define those from a minority ethnic background: Asian/Asian British; Black/African/Caribbean/Black British; Mixed/Multiple Ethnic Groups; other ethnic group, including Arab

** Diversity of the Board is defined, in this context, as female and individuals from a minority ethnic background.

As part of executive succession planning, the Committee also strives to challenge bias in appointments and succession plans and ensure that they are made on the basis of merit and objective criteria.

In accordance with Listing Rule 9.8.6R(10), as at 31 March 2023, the numerical data on the gender identity and ethnic background of our Board and Group Executive Committee is as follows:

Gender		Number	% 2023	% 2022
Board members	Women	5	41.7	46.2
	Men	7	58.3	53.8
Senior positions on Board*	Women	2	50.0	50.0
	Men	2	50.0	50.0
Group Executive Committee	Women	4	36.4	N/A
	Men	7	63.6	N/A
Senior Leadership Group**	Women	59	40.1	N/A
	Men	88	59.9	N/A

Ethnicity	Number of Board members	Percentage of the Board	Senior Positions on Board*	Group Executive Committee	Percentage of Group Executive Committee	Senior Leadership Group**	Percentage of Senior Leadership Group
White British or other White (including minority-white groups)	10	83.3%	4	10	90.9%	117	80%
Mixed/Multiple ethnic group	-	-	-	-	-	2	1%
Asian/Asian British	-	-	-	-	-	10	7%
Black/African/Caribbean/Black British	2	16.7%	-	1	-	7	5%
Other ethnic group, including Arab	-	-	-	-	9.1%	1	1%
Not specified/prefer not to say	-	-	-	-	-	10	7%

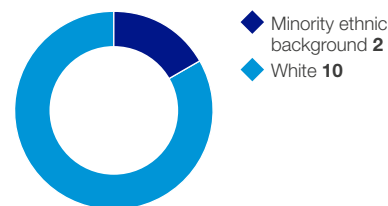
* Senior positions on Board refer to the Chair, Chief Executive, Chief Financial Officer and Senior Independent Director.

** Senior Leadership Group includes all direct reports to Group Executive Committee members and Directors of our subsidiary entities.

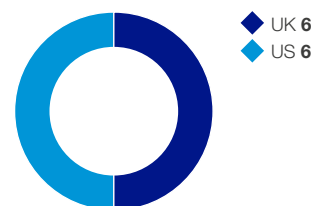
Gender representation



Ethnicity representation



Board nationality



Approach to collating diversity data

Data is sourced from MyHub (our People system) containing all permanent colleague details, as at 31 March 2023. All diversity information for ethnicity is based on voluntary self-declaration. For Non-executive Directors, we collect data through our annual year-end Director data collection.

Board appointments

As part of ongoing succession planning, the Committee recommended the appointment of Iain Mackay following a transparent and thorough process outlined below:

- Russell Reynold Associates and MWM Consulting were appointed jointly as the firms for the search. There are no connections between the search firms and the Company and its individual Directors. Both are also signed up to the Voluntary Code of Conduct for Executive Search Firms in line with the Board DEI Policy. They discussed the skills and experience needed for the new Director.
- A shortlist of candidates was considered by the Committee with preferred candidates meeting with a sub-set of Directors, who provided feedback to the Committee.
- The Committee recommended the appointment of Iain Mackay as an independent Non-executive Director, which was subsequently approved by the Board.

The Committee continues to keep succession planning under review particularly for longer-serving Directors. We are conscious Thérèse Esperdy reached her nine-year tenure as a Non-executive Director in March 2023. Accordingly, the Committee and the Board undertook a thorough review of her independence. The Committee considered her personal qualities and circumstances, including any business or relationships that could materially interfere with her ability to exercise objective or independent judgement or her ability to act in the best interests of the Group. Both the Committee and the Board concluded that she continues to be independent of management and a valuable Director, with experience in the areas of finance, risk, control and governance. Given the number of recent changes to the Board, we are mindful of balancing the longer and newer serving Directors to retain knowledge and experience and have agreed with Thérèse that she will remain on the Board until 31 December 2023. This will allow continuity and ensure an orderly succession of her roles. The Board, together with the Committee, are actively searching for new Non-executive Directors and are considering the skills and experience we need, as well as ensuring we continue to seek to meet our diversity commitments in the Board DEI Policy.

Group Executive Committee succession planning and talent

Last year I set out our approach to ensuring we had a robust process of reviewing management development and executive succession. We have made progress, in conjunction with our Chief Executive and Chief People & Culture Officer, in reviewing the succession pipeline for many of the key roles in the Company, development plans for our emerging leaders and identifying where we need to introduce new skills and experience into the organisation.

The Committee has spent time focusing on leadership and talent at the senior leadership level, in particular the Group Executive Committee members, as we adapt our operating model to continue to deliver on our strategic priorities. The Board, on the recommendation of the Committee, approved a few changes to the Group Executive Committee during the year, with Carl Trowell joining as President of the new Strategic Infrastructure business unit and Cordi O'Hara becoming President of UK ED.



Paula Rosput Reynolds
Committee Chair

Audit & Risk Committee report



Key activities during the year

- Focused on internal controls
- Reviewed strategic transaction accounting
- Further focus on risk management

Composition and Committee attendance

The Committee is made up of five independent Non-executive Directors.

Committee members	Attendance
Iain Mackay ¹ ●	4/4
Thérèse Esperdy	5/5
Liz Hewitt ²	5/5
Ian Livingston	5/5
Jonathan Silver	5/5
Former Committee members	Attendance
Amanda Mesler ³	1/1

● Committee Chair

1. Iain Mackay joined the Committee effective 11 July 2022 and became Committee Chair effective 1 January 2023. Iain chaired two out of five meetings during the year.
2. Liz Hewitt stepped down from her role as Chair of the Audit & Risk Committee effective 1 January 2023. Liz chaired three out of five meetings during the year.
3. Amanda Mesler stepped down from the Board and the Committee effective 11 July 2022.

Review of the year

I'm delighted to be writing to you following my appointment as Committee Chair during the financial year. As a Committee, we met five times, which included an ad hoc meeting to allow us to step back and focus on our financial reporting control environment and cyber security, which continues to be front of mind as a GPR in an ever-changing macro environment. I would like to thank Liz Hewitt for her time as Committee Chair; she has supported me with a comprehensive handover and continues to add value to our deliberations as a Committee member.

As Committee Chair, I met with the Deloitte lead Audit Partner, the Group Head of Audit and management as appropriate to discuss specific items of focus to report to the Committee. After each meeting, I also reported back to the Board on the Committee's activities, the main issues discussed and matters of particular relevance, with the Board receiving copies of the Committee's meeting papers and minutes. I frequently meet with the regular attendees to ensure that the Committee is focused on the relevant matters and can support and constructively challenge their work.

During the year, Chris Thomas stepped into the role of lead Audit Partner, following Doug King having completed his five-year rotation on the account. Ensuring a smooth transition was a major focus of the year, supported by a number of handover meetings.

Transactions

We have performed an active role monitoring the progress of the various transactions across the Group that fall within our remit. We have received updates from management in relation to NGED's ongoing financial controls integration and the accounting issues linked to the sale of NECO and the majority stake in UK Gas Transmission & Metering, taking time to review management's accounting judgements and the audit conclusions in relation to these key strategic transactions.

Internal controls

Evaluating the effectiveness of the internal control environment is key to presenting a fair, balanced and understandable assessment of the Group's current position and prospects. The Committee requested a deep dive during the year on financial reporting controls and the roadmap to increase automation and improve controls culture. This allowed us to monitor this key maturity journey during a period of significant transformation for National Grid and provide guidance using Committee members' wealth of experience from other sectors. The Committee will continue to monitor through regular reporting in 2023/24, supporting and challenging the team on our approach and progress.

Iain Mackay
Committee Chair

Committee financial experience

The Board is satisfied that all Committee members are suitably qualified with recent and relevant financial experience and competence in accounting or auditing or both. The Committee as a whole is deemed to have competence relevant to the sector in which the Company operates. For the purposes of the US Sarbanes-Oxley Act of 2002 (SOx), Iain Mackay is the Committee's financial expert.

Fair, balanced and understandable

In May 2023, the Committee reviewed the Annual Report and Accounts, having previously fed back on earlier drafts. The Committee concluded that the Annual Report and Accounts, taken as a whole, was fair, balanced and understandable and provided the information necessary for shareholders to assess the Group's position, performance, business model and strategy. It also considered the TCFD (see pages 38 – 51) and the potential impact on forward-looking assumptions supporting going concern and viability assessments. In its assessment, it considered that the following had been carried out and this formed the basis of its recommendation to the Board:

- a full verification exercise to review the content of statements made with supporting evidence; and
- a comprehensive review by management, including Group Executive Committee members, to consider the accuracy and consistency of messaging and overall balance.

Significant issues/judgements relating to the financial statements

The significant issues and judgements considered for the year ended 31 March 2023 are set out in the following table. In addition, the Committee and the external auditor discussed the significant issues addressed by the Committee during the year. You can read more in the Independent Auditor's Report on pages 109 – 120.

Matters considered	Factors and reasons considered, including financial outcomes
NGED goodwill impairment trigger analysis and annual test	<ul style="list-style-type: none"> In September and November 2022, the Committee reviewed the output of the provisional and the final goodwill and indefinite life licence intangible asset impairment trigger analysis. In particular, the Committee reviewed and agreed with management's accounting judgement that the fluctuations in discount rate resulting from the market volatility in UK gilts did not result in an impairment trigger that would necessitate a full test being undertaken. In March and May 2023, the Committee reviewed the output of the provisional and then final impairment tests carried out as of 31 December 2022. The Committee challenged the reasonableness of the cash flow forecast duration and reviewed the key assumptions including the cash flows, discount rate and terminal value. The Committee also received Deloitte's audit conclusions over both the impairment work and the execution of management's impairment SOx controls. The Committee concluded that the judgements taken and estimates made by management are appropriate and the cashflow duration should continue to be disclosed as an area of judgement.
Useful life of gas assets in the context of climate change	<ul style="list-style-type: none"> The Committee reviewed the latest regulatory and legislative developments regarding the net zero plans of the jurisdictions that we operate in and concurred with management's judgement that the Company's gas network assets will continue to have a crucial role in maintaining security, reliability and affordability of energy beyond 2050, although recognised that the scale and purpose for which the networks will be used is dependent on technological, legal and regulatory developments. The Committee agreed that the useful economic lives (UELs) of the gas network assets remain appropriate. The Committee also agreed with management that the additional disclosures and sensitivities previously added to the notes to the financial statements should be retained and approved the new climate change disclosure in note 1G.
Environmental provision cashflows and discount rate	<ul style="list-style-type: none"> In May 2023, the Committee reviewed management's judgement to increase the environmental and decommissioning provision discount rate from 0.5% real to 1.5% real in light of the recent sustained increase in US government bond yield curves. The Committee agreed with management's conclusion that it was appropriate to classify the £176 million income statement credit as exceptional in line with the Group's Exceptional Items Framework. In addition, the Committee also reviewed management's accounting for the £1.9 billion of environmental remediation provisions. The Committee challenged management on the number of estimation uncertainties involved in calculating the provision and approved both the discount rate and cashflows being disclosed as a key source of estimation uncertainty, the new contingent liability disclosure in note 30 and the updated sensitivities disclosed in note 35.
Sale of a majority stake in UK Gas Transmission & Metering	<ul style="list-style-type: none"> In March and May 2023, the Committee reviewed management's judgements and accounting for the sale of a majority stake in UK Gas Transmission & Metering. In particular, the Committee reviewed the calculation and classification of the gain on disposal, the valuation and classification of the Group's 40% interest in GasT TopCo Limited (being the new holding company of the UK Gas Transmission business) and the valuation and classification of derivative liability in respect of the Further Acquisition Agreement (FAA). The Committee received Deloitte's audit conclusions over management's judgements and associated SOx controls and agreed with management's recommendation that the classification of both the 40% interest in GasT TopCo Limited and the FAA should be disclosed as a key judgement and the valuation of GasT TopCo Limited should be disclosed as a key source of estimation uncertainty. This is detailed further in note 1 on page 128.
Application of the Group's Exceptional Items Framework	<ul style="list-style-type: none"> Throughout the year, the Committee considered papers from management setting out how the Group's Exceptional Items Framework had been applied to certain events and transactions over the period, as set out in note 5 to the financial statements. For each item, the Committee considered the judgements made by management, including challenging when transactions were concluded as not qualifying for exceptional treatment. Based on the reviews performed, the Committee was satisfied this Framework had been correctly applied throughout the year.

Financial reporting

Going concern and viability

The Committee reviewed the Group's going concern statement, viability statement (as set out on page 127 and pages 25 – 27 respectively) and the supporting assessment reports prepared by management. During 2022/23, there has been a continued review of the Group's viability and going concern. The financial statements are prepared on a going concern basis such that the Company and the Group have adequate resources to continue in operation for at least 12 months from the date of signing the consolidated financial statements.

Statutory reporting framework policy

The Board has responsibility for effective management of risk for the Group including determining its risk appetite, identifying key strategic and emerging risks and reviewing the risk management and internal control framework. The Committee, in supporting the Board to assess the effectiveness of risk management and internal control processes, relies on a number of Company-specific internal control mechanisms to support the preparation of the Annual Report and Accounts and the financial reporting process. This includes both the Board and the Committees receiving regular management reports to include analysis of results, forecasts and comparisons with last year's results, and assurance from the external auditor, Deloitte.

With the regulatory environment evolving quickly, during the year, the Committee was kept fully informed of new legislation and regulation including the potential impact of the Financial Reporting Council's position paper 'Restoring trust in Audit and Corporate Governance'.

The Committee and Board receive, in advance of the full-year results, a periodic SOx report on management's opinion on the effectiveness of internal control over financial reporting. This report concerns the Group-wide programme to comply with the requirements of SOx and is received directly from the Group SOx and Controls team.

In relation to the financial statements, the Company has specific internal mechanisms that govern the financial reporting process and the preparation of the Annual Report and Accounts. The Committee oversees that the Company provides accurate, timely financial results and implements accounting standards and judgements effectively, including in relation to going concern and viability. Our financial processes include a range of system, transactional and management oversight controls. Our businesses prepare detailed monthly management reports that include analysis of their results, along with comparisons to relevant budgets, forecasts and the previous year's results. Monthly business reviews, attended by the Chief Executive and CFO, supplement these reports. Each month, the CFO presents a consolidated financial report to the Board.

Key matters considered by the Committee

In addition to the significant issues and judgements highlighted on page 84, the Committee also considered the following matters during the course of the year ended 31 March 2023:

Matters considered	Factors and reasons considered, including financial outcomes
Financial reporting	<ul style="list-style-type: none"> Considered the accounting for the Group's disposal of NECO and the 26.25% equity interest in Millennium Pipeline LLC; the change in operating segments to reflect NGV as a separate reportable segment; and the impact of state COVID-19 bill credit programmes on our US retail customers' bad and doubtful accounts provision. Monitored and reviewed the integrity of the Group's financial information and other formal documents relating to its financial performance, including the appropriateness of accounting policies. Recommended to the Board management's key accounting judgements and key sources of estimation uncertainty, including those related to pension valuations for the 2022/23 half-year and full-year financial statements and the filing of other reports with the US Securities and Exchange Commission (SEC) containing financial information.
ESG reporting	<ul style="list-style-type: none"> Received an update on the preparation of the RBR and the Company's TCFD disclosure. This included reviewing management's assessment against the recommendations of the FRC's Thematic Review of TCFD disclosures. Received a report from PwC regarding the conclusions from its 'limited assurance' over the RBR metric reporting. Discussed management's preparedness for the transition from voluntary to mandatory ESG reporting, including the proposed International Sustainability Standards Board standards and the SEC's proposed Climate Disclosure Rule, as well as the expected shift from limited to reasonable assurance. Recommended to the Board the RBR and other ESG disclosures for approval.
APMs and RPMs	<ul style="list-style-type: none"> Reviewed and approved the key judgements relating to the Group's Alternative Performance Measures and Regulatory Performance Measures. Reviewed and approved the Group's Major Storms Policy.
Internal controls	<ul style="list-style-type: none"> In May 2022, the CFO presented an update on the implementation of the new enterprise resource planning and general ledger system. Received regular updates on progress towards the Group's annual US regulatory attestation. Discussed with management its programme of work to strengthen the maturity of the Group's risk and controls framework as part of a deep dive session.
Risk and viability statement	<ul style="list-style-type: none"> Received regular updates on actions being taken to monitor and manage risk in line with the Group's risk appetite. Received confirmation from each of the business units and functions that risks are managed appropriately and continue to consider external influence and matters outside of the Group's control. Received a bi-annual update and considered a deep dive session on cyber risk. Monitored the internal control processes and reviewed and challenged the going concern and viability statements, including testing for reasonable worst-case scenarios. Advised the Board that the Group's risk management processes were effective and provided sufficient assurance.
External auditor	<ul style="list-style-type: none"> Received a report from Deloitte at each meeting, including updates on the status of, and results from, the annual audit process and monitoring the approach, scope and risk assessments within the external audit plan. Considered Deloitte's reports on the 2022/23 half-year and full-year results. Held private meetings with Deloitte and maintained dialogue throughout the year. Engaged with Deloitte regularly during the transition to the new lead Audit Partner. Assessed the effectiveness and independence of Deloitte, as well as continued the review and oversight of non-audit services from Deloitte. Recommended the reappointment of Deloitte as the Company's external auditor to the Board to be recommended to shareholders at the 2023 AGM.
Corporate audit	<ul style="list-style-type: none"> Received regular updates on the 2022/23 corporate audit plan and any significant findings, including themes and progress of actions identified, and approved the corporate audit plan for 2023/24. Approved the Corporate Audit Charter which had been updated to reflect best practice and recent corporate governance developments.
Compliance, governance and disclosure matters	<ul style="list-style-type: none"> Received updates on ethics and business conduct, including whistleblowing to support the oversight, management and mitigation of business conduct issues as part of the internal controls framework. Discussed the whistleblowing procedures in place and confirmed internal procedures remained effective, noting the communications during the year to employees, including additional communications in relation to fraud and bribery. Received bi-annual updates of compliance with external legal requirements and regulations, including any non-compliance issues and steps being taken to improve compliance across the Group. Reviewed and approved the updated Terms of Reference for the Committee.

Risk management and internal controls

Risk management

Risk management is key to achieving our strategic priorities. The Board provides oversight and approves the system of risk management, which sets risk appetite and maintains the system of internal controls to manage risk within the Group. The Committee has delegated responsibility from the Board for the oversight of the Group's systems of internal control and risk management. This includes policies, compliance, legislation, appropriateness of financial disclosures, procedures, business conduct and internal audit. As part of the framework, our values – do the right thing, find a better way and make it happen – continue to communicate and promote a culture of integrity. The Chief Risk Officer is responsible for establishing and maintaining the Group's risk management processes to ensure the effective management of risk.

During the year, the Board provided oversight of the principal risks facing the Group (as set out on pages 20 – 24). The Committee, alongside the Safety & Sustainability Committee, provided oversight and challenge through the detailed risk reviews to ensure that processes are in place to manage risk appropriately and effective reporting to the Board is in place.

Internal control and risk management effectiveness

We continually monitor the effectiveness of our internal control and risk management processes to make sure they are effective, robust and remain fit for purpose. Controls are in place to reduce likelihood, occurrence or impact of any risk. Based on work conducted by the Committee over the year, the Committee confirmed to the Board that the assurance framework provides appropriate assurance over the internal control and risk management frameworks and that the sources of assurance received from management have sufficient authority, independence and expertise to provide objective advice and information.

This review includes financial, operational and compliance controls. The Committee also monitors and addresses any business conduct issues or compliance issues. The Certificate of Assurance process, which provides assurance to the Committee on behalf of the Board that all significant issues relating to the integrity and standard of risk management and internal controls systems across the Group have been effectively managed during the reporting period, operates via a cascade system and takes place annually in support of the Company's full-year results.

Corporate audit

Corporate audit supports the Group's risk management and internal control processes. It maintains an independent and objective approach to evaluate and enhance process developments. The appointment of the Global Head of Audit is a matter reserved for the Committee. They have responsibility for the Group's internal audit function, attend all Committee meetings and have access to the Committee Chair, and also meet with the Committee without management in attendance. The Committee regularly reviews progress of the internal audit process including significant outstanding actions. The Corporate Audit Charter was last approved by the Committee in November 2022. The Committee has also been kept informed of the transformation of the corporate audit function as it seeks to remain ahead of strategic and technological developments, effectively meets future stakeholder needs and be equipped to deal with emerging risks.

External audit

The Committee is responsible for overseeing the relationship with the external auditor.

- Deloitte is the external auditor to the Company.
- It was appointed in 2017 following a formal tender process.
- Reappointed for 2022/23 at the 2022 AGM.
- The Committee was authorised by shareholders to set Deloitte's remuneration at the 2022 AGM.
- The current lead Audit Partner is Chris Thomas, with 2022/23 being his first year following a year of shadowing his predecessor, Doug King.

Following consideration of the auditor's independence and objectivity, the audit quality and the auditor's performance, the Committee was satisfied with the effectiveness, independence and objectivity of Deloitte and recommended to the Board its reappointment for the year ended 31 March 2024. A resolution to reappoint Deloitte and give authority to the Committee to determine its remuneration will be submitted to shareholders at the 2023 AGM. The Committee considers that during 2022/23 the Company complied with the mandatory audit processes and audit committee responsibility provisions of the Competition and Markets Authority Statutory Audit Services Order 2014 and does not intend to conduct a competitive tender before the end of the current required period of 10 years. The next competitive tender is expected to begin in 2025/26. Given the independence and objectivity of Deloitte to date, the Committee remains satisfied with its performance and considers its reappointment for 2023/24 to be in the best interests of the Company.

Effectiveness, quality and performance

As part of the Committee's responsibilities, consideration is regularly given to the effectiveness of the external auditor to verify that the quality, challenge and output of the external audit process is sufficient. Throughout the year, the Committee also looks at the quality of the auditor's reports and considers its response to accounting, financial control and audit issues as they arise. To maintain high levels of quality the Committee reviews and challenges the external audit plan prior to approval.

The Committee regularly engages and receives the views of senior management and members of the Finance team in forming conclusions on auditor effectiveness.

Meetings are held around each scheduled Committee meeting, and outside the meeting cycle on a regular basis, between the Committee Chair and the external auditor without management being present, to encourage open and transparent feedback. The Committee members also meet privately with the external auditor at least twice per year.

During the year, the Committee:

- reviewed the quality of audit planning, including approach, scope, progress and level of fees;
- reviewed the outcome of recommendations from the Deloitte Insights Report (detailed below);
- held private meetings with Deloitte without management present; and
- confirmed that the Deloitte external audit process had been delivered effectively.

Audit quality insights

External auditor Insights Report

On an annual basis, the Committee receives a report summarising the financial reporting and/or internal control areas that, based on the results of the most recent audit, Deloitte considers management should prioritise during the year ahead. This year, the report included management's responses to the recommendations, along with an update on prior year recommendations.

Management survey on the external audit process

Management undertook a survey in 2022/23 that sought views from over 100 key stakeholders involved in the external audit process across the Company. The questions comprised the following areas:

- Deloitte's performance – key performance indicators included:
 - planning and scope;
 - robustness of the audit process;
 - independence and objectivity;
 - quality of delivery;
 - quality of people and service; and
 - understanding of the Company.
- National Grid's commitment to the audit.

Management, Deloitte and the Committee discussed the results of the survey in September 2022, which showed that the external auditor's score had remained consistent with the prior year. Together with the Committee, Deloitte agreed proposed actions to continue to improve the audit process and address the identified areas in its 2022/23 audit plan. The Committee considered the proposed actions to improve the phasing of audit work, ensure timely requests for information and improve coordination between Deloitte's various team supporting the audit. The survey concluded that:

- the audit contributed to the integrity of the Group's financial reporting;
- the relationship between Deloitte, the Committee and management continues to be effective; and
- Deloitte demonstrated an appropriate degree of professional scepticism and a team with the required level of skill and expertise to enable an effective audit.

Auditor independence and objectivity

The independence of the external auditor is essential to the provision of an objective opinion on the true and fair view presented in the financial statements.

The Committee considered the safeguards in place, including the annual review by corporate audit, to assess the external auditor's independence. Deloitte reported to the Committee in May 2023 that it had considered its independence in relation to the audit and confirmed that it complies with UK regulatory and professional requirements, SEC regulations and Public Company Accounting Oversight Board (PCAOB) standards and that its objectivity is not compromised. The Committee took this into account when considering the external auditor's independence and concluded that Deloitte continued to be independent for the purposes of the external audit and confirmed that this recommendation was free from third-party influence and restrictive contractual clauses.

Non-audit services

In line with the FRC's Ethical Standard and to maintain the external auditor's objectivity and independence, we have a policy governing Deloitte's provision of non-audit services.

The cap on the total fees that may be paid to the external auditor for non-audit services in any given year is 70% of the average audit fees paid in the last three financial years.

The provision of any non-audit service by the external auditor requires prior approval by the Committee. A subset of services where, due to their nature, we believe there is no threat to the auditor's independence or objectivity and have a value under £250,000 can be approved in advance by the CFO. These services are limited to:

- audit, review or attest services. These are services that generally only the external auditor can provide, in connection with statutory and regulatory filings, including comfort letters, statutory audits, attest services, consents and assistance with review of filing documents; and
- the provision of access to technical publications.

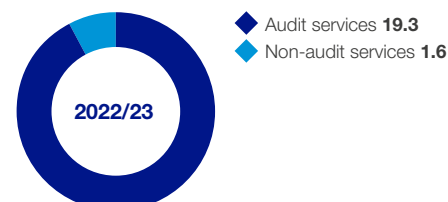
In any event, the Committee is provided with a list of all non-audit services to ensure that it is monitoring all non-audit services provided. Non-audit service approvals during 2022/23 principally related to comfort letters for debt issuances and the refresh of related debt issuance programmes.

External auditor fees

The amounts paid to the external auditor in the past two years were:

Statutory auditor's fees (£m)

2022/23	19.3	1.6	20.9
2021/22	18.9	1.0	19.9
2020/21	17.0	2.8	19.8



Total billed non-audit services provided by Deloitte during the year ended 31 March 2023 were £1.6 million, representing 7.7% of total audit and non-audit fees. In 2021/22, non-audit services totalled £1.0 million (5.0% of total audit and non-audit fees).

Further information on the fees paid to Deloitte for audit, audit-related and other services is provided in note 4 to the financial statements on page 138.

Total audit and audit-related fees include the statutory fee and fees paid to Deloitte for other services that the external auditor is required to perform, such as regulatory audits and SOx attestation. Non-audit fees represent all non-statutory services provided by Deloitte.

Safety & Sustainability Committee report



Key activities during the year

- Recommended the Climate Transition Plan (CTP) to the Board for shareholder approval
- Reviewed the 'Stand Up For Safety' campaign and monitored implementation of principles established
- Approved the year-end sustainability disclosures

Composition and Committee attendance

The Committee is made up of four independent Non-executive Directors.

Committee members	Attendance
Earl Shipp ●	4/4
Anne Robinson	4/4
Tony Wood	4/4
Martha Wyrsh	4/4

● Committee Chair



Our CTP can be found at nationalgrid.com/responsibility

Review of the year

We recognise the vital role the Company has in the energy transition. At the start of the year the Committee spent time discussing with management our first CTP ahead of recommending it to the Board to put to shareholders at the 2022 AGM. It sets out challenging greenhouse gas emissions reduction targets and the pathway to becoming a net zero business by 2050. The CTP received favourable support from over 98% of our shareholders. The Committee oversees our progress against the performance measures in the RBC, which are reported in the RBR. The Committee also reviewed the sustainability content within the TCFD.

Our business unit management teams discuss with the Committee their respective safety performance culture and activities to allow the Committee to have an oversight of operations in this area as part of the review of the Group as a whole. As part of the sale of the majority stake in UK Gas Transmission & Metering, the Committee specifically considered the safety risks which were to move out of the Group at completion and significant changes to our workforce related to its sale. The Committee also considered whether any significant safety risks were being created via the transaction.

Given the increasing number of contractors supporting our operations we also discussed how safety standards and related general commitments are shared by the wider workforce.

To ensure our deliberations are well rounded, we received an external presentation from a key UK and US contractor, allowing the Committee to review the partnership and suggest areas of improvement. Committee members completed seven site visits during the year, providing an opportunity to engage with our operational colleagues and observe first hand how safety and sustainability plans are being implemented. Further details on the Board's engagement activities can be found on page 77.

Safety, wellbeing and asset protection

Safety is of paramount importance across the Group and a key priority of the Committee. The Committee monitors both process and occupational safety at every meeting and uses the business unit deep dives to provide value-adding independent oversight. The Group Chief Engineer led a discussion on the Group safety strategy refresh, highlighting the proactive measures being taken to ensure safety training materials are clear and easy to understand. Following a fatality at our Medford facility in Massachusetts in May 2022 we have since improved employee engagement in safety by raising awareness of our Fatal Risk Groups, as part of the 'Stand Up For Safety' campaign. Tragically, a second fatality occurred in September 2022 when a vegetation contractor in our New York business died following an allergic reaction to a bee sting.

Everyone should return home safely at the end of their working day and following these tragedies we are re-doubling our efforts to ensure this is the case for all who work on our assets. The Committee has considered the results of the successful campaign in which particular focus was given to embedding our four safety principles throughout the organisation. You can see some of our key safety results on page 16.

The annual review of wellbeing confirmed the importance of focusing on the prevention of health and wellbeing issues, including mental health, to create an environment where employees can thrive.

We have made progress against our greenhouse gas emissions targets through targeting resource at our leak-prone pipe programme, which replaced or eliminated 360 miles (579 kilometers) of leak-prone pipe across New York and Massachusetts in 2022/23.

As with the prior year, several significant storms in the UK and US throughout this year highlighted the importance of continually reviewing our preparedness. The emergence of extreme weather impacts our assets and workforce. Our colleagues worked tirelessly to restore service to every last disconnected customer safely and securely. The Committee will continue to oversee the Group's efforts to adapt, ensuring our safety processes are robust and resilient in the long run to continue to provide reliable services to our customers.

Sustainability

The sustainability agenda, and supporting regulation, continue to grow at speed and it is vital that we are clear on how we can make an impact as a Company. The Committee's oversight was supported by a deep dive on the climate change GPR and a demonstration of the associated climate change risk modelling tool, which provides valuable insights around resilience, climate commitments and impact on our assets. Further details on this GPR can be found on page 21. We also considered the wider sustainability external outlook, allowing us to focus on how our commitments compare to our peers.

Earl Shipp
Committee Chair

Finance Committee report



Key activities during the year

- Monitored the significantly changing macro environment
- Approved the refinancing of the bridge loan in relation to the NGED acquisition
- Considered pension implications to transactions

Composition and Committee attendance

The Committee is made up of three independent Non-executive Directors and two Executive Directors.

Committee members*	Attendance
Thérèse Esperdy ●	3/3
Andy Agg	3/3
Liz Hewitt	3/3
Ian Livingston ¹	1/1
John Pettigrew	3/3

● Committee Chair

1. Ian Livingston joined the Committee as a member in January 2023.

* Jonathan Dawson stepped down from the Board and the Committee effective 11 July 2022. There were no meetings held during this period of the reporting year.

Review of the year

This year the Committee met three times monitoring the financial risk of the Group and focusing on the key areas within our remit: treasury, tax, pensions and insurance. The past year has seen major changes in financial and energy markets, with rapidly increasing interest rates, high inflation, sizeable and rapid foreign exchange movements and significantly higher energy commodity prices. Together they represent a significant change to the macro economic environment within which the Group operates.

The Committee has reviewed the financial position of the business in light of these changes to ensure the effectiveness of its wide-ranging risk management processes in place to manage this volatility and we believe that we continue to have appropriate liquidity and access to capital markets to deliver our critical role in the energy systems and the energy transition.

We have also paid close attention to ESG financing, supported by an external presentation delivered by one of our relationship banks, which helped us assess the benefits of various financing methods and market instruments to inform our ESG financing strategy.

The Committee reviewed the broader financing strategy of the Group ahead of the approval of the Strategic Business Plan by the Board. The Committee was joined by the full Board to take part in a finance enrichment session where we took a step back to consider in detail the key financial features of our businesses, how we deliver the existing investor proposition and how the overall economic model of National Grid operates.

Transactions

The Committee has continued to play a key oversight role in relation to the financing and treasury, tax and pensions matters for the Group's strategic transactions. We monitored the progress of the sale of the majority stake in UK Gas Transmission & Metering throughout the year, including the arrangements to transfer impacted members to suitable pension arrangements consistent with their future employer. We also approved the refinancing of the bridge facility used to finance the acquisition of NGED during the year, which has subsequently been repaid following the completion of the UK Gas Transmission & Metering sale.

Treasury

There has been significant uncertainty in financial markets at various stages of the year. I'm delighted that National Grid continues to attract strong investor demand in the debt capital markets at both holding and operating company levels. We monitor the action of credit rating agencies at each of our meetings.

Insurance

Like many other sectors, the insurance industry has been navigating uncertainty due to the ongoing geopolitical situation. The significant hard market trends experienced in recent years

have continued, and the Committee paid close attention to progress of our 2022/23 renewals. We were pleased that all insurance policies were successfully renewed for the start of the new financial year at 1 April 2023. The Committee has also monitored progress of the insurance claim following the IFA fire in September 2021.

Tax

The Committee has stayed abreast of tax policy developments in both the UK and US. In the US the enactment of the IRA included both a new corporate minimum tax based on book profits and expanded energy tax incentives. The UK saw possible reforms of capital investment incentives, the abolition of the UK's proposed Health and Social Care Levy and the introduction of the Organisation for Economic Co-operation and Development's Pillar Two principle into UK law. In addition, we reviewed the current status of our relationship with tax authorities.

Pensions

In the UK, pension investments are managed by independent Trustees. However, it is the Committee's duty to ensure funding is adequate to meet obligations, which in turn allows the Trustees to reduce investment risk for everyone's benefit. We paid close attention to our seven UK defined benefit pension arrangements, particularly following the rise in gilt yields which caused liquidity problems for many schemes. We had collateral buffers in place and were relatively unaffected by the events leading up to the Bank of England's intervention in September 2022.

The Committee has spent time overseeing the impact on our pension commitments as a result of the expected separation of the ESO and will continue to monitor this including any discussions with the UK Government.

In the US, pension investments are overseen by an internal fiduciary committee comprising senior leaders with appropriate levels of financial experience. The Committee has assessed the key strategic priorities of the US pension arrangements, noting the continued strong funding positions, and, in line with our aim to reduce investment risk within the plans, approved a derisking transaction covering \$700 million of liabilities across three of our US pension plans in May 2022.

Looking forward

Given the impact of geopolitical events on energy markets and inflation in the broad economy, we continue to monitor the Group's risk appetite in relation to the Group's financing risk. We regularly review stress tests and seek to bring our expertise from other sectors of the economy to foster a holistic view of financial markets.

Thérèse Esperdy
Committee Chair

Directors' Remuneration Report



Key activities during the year

- Reviewed 2022/23 remuneration outcomes, including 2022/23 APP outturn and vesting of 2020 LTPP
- Reviewed 2023/24 APP and 2023 LTPP awards and Executive Director salaries
- Reviewed UK Gas Transmission and Metering remuneration awards at completion

Composition and Committee attendance

The Committee is made up of four independent Non-executive Directors.

Committee members	Attendance
Ian Livingstonon ●	6/6
Martha Wyrsh	6/6
Anne Robinson ¹	3/3
Iain Mackay ¹	2/3
Former Committee members	Attendance
Amanda Mesler ²	3/3
Jonathan Dawson ²	3/3

● Committee Chair

1. Anne Robinson and Iain Mackay were appointed to the Committee effective 11 July 2022.
2. Jonathan Dawson and Amanda Mesler stepped down from the Board and the Committee effective 11 July 2022.

Dear shareholders

This year has seen some of the biggest energy challenges in history, and National Grid has played a key role in providing reliable and resilient energy networks to serve our customers in both the UK and US.

The financial results of National Grid for 2022/23 have been good, with investment in regulated and non-regulated assets together with strong progress on our Group efficiency programme and UK ED integration well-progressed, yielding returns for our shareholders.

Our remuneration outturns reflect these results, and also the Group delivering for our wider stakeholders.

Society

As part of our vision to be at the heart of a clean, fair and affordable energy future, we remain committed to realising our net zero ambitions. This year we published our first Climate Transition Plan (CTP), setting out our plan to reduce Scope 1 and 2 emissions by 80% by 2030 and achieving net zero by 2050 (from a 1990 base-year). Our 2030 emissions targets have been SBTi validated and are aligned to a well below 2°C pathway. As part of our commitment and accountability to this, 20% of our 2022 and 2023 Long Term Performance Plan (LTPP) is linked to our progress towards these ambitious goals.

Consumers

Whilst in the UK our revenues are not linked to the price of energy, we are acutely aware of the affordability challenges felt by households, and are committed to playing our part in supporting consumers. We have achieved £373 million of cumulative efficiency savings as at 31 March 2023, within close reach of our target of £400 million by 2023/24, and this is enabling us to mitigate some inflationary pressures on the business and our customers. We will return a further £100 million of interconnector revenues, on top of £200 million we have already committed to return to Ofgem to allow it to support consumer bills. In addition, we have delivered a £65 million Energy Support Fund – pledging £50 million in the UK and \$17 million in the US to support those struggling with increasing energy costs.

Wider workforce

The Committee considers remuneration across the wider workforce when determining executive director remuneration, policy and practices. We aim to pay our colleagues fair and competitive salaries and benefits, with the majority of our colleagues being paid well above the Living Wage. As part of this commitment, we're an accredited Living Wage employer in the UK. We are also in the process of obtaining Living Wage accreditation in the US. Our colleagues worked exceptionally hard to support our customers and communities during the winter period, and so as a gesture of appreciation we made an additional 'thank you' payment of £500/\$600 to all colleagues below senior leadership level this year. We have also put in place an Emergency Support Fund for

all of our colleagues facing a sudden financial hardship. We recognise that inflationary pressures are often felt more strongly by those on lower incomes, and so our approach to salary increases for 2023 takes a tiered approach to ensure the higher increases are targeted towards those colleagues on lower incomes.

In 2022/23, we have made great strides in further empowering our colleagues, a key cornerstone in our purpose and strategy. We are proud to have an 81% response rate in our employee engagement survey this year, Grid:Voice, which covered topics related to remuneration, and resulting in an overall engagement score of 81%.

As part of our commitment to creating a diverse, equitable and inclusive workforce that is fully representative of the communities we serve, we publish our ethnicity pay data, alongside our gender pay data which continues to show that we have no material gender pay gap within the UK business and globally – see our Responsible Business Report (RBR). Whilst we appreciate that there remains a great deal of work to be done to further our support of diversity, equity and inclusion (DEI), we are proud of the work that our colleagues have delivered to date and wish to build upon this progress, which is why DEI metrics are part of our executive remuneration measures.

We continue to engage with the wider workforce on a variety of topics including remuneration (more details on the 'small group listening sessions' as part of Board engagement can be found on page 77).

Performance and remuneration outcomes during the year

Salary, pension and benefits

As disclosed last year, salary increases of 3.75% and 6.50% were awarded to John Pettigrew (Chief Executive) and Andy Agg (Chief Financial Officer) respectively, effective 1 July 2022. These changes took into account external market factors and wider workforce conditions and included the last instalment of our three-year plan to bring Andy Agg's salary to a level that was broadly equivalent to market median for his role.

From 1 April 2022, the pension allowances for both John Pettigrew and Andy Agg were reduced from 23.4% and 20.0% respectively to 12.0% of salary, aligning them to pension contribution levels of the UK wider workforce and new joiners.

Annual Performance Plan (APP)

The APP for 2022/23 was based on financial performance measures (70%), operational measures (15%), and individual objectives (15%) that reflect key business and operational performance goals.

Financial performance (70%)

The outturn of the financial portion of the APP was 93.8% of the maximum, based

on achievement of 100.0% of maximum for Group Underlying EPS and 87.5% of maximum for Group RoE, both equally weighted. These outcomes reflect another year of significant progress and strategic change for National Grid with good results, demonstrating execution against our key priorities and £7.7 billion investment across networks in building the clean, smarter energy infrastructure of the future.

Operational performance (15%)

Our approach to operational performance goes beyond safely maintaining the resilient energy systems society expects. It is about making sure our business has a positive impact on our stakeholders. Operational measures were equally weighted and linked to Group customer satisfaction index (50.0% of maximum achieved), performance against our Group colleague 'Having a voice' index (75.0% of maximum achieved) and Strategic Leadership Group diversity (75.0% of maximum achieved). Overall performance amounted to 66.7% of maximum.

Individual objectives (15%)

15% of the APP award is linked to individual objectives, which resulted in outturns of 80.0% of the maximum for both John Pettigrew and Andy Agg. Detailed targets and performance are set out on page 97.

Overall assessment

In reaching its overall decisions on the APP, the Committee holistically reviewed business, individual performance and delivery throughout the year, across a range of KPIs. Based on National Grid's good financial and operational performance, and taking account of performance against individual objectives, the APP payouts to John Pettigrew and Andy Agg would have been between 87.6% of maximum. However, following the fatal incident in May 2022 at Medford, Massachusetts, the Committee decided to exercise its discretion to reduce the operational portion of the APP by half from 66.7% to 33.3% for John Pettigrew and Andy Agg. This results in the overall APP award reducing to 82.6% of maximum for John Pettigrew and Andy Agg.

The Committee decision to apply downward discretion on the operational portion of the APP award – which is fully supported by management – reinforces that safety continues to be an important underpin in our APP. As mentioned in the Chief Executive's review, we have extensively focused on safety improvements this year and changed our Group-wide approach to safety through our 'Stand up for Safety' campaign.

The details of the 2022/23 APP are further outlined on pages 95 – 97.

LTPP

The measurement period of the 2020 LTPP ended on 31 March 2023 and consisted of two measures – Group Value Growth (5/6th) and Group RoE (1/6th). These targets and weightings were set to reflect the transition from RIIO-1 to RIIO-2 following shareholder consultation at that time, with details set out in our 2018/19 Annual Report.

At the time the 2020 LTPP awards were granted, the Committee had considered the potential for windfall gains to arise, but concluded that, as there had been no identifiable share price fall prior to grant, there was no case for adjusting the number of shares awarded and no apparent risk of a windfall gain arising when the shares vested in 2023. This was set out in the 2018/19 Directors' Remuneration Report at that time. When determining the payout made under the 2020 LTPP this year, the Committee reviewed again the issue of windfall gains and noted that as there had been no share price fall prior to grant or marked recovery post COVID-19, there was no issue of windfall gains arising.

The formulaic vesting outcome of the 2020 LTPP was 100.0% of the maximum. The Committee also considered the level of vesting taking into account the broader shareholder context and shareholder experience to determine whether the formulaic level of vesting was appropriate. The Committee concluded that the formulaic vesting levels appropriately reflected the strong financial performance against our Group RoE and Value Growth measures during the performance period, as well as broader delivery against our strategy and wider stakeholder objectives.

The 2022 LTPP was granted during the year, under which performance will be measured between the period 1 April 2022 to 31 March 2025. Awards will be measured based on cumulative three-year underlying EPS (40%), Group RoE (40%), Scope 1 emissions (10%) and enablement of net zero transition (10%).

The details of the LTPP awards granted and vested can be found on pages 97 – 98.

Single total figure of remuneration

The 2022/23 single total figure of remuneration for John Pettigrew and Andy Agg are £7.248 million and £4.117 million respectively. These outcomes reflect good business performance in the year, highlighted by a good outcome in the 2022/23 APP, along with a high-level of long-term value creation across a period of uncertainty, shown by the maximum payout under the 2020 LTPP. The value of the 2020 LTPP award is driven in part by the strong TSR of 31.2% over the three-year performance period. The outcomes also reflect the heavy weighting on long-term share-based pay in our reward structure.

Policy implementation in 2023/24

Salary, pension and benefits

This year's review of Executive Directors' salaries gave careful consideration to the experiences of our colleagues across the wider workforce following what has been a difficult year financially for many households. The Committee felt it was fair that the salary budget for the year was directed towards our lower-paid colleagues and sought to take a balanced approach by applying tiered increases across the organisation.

In line with this tiered approach, the Committee has awarded salary increases of 4.0% to both John Pettigrew and Andy Agg, effective from 1 July 2023. This is compared with an average salary increase of 8.7% across the UK wider workforce.

Pension and benefits remain unchanged.

2023/24 APP

Looking forward to the 2023/24 APP, the structure will remain largely unchanged from 2022/23 as the Committee looks to build on what it believes is an effective approach.

This year, we will refine the operational measures under the APP, replacing our Group colleague 'Having a voice' index with a 'Delivering Results' index to better align with our major delivery programmes. We have also updated our DEI measures to focus further on gender and ethnic diversity at senior manager level and above, as well as new joiners in our workforce. Weightings and other measures remain the same as last year.

2023 LTPP

For the 2023 LTPP grant, we have retained the financial and the net zero transition measures and weightings, making refinements to targets in order to reflect our strategic initiatives. As part of the 2023 LTPP, we will again set a three-year cumulative EPS target (40%) and Group RoE target (40%). The basis for the target ranges are set out in pages 104 – 105.

Our 2030 emissions targets have been SBTi validated and are set in line with our plan to reach net zero by 2050. For the 2022/23 LTPP these remain a combination of a reduction in our Scope 1 emissions (10%) and our enablement of net zero transition measure (10%), which focuses on specific actions to reduce our Scope 2 and Scope 3 emissions. Our CTP sets out plans to support the delivery of key emissions related ESG commitments in our RBC.

Shareholder engagement

The Committee has taken into consideration and is comfortable that the remuneration decisions stated above align with the shareholder experience. The decisions also build upon the constructive feedback received last year as part of the 2022 Directors' Remuneration Policy approval.

Conclusion

As always, the Committee and I wish to maintain an open dialogue with shareholders and I would welcome any comments or feedback.



Ian Livingston
Committee Chair

Directors' Remuneration Report

Summary of Policy table and approach taken for 2022/23 with intended approach for 2023/24

Our Directors' Remuneration Policy (Policy) 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. Last year the Committee conducted a review of the Policy in order to best support our strategy, making refinements to reflect the importance of the Company's responsible business strategy and ESG goals. As part of this we engaged widely with key stakeholders, and were pleased to receive 93.1% support for our revised Policy at the 2022 AGM.

2022/23 remuneration outcomes are aligned to the delivery of our strategy and reflect good business and individual performance during the year. Our approach for 2023/24 aims to continue to incentivise delivery of our strategic goals.



The Policy is available on our website at nationalgrid.com/about-us/corporate-information/corporate-governance

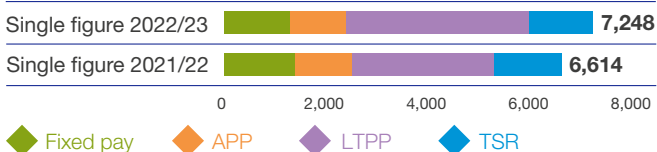
Annual report on remuneration

A comparison of the 2022/23 single total figure of remuneration to the previous year is set out below for the Executive Directors, John Pettigrew and Andy Agg. Each Executive Director is UK based. Fixed pay consists of salary, pension and benefits in kind paid during the respective financial years.

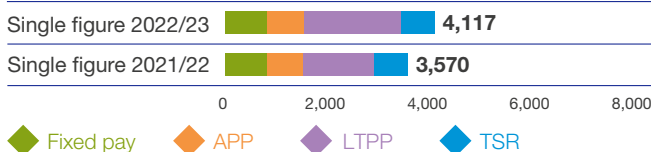
The 2022/23 single total figure of remuneration for John Pettigrew and Andy Agg are £7.248 million and £4.117 million and represent an achievement of 91.3% for John Pettigrew and Andy Agg of the total maximum opportunity.

These outcomes reflect good annual performance delivery in 2022/23 and long-term value creation as evidenced in the 2020 LTPP outcome. The single total figure of remuneration is largely driven by the heavy weighting on long-term share awards which reflects the long-term nature of our business, make up to two thirds of total remuneration and around 80% of variable pay. The 100% vesting of the LTPP reflects the strong financial performance against our Group RoE and value growth metrics during the performance period, as well as broader delivery against our strategy and wider stakeholder objectives. The value of the 2020 LTPP award is driven in part by a Total Shareholder Return (TSR) of 31.2% over the three-year performance period delivering a total value of circa £1.26 million for John Pettigrew and circa £0.66 million for Andy Agg.

John Pettigrew (£'000)

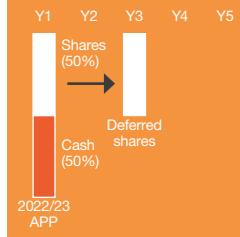
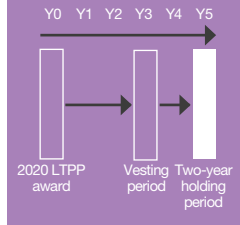
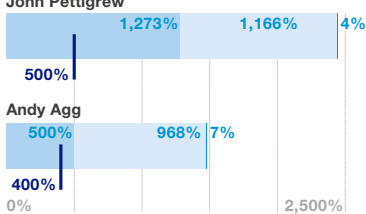
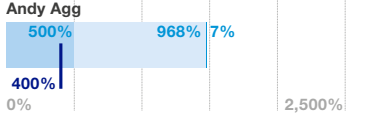


Andy Agg (£'000)



Note: The single total figure of remuneration for 2022/23 is explained in the single total figure of remuneration table for Executive Directors and single total figure for 2021/22 has been restated to reflect actual share price for 2019 LTPP vesting in 2022 and all dividend equivalent shares, consistent with comparative figures shown in this year's single total figure of remuneration table.

	Key features of Policy (adopted 2022)	Implementation of Policy in 2022/23	How we propose to implement the Policy in 2023/24
Salary increases <p>2022/23: John Pettigrew 3.75%, Average UK wider workforce 4.0% 2023/24: John Pettigrew 4.0%, Average UK wider workforce 8.7%</p>	<ul style="list-style-type: none"> Target broadly mid-market against FTSE 11 – 40 for UK-based Executive Directors Target the mid-market of general industry and energy services companies with similar revenue if a US-based Executive Director is appointed 	<ul style="list-style-type: none"> John Pettigrew's salary increased by 3.75% to £1,092,500 as of 1 July 2022, below the average increase of the wider workforce at 4% Andy Agg's salary increased by 6.5% to £719,000 reflecting a previously communicated progressive increase to align his salary with the market rate for his role 	<ul style="list-style-type: none"> John Pettigrew's and Andy Agg's salaries will increase by 4.0% to £1,136,200 and £747,800 respectively – below the average increase of 8.7% across the UK wider workforce
Pension (% of salary) <p>John Pettigrew: 12% UK wider workforce: 12%</p>	<ul style="list-style-type: none"> Eligible to participate in a defined contribution scheme (or defined benefit if already a member) All new and existing UK-based Executive Directors will receive pension contributions of up to 12% of base salary for the defined contribution scheme or cash in lieu, in line with the level for new joiners across the UK wider workforce Pensionable pay is salary only in the UK Other benefits as appropriate 	<ul style="list-style-type: none"> John Pettigrew's and Andy Agg's pension cash allowance was 12% of salary for 2022/23, in line with the UK wider workforce Other benefits remain unchanged 	<ul style="list-style-type: none"> Pension and benefits will remain unchanged

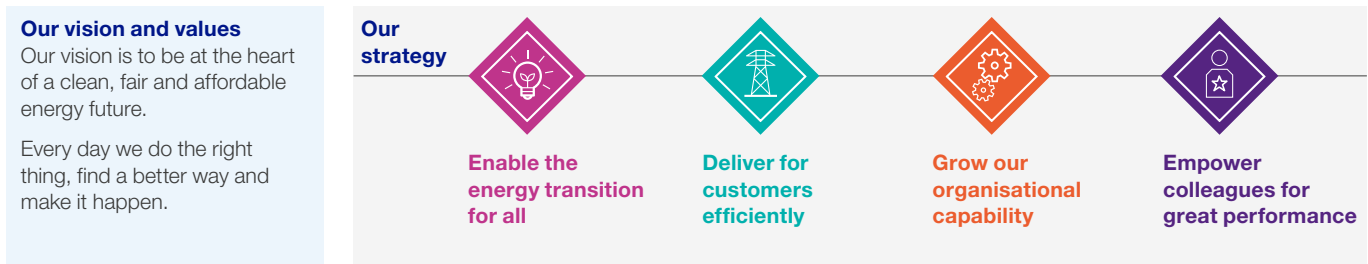
	Key features of Policy (adopted 2022)	Implementation of Policy in 2022/23	How we propose to implement the Policy in 2023/24																								
<p>APP</p>  <p>2022/23 APP</p>	<ul style="list-style-type: none"> Maximum opportunity is 125% of salary 50% paid in cash and 50% paid in shares net of tax, which must be retained until the later of two years or meeting the shareholding requirement Total APP award is subject to both malus and clawback 	<p>2022/23 APP</p> <table border="1"> <thead> <tr> <th>Performance measures (% weighting)</th> <th>Outturn (% of max)</th> </tr> </thead> <tbody> <tr> <td>Group Underlying EPS (35%)</td> <td>100.0%</td> </tr> <tr> <td>Group RoE (35%)</td> <td>87.5%</td> </tr> <tr> <td>Operational (15%)*</td> <td>33.3%</td> </tr> <tr> <td>Individual John Pettigrew (15%)</td> <td>80.0%</td> </tr> <tr> <td>Individual Andy Agg (15%)</td> <td>80.0%</td> </tr> </tbody> </table> <p>* As mentioned in the Chair letter, downward discretion was applied to the operational portion of APP</p> <p>2022/23 APP outcome</p> <table border="1"> <thead> <tr> <th></th> <th>% of Maximum</th> <th>Actual (£'000)</th> <th>Maximum (£'000)</th> </tr> </thead> <tbody> <tr> <td>John Pettigrew</td> <td>82.6%</td> <td>1,118</td> <td>1,353</td> </tr> <tr> <td>Andy Agg</td> <td>82.6%</td> <td>731</td> <td>885</td> </tr> </tbody> </table>	Performance measures (% weighting)	Outturn (% of max)	Group Underlying EPS (35%)	100.0%	Group RoE (35%)	87.5%	Operational (15%)*	33.3%	Individual John Pettigrew (15%)	80.0%	Individual Andy Agg (15%)	80.0%		% of Maximum	Actual (£'000)	Maximum (£'000)	John Pettigrew	82.6%	1,118	1,353	Andy Agg	82.6%	731	885	<ul style="list-style-type: none"> Measures for 2023/24: <ul style="list-style-type: none"> Group RoE (35%) Underlying EPS (35%) Operational measures – Customer, Colleague, Diversity (15%) Individual objectives (15%)
Performance measures (% weighting)	Outturn (% of max)																										
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<p>LTPP</p>  <p>2020 LTPP award</p>	<ul style="list-style-type: none"> Maximum award level is 350% of salary for the Chief Executive and 300% for other Executive Directors Financial measures to comprise at least 60% of the LTPP; introduction of an ESG measure expected to make up 20% of the LTPP Vesting is subject to long-term performance conditions over a three-year performance period Shares (net of tax) must be retained until the later of two years from vesting or meeting the shareholding requirement Subject to both malus and clawback 	<p>2020 LTPP</p> <table border="1"> <thead> <tr> <th>Performance measures (% weighting)</th> <th>Outturn (% of max)</th> </tr> </thead> <tbody> <tr> <td>Group Value Growth (83.3%)</td> <td>100.0%</td> </tr> <tr> <td>Group RoE (16.7%)</td> <td>100.0%</td> </tr> </tbody> </table> <p>2020 LTPP outcome</p> <table border="1"> <thead> <tr> <th></th> <th>% of Maximum</th> <th>Actual (£'000)</th> <th>Maximum (£'000)</th> </tr> </thead> <tbody> <tr> <td>John Pettigrew</td> <td>100%</td> <td>4,859</td> <td>4,859</td> </tr> <tr> <td>Andy Agg</td> <td>100%</td> <td>2,564</td> <td>2,564</td> </tr> </tbody> </table>	Performance measures (% weighting)	Outturn (% of max)	Group Value Growth (83.3%)	100.0%	Group RoE (16.7%)	100.0%		% of Maximum	Actual (£'000)	Maximum (£'000)	John Pettigrew	100%	4,859	4,859	Andy Agg	100%	2,564	2,564	<ul style="list-style-type: none"> Measures for 2023/24: <ul style="list-style-type: none"> Underlying EPS (40%) Group RoE (40%) Scope 1 carbon emissions (10%) Enablement of net zero transition (10%) 						
Performance measures (% weighting)	Outturn (% of max)																										
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Andy Agg	100%	2,564	2,564																								
<p>Shareholding requirements</p>	<p>Shareholding requirement</p> <ul style="list-style-type: none"> 500% of salary for the Chief Executive; and 400% of salary for other Executive Directors <p>Post-employment shareholding requirement</p> <ul style="list-style-type: none"> 200% of salary for two years 	<p>John Pettigrew and Andy Agg have met their shareholding requirements</p> <p>John Pettigrew</p>  <p>Andy Agg</p>  <p>Legend: ■ Shareholding requirement ■ Shares counting towards shareholding requirement¹ ■ Shares subject to performance conditions² ■ Shares subject to conditioned performance³</p> <ol style="list-style-type: none"> Represents beneficially owned shares as well as shares held in trust as part of the APP deferred share awards Represents the 2020, 2021 and 2022 LTPP awards subject to performance conditions Represents shares held as part of the Sharesave scheme <ul style="list-style-type: none"> Nicola Shaw has met her post-employment shareholding requirement as at 31 March 2023 	<ul style="list-style-type: none"> Shareholding requirements remain unchanged 																								
<p>Non-executive Director fees</p>	<p>Provides flexibility to reflect additional responsibilities where these are material to the roles</p> <p>Fee structure:</p> <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 	<p>Non-executive Directors' fees were reviewed last year, and as disclosed any increases were effective from 1 January 2022 and paid retrospectively on 1 July 2022</p>	<ul style="list-style-type: none"> Chair fee remains unchanged in line with her fee being fixed on appointment for three years All Non-executive Directors' fees will be increased by 4.0% – below the average increase of 8.7% across the UK wider workforce The Audit & Risk Chair fee will be increased by 9.7% given the increasing complexity within the role and to align fees at mid-market 																								

Directors' Remuneration Report continued

Summary of Policy table and approach taken for 2022/23 with intended approach for 2023/24 continued

Alignment of remuneration with our business strategy

We align our performance linked elements of remuneration (APP and LTPP) to our strategic priorities, and our vision to be at the heart of a clean, fair and affordable energy future, and our sustainability commitment.



Our 2022 Policy is aligned to our business strategy

Element of reward	Summary	Link to our strategy	Link to our values	Link to our sustainability commitments
APP				
Group Underlying EPS (pence per share) (35% weighting)	The most appropriate APP earnings measure for the Group; and the targets consider specific challenges and opportunities in the year ahead whilst remaining consistent with our longer-term performance goals.		Do the right thing Find a better way Make it happen	The environment Our communities Our people The economy Our governance
Group RoE (35% weighting)	A relevant and key measure of performance as a primarily regulated asset-based company with targets set to ensure strong in-year returns and operational results.		Do the right thing Find a better way Make it happen	The environment Our communities Our people The economy Our governance
Customer (5% weighting)	An equally weighted index of quantifiable and predominantly externally measured customer satisfaction scores across each of the Group's business units.		Do the right thing Find a better way Make it happen	The environment Our communities Our people The economy Our governance
Colleague (5% weighting)	A quantitative index from our annual Group-wide employee engagement survey of our colleagues.		Do the right thing Find a better way Make it happen	The environment Our communities Our people The economy Our governance
Diversity (5% weighting)	A quantifiable measure to improve the overall gender and ethnic diversity at specific layers to support the delivery of the Group's strategy.		Do the right thing Find a better way Make it happen	The environment Our communities Our people The economy Our governance
LTPP				
Cumulative 3 year Underlying Group EPS (40% weighting)	A measure that assesses underlying EPS over the three years in the LTPP performance period.		Do the right thing Find a better way Make it happen	The environment Our communities Our people The economy Our governance
Group RoE (40% weighting)	A measure that is averaged across the three-year performance period to incentivise sustainable returns for shareholders in the longer term.		Do the right thing Find a better way Make it happen	The environment Our communities Our people The economy Our governance
Reduction of Scope 1 emissions (10% weighting)	A cumulative measure aligned to meet the Group's 2030 SBTi and long-term net zero target of below 2°C.		Do the right thing Find a better way Make it happen	The environment Our communities Our people The economy Our governance
Enablement of net zero transition (Scope 2 and 3 emissions and strategic initiatives) (10% weighting)	A measure that assesses delivery against key net zero strategic priorities and quantified outcomes to achieve a net zero future by 2050.		Do the right thing Find a better way Make it happen	The environment Our communities Our people The economy Our governance

Statement of implementation of Policy in 2022/23

Content contained within a blue box indicates that all the information in the panel is audited

2022/23 remuneration implementation

Single total figure of remuneration – Executive Directors

The following table shows a single total figure of remuneration in respect of qualifying service for 2022/23, together with comparative figures for 2021/22. All figures shown to £'000:

	John Pettigrew		Andy Agg	
	2022/23	2021/22	2022/23	2021/22
Salary	1,083	1,047	708	665
Benefits in Kind (BiK)	58	101	29	22
Pension	130	245	85	133
Total fixed pay	1,271	1,393	822	820
APP	1,118	1,116	731	717
LTPP	4,859	4,105	2,564	2,033
Total variable pay	5,977	5,221	3,295	2,750
Total remuneration	7,248	6,614	4,117	3,570

Notes:

Salary: John Pettigrew's salary increased by 3.75% to £1,092,500 as of 1 July 2022, below the average increase of the wider workforce at 4.0%. Andy Agg was awarded an increase of 6.5% to £719,000 as part of a previously communicated progressive increase to align his salary with the market rate for his role.

BiK: BiK includes private medical insurance, life assurance, allowance under the Group's flexible benefits programme, travel and accommodation expenses, a fully expensed car or cash alternative and the use of a car and a driver when required. John Pettigrew received £12,000 for his company car allowance, £2,090 for life assurance, £891 for private medical insurance and travel tax and around £43,500 for the use of a car and driver for 2022/23 (2021/22: approximately £85,500). Andy Agg received £12,000 for his company car allowance, £5,847 for life assurance, £1,465 for private medical insurance and £10,079 for taxable accommodation and travel expenses for 2022/23. There were no Sharesave options granted to any Executive Directors during 2022/23.

Pension: Pension contributions for John Pettigrew and Andy Agg are 12% of salary for 2022/23.

LTPP: The 2020 LTPP is due to vest in July 2023. The average share price over the three months from 1 January 2023 to 31 March 2023 of 1,043.51 pence has been applied and estimated dividend equivalents are included. The 2019 LTPP figures (included in the 2021/22 column) have been restated to reflect the actual share price on vesting and all dividend equivalent shares. As the vesting share price of 1,124.24 pence was higher versus the estimate of 1,098.09 pence (and the additional dividend equivalent shares added for the dividend with a record date of 6 June 2022 with a dividend rate of 33.76 pence per share), the actual value at vesting was c.£107,000 higher than for the estimate published last year for John Pettigrew and £53,000 higher for Andy Agg.

Impact of TSR and share price change: The value of the 2020 LTPP award is driven in part by the share price increase of 17.4% from date of grant to date of vest and the strong TSR of 31.2% over the three-year performance period.

Total pension benefits

John Pettigrew and Andy Agg received a cash allowance in lieu of participation in a pension arrangement. There are no additional benefits on early retirement. The values of these benefits, received during this year, are shown in the single total figure of remuneration table.

John Pettigrew has, in addition, accrued defined benefit (DB) entitlements. He opted out of the DB scheme on 31 March 2016 with a deferred pension and lump sum payable at his normal retirement date of 26 October 2031. At 31 March 2023, John Pettigrew's accrued DB pension was £99,873 per annum and his accrued lump sum was £299,620. No additional DB entitlements have been earned over the financial year, other than an increase for price inflation due under the pension scheme rules and legislation. Under the terms of the pension scheme, if he satisfies the ill-health requirements or he is made redundant, a pension may be payable earlier than his normal retirement date. A lump sum death in service benefit is also provided in respect of these DB entitlements.

2022/23 APP

For 2022/23 APP, financial measures represent 70% of the award (an increase from 60% in 2021/22) and operational measures and individual objectives equally represent 15% of the award (a decrease from 20% in 2021/22). Payment of the APP award is made 50% in shares and 50% in cash. Shares (after any sales to pay associated tax) must be retained until the shareholding requirement is met, and in any event for a minimum of two years after receipt.

For financial measures, threshold, target and stretch performance levels are set by the Committee for the performance period and pay out at 0%, 50% and 100% of the maximum calculated on a straight-line basis. Operational measures have been assessed on a four-point scale (not met, partially achieved, achieved and over-achieved) based on quantitative targets set at the beginning of the year by the Committee. Target and stretch performance levels for the individual objectives are also predetermined by the Committee for the performance period, and an assessment of the performance relative to the target and stretch performance levels is made at the end of the performance year on each objective. Executive Directors have a maximum opportunity of 125% of base salary for 2022/23.

APP – Financial performance

The financial measures (70%) were weighted equally between two measures – Group Underlying EPS and Group RoE. The Group has continued to deliver strong financial performance despite record levels of cost inflation and other macroeconomic factors. The outcomes reflect good operational performance across our US regulated businesses; improved NGV performance across interconnectors; and also higher levels of investment to drive forward energy transition and deliver energy security across all business units.

Directors' Remuneration Report continued

Summary of Policy table and approach taken for 2022/23 with intended approach for 2023/24 continued

The financial performance outcomes of the 2022/23 APP awards are summarised in the tables below:

Measure	Weighting (% of APP)	Threshold	Target	Stretch	Outcome (% of max)
Group Underlying EPS ^A	35%	71.1	74.1	77.1	100.0%
		78.2			
Group RoE (%) ^A	35%	10.3%	10.7%	11.1%	87.5%
		11.0%			
Total financial outturn	70%				93.8%

^A Denotes an 'alternative performance measure' as described on page 14

Notes:
 Group Underlying EPS includes discontinued earnings contribution from UK Gas Transmission & Metering for the period of ownership.
Underlying EPS: Technical adjustments have been made which increase the performance range (including threshold, target and stretch) by 4.0 pence. This reflects the net effect of currency adjustments, scrip issuances, US pension assumptions, as well as the actual dates of the portfolio transactions, specifically the disposal of the UK Gas Transmission & Metering and Rhode Island.
Group RoE: Technical adjustments have been made which decrease the performance range by 0.3% to reflect the impact of the final opening equity being higher than forecast following inflation-related RAV increases and the impact of the date of disposal of the UK Gas Transmission & Metering.

APP – Operational performance

The operational measures (15%) were weighted equally between three key measures:

- Customer: Group customer satisfaction index;
- Colleague: Group Having a Voice index; and
- DEI: Percentage diversity of Strategic Leadership Group (top ~110 leaders)

Operational measures were assessed on a four-point scale (not met, partially achieved, achieved and over-achieved) based on quantifiable targets where possible and qualitative outcomes to reflect a balanced assessment of performance. Overall, there was strong progress made against each measure, resulting in a combined outcome of 66.7% of maximum.

However, as detailed in the Chair letter, following the fatal incident in May 2022 at Medford, Massachusetts, the Committee decided to exercise its discretion to reduce the operational portion of the APP by half, reducing the operational outturn from 66.7% to 33.3% for John Pettigrew and Andy Agg.

Measure	Details	Assessment	Outcome
Customer: Group customer satisfaction index (5%)	Blend of customer scores across the business units all equally weighted: <ul style="list-style-type: none"> • Customer Relationship Index for NE and NY; • Ofgem scores for UK ET and UK ED; and • Customer output measures for NGV 	The customer sentiment, which is tied to the value customers feel they receive from National Grid, has softened in New York and New England as customer's concern about their ability to pay has increased.	NY – 1 Not met
		UK ET's score is a result of a combination of pressures with the existing Regulatory Connections Framework, a dramatic uplift in volumes of customer applications; interactive issues of market design; and a lack of contractual discipline and investment linked to individual customers.	NE – 2 Partially achieved
		Both UK ED and NGV received positive customer and stakeholder satisfaction scores.	UK ET – 1 Not met
		Further detail on customer satisfaction can be found on page 16.	UK ED – 3 Achieved NGV – 3 Achieved
			(10/20) – 50.0%
Colleague: Group Having a Voice index (5%)	Index in annual employee engagement survey (Grid:Voice) which assesses the level of transparency and cultural openness across the organisation through four questions	Group Having a Voice index was 77% (ahead of target); Strong progress made on embedding the Group's purpose, values and culture as part of the integration of UK ED as well as continuing to evolve the culture and ways of working across the Group.	3 Achieved
			(3/4) – 75.0%
DEI: Percentage diversity of Strategic Leadership Group (top ~110 leaders) (5%)	Measure focused on delivering improvements in diversity in line with the key strategic priority to build a strong, diverse and inclusive strategic leadership team and pipeline of talent to support the delivery of the Group's strategy	Strategic Leadership Group diversity was at 49.1% (ahead of target); Progress underpinned by robust delivery of a Group-wide DEI strategy	3 Achieved
			(3/4) – 75.0%
Combined operational outcome			66.7%
Post discretion – Combined operational outcome			33.3%

Notes: Diversity is defined as colleagues who have self-identified themselves of varying gender, sexual orientation, disability, under-represented racial and/or ethnic group.

APP – Individual objectives

In addition to the financial and operational goals previously discussed, the Board approves annual individual performance goals for the Executive Directors in line with key operational and strategic priorities. Performance is assessed at the end of the financial year by the Board and Committee. The Chief Executive completed a self-evaluation which was shared with members of the Board for their comments. The Chair compiled these comments, and based on these comments, proposed a scoring for each of the goals. The Chief Executive undertook the same process for the Chief Financial Officer and presented his recommendations to the Committee in April 2023. The table below sets out the 2022/23 individual objectives together with associated performance commentaries and the Committee's assessment of the performance outcome for each of the Executive Directors:

Individual objectives and performance summary – John Pettigrew	Outcome
Deliver on the enterprise wide transformation <ul style="list-style-type: none"> The enterprise transformation showed good results, with work remaining in advancing the capabilities that will be required as part of the energy transition 	
Execute next wave of corporate strategy in line with Board strategic blueprint <ul style="list-style-type: none"> The strategy of pivoting to electricity networks was advanced by completing various major transactions Successfully led robust board strategy discussions which have led to greater clarity on the role National Grid plays in the energy transition 	80.0%
Improve and deepen leadership capabilities and succession; create strong and diverse talent pipeline to enable energy transition <ul style="list-style-type: none"> Leadership capabilities have been strengthened through a comprehensive approach to assessing and advancing talent. Given the dynamic nature of the environment in which the Group operates, this is an area that will need continued focus 	
Individual objectives and performance summary – Andy Agg	Outcome
Successfully complete the strategic repositioning & ED2 outcome, ensuring strong investor support <ul style="list-style-type: none"> UK ED integration well-progressed and delivered successful RIIO-ED2 price control outcome Completed strategic pivot with completion of sale of Rhode Island and majority sale of UK Gas Transmission & Metering Delivered successful funding strategy against challenging macro-economic backdrop 	
Deliver transformation programmes across the Group and Finance function <ul style="list-style-type: none"> Successfully implemented efficiencies and process improvements, supporting delivery against external cost commitments Delivered Finance transformation milestones including new Data and Reporting Office and various system improvements 	80.0%
Demonstrate progress in and deepen leadership capabilities and succession planning <ul style="list-style-type: none"> Launched National Grid's CFO apprentice programme and enhanced career pathway planning and leadership skills training Increased the Finance talent pipeline through several key senior appointments 	

2020 LTPP

Performance conditions

The 2020 LTPP that will vest on 1 July 2023 was structured in consideration of the transition to RIIO-T2 in the UK during the performance period. The financial measures and weightings of the 2020 LTPP below are the same for all Executive Directors.

- Group RoE over a one-year period (2020/21) determines one sixth of the award
- Group Value Growth over the three-year period (2020/21 – 2022/23) determines five sixths of the award

As detailed in the Chair letter, the outturns of the 2020 LTPP reflect the good business performance over the performance period and are summarised below:

Performance measure	Weighting	Threshold 20% vesting	Maximum 100% vesting	Actual % of maximum
Group RoE ^A	16.67%	8.25%	9.75%	100.0%
Group Value Growth ^A	83.33%	8.00%	10.5%	100.0%
Overall vesting outcome				100.0%

^A Denotes an 'alternative performance measure' as described on page 14

Vesting

The amounts due to vest under the 2020 LTPP for the performance period that ended on 31 March 2023 are included in the 2022/23 single total figure table on page 95 and are shown in the table below. The current share price valuation is an estimate based on the average share price over the three months from 1 January 2023 to 31 March 2023 of 1,043.51 pence and the proposed 2022/23 dividend with record date of 2 June 2023, subject to shareholder approval, is included. The total value of awards vesting, and dividend equivalent shares are subject to a two-year holding period.

The Committee considered wider business factors, such as underlying financial performance, ESG considerations and shareholder experience, when determining the final outturn for the 2020 LTPP and were comfortable that no adjustments were required.

	Shares awarded	Performance outcome (% of maximum)	Vested shares based on performance	Face value of the award at grant (£'000)	Share price appreciation (£'000)	Dividend equivalent shares (£'000)	Total value (£'000)
John Pettigrew	405,217	100.00	405,217	3,603	625	630	4,859
Andy Agg	213,795	100.00	213,795	1,901	330	333	2,564

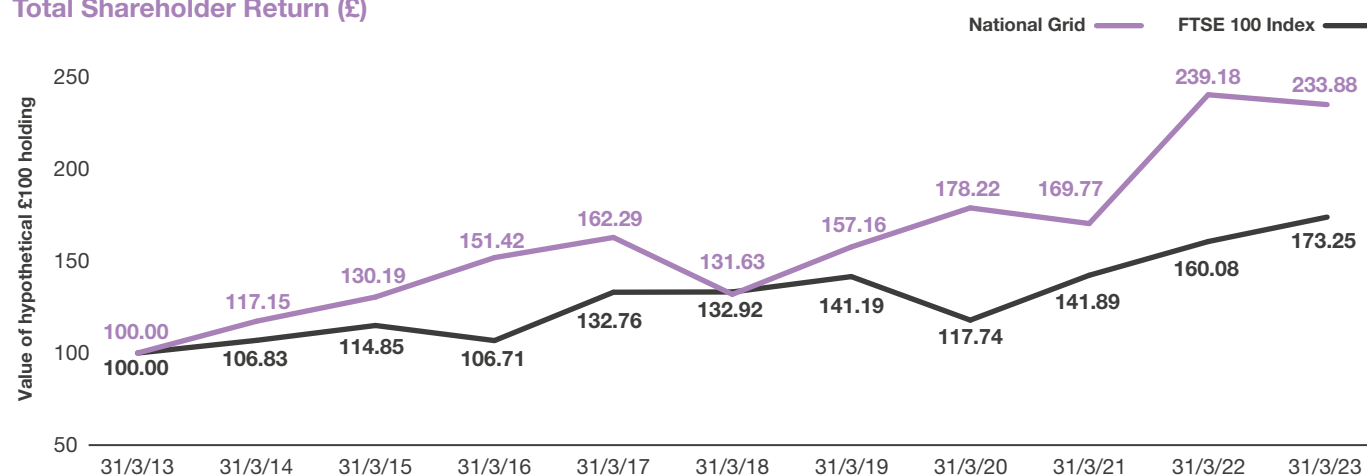
Directors' Remuneration Report continued

Summary of Policy table and approach taken for 2022/23 with intended approach for 2023/24 continued

Assessment of National Grid shareholder returns

National Grid plc's 10-year annual TSR performance against the FTSE 100 Index since 31 March 2013 is shown below and illustrates the growth in value of a notional £100 holding invested in National Grid plc on 31 March 2013, compared with the same invested in the FTSE 100 Index. The FTSE 100 Index has been chosen because it is a widely-recognised performance benchmark for large companies in the UK and it is a useful reference to assess relative value creation for National Grid plc shareholders. Over the last 10-year period, National Grid plc's TSR is 134% versus the FTSE 100 Index at 73%, demonstrating sustainable long-term value for our shareholders.

Total Shareholder Return (£)



Data source: Datastream by Refinitiv

2022 LTPP

Performance conditions

For the 2022 LTPP, the performance measures comprise of equally weighted financial measures totalling 80% and two equally weighted net zero transition measures with a combined weighting of 20% over the three-year performance period, as outlined in the table below. As disclosed in last year's Directors' Remuneration Report, Group Value Growth was replaced with a three-year cumulative Underlying EPS and net zero transition measures were introduced to align to targets set out in our CTP.

Performance measures	Weighting	Threshold 20% vesting	Maximum 100% vesting
Cumulative three-year Underlying EPS ^A	40%	199 p	217 p
Group RoE ^A	40%	9.50%	10.75%
National Grid Scope 1 emissions	10%	-50 ktCO ₂ e	-117 ktCO ₂ e
Enablement of net zero transition: Strategic initiatives (Scope 2 and 3)	10%	There are four key areas of focus (US energy-efficiency programmes, UK net zero transmission strategy, US future of gas strategy and low-carbon electricity distribution investment) which will be measured on a four-point scale (not met, partially achieved, achieved and over-achieved) based on delivery of quantifiable and qualitative outcomes.	

Notes: Vesting between threshold and maximum will be on a straight-line basis.

^A Denotes an 'alternative performance measure' as described on page 14

Conditional awards made during the year

The face value of the awards are calculated using the volume weighted average share price at the date of grant. The share price at the date of grant on 28 June 2022 was 1,069.26 pence. The 2022 LTPP will vest on 1 July 2025. The total value of awards vesting and dividend equivalent shares are subject to a two-year holding period following vesting.

	Basis of award (% of base)	Number of shares	Face value (£'000)	Proportion vesting at threshold performance	Performance period end date
John Pettigrew	350%	357,606	£3,824	20%	31 March 2025
Andy Agg	300%	201,727	£2,157	20%	31 March 2025

Statement of Directors' shareholdings and share interests

The Executive Directors are required to build up and hold a shareholding from vested share plan awards until their shareholding requirement is met. Until this point, 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. The following table shows the position of each of the Executive Directors in relation to the shareholding requirement. The shareholding is as at 31 March 2023 and the salary used to calculate the value of the shareholding is the gross salary as at 31 March 2023. The table also presents the number of shares owned by the Non-executive Directors, including their connected persons.

Both John Pettigrew and Andy Agg have met their shareholding requirement.

Further shares have been purchased in April and May 2023 on behalf of each of John Pettigrew and Andy Agg as part of the Share Incentive Plan (SIP) (an HMRC tax-advantaged all-employee share plan), thereby increasing the beneficial interests by 26 shares (13 in April and May) for John Pettigrew and 26 shares (13 in April and May) for Andy Agg. There have been no other changes in Directors' shareholdings between 1 April 2023 and 18 May 2023.

The expected vesting dates for the conditional share awards subject to performance conditions are 3 July 2023, 1 July 2024 and 1 July 2025 for the 2020 LTPP, 2021 LTPP and 2022 LTPP respectively.

Directors	Share ownership requirements (multiple of salary)	Number of shares/ADSs owned outright (including closely associated persons and SIP for Executive Directors)	Value of shares held as a multiple of current salary (excluding closely associated persons)	Number of options granted under the Sharesave Plan	Conditional share awards subject to performance conditions (LTTP 2020, 2021, and 2022)
Executive Directors					
John Pettigrew	500%	1,268,112	1,273%	4,219	1,161,391
Andy Agg	400%	327,917	500%	4,316	634,515
Non-executive Directors					
Paula Rospud Reynolds (ADSs)	–	2,000	–	–	–
Thérèse Esperdy (ADSs)	–	1,587	–	–	–
Liz Hewitt	–	2,500	–	–	–
Ian Livingston	–	1,838	–	–	–
Earl Shipp (ADSs)	–	1,000	–	–	–
Jonathan Silver (ADSs)	–	0	–	–	–
Tony Wood	–	2,097	–	–	–
Martha Wyrsh (ADSs)	–	5,000	–	–	–
Anne Robinson (ADSs)	–	0	–	–	–
Iain Mackay	–	0	–	–	–
Former Non-executive Directors					
Jonathan Dawson	–	45,632	–	–	–
Amanda Mesler	–	1,500	–	–	–

Notes:

John Pettigrew: On 31 March 2023 John Pettigrew held 4,219 options granted under the Sharesave Plan with an exercise price of 711 pence per share (the 20% discounted option price) and they can, subject to their terms, be exercised at 711 pence per share between 1 April 2025 and 30 September 2025. The number of conditional share awards subject to performance conditions is as follows: 2020 LTTP: 405,217; 2021 LTTP: 398,568; 2022 LTTP: 357,606.

Andy Agg: On 31 March 2023 Andy Agg held 4,316 options granted under the Sharesave Plan with an exercise price of 695 pence per share (the 20% discounted option price) and they can, subject to their terms, be exercised at 695 pence per share between 1 April 2026 and 30 September 2026. The number of conditional share awards subject to performance conditions is as follows: 2020 LTTP: 213,795; 2021 LTTP: 218,993; 2022 LTTP: 201,727.

Paula Rospud Reynolds, Thérèse Esperdy, Earl Shipp, Jonathan Silver, Martha Wyrsh and Anne Robinson: Holdings are shown as American Depositary Shares (ADSs) and each ADS represents five ordinary shares.

Jonathan Dawson and Amanda Mesler: Both Non-executive Directors resigned from the Board effective 11 July 2022, therefore their shareholding is as at 31 March 2022.

Post employment shareholding requirements

Past Executive Directors are required to continue to hold their shares/ADSs post employment for a period of two years in line with our current Policy.

To enforce this, the Executive Directors have given permission for the Group to periodically check with its third-party share scheme administrator whether the minimum shareholding requirement is being maintained. The Executive Directors have acknowledged that if they breach their post-employment shareholding requirement for any reason, the Group may enforce at its discretion one or more of the following processes: to request they repay to the Group an amount equivalent in value to the shareholding requirement that has not been met; the Group may withdraw/vary the vesting of any future shares granted under the LTTP; the Company may publish a public statement in a form, as the Group may decide that the Director has failed to comply with the post-employment shareholding requirement. Executive Directors are reminded annually and when employed, of the post-employment shareholding requirement. At termination, the minimum shareholding requirement is confirmed to the Director and checks are made by the Group at the 12-month and 24-month anniversary of leaving and at the relevant financial year end, 31 March, to ascertain if their post-employment shareholding requirement has been met.

Nicola Shaw stood down from the Board on 26 July 2021 and her termination date was 30 April 2022, at which time she was subject to a post-employment shareholding requirement of 200% of salary at termination for a period of two years. As of 31 March 2023, Nicola Shaw continues to meet her post-employment shareholding requirement.

Shareholder dilution

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 US Employee Stock Purchase Plan (ESPP) and US Incentive Thrift Plan (commonly referred to as a 401(k) plan) in the US which are summarised on page 235 and in our Policy. UK ED employees can now participate in the UK all-employee share plans since their acquisition.

Where shares may be issued or treasury shares reissued to satisfy incentives, the aggregate dilution resulting from executive or discretionary share-based incentives will not exceed 5% in any 10-year period. Dilution resulting from all incentives, including all-employee incentives, will not exceed 10% in any 10-year period. The Committee reviews dilution levels against these limits annually and under these limits the Company, as at 31 March 2023, had a headroom of 3.87% and 7.75% respectively.

Chief Executive pay ratio

We have disclosed our Chief Executive pay ratios comparing the single total figure of remuneration of the Chief Executive to the equivalent pay for the 25th percentile, median and 75th percentile UK employees (calculated on a full-time equivalent basis), as well as the median Group-wide pay ratio.

Year	Method	UK			Group-wide
		25th percentile pay ratio	Median pay ratio	75th percentile pay ratio	Median pay ratio
2022/23	Option A	144	111	86	76
2021/22	Option A	135	105	81	76
2020/21	Option A	104	81	62	54
2019/20	Option A	111	86	66	53
2018/19 – voluntary	Option A	96	76	58	48

Notes: Salaries as at 31 March 2023 and estimated performance-based annual payments for 2022/23 have been annualised for part-time employees to reflect full-time equivalents. Performance payments have not been further adjusted to compensate where new employees have not completed a full performance year. The comparison with UK employees is specified by the Companies (Miscellaneous Reporting) Regulations 2018 (as amended). US employees represent approximately 57% of our total employees. Our median pay ratio on a Group-wide basis is outlined above and calculated on the same basis as the UK pay ratios and at an exchange rate of \$1.2156:£1.

Directors' Remuneration Report continued

Summary of Policy table and approach taken for 2022/23 with intended approach for 2023/24 continued

The Chief Executive pay ratio has increased from 105:1 to 111:1 at the UK median, primarily due to the impact of the 2020 LTPP award on the Chief Executive's single total figure of remuneration. This year the 2020 LTPP vesting represents 67% (2021/22: 61%) of the Chief Executive's single total figure of remuneration. Whilst the UK median pay ratio increased this year, our Group median pay ratio has remained consistent compared with 2021/22 due to higher level of wages in the regions of the US where we operate as compared with the UK.

Excluding estimated 2020 LTPP vesting, our UK median pay ratio has decreased from 40:1 in 2021/22 to 37:1 this year and our Group pay ratio decreased from 29:1 to 25:1.

Changes in the Chief Executive pay ratio reflect the fact that a key feature of our executive and senior leadership remuneration strategy is heavily weighted towards longer-term performance share-based reward, resulting in larger swings year-on-year than the wider workforce. Across the wider workforce, employee reward is largely focused on in-year annual delivery.

The 2022/23 salary and total pay including benefits for the Chief Executive versus UK employees is shown below.

2022/23 Salary and benefits – Chief Executive versus UK wider workforce

	Chief Executive Remuneration	UK employee 25th percentile	UK employee 50th percentile	UK employee 75th percentile
Salary	£1,082,625	£39,299	£44,367	£58,240
Total pay and benefits	£7,247,980	£50,493	£65,112	£84,466

We have chosen to use Option A in calculating the ratios, which is a calculation based on the pay of all UK employees on a full-time equivalent basis, as this option is considered to be more statistically robust. The ratios are based on total pay and benefits inclusive of short-term and long-term incentives applicable for the respective financial year (1 April – 31 March). The reference employees at the 25th, 50th and 75th percentile have been determined by reference to pay and taxable benefits as at the last day of the respective financial year, 31 March, with estimates for the respective APP payouts and performance outcomes of the LTPP and dividend equivalents.

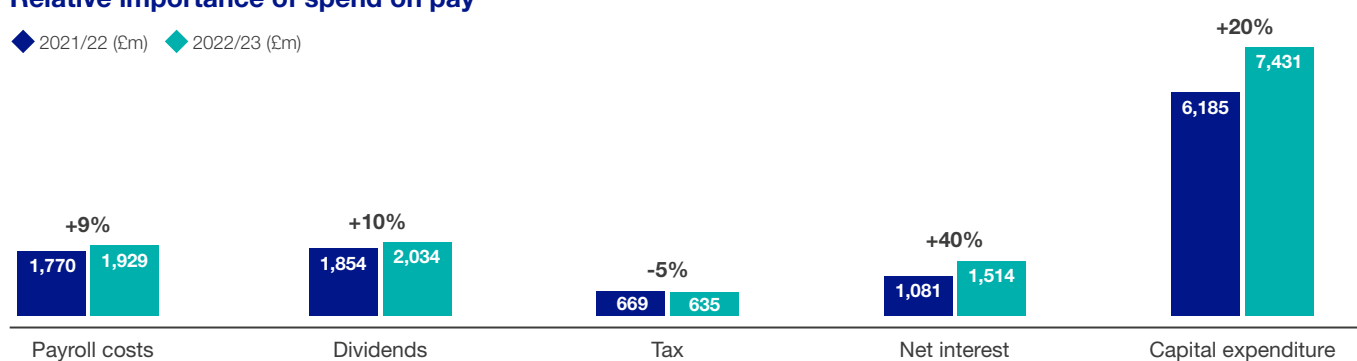
We are satisfied that the median pay ratio reported this year is consistent with our wider pay, reward and progression policies for employees. The median reference employee falls within our collectively bargained employee population and has the opportunity for annual pay increases, annual performance payments and career progression and development opportunities. The Chief Executive received a pay increase of 3.75% in 2022/23, below the UK wider workforce increase of 4.0%. For reference, in 2023/24, the Chief Executive will receive a 4.0% pay increase, which is below the UK average increase of 8.7% (with the tiers ranging from 4.5% to 9.5%) across the UK wider workforce.

Relative importance of spend on pay

The chart below shows the relative importance of spend on pay compared with other costs and disbursements (dividends, tax, net interest and capital expenditure). Given the capital-intensive nature of our business and the scale of our operations, these costs were chosen as the most relevant measures for comparison purposes. All amounts exclude exceptional items and remeasurement.

Relative importance of spend on pay

◆ 2021/22 (£m) ◆ 2022/23 (£m)



Notes:

- The dividend figure for 2021/22 has been restated at £1,854 million (from £1,852 million) to reflect the actual value of dividends paid.
- Percentage increase/decrease of the costs between years is shown.

Chief Executive's pay in the last 10 financial years

Steve Holliday was Chief Executive throughout the three-year period from 2013/14 to 2015/16. John Pettigrew became Chief Executive on 1 April 2016.

	Steve Holliday			John Pettigrew						
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Single total figure of remuneration (£'000)	4,801	4,845	5,151	4,623	3,648	4,651	5,205	5,071	6,614	7,248
Single total figure of remuneration including only 2014 LTPP (£'000)				3,931						
APP (proportion of maximum awarded)	77.94%	94.80%	94.60%	73.86%	82.90%	84.20%	70.58%	80.43%	85.20%	82.62%
LTPP (proportion of maximum vesting)	76.20%	55.81%	63.45%	90.41%	85.20%	84.20%	84.90%	68.00%	74.22%	100.00%

Notes:

John Pettigrew: The single total figure of remuneration for 2022/23 is explained in the single total figure of remuneration table for Executive Directors and single total figure for 2021/22 has been restated to reflect actual share price for 2019 LTPP vesting in 2022 and all dividend equivalent shares, consistent with comparative figures shown in this year's single total figure of remuneration table.

2014 LTPP: The 2016/17 single total figure of remuneration includes both the 2013 LTPP award and the 2014 LTPP award due to a change in the vesting period from four years (2013 LTPP) to three years (2014 LTPP).

LTPP plans: Prior to 2014, LTPP awards were made under a different long-term incentive framework which incorporated a four-year performance period for the RoE element of the awards. The last award under this framework was made in 2013 and was fully vested in 2017. Awards made from 2014 are subject to a three-year performance period. The first of these awards vested in 2017.

Single total figure of remuneration – Non-executive Directors

The following table shows a single total figure in respect of qualifying service for 2022/23, together with comparative figures for 2021/22:

		Fees (£'000)		Other emoluments (£'000)		Total (£'000)	
		2022/23	2021/22	2022/23	2021/22	2022/23	2021/22
Paula Rosput Reynolds		700	599	56	18	756	616
Thérèse Esperdy		180	141	18	10	199	151
Liz Hewitt		128	113	10	9	138	122
Ian Livingston	Appointed on 1.08.2021	142	66	1	1	142	67
Earl Shipp		123	113	22	7	145	120
Jonathan Silver		124	99	45	9	169	109
Tony Wood	Appointed on 1.09.2021	117	48	18	2	135	50
Martha Wyrusch	Appointed on 1.09.2021	117	56	12	3	129	59
Anne Robinson	Appointed on 19.01.2022	110	19	14	0	125	19
Iain Mackay	Appointed on 11.07.2022	89	n/a	0	n/a	89	n/a
Former Non-executive Directors							
Jonathan Dawson	Resigned on 11.07.2022	44	108	3	3	47	111
Amanda Mesler	Resigned on 11.07.2022	50	93	3	2	53	94
Total		1,924	1,455	202	63	2,125	1,518

Notes: Non-executive Director fee increases approved in 2021/22 were effective from 1 January 2022 and paid retrospectively on 1 July 2022.

Other emoluments: In accordance with the Group's expenses policies, Non-executive Directors receive reimbursement for their reasonable expenses for attending Board meetings. In instances where these costs are treated by HMRC as taxable benefits, the Group also meets the associated tax cost to the Non-executive Directors through a PAYE settlement agreement with HMRC and these costs are included in the table above. The 2022/23 year-on-year increase on Non-executive Directors benefits was due to global travel returning to pre-pandemic levels; therefore Directors travelled several times during the year incurring travel/accommodation expenses.

Anne Robinson: Joined the Remuneration Committee as a member effective 11 July 2022.

Liz Hewitt: Stepped down as Chair of the Audit & Risk Committee but remains as a member of the Audit & Risk Committee effective 1 January 2023.

Ian Livingston: Joined the Finance Committee as a member effective 1 January 2023.

Iain Mackay: Appointed Chair of the Audit & Risk Committee effective 1 January 2023.

The total emoluments paid to Executive and Non-Executive Directors in the year was £13.5 million (2021/22: £11.7 million).

Percentage change in Remuneration (Executive Directors, Non-executive Directors, employee average)

We have included percentage change in salary/fee, bonus and benefits for each of the Directors compared with prior years. The regulations cover employees of the Parent Company only and not across the Group, and since we have very few people employed by our Parent Company (National Grid plc), we have voluntarily chosen a comparator group of all employees in the UK and the US to provide a representative comparison. In line with the regulations, we shall build this information to display a five-year history by 2024/25.

	2020/21			2021/22			2022/23		
	Salary	Benefits	Bonus	Salary	Benefits	Bonus	Salary	Benefits	Bonus
Executive Directors									
John Pettigrew	1.3%	-4.7%	15.4%	1.7%	-8.8%	7.8%	3.4%	-42.0%	0.3%
Andy Agg	4.9%	40.6%	17.7%	6.5%	-31.6%	15.9%	6.5%	32.6%	2.1%
Non-executive Directors									
Paula Rosput Reynolds	n/a	n/a	n/a	2816.8%	n/a	n/a	16.9%	217.1%	n/a
Thérèse Esperdy	0.4%	-100.0%	n/a	-0.8%	n/a	n/a	28.2%	84.8%	n/a
Liz Hewitt	334.8%	-100.0%	n/a	14.5%	n/a	n/a	12.8%	12.0%	n/a
Ian Livingston ¹	n/a	n/a	n/a	n/a	n/a	n/a	113.2%	3.0%	n/a
Earl Shipp	0.5%	-100.0%	n/a	8.6%	n/a	n/a	9.0%	208.6%	n/a
Jonathan Silver	14.3%	-100.0%	n/a	-4.2%	n/a	n/a	24.5%	383.6%	n/a
Tony Wood ²	n/a	n/a	n/a	n/a	n/a	n/a	144.2%	857.5%	n/a
Martha Wyrusch ²	n/a	n/a	n/a	n/a	n/a	n/a	111.0%	280.3%	n/a
Anne Robinson ³	n/a	n/a	n/a	n/a	n/a	n/a	474.0%	n/a	n/a
Iain Mackay ⁴	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Former Non-executive Directors									
Jonathan Dawson ⁵	0.5%	37.1%	n/a	-3.0%	417.6%	n/a	-59.6%	1.2%	n/a
Amanda Mesler ⁵	0.5%	-100.0%	n/a	1.6%	n/a	n/a	-46.1%	85.7%	n/a
Employee median	-8.5%	1.7%	-5.5%	2.8%	6.1%	40.0%	12.4%	36.4%	-23.0%

Notes:

- Ian Livingston was appointed to the Board on 1 August 2021, therefore 2021/22 fees and benefits were prorated.
- Tony Wood and Martha Wyrusch were appointed to the Board on 1 September 2021, therefore 2021/22 fees and benefits were prorated.
- Anne Robinson was appointed to the Board on 19 January 2022, therefore 2021/22 fees and benefits were prorated.
- Iain Mackay was appointed to the Board on 11 July 2022, therefore percentage change is not applicable for 2022/23.
- Jonathan Dawson and Amanda Mesler resigned from the Board effective 1 July 2022, therefore received prorated fees for the financial year.
- Benefits/other emoluments:** For Executive Directors, benefits include private medical insurance, life assurance, allowance under the Group's flexible benefits programme, travel and accommodation expenses, a fully expensed car or cash alternative and the use of a car and a driver when required. For Non-executive Directors, the equivalent of benefits is emoluments. In accordance with the Group's expenses policies, Non-executive Directors receive reimbursement for their reasonable expenses for attending Board meetings. In instances where these costs are treated by HMRC as taxable benefits, the Group also meets the associated tax cost to the Non-executive Directors through a PAYE settlement agreement with HMRC and these costs are included in the table above. The 2022/23 year-on-year increase on Non-executive Directors benefits was due to global travel returning to pre-pandemic levels; therefore Directors travelled several times during the year incurring travel/accommodation expenses.

Directors' Remuneration Report continued

Summary of Policy table and approach taken for 2022/23 with intended approach for 2023/24 continued

For 2022/23, the percentage change data for salary reflects that salary increases for Executive Directors were below the employee median of 12.4%. The 2022/23 year-on-year increase in Non-executive Director fees is due to pro-rated fees for Non-executive Directors joining during the year and also partly due to increased fees effective 1 January 2022. Further, Non-executive Directors receive reimbursement for their reasonable expenses for attending Board meetings. In instances where these costs are treated by HMRC as taxable benefits, the Group also meets the associated tax cost to the Non-executive Directors through a PAYE settlement agreement with HMRC and these costs are included in the table above. The 2022/23 year-on-year increase on Non-executive Director emoluments was due to global travel returning to pre-pandemic levels and also due to part-year travel costs versus full-year travel costs. For 2022/23, the percentage change in benefits and bonus for the employee median is on account of the changes in the underlying UK workforce with UK Gas Transmission & Metering colleagues leaving and UK ED colleagues joining the Group.

Salary increases vary for employees covered by collective agreements depending on arrangements agreed with the respective trade unions. The Committee takes account of the general salary increases available for managers/non-unionised employees when reviewing Directors' salaries/fees.

Further alignment between Executive Director pay and arrangements available to the wider workforce is evidenced by the approach that most employees have the opportunity to receive a bonus which is linked to either a combination of individual and/or Group/business performance measures, thus enabling employees as well as the Executive Directors to benefit in the Group's success annually.

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. All Directors are required to be elected at each AGM.

There has been no changes made to Directors' service contracts and letters of appointment. Copies of service contracts and letters of appointment are available for inspection at the Company's registered office.

Payments for loss of office and payments to past Directors

On 20 May 2021, we announced Nicola Shaw, Executive Director UK, would not be seeking re-election to the Board. Nicola Shaw stood down from the Board on 26 July 2021 and remained in active employment until 31 October 2021. She received salary and benefits until her termination date of 30 April 2022 and received pay in lieu of notice for the unexpired period of her 12-month notice period (i.e. from 1 May 2022 to 19 May 2022).

For the period from 1 April 2022 to 31 March 2023, Nicola Shaw received remuneration totalling £135,588 which includes her salary and benefits of £58,450 (for 1 April 2022 to 30 April 2022), her pay in lieu of notice of £29,905 (for 1 May 2022 to 19 May 2022) and other payments (including but not limited to statutory pay, holiday pay and a SIP refund) of £47,233. All payments are in accordance with her service agreement, the 2019 Policy and in line with our June 2021 RNS announcement and subject to applicable tax withholdings.

The Committee agreed to grant good leaver treatment for Nicola Shaw's in-flight LTPP awards given her overall long-term strong performance and contribution to the business. The 2019 LTPP figure published last year in our Directors' Remuneration Report 2021/22 (page 114) of £1,765,000 is restated to £1,812,000 to reflect the actual share price on vesting and all dividend equivalent shares. As the vesting share price of 1,124.24 pence was higher versus the estimate of 1,098.09 pence (and the additional dividend equivalent shares added for the dividend with a record date of 6 June 2022 with a dividend rate of 33.76 pence per share), the actual value at vesting was c.£47,000 more than for the estimate published last year.

Nicola Shaw's 2020 LTPP award is due to vest in July 2023 and her award will be pro-rated for completed months held since the award date until 30 April 2022. The awards will vest at the same time as other participants, subject to performance measured at the vesting date and any discretion the Committee may decide to exercise at the time of vesting, in line with our Policy. These shares will be subject to the two-year post-vesting holding requirement and post-employment shareholding requirement. Using the same methodology for LTPP on page 95, Nicola Shaw's estimated value for the 2020 LTPP is £1,336,277.

There have been no other payments made to other past Directors during 2022/23.

External appointments and retention of fees

The table below details the Executive Director who served as Non-executive Director in other companies during the year ended 31 March 2023 (further detail on external appointments can be found in our Policy):

	Company	Retained fees
John Pettigrew	Rentokil Initial plc	£80,481

Role of the Remuneration Committee

The Committee is responsible for recommending to the Board the Policy for the Executive Directors. The Committee is also responsible for approving the remuneration of the other members of the Group Executive Committee and the Chair. The aim is to align the Policy to the Group strategy and key business objectives, and ensure it reflects our shareholders', customers' and regulators' interests. The Committee receives input on Policy implementation within the wider workforce before reaching decisions on matters such as salary increases and annual incentive payouts and closely reviews the appropriateness of pay positioning by reference to external measures (benchmarking remuneration packages) and internal review of Group performance and pay gaps (CEO pay ratios, gender and ethnicity pay gaps) and the relativity year-on-year of salary, benefits and annual performance incentives compared with the same for the rest of the workforce.

- **Clarity:** We identify and communicate a range of performance measures in our incentives which clearly link to the successful execution of the Company's strategy.
- **Simplicity:** Elements of our remuneration framework and their purpose are clearly articulated within our market-standard policy and we believe this is understood by all our stakeholders.
- **Risk:** Risk is managed in a number of ways and evidenced through our Policy, for example: setting maximum levels for incentive plans; implementing measures that are aligned to Group performance and shareholder interests; focusing on the long term and creating value through the LTPP; reviewing formulaic outcomes; malus and clawback provisions; and having a high shareholding requirement for senior executives.
- **Predictability:** Full information on the potential values which could be earned are disclosed; our policy outlines threshold, target and maximum opportunity with varying actual incentive outcomes dependent on performance; and all the checks and balances set out above under Risk are disclosed as part of the Policy.

- **Proportionality:** Whilst incentive plans reward executives' performance in successfully delivering the business strategy, there is also a focus on sustaining this through holding periods that apply to vested shares and annual incentives paid out as shares; all executives are also subject to significant shareholding and post-employment shareholding requirements. The Policy does not reward poor performance and the range of potential payouts under the Policy is appropriate.
- **Alignment to culture and strategy:** Our culture recognises that how we do things is as vital as what we do and this is reflected in the type of performance conditions used in our incentive plans. Both the measures themselves and the targets set aim to reinforce this approach.

Our Policy has operated as intended in terms of Group performance and quantum; a review of key considerations and decisions pertaining to its implementation is provided in the Committee Chair's statement.

The Committee's activities in 2022/23

Meeting/circulations	Main areas of discussion
April 2022	Discussion on the 2022/23 APP individual objectives for the Group Executive Committee Review of the 2022 LTPP measures and provisional targets for the Group Executive Committee Discussion on a number of governance updates including share dilution limits and shareholding for the Group Executive Committee
May 2022	Approval of 2021/22 APP and 2019 LTPP outcomes for the Group Executive Committee Approval of pay decisions for the Group Executive Committee Review of Chair fees Approval of the 2022/23 APP financial, operational and individual objectives and 2022 LTPP targets for the Group Executive Committee
September 2022*	Proposal for the 2022/23 APP strategic objective for a new Group Executive Committee appointment
October 2022*	Items related to new Group Executive Committee appointment
November 2022	AGM update Discussion of the 2023/24 APP and 2023 LTPP provisional measures the Group Executive Committee Approval of the UK Gas Transmission & Metering remuneration arrangements methodology at sale completion Proposal for the 2022/23 APP strategic objective for a new Group Executive Committee appointment Approval of the 2022/23 Sharesave Plan
January 2023	Discussion on external environment and current governance concerns in relation to executive pay Review and approval of the Gender and Ethnicity Pay Gap Items related to various Group Executive Committee members' (i) leaving arrangements and (ii) remuneration arrangements Discussion on the 2023/24 APP financial and operational measures Discussion on the 2023 LTPP financial and ESG measures
March 2023	External market update and evolving governance Discussion on the 2022/23 expected incentive plan outcomes (APP and outstanding LTPP) for the Group Executive Committee Discussion on the 2023/24 APP financial and operational measures and 2023 LTPP award for the Group Executive Committee Market data review, base salary increase proposals, in context of wider workforce increases, for the Group Executive Committee Approval of the 2022/23 UK Gas Transmission & Metering APP outturns post sale completion

*By circulation

Note: For completeness, the market data review and base salary increase proposals, in context of wider workforce increases (for 2022/23) for the Group Executive Committee and discussion on feedback from shareholder consultation on 2022 Policy were held in the March 2022 meeting.

Advisors to the Remuneration Committee

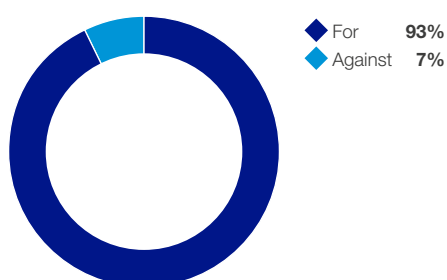
PricewaterhouseCoopers LLP (PwC) was selected by the Committee to become its independent advisor from 3 August 2020 and provided advice and counsel to the Committee throughout 2022/23. PwC is a member of the Remuneration Consultants Group (RCG) and has signed up to RCG's code of conduct. The Committee is satisfied that any potential conflicts were appropriately managed. Work undertaken by PwC in its role as independent advisor to the Committee has incurred fees of £62,541 on the basis of time charged to perform services and deliverables.

The Committee reviews the objectivity and independence of the advice it receives from its advisors each year. It is satisfied that PwC provided credible and professional advice. PwC has provided general and technical remuneration services in relation to employees below Board and Group Executive Committee level that include broad-based employee reward support and data assurance services. In addition, Willis Towers Watson (WTW) provided benchmarking support to the Committee in the year and incurred fees of £26,100.

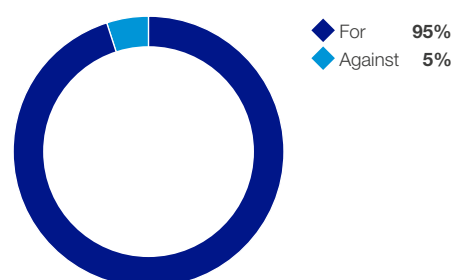
The Committee considers the views of the Chair on the performance and remuneration of the Chief Executive, and of the Chief Executive on the performance and remuneration of the other members of the Group Executive Committee. The Committee is also supported by the Group General Counsel & Company Secretary, and either she or her delegate acts as Secretary to the Committee; the Chief People & Culture Officer; the Group Head of Reward; and, as required, the Chief Financial Officer, the Group Head of Pensions and Group Financial Controller.

Voting on the Policy and the Directors' Remuneration Report at the 2022 AGM

2022 Policy



Directors' Remuneration Report 2021/22



Notes:

1. The Directors' Remuneration Policy voting figures shown refer to votes cast at the 2022 AGM and represent 66.28% of the share capital. In addition, shareholders holding 42.6 million shares abstained.
2. The Directors' Remuneration Report voting figures shown refer to votes cast at the 2022 AGM and represent 66.28% of the issued share capital.

Directors' Remuneration Report continued

Implementation of the Policy for 2023/24 continued

Implementation of the Policy for 2023/24

The 2022 Policy, which was approved at the 2022 AGM, will be implemented during 2023/24 as outlined below:

Salary and pensions

Salary increases for the Executive Directors will be below the increase awarded to the UK wider workforce. Higher salary increases may be awarded for a change in responsibility. Additionally, in line with the Policy on recruitment remuneration, salaries for new Directors may be set below market level initially and aligned to market level over time (provided the increase is merited by the individual's contribution and performance).



John Pettigrew and Andy Agg will be awarded salary increases of 4.0%, effective from 1 July 2023.

	From 1 July 2023	From 1 July 2022	% increase
John Pettigrew	£1,136,200	£1,092,500	4.0%
Andy Agg	£747,800	£719,000	4.0%

The pension contribution for all Executive Directors is in line with the pension contribution rates for the UK wider workforce and new joiners at 12%.

2023/24 APP

The 2023/24 APP measures will be split across financial measures, operational measures and individual objectives, weighted 70%, 15% and 15% respectively. The maximum APP award for both the Executive Directors for 2023/24 is 125% of basic salary, in line with the Policy.

	Measure	Weighting
Financial measures	Underlying Group EPS 	35%
	Group RoE 	35%
Operational measures	Customer: Group customer satisfaction index	5%
	Colleague: Group 'Delivering Results' index	5%
Individual objectives	DEI: Gender and ethnic diversity of senior managers and above and of new joiners	15%

 Denotes an 'alternative performance measure' as described on page 14

Financial measures

Following the extensive review of measures as part of the Policy review, Underlying EPS and Group RoE have been retained as financial measures for the 2023/24 APP. Group RoE remains a relevant and key measure of performance as a primarily regulated asset-based company and targets are set to ensure strong in-year returns and operational results. Underlying EPS remains the most appropriate APP earnings measure for the business and the targets consider specific challenges and opportunities in the year ahead and are flexed accordingly whilst remaining consistent with our longer-term performance goals. Financial APP targets are considered commercially sensitive and consequently will be disclosed retrospectively in the 2023/24 Directors' Remuneration Report.

Operational measures

The 2023/24 APP operational measures are designed to incentivise key annual priorities aligned to the Group's strategy as a responsible business and broader ESG goals and are weighted equally across three key measures focused on customers, colleagues and DEI. Operational measures will be assessed against quantitative targets for threshold, target and stretch performance and then reviewed on a qualitative basis to reflect a balanced assessment of performance.

The Group customer satisfaction index is an equally weighted index of quantifiable and predominantly externally measured customer satisfaction scores across each of the business units. The customer measure reflects the strategic importance on delivering safe, reliable, resilient and affordable energy to customers whilst also ensuring operational excellence. The colleague 'Delivering Results' index quantitatively assesses our annual Group-wide employee engagement survey of colleagues and will align with our major delivery programmes. The DEI measure this year continues to be a quantifiable target and will focus on the overall gender diversity and ethnic diversity of senior managers and above as well as new entrants to the workforce. The intention is to improve the overall gender and ethnic diversity at specific layers to support the delivery of the Group's strategy.

Individual objectives



The Committee has approved individual objectives for the Executive Directors in line with key strategic and operational priorities for the year ahead. John Pettigrew's individual objectives for 2023/24 are focused on: 1) achieving greater clarity on future transmission and related investment in the UK in support of net zero; 2) advancing a framework of agreement on the future of natural gas in the US and 3) continuing to develop leaders for the future. Andy Agg's individual objectives are focused on: 1) ensuring the financing strategy is well understood with strong investor support; 2) establishing key relationships with our suppliers to facilitate time and cost-effective delivery of capital projects; 3) delivering CFO transformation roadmap and function capabilities and 4) improving leadership capabilities with a strong diverse talent pipeline.

2023 LTPP

The 2023 LTPP performance measures and weightings for all Executive Directors comprise two equally weighted financial measures totalling 80% and two equally weighted net zero transition measures with a combined weighting of 20% as outlined in the table below. The maximum 2023 LTPP award is 350% and 300% of base salary for John Pettigrew and Andy Agg respectively, in line with the Policy.

LTPP targets and performance are measured over the entire three-year performance period, which for the 2023 LTPP is 1 April 2023 – 31 March 2026. The 2022 Policy and the LTPP plan rules apply to the 2023 LTPP awards.

The Committee reviewed whether there was any risk of windfall gains and concluded that there was not material decline in the current share price to the previous share prices at award grants. Therefore, no adjustment is proposed to the 2023 LTPP award.

	Measure	Weighting
Financial measures	Cumulative 3 year Underlying Group EPS 	40%
	Group RoE 	40%
Net zero transition measures	National Grid Scope 1 emissions	10%
	Enablement of net zero transition: National Grid Scope 2 and 3 emissions and strategic initiatives	10%

 Denotes an 'alternative performance measure' as described on page 14

Financial measures

LTPP financial measures are selected to reflect key drivers of the Group's longer-term strategy and value creation for shareholders. Given the primarily regulated and long-term nature of our businesses, earnings growth and sustainable investment returns are important measures of long-term shareholder value creation. Whilst we recognise our short-term (APP) and long-term (LTPP) financial measures are similar, we believe these are the right measures to deliver both short- and long-term business strategy, long-term efficient asset growth and shareholder value.

As such, the 2023 LTPP financial measures are designed to incentivise different elements of performance over the long-term as compared with the short-term. Specifically in LTPP, Group RoE is averaged across the three-year performance period to incentivise sustainable returns for shareholders in the longer term. Similarly, the cumulative three-year Underlying Group EPS measure assesses Underlying EPS for the three years in the LTPP performance period.

As part of approving the 2023 LTPP performance range for the Financial measures, more specifically the Underlying EPS, the Committee carefully considered the impact of the changes in UK Capital Allowances announced by the UK Chancellor in March 2023. This is expected to reduce our cash tax payments to HMRC, but is not expected to directly reduce our overall accounting tax charge, with the lower cash tax paid being offset by a corresponding increase in deferred tax liabilities. However, because our UK regulated businesses' revenues include a tax allowance, the increased tax relief from higher capital allowances would result in lower cash tax paid and therefore lower allowed revenues. This is expected to have a significant adverse impact on our UK regulatory businesses' reported underlying results (i.e. no change to the overall tax charge, but lower revenues) from 2023/24 to 2025/26, despite this change being economically neutral to National Grid. More details on the earnings impact can be found on page 65.

It was within this context that the Committee approved the 2023 LTPP targets in respect of Underlying EPS. The 2023 LTPP Underlying EPS targets have been set in line with the Company's five-year investor frame of delivering EPS growth of 6-8% CAGR.

The Committee also noted that the change in UK Capital Allowances have a similar impact on the performance range of the 2022 LTPP (approved in May 2022), more specifically the forward looking two year period of the Cumulative Underlying EPS metric (for the years ending 31 March 2024 and 31 March 2025 respectively). The Committee agreed to review the options to reflect this later in the year.

The Committee also noted that the UK Capital Allowances change does not impact the Group RoE performance range due to the treatment of tax allowances within that calculation. However, the performance range for the 2023 LTPP in respect of Group RoE has been amended to reflect the impact of higher indexation on the denominator used in the calculation. The LTPP Underlying EPS measure will not be subject to the technical adjustments made in the annual Group EPS measure.

Below are the performance ranges for the financial measures in the 2023 LTPP.

Performance conditions

Performance measures	Weighting	Threshold 20% vesting	Maximum 100% vesting
Cumulative three-year Underlying Group EPS	40%	201p	219p
Group RoE	40%	8.25%	9.50%

Notes: Vesting between threshold and maximum will be on a straight-line basis. Underlying EPS growth reflects the cumulative summation of the Underlying EPS results for each of the three years in the performance period: 2023/24, 2024/25 and 2025/26.

Net zero measures

The net zero transition measures continue to set out targets and outcomes to achieve: (1) reductions in the Company's direct Scope 1 emissions and (2) enable the broader net zero energy transition.

The reduction of Scope 1 emissions target is a cumulative measure aligned to meet our 2030 emissions target. Our 2030 emissions targets have been SBTi validated and are aligned to a well below 2°C pathway. There has been no change to the underlying methodology and the Scope 1 reduction target continues to exclude the Long Island Power Authority (LIPA) generation asset emissions as management does not have direct control over decisions to run the assets. Broader considerations and actions regarding the longer term for LIPA have been incorporated into the second measure as part of enabling the net zero transition.

Performance measures	Weighting	Threshold 20% vesting	Maximum 100% vesting
Reduction of National Grid Scope 1 emissions	10%	-77 ktCO ₂ e	-127 ktCO ₂ e

The second measure reflects National Grid's role in enabling the net zero transition to a carbon neutral future by 2050. This measure will continue to assess delivery against key net zero strategic priorities and quantified outcomes that underpin the Group's strategy to enable a net zero future by 2050. The four key areas of focus remain: (1) US energy-efficiency programmes and generation; (2) UK net zero transmission strategy including interconnectors and transmission investment to connect offshore wind; (3) US future of gas strategy, including the transition to renewable natural gas (RNG), hydrogen and hybrid/electrification of heat; and (4) low-carbon electricity distribution investment in line with government and regulatory plans. The measure has been updated to add more quantifiable targets to the strategic initiatives and to ensure it reflects a 2023 – 2026 trajectory. Assessment of this measure will be based on a four-point scale (not met, partially achieved, achieved and over-achieved) based on delivery of quantifiable and qualitative outcomes to reflect a balanced assessment of performance.

Directors' Remuneration Report continued

Implementation of the Remuneration Policy for 2023/24 continued

Fees for Non-executive Directors

Non-executive Director fees were reviewed in May 2023 and will be effective from 1 July 2023 in line with the annual salary review cycle for the majority of our employees.

	From 1 July 2023 (£'000)	From 1 January 2022 (£'000)	% increase vs 2022
Chair	700.0	700.0	0.0%
Senior Independent Director	31.2	30.0	4.0%
Board fee	83.2	80.0	4.0%
Chair Audit & Risk Committee	35.0	31.9	9.7%
Chair Remuneration Committee	31.2	30.0	4.0%
Chair other Committees (Finance, Safety & Sustainability)	26.0	25.0	4.0%
Audit & Risk Committee member	23.9	23.0	4.0%
Remuneration Committee member	18.7	18.0	4.0%
Other Committee member (Finance, Safety & Sustainability, People & Governance)	15.6	15.0	4.0%

Note: For the People & Governance Committee, no fees are paid for the Committee Chair, the Senior Independent Director or the Board Chair. The Chair Audit & Risk fee will be increased by 9.7% given the increasing complexity with the role and to align fee with the market levels.

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



Ian Livingston
Committee Chair
18 May 2023