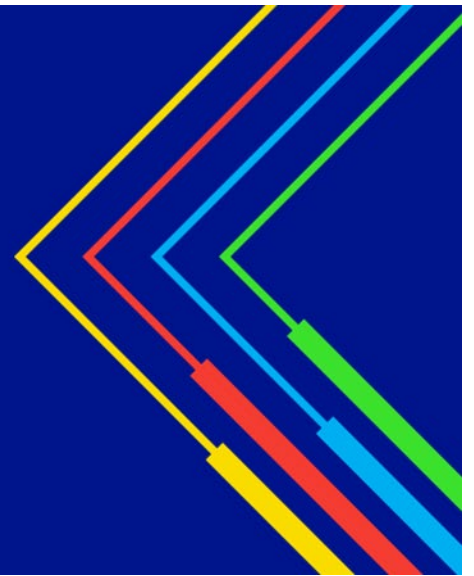


ESG Materiality Assessment Disclosure note 2023



An important input into our external reporting and responsible business approach is our ESG materiality assessment. This process enables us to define the priority topics for National Grid's strategic development and refine how we report on our performance.

We conducted a full ESG materiality assessment in October to December 2022 in accordance with the Global Reporting Initiative's (GRI) 2021 standard on materiality (GRI3). GRI has not yet published a sector standard for the utilities industry. Any additional considerations stemming from the publication of this standard will be reflected in our reporting at the earliest opportunity.

This year, we went further and incorporated a preliminary financial materiality lens to each of the material impacts identified. This enabled us to begin to assess the financial impact of environmental, social and governance issues on the business. Our approach was inspired by Exposure Draft IFRS S1 the General Requirements for Disclosure of Sustainability-related Financial Information (General Requirements Exposure Draft) published by the International Sustainability Standards Board (ISSB) in March 2022. We will continue to evolve our approach to incorporate the requirements of the final ISSB standards, any implementation guidance and emerging best practice.

To confirm that there were no significant changes impacting the results of our assessment in the period from January 2023 to date. We completed this through an internal review during the completion of our refreshed Responsible Business Charter.

Definition of material topics

Material ESG topics are those that represent National Grid's most significant impacts on the economy, environment, and people, including impacts on their human rights.

A materiality assessment enables the identification of the most important sustainability topics to key stakeholders (Investors, Colleagues, Customers, Contractors and Suppliers, Communities, Governments and Regulators) and comparing these to the view of the company.

The financial materiality lens allows us to assess the relative financial impact of material topics identified on our future cash flows, performance, assets and liabilities and other capitals. This was performed from our company's perspective, collating the views of financial and non-financial reporting subject-matter-experts.

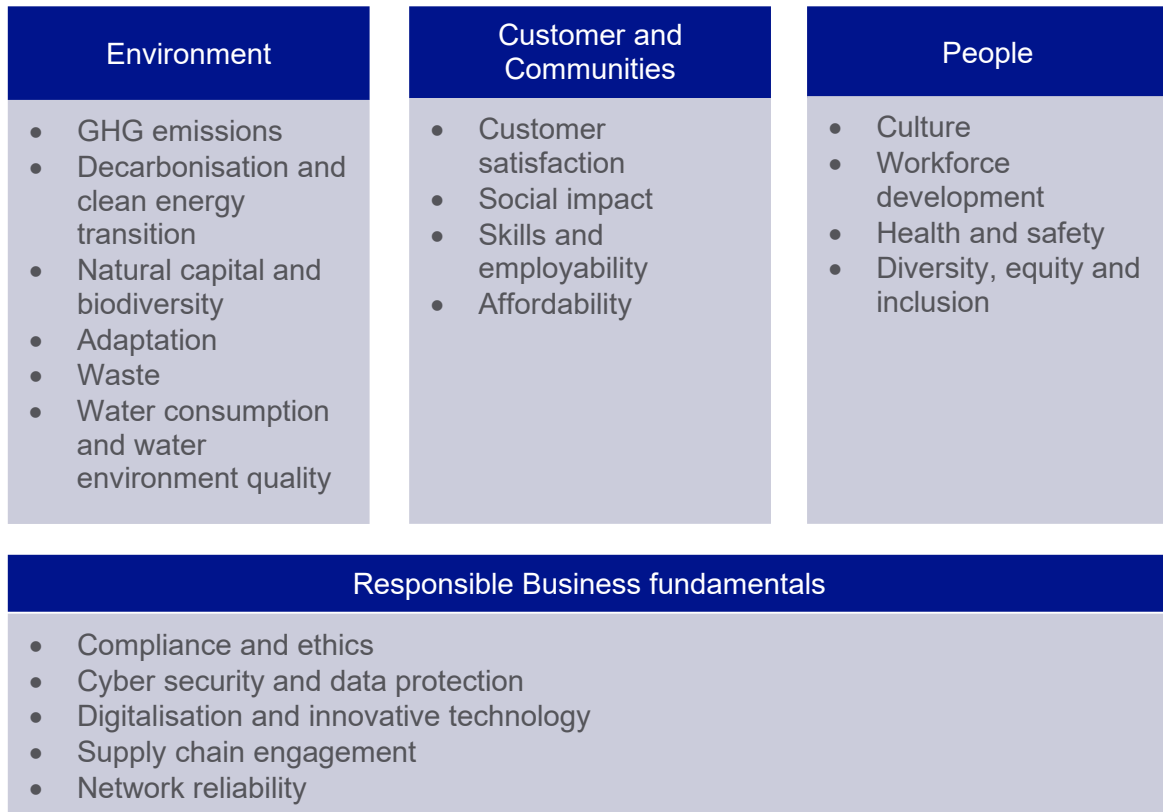
To establish our material topics, we followed a three-stage process:

1) Define

Through reviewing the activities and business relationships of National Grid in the sustainability context from which they occur, we identified a list of potentially significant topics, ultimately providing critical information for the identification of an impact. This process also took into consideration stakeholder views and opinions relevant to the business, stemming from our extensive stakeholder engagement programmes which have shaped our core business planning.

Based on this we derived a long list of actual and potential positive and negative impacts on the economy, environment, and people, including impacts on their human rights, across National Grid’s activities and business relationships. This was performed by reviewing public information, engaging with management, identifying emerging trends and upcoming regulation, existing reporting frameworks and benchmarking the sustainability priorities of peers.

These impacts were then grouped into higher-level ESG topics.



2) Assess

We assessed each ESG topic’s importance to our stakeholders, using quantitative and qualitative analysis. We engaged with stakeholders across the UK and US through several approaches, including, but not limited to, surveys, interviews and workshops to determine prioritisation of ESG topics. Engaging with our stakeholders is a central element of our sustainability approach. We welcome the diverse opinions and contributions of different stakeholder groups, including investors, suppliers, colleagues, customers, regulators and communities and governments.

Our analysis took into consideration the below attributes:

- Scale: A measure of the seriousness of an impact (relevant for all impacts)
- Scope: A measure of how widespread the impact is (relevant for all impacts)
- Irremediability: A measure of whether and to what extent negative impacts could be repaired (relevant for negative impacts).
- Likelihood: A measure of how likely or unlikely it is that an impact will occur (relevant for potential impacts).

A numerical score was allocated to each of the attributes, and scores were then normalised across impacts to ensure comparability.

For the financial materiality perspective each impact identified was assessed and scored by National Grid management based on the following attributes:

- Future cash flows
- Performance
- Assets and liabilities
- Other capitals
- Timings & Likelihood

The results of the financial materiality assessment were overlaid onto the impact materiality results. The results are reflected in the size of the plot. The larger the plot, the more financially material a topic is.

As the guidance for financial materiality remains in its early stages, we acknowledge this as an area of development and will consider how this could be refreshed as regulation and further practical guidance evolves into industry best practice.

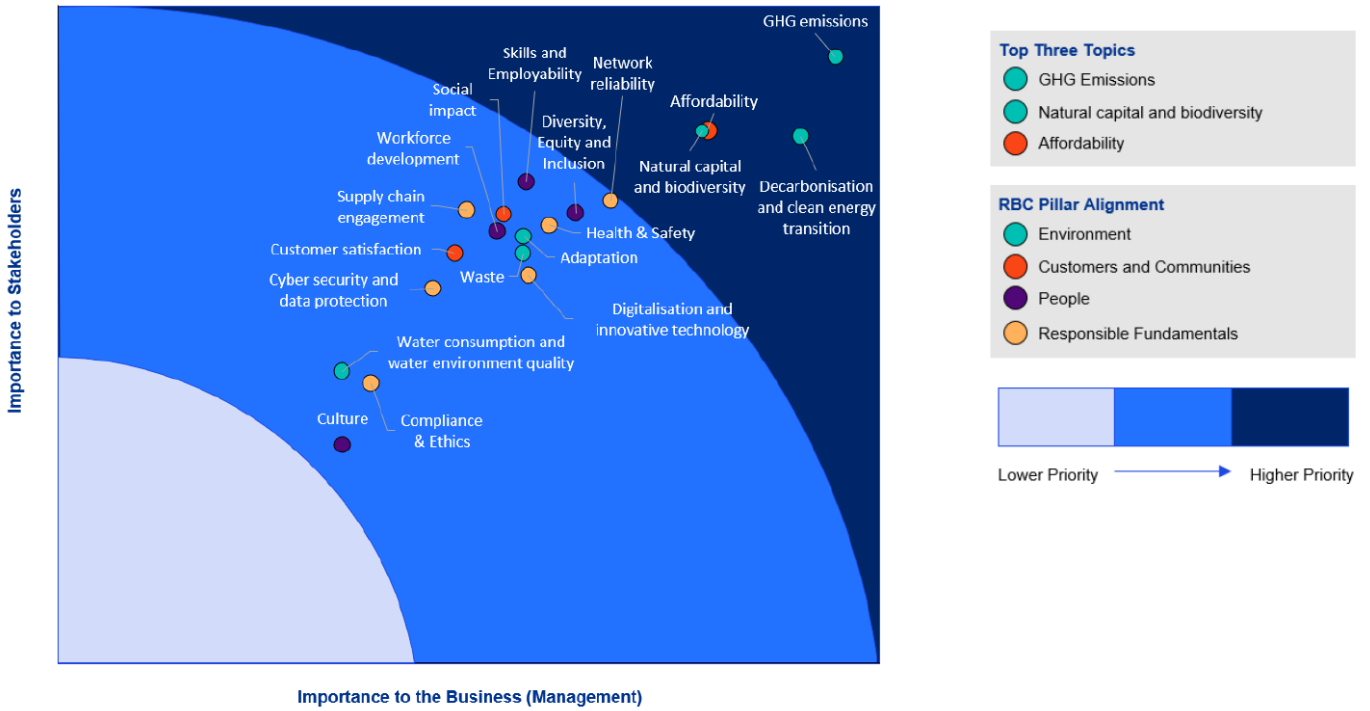
3) Validate and confirm

The output of the assessment stage was then presented to senior management and subject-matter-experts across National Grid's operations in the UK and US, to test and confirm the prioritisation and to inform the sustainability reporting process.

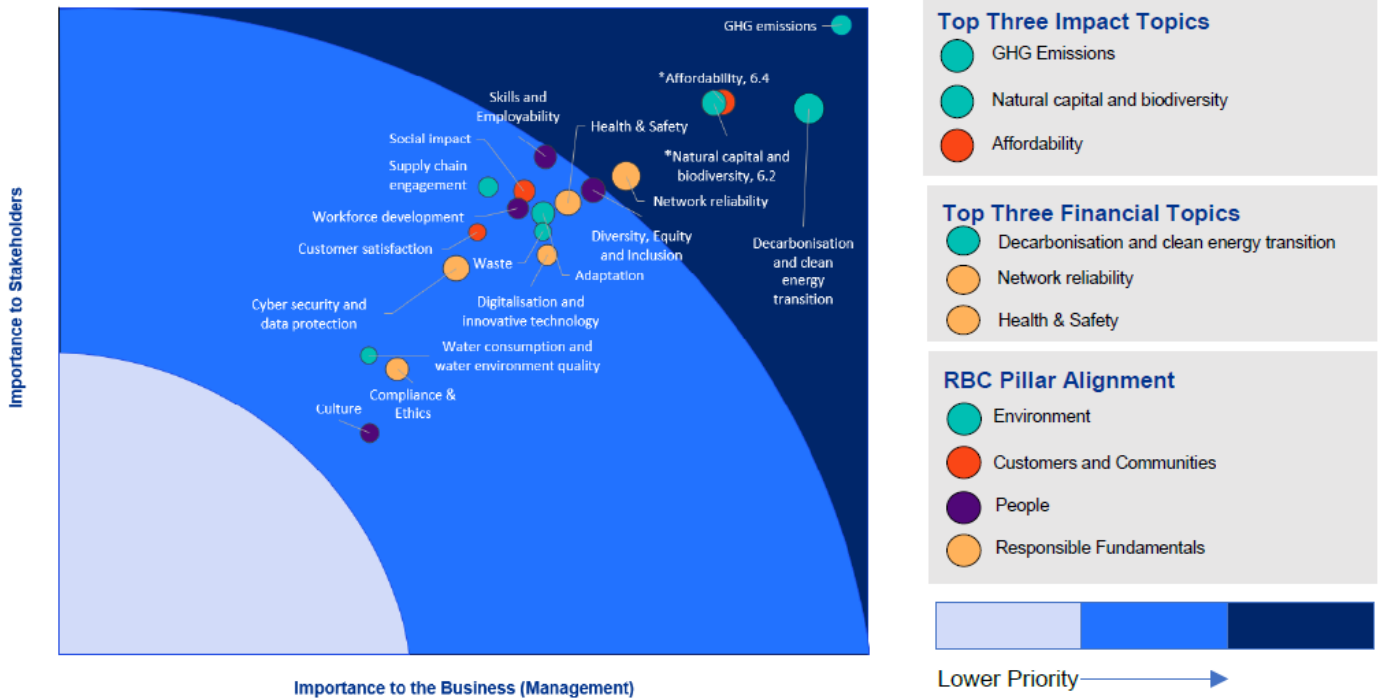
The topics were displayed in a matrix (shown below).

The results of the materiality assessment were reviewed by the Group Executive Safety, Health & Sustainability Committee before being approved by the Board Safety & Sustainability Committee for external reporting.

GRI double materiality assessment (only)



GRI double materiality assessment with financial materiality overlay



The results of the financial materiality assessment results are reflected in the size of the plot. The larger the plot, the more financially material a topic is.

Comparison to our previous materiality assessment

We have streamlined our material topics for reporting from our previous materiality assessment, meaning several previous topics were considered at an 'impact' level for this assessment. This reduced the number of ESG topics presented in the materiality matrix, whilst still maintaining a complete view from all stakeholders of all potentially material impacts. We also took the decision to exclude sustainable finance from our materiality assessment because we consider it an enabler towards achieving our ESG topics and do not consider it a sustainability issue.

We have seen an increase in natural capital and biodiversity as a material topic, reflecting the shift in regulatory pressure towards this topic, as well as an increased investor focus.

We introduced a financial materiality lens in this assessment, in addition to the GRI3 results, to enable us to begin to assess the financial impact of environmental, social and governance issues on our business.

Strategic alignment

The materiality assessment described above has enabled us to identify/confirm the areas where we can have the most impact. We categorised the topics within four 'pillars', as illustrated above. In each pillar of the report, we set out, or cross-refer to, our commitments and how we will achieve them. This is described in the Responsible Business Charter which sets what responsibility means to us. The Responsible Business Charter is reviewed every 2-3 years and materiality will be reviewed regularly to ensure we continue to focus, and make progress, on the right areas of the agenda.

Our approach to responsible business has been simplified in our 2023 Responsible Business Charter to ensure greater clarity on what is important to us and our stakeholders.

Reporting on performance

To ensure our Responsible Business Charter truly drives progress, our commitments are embedded into the business plans of each business unit through cascading targets. Progress against these targets is assessed at the highest level through our Monthly Business Review process and executives are held to account through linking remuneration to ESG measures, such as environmental emissions and diversity targets.

We monitor our performance data associated with each strategic pillar and publish this annually in the Responsible Business Report. The reporting against our refreshed Responsible Business Charter will commence from our 2023/24 Responsible Business Report.