nationalgrid

EU Taxonomy Report

2023/24

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Executive Summary

The EU Taxonomy is a classification system, establishing a standardised list of sustainable economic activities. The system is intended to create a common language and clear definition of what is sustainable. It is designed to create security for investors by protecting them from greenwashing, help companies become more climate-friendly, mitigate market fragmentation and help shift investments where they are most needed.

We are one of the FTSE's biggest investors in the delivery of net zero.

The EU Taxonomy Regulation and its first two objectives, climate change mitigation and adaptation, were adopted by the European Commission in 2021 and these are the only objectives considered in our reporting for 2023/24.

This report assesses the eligibility and alignment of National Grid's economic activities for the financial year to 31 March 2024, based on the EU Taxonomy Regulation, including its associated legislative acts (the Delegated Acts) described below, as well as any additional guidance released since their adoption.

- The Climate Change Delegated Act – Establishes the technical screening criteria (TSC) for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation (Annex 1) or climate change adaptation (Annex 2), and for determining whether that economic activity does no significant harm (DNSH) to any of the other environmental objectives.
- The Disclosure Delegated Act – Specifies the content and presentation of information to be disclosed, concerning environmentally sustainable economic activities, and specifies the methodology to perform that assessment.
- The Complementary Climate Delegated Act – Establishes the TSC and associated DNSH for the Annex 1 and Annex 2 objectives in relation to natural gas and nuclear energy activities.
- The Environmental Delegated Act – Establishes the TSC for the four other environmental objectives of the Taxonomy regulation. We evaluated the provisions of the new Delegated Act(s).

There were no updates to the climate change mitigation and adaptation Delegated Acts for the energy sector. Therefore there have been no changes to our reporting for 2023/24.

Overall, our green capex increased to £6.0 billion by £0.4 billion driven by investment in key infrastructure projects to support net zero.

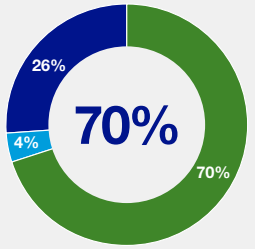
In addition, our green capex KPI increased to 78% from 75% in the prior year, demonstrating that we are increasingly focusing our investment on delivering the clean energy transition.

As part of our investor guidance during our 2023/24 earnings announcement on 23 May 2024, we stated that our Group capital investment plan is to invest around £60 billion in the five-year period from April 2024 to March 2029. As part of this plan we aim to deliver £51 billion of green capital investment across the five-year period from April 2024 to March 2029. This commitment demonstrates our dedication to supporting sustainable investments that adhere to the EU's Taxonomy standards. For the most up to date information, please refer to the investor section of our website https://www.nationalgrid.com/investors.

Results summary – 2023/24

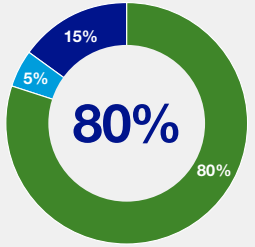
Group aligned (green) turnover

70% £13.8bn (2022/23: 67% £14.4bn)



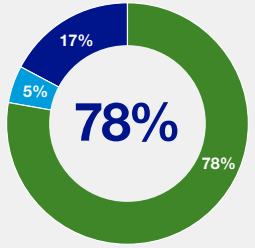
Group aligned (green) opex

80% £5.1bn (2022/23: 84% £6.5bn)



Group aligned (green) capex

78% £6.0bn (2022/23: 75% £5.6bn)



Taxonomy aligned activities
Taxonomy eligible but not aligned activities
Taxonomy non-eligible activities

Adoption and Governance

Since our first EU Taxonomy disclosure in 2021/22, we have taken steps to further embed the EU Taxonomy into our strategic sustainability decision-making by applying its alignment criteria to calculate our green investment forecasts and associated monitoring processes.

We consider the EU Taxonomy to be the most advanced, credible and widely adopted system for green financial reporting. Our voluntary adoption of the EU Taxonomy drives comparability, transparency, and the provision of reliable information for investors and stakeholders enabling them to make informed decisions regarding sustainable investments and understand the alignment of our activities with the EU Taxonomy.

We have made every effort to adhere to the requirements of the relevant EU Taxonomy Delegated Acts and corresponding guidance, in consultation with third-party advisory partners and industry peers.

Further, we are monitoring developments from the UK Green Technical Advisory Group (GTAG) on the implementation of a UK Green Taxonomy. Our current expectation is that, as a Group with a primary listing in the London Stock Exchange and operations in the UK and US, we would transition to the UK Green Taxonomy as soon as reasonably practicable.

Further, we have developed an internal sustainability reporting regime within which all sustainability information, including our EU Taxonomy performance, is monitored through our quarterly forecasting processes.

Key stakeholders involved in drafting our disclosure:

- The Finance ESG Centre of Excellence lead our disclosure, with support and expertise from wider internal stakeholders, including the Chief Sustainability Office, Group Management Reporting and Business unit Financial Planning and Analysis teams.
- In order to perform our detailed eligibility and alignment assessments, the project team engaged with a number of departments across the Group, obtaining senior management approvals for all business level data submissions.
- Relevant members of the Board, Executives and senior management were kept up-to-date on major outcomes and assumptions throughout the process, including reporting of findings to the Audit & Risk Committee ahead of publication.

Process

The table below summarises the process we have undertaken to analyse our business activities against the eligibility and alignment criteria for the two climate change objectives, so that we can ultimately calculate our final KPIs for green turnover, operating expenditure (opex) and capital expenditure (capex).

1. Eligibility assessment

- Group definition of eligibility in line with relevant Delegated Act agreed.
- Group-wide assessment of eligibility in line with the relevant Delegated Act to ensure completeness.
- Business units assess their business activities to determine their eligibility.
- List of eligible activities identified.
- Eligibility KPIs calculated.

Further reading **pages 05 – 06**

2. Alignment assessment

2.a Substantial contribution

- Establishment of Group-wide policy and assumptions in compliance with the definitions within the relevant Annexes, to the best of our ability.
- Consulted with ESG consultants and EU Taxonomy advisory working groups on approach.
- Data collection to assess the impact of material activities.

2.b Do no significant harm (DNSH)

- Evaluation of the DNSH criteria with key internal stakeholders for all environmental objectives.
- Establishment of Group-wide policy and integration into future decision making to ensure improved future alignment.
- Continued refinement, iteration and review processes to ensure we do no significant harm to objectives over time.

2.c Minimum safeguards

- Group-wide assessment mapping policies, procedures and practices to the EU Taxonomy's principles.
- Review of cases of non-compliance and claims brought against the Company to ensure no breaches of minimum safeguards.
- Continued refinement, iteration and review of processes to ensure minimum safeguards are maintained.

Further reading **pages 07 – 17**

3. Calculation of KPIs

- Based on the eligibility and alignment assessments performed, final KPIs calculated at a defined activity level.
- Reconciliation of revenue and capex denominators to audited financial statements.

1. Eligibility assessment

Initial materiality assessment

We engaged with stakeholders across the business to identify our external revenue-generating activities, as well as any activities for which there was capital expenditure for future potential revenue, such as research and development (R&D). We applied an initial financial materiality threshold of £5 million, as well as a high-level comparison of our activities against the eligibility definitions designated within the respective Delegated Acts. All non-core activities were stripped out of the eligibility assessment for 2023/24, as they were in the prior years. Each of these will continue to be assessed on an annual basis.

These business areas are broadly described below:

- Core activities (potentially eligible): electricity transmission (including interconnectors and smart meters); electricity distribution; gas distribution; and electricity system operation.
- Other major activities (potentially eligible): gas-powered electricity generation; gas storage; and solar photovoltaic and wind-powered electricity generation.
- Non-core activities (non-eligible): investment fund business for future energy solutions; captive insurance business; property investment business; and telecommunications business.

To align with the requirements of the Disclosure Delegated Act, we have not considered joint ventures (JVs) in our KPIs this year as this would prevent the total turnover and capex figures from being directly reconcilable with our audited Group financial statements. However, it should be noted that many of our sustainable activities, such as the construction and operation of renewables generation in the US, are in JV partnerships with other organisations. On this basis, we would expect our green KPIs to be higher if JVs were included.

Economic activity definition

In accordance with the Disclosure Delegated Act, we consider eligible activities as those described in the Delegated Acts adopted pursuant to Article 10(3), Article 11(3), Article 12(2), Article 13(2), Article 14(2) and Article 15(2) of Regulation (EU) 2020/852, but do not consider the technical screening criteria of DNSH considerations of those Delegated Acts.

In particular, Activity 4.9 in the Climate Change Delegated Act clarifies that “a ‘system’ means the power control area of the transmission or distribution network where the infrastructure or equipment is installed”.

On this basis, we have developed our own definition of an economic activity which applies directly to our core activities, following the EU Taxonomy guidelines:

An eligible economic activity is defined as a single system which delivers its objective, distinguishable by region at a network and operational level, and meets the eligibility criteria defined by the EU Taxonomy Delegated Acts. All non-direct costs which are not directly essential to the running of these activities are excluded.

A similar logic has been applied to our other major activities described in the previous section.

Key to our business units

1. UK Electricity Transmission (NGET)
2. UK Electricity Distribution (NGED)
3. UK Electricity System Operator (ESO)
4. New England
5. New York
6. National Grid Ventures (NGV)
7. Other activities

Eligibility assessment continued

Eligible activities

To assess eligibility, we compared the economic activities for each activity across National Grid Group, using the definition on page 5 for guidance, with the sustainable activity definitions set out in the Climate Change Delegated Act. In performing this evaluation, we identified National Grid's economic activities as eligible, partially eligible or non-eligible:

Economic Activity	National Grid Activity	Description	Eligible			Reason
			Yes	Partial	No	
4.9 Transmission and Distribution of Electricity	1 2 3 **UK:** UK Electricity Transmission (NGET), UK Electricity System Operator (NGESO) and UK Electricity Distribution (NGED) inclusive of West Midlands, East Midlands, South Wales and South West Networks 4 5 **US:** Niagara Mohawk Power Corporation (NMPC electric), New England Power Company (NEP), Massachusetts Electric Company (MECO), Nantucket, New England Hydro-transmission electric company interconnector, New England Hydro-transmission corp interconnector and New England Electric transmission corp interconnector 6 **National Grid Ventures (NGV):** Interconnectors (IJVs) Interconnection France-Angleterre (IFA 1) and (IFA 2), North Sea Link (NSL), Viking Link (Viking) and Multi-purpose Interconnectors (MPI)	Electricity transmission and distribution networks in the UK and US, GB electricity systems operator, New England electricity interconnectors, UK electricity interconnectors	✓			All: Involves construction and operation of electricity transmission and distribution NGESO: Operator of the GB electricity system
4.14 Transmission and distribution networks for renewable and low-carbon gases	4 5 **US:** Massachusetts Gas (MA Gas) Niagara Mohawk Power Corporation (NMPC) KeySpan Energy Delivery New York (KEDNY) KeySpan Energy Delivery Long Island (KEDLI)	Gas distribution networks in the US		—	✗	**Partial (capex only):** A portion of capex is spent on replacing leak-prone pipes with plastic pipework to prevent current methane leakage and to prepare the system for introducing RNG and hydrogen in line with our Clean Energy Vision. Only this portion of capex is eligible. **No:** The vast majority of the operations associated with this activity are not eligible as this business currently distributes mostly fossil fuel gas
4.1 Electricity generation using solar photovoltaic technology	6 **NGV US:** National Grid Renewables-Solar PV	National Grid Renewables (100% owned) develops solar PV projects throughout the United States, which are in various stages of development and construction	✓			Involves the construction of electricity generation facilities that produce electricity using solar photovoltaic (PV) technology
4.3 Electricity generation from wind power	6 **NGV US:** National Grid Renewables-Wind Power	National Grid Renewables (100% owned) develops wind projects throughout the United States, which are in various stages of development and construction	✓			Involves the construction of electricity generation facilities that produce electricity using wind power
4.29 Electricity generation from fossil gaseous fuels	6 **NGV US:** GenCo	Operation of 50 fossil fuel-powered electricity generation units with approximately 3,800 megawatts of electric generation capacity, located on Long Island	✓			Operation of electricity generation facilities that produce electricity using fossil gaseous fuels
4.12 Storage of hydrogen	6 **NGV UK:** LNG Grain	Natural gas import terminal and storage			✗	There are no formal plans to convert the import and storage facilities to be hydrogen ready

2. Alignment assessment

To assess alignment, we assessed our eligible economic activities against the technical screening requirements set out in Annex 1 and 2 of the Climate Change Delegated Act which included:

- 2.a Substantial contribution assessment (SCA) against the Technical Screening Criteria (TSC);
- 2.b Do no significant harm assessment; and
- 2.c Minimum safeguard assessment.

An activity must meet the criteria of each assessment to be considered aligned.

2.a Substantial contribution assessment (SCA)

In order to perform this assessment, the project team worked with the various engineering and sustainability teams across the Group to establish the extent to which each of the eligible activities met the TSC's set out in Annex 1 and Annex 2 of the Climate Change Delegated Act and Complementary Climate Delegated Act respectively.

Annex 1: Substantial contribution to climate change mitigation

In line with the Climate Change Delegated Act, we conducted a SCA for each of our eligible economic activities against the TSC.

We considered the criteria for each of the relevant activities from Annex 1 of the Climate Change Delegated Act:

4.9 Transmission and distribution of electricity

According to the criteria for substantial contribution to climate change mitigation, the eligible economic activity must comply with the following:

1) The transmission and distribution infrastructure or equipment is in an electricity system that complies with at least one of the following criteria:

   a) the system is the interconnected European system, i.e. the interconnected control areas of Member States, Norway, Switzerland and the United Kingdom, and its subordinate systems;

   b) more than 67% of newly enabled generation capacity in the system is below the generation threshold value of 100g CO_2e/kWh measured on a lifecycle basis in accordance with electricity generation criteria, over a rolling five-year period;

   c) the average system grid emissions factor, calculated as the total annual emissions from power generation connected to the system, divided by the total annual net electricity production in that system, is below the threshold value of 100g CO_2e/kWh measured on a lifecycle basis in accordance with electricity generation criteria, over a rolling five-year period.

Infrastructure dedicated to creating a direct connection or expanding an existing direct connection between a substation or network and a power production plant that is more greenhouse gas intensive than 100g CO_2e/kWh measured on a lifecycle basis is not compliant.

Following our review, it was established that:

- The UK electricity transmission and distribution networks, including the ESO and interconnectors, met criterion 1(a) as these networks are part of the interconnected European system. However, any turnover or costs associated with infrastructure dedicated to direct connections to fossil fuel plants does not meet the criteria and is excluded.
- The US electricity transmission and distribution networks are not part of the interconnected system, and so they had to meet criteria 1(b) or 1(c). Through our assessment, it was found that all our New York transmission and distribution systems and our New England distribution systems were compliant with 1(b), with over 90% of newly enabled generation over the past five years being from renewable sources. However, our New England transmission networks were not compliant, and therefore not aligned, on a technicality in that there had been no new direct connections of any kind over the past five years. Once again, any turnover or cost associated with infrastructure dedicated to direct connections to fossil fuel plants does not meet the criteria and is excluded.

Alignment assessment continued

4.14 Transmission and distribution networks for renewable and low-carbon gases

According to the criteria for substantial contribution to climate change mitigation, the eligible economic activity must comply with the following:

1. The activity consists of one of the following:
   a) construction or operation of new transmission and distribution networks dedicated to hydrogen or other low-carbon gases;
   b) conversion/repurposing of existing natural gas networks to 100% hydrogen; or
   c) retrofit of gas transmission and distribution networks that enables the integration of hydrogen and other low-carbon gases in the network, including any gas transmission or distribution network activity that enables the increase of the blend of hydrogen or other low carbon gases in the gas system.
2. The activity includes leak detection and repair of existing gas pipelines and other network elements to reduce methane leakage.

Our US gas distribution businesses currently supplies a limited amount of renewable and low-carbon gases, and so the majority of it is non-aligned. However, a portion of capex is related specifically to the replacement of leak-prone pipes with plastic, which is compliant with 1(c) because it is expected to integrate renewable natural gas (RNG) and hydrogen based on global research performed to date and in line with our Clean Energy Vision, and is also compliant with criterion 2 as it minimises the leakage of methane in the shorter term. We will continue to monitor technological progress and the laws and regulations around the future of gas in the Northeast US, and re-evaluate this assessment each year.

4.1 Electricity generation using solar photovoltaic technology

According to the criteria for substantial contribution to climate change mitigation, the eligible economic activity must comply with the following:

The activity generates electricity using solar PV technology.

The Solar PV activity of our National Grid Renewables business is developing solar PV electricity generation projects and therefore meets the substantial contribution criteria.

4.3 Electricity generation from wind power

According to the criteria for substantial contribution to climate change mitigation, the eligible economic activity must comply with the following:

The activity generates electricity from wind power.

The wind power activity of our National Grid Renewables business is developing wind power electricity generation projects and therefore meets the substantial contribution criteria.

4.29 Electricity generation from fossil gaseous fuels

According to the Complementary Delegated Act for gas and nuclear generation activities, the eligible economic activity must comply with the following:

The life-cycle GHG emissions from the generation of electricity using fossil gaseous fuels are lower than 100g CO_2e/kWh.

Our fossil fuel powered electricity generation facilities (Genco) in New York do not meet this threshold and are therefore not aligned.

Annex 2: Substantial contribution to climate change adaptation

In accordance with Annex 1 of the Disclosure Delegated Act, we have separated out any individual capital expenditure which meets the substantial contribution criteria for climate change adaptation. Climate change adaptation expenditure in the year related to building resilience in our electricity transmission and distribution networks to storms and assessing flood defence needs.

We considered the criteria for each of the relevant activities from Annex 2 of the Climate Change Delegated Act.

4.9 Transmission and distribution of electricity

According to the criteria for substantial contribution to climate change adaptation, the eligible economic activity must comply with the following:

The economic activity has implemented physical and non-physical solutions ('adaptation solutions') that substantially reduce the most important physical climate risks that are material to that activity.

1. The physical climate risks that are material to the activity have been identified by performing a robust climate risk and vulnerability assessment.
2. The climate projections and assessment of impacts are based on best practice and available guidance and take into account the state-of-the-art science for vulnerability and risk analysis and related methodologies in line with the most recent Intergovernmental Panel on Climate Change reports, scientific peer-reviewed publications and open source or paying models.
3. The adaptation solutions implemented:
   a) do not adversely affect the adaptation efforts or the level of resilience to physical climate risks of other people, of nature, of cultural heritage, of assets and of other economic activities;
   b) favour nature-based solutions or rely on blue or green infrastructure to the extent possible;
   c) are consistent with local, sectoral, regional or national adaptation plans and strategies; and
   d) are monitored and measured against pre-defined indicators and remedial action is considered where those indicators are not met.

A portion of the capex for a number of UK and US networks is related to flood and storm defense solutions to protect assets from physical climate risks that would materially affect the functioning of the output of the activity. A robust climate risk and vulnerability assessment has been performed across our asset base to identify the regions and materials most susceptible to physical climate risks, and these areas will continue to be addressed to ensure asset base resilience. As this activity meets the substantial contribution criteria for climate change adaptation, we have included it as an additional line item in the capex assessment. Climate change adaptation investment has been added as a separate, distinguishable line within our KPI tables, separate to climate change mitigation for the relevant activities, to eliminate double counting.

Alignment assessment continued

2.b Do No Significant Harm (DNSH)

To assess DNSH, an economic activity which significantly contributes to one of the environmental objectives (TSC), does no significant harm to the other five environmental objectives.

Once our eligible economic activities were assessed against the climate change mitigation and adaptation criteria as part of the TSC assessment in the previous section, we performed further assessments of the remaining objectives in relation to DNSH. We have applied the guidance in Article 2 of the regulation to assess our eligible economic activities against the DNSH principles.

We conducted an in-depth, Group-wide, exercise working with sustainability experts in the US and UK to develop an assessment framework for all of the environmental objectives across the following economic activities:

- 4.9 Electricity distribution, transmission, system operations and interconnectors;
- 4.14 Transmission and distribution networks for renewable and low carbon gases (leak-prone pipe improvements only);
- 4.1 Solar PV generation; and
- 4.3 Wind power generation.

Note: 4.29 Electricity generation from fossil gaseous fuels was deemed not aligned following our TSC assessment and 4.12 Storage of hydrogen was deemed not eligible per the eligibility assessment, so these were not considered in the DNSH assessment.

At National Grid, we maintain a Responsible Business Business Management System (BMS) Standard, supported by a Group Environmental Operations Policy. This applies to everyone employed by or carrying out work on behalf of any National Grid business. All our employees shall work in accordance with the BMS, and our leaders ensure this is embedded across all levels of the organisation. We publish a Responsible Business Charter, Climate Transition Plan, Taskforce for Climate-Related Financial Disclosures (TCFD) Report and Responsible Business Report, which include strategic targets and ambitions in this space. National Grid published a new Responsible Business Charter in 2023. Commitments relevant to DNSH include:

- Achieve net zero by 2050 for Scope 1, 2 and 3 emissions;
- Protect our natural environment;
- Invest in the decarbonisation of the future of energy;
- Adapt to climate change; and
- Use resources responsibly.

The Responsible Business BMS is predominately actioned throughout the business through the implementation and management of ISO 14001 certified environmental management systems.

These management systems provide us with the framework we need to confidently manage the environmental impacts of our business operations and meet the requirements of applicable regulations. Within the management systems, we maintain several standards or procedures that we believe help us meet the DNSH assessment criteria for EU Taxonomy requirements.

Our sustainability teams have performed a line-by-line review of the DNSH assessment and a detailed analysis to map UK and US national and local laws that the Group adheres to with the European laws outlined in the Regulation. For economic activities where not all activities are aligned, we have indicated as ‘Partial’ in the ‘Compliant’ column and described the aligned and non-aligned activities.

We present a summary of our assessment of the specific DNSH criteria against our eligible activities:

Climate change mitigation

All activities put forward which meet the TSC for climate change mitigation also meet the criteria for the DNSH assessment.

Economic Activity	Compliant			Description
	Yes	Partial	No	
4.9 Transmission and distribution of electricity	✓			The infrastructure is not dedicated to creating a direct connection or expanding an existing direct connection to a power production plant where the direct greenhouse gas emissions exceed 270g CO_2e/kWh, and is therefore aligned.
4.14 Transmission and distribution networks for renewable and low-carbon gases		—		Leak Prone Pipe (LPP) replacement project, involves repurposing and does not increase gas transmission and distribution capacity. The repurposing does not extend the lifespan of the networks beyond their pre-retrofit projected lifespan, unless the network is dedicated to hydrogen or other low-carbon gases, and is therefore aligned. Other activities are not aligned.

Alignment assessment continued

Climate change adaptation

National Grid has a commitment to adapt to climate change, and report on our climate risks and opportunities and our investment in climate change adaptation activities.

An in-depth Group-wide exercise was performed to identify and assess material climate risks. For in-depth analysis refer to the TCFD report in our 2023/24 Annual Report and Accounts. This involved identifying our significant climate hazards, which have been split into the following categories:

- Flooding: Coastal flooding and river flooding
- Warm weather: High temperatures and heatwave
- Cold weather: Low temperatures, freeze thaw, snow accumulation and ice accretion
- High winds: High wind

We then identified our material physical risk 'Increased frequency of extreme weather incidents and changing long term climate trends'.

Our climate vulnerability steering committee and working groups conducted a Group-wide Climate Vulnerability Assessment (CVA) for energy carrying assets. This programme is leveraging our Climate Change Risk Tool (CCRT) analysis to identify long-term climate hazard risk to our energy infrastructure. We have utilised findings to develop a group climate change adaptation plan, outlining solutions for our high risk assets and confirm the strategic approach to managing that risk.

In the year NMPC also filed its Climate Change Resilience Plan with the New York State Public Service Commission (NYSPSC), proposing incremental capital resilience investments to address priority vulnerabilities arising as a result of changing long-term climate trends. In the UK, we have commenced a set of innovation projects to understand the impact of climate change hazards on our asset performance.

We continue to invest in climate adaptation across the Group in the form of storm hardening and flood defences, which meet the DNSH criteria.

Economic Activity	Compliant			Description
	Yes	Partial	No	
4.9 Transmission and distribution of electricity	✓			These activities align with the prior description
4.14 Transmission and distribution networks for renewable and low-carbon gases	✓			

Sustainable use and protection of water and marine resources

National Grid has a commitment to use resources responsibly and report on the management of our environmental impact with a focus on pollution, waste and water use.

National Grid has ISO 14001 (environmental management system) certifications across all businesses. These certifications define the requirements and expectations for water management, which includes water use, protection from and to water courses, and contamination prevention, and therefore meet the requirements of this objective.

Each UK business unit has specific standards and guidance for protection of water systems and quality. NGET does this through its Business Procedure 'Protection of the Water Environment'. NGED complies with its 'Relating to Works near Controlled Waters, Flood Defences and on Flood Plains' policy and adheres to its legal duties to consult with the Environment Agency and Natural Resources Wales, in conjunction with its associated Standard Techniques. NGV operates an environmental standard and guidance on 'Management of Water and Effluent Discharge'. The US has specific environmental procedures and guidance, which specifically refer to water and protection of natural resources, demonstrating our compliance with this objective.

Economic Activity	Compliant			Description
	Yes	Partial	No	
4.9 Transmission and distribution of electricity	✓			These activities align with the prior description
4.14 Transmission and distribution networks for renewable and low-carbon gases	✓			

Transition to the circular economy

National Grid has a waste management system in place and ensures maximum reuse and recycling in accordance with the waste hierarchy, including through contractual agreements with waste management partners, and reflection in financial projections or official project documentation. In the US, there are environmental procedures and instructions relating to waste and, in the UK, there are waste management standards and a control of hazardous substances standard. These policies are guided by circular economy principles. NGET, NGED and NY own refurbishment centres, showcasing our commitment to resource-efficient practices and efforts to align with circular economy principles.

Economic Activity	Compliant			Description
	Yes	Partial	No	
4.9 Transmission and distribution of electricity	✓			These activities align with the prior description
4.14 Transmission and distribution networks for renewable and low-carbon gases	N/A			

Alignment assessment continued

Pollution prevention and control

All National Grid businesses have environmental management systems aligned to ISO 14001 principles, which demonstrates our compliance with this objective. The annual external assurance of our ISO certifications assesses our compliance with the standard and ensures sufficient operational controls are in place. National Grid has a Group-level Responsible Business BMS and Supplier Code of Conduct which includes pollution prevention and control.

In the US, each business unit follows International Finance Corporation (IFC) Guidelines and Environmental, Health & Safety General Guidelines, which cover noise and vibrations, soil erosion, air quality, solid waste, hazardous materials and contaminated land.

In the UK, each business unit has a suite of policies and standards for pollution prevention and control including for the following categories: air emissions, waste management, water system management, Electro Magnetic Forces, noise and vibrations. NGET demonstrates DNSH through a combination of its business procedures for certain categories and Group-level standards for the remaining. NGED demonstrates DNSH through its ISO 45001 certification and its 'Relating to Pollution Prevention' policy along with a suite of Standard Techniques addressing individual categories of pollution. NGV demonstrates DNSH through its comprehensive suite of Environmental Operational Standards and Safety Standards. Recently, a UK business unit procedure was published; 'Control, Storage, Transport of substance hazardous to health, interruption and insulation gas management and use'.

At National Grid, we maintain a Group-level Responsible Business BMS. All our employees shall work in accordance with this BMS, and our leaders ensure this is embedded across all levels of the organisation.

Economic Activity	Compliant			Description
	Yes	Partial	No	
4.9 Transmission and distribution of electricity		⊖		Economic activities where there is a risk that the asset contains polychlorinated biphenyls (PCBs) are not aligned. In respect to overground high-voltage lines, we have assessed the electromagnetic radiation impact: (a) for construction site activities, our activities follow the principles of the IFC General Environmental, Health, and Safety Guidelines (284); and (b) activities respect applicable norms and regulations to limit the impact of electromagnetic radiation on human health, including for activities carried out in the European Union, the Council recommendation on the limitation of exposure of the general public to electromagnetic fields (0 Hz to 300 GHz) (285), and for activities carried out in third countries, the 1998 Guidelines of International Commission on Non-Ionizing Radiation Protection (ICNIRP) (286). All other activities are aligned.
4.14 Transmission and distribution networks for renewable and low-carbon gases	✓			Fans, compressors, pumps and other equipment used which are covered by Directive 2009/125/EC comply, where relevant, with the top-class requirements of the energy label and with implementing regulations under that Directive, and represent the best available technology, and therefore are aligned.

Protection and Restoration of Biodiversity and Ecosystems

National Grid has a commitment to protect our natural environment. We are committed to restore the natural environment by 10% on the land we manage in the UK and preserve the natural environment in the land we manage in the US.

In the UK, NGET has developed multiple Business Procedures: Land Management and Biodiversity, Environmental Net Gain plan, an Environmental Bulletin on undertaking construction activity near to protected species, and an Environmental Guide on Designated protected areas of land. NGET further supports a network of Environmental Education Centres demonstrating co-existence of transmission assets with nature and communities. NGED aligns its activities to its Biodiversity and Carbon Offsetting Strategy, along with direct implementation of the Town and Country Planning Act, across all major infrastructure projects. NGV has developed a Land Management and Biodiversity standard along with associated guidance and checklist, which demonstrates our compliance with this objective.

In the US, the business units operate IFC performance standard 1: Assessment and Management of Environmental and Social Risk and IFC performance management standard 6: Biodiversity Conservation and Sustainable Management of Living Resources, which demonstrates our compliance with this objective.

Economic Activity	Compliant			Description
	Yes	Partial	No	
4.9 Transmission and distribution of electricity	✓			These activities align with the prior description
4.14 Transmission and distribution networks for renewable and low-carbon gases	✓			

Summary

As a result of the DNSH assessment, we have made the following exclusions to the Group's eligible activities:

1. All gas generation activities, as they do not meet the DNSH criteria.
2. Activities related to polychlorinated biphenyl (PCB) assets, as they do not meet the DNSH criteria.

Alignment assessment continued

2.c Minimum Safeguards

The EU Taxonomy establishes a set of minimum safeguards which businesses must assess their economic activities against to ensure compliance with the following international standards and guidelines:

1. **The OECD Guidelines for Multinational Enterprises;**
2. **The UN Guiding Principles on Business and Human Rights;**
3. **The principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work; and**
4. **The International Bill of Human Rights.**

Social and governance criteria are set out in the minimum safeguards to ensure that environmentally beneficial activities are not detrimental to wider objectives. Material topics for the consideration around minimum safeguards are:

- human rights, including impacts on our own labour force, our wider value chain partners and those of our consumers; and
- ethics and anti-bribery, including fair business practices, bribe solicitation and extortion, anti-trust considerations and compliance with tax laws.

To perform this analysis, a template was prepared covering all the principles within the minimum safeguards described above, this was populated by representatives from our company secretariat, people and culture, ethics and risk, global procurement, tax, and other relevant stakeholders across our UK and US businesses, capturing our responses with accompanying evidence.

We believe we are substantially compliant with the minimum safeguards

In September 2023, National Grid published their first Human Rights Policy. The international policies and standards set in the Delegated Acts are included in the principle of our Human Rights Policy. Our Human Rights Policy details our principles, scope, governance and oversight, commitments (including safeguards and due diligence), and risk management.

'National Grid plc ("National Grid" or "Company") is committed to complying with applicable human rights laws and respecting internationally recognised human rights standards, including the International Bill of Rights, the International Labour Organisation's Declaration on the Fundamental Principles and Rights at work, the OECD Guidelines for Multinational Enterprises, the UN Universal Declaration of Human Rights, the UN Guiding principles on Business and Human Rights, and the UN Sustainable Development Goals.'

Our Code of Ethics outlines how we behave and is shaped by our three values: Do the Right Thing, Find a Better Way and Make it Happen. This in turn drives our approach to acting responsibly, and to anti-corruption and conflicts of interest. This also covers our people and human rights considerations. In addition, we publish a Modern Slavery Statement which provides details of the controls in relation to human rights.

Our Supplier Code of Conduct integrates human rights into the way we interact with our supply chain. Our Global Procurement team has developed a sustainability assessment tool, using risk assessment criteria, to embed human rights considerations into our strategic sourcing process alongside other sustainability criteria. Any non-compliance is reported immediately and escalated appropriately, with the supplier being put through a review process.

We undertake a fraud and bribery risk assessment across the Company on an annual basis to identify higher-risk areas, such as system access controls, supplier fraud and potential conflicts of interest. This is to ensure adequate policies and procedures are in place to address these areas.

Our governance practices are well established, with respect to:

- Employee relations: National Grid is committed to collective bargaining, freedom of association and the protection of employee representatives. We engage and have a relationship with four recognised trade unions in the UK and 22 recognised trade unions in the US.
- Diversity, equity and inclusion: we aim for our workforce to reflect the diversity of the communities we serve. We are committed to providing an inclusive, equal and fair working environment by driving inclusion and promoting equal opportunities for all, and ensuring our workforce, whether part-time, full-time or temporary, is treated fairly and with respect.
- Fraud and bribery: our Anti-Financial Crimes Policy outlines our position, and all employees must complete the Anti-Bribery and Corruption training and Doing the Right Thing e-learning training every three years.
- Fair competition: as a heavily regulated monopoly, all aspects of our operations are thoroughly scrutinised by regulators to ensure conformance with law. Strong working relationships with these regulators ensures transparency and openness.
- Directors' remuneration: our Directors' Remuneration Report discloses our Directors' fixed and variable total remuneration, as well as Company pensions and other benefits.
- Taxation: our approach to tax is consistent with the Group's broader commitments to doing business responsibly and upholding the highest ethical standards. We act with openness and honesty when engaging with relevant tax authorities and seek to work with tax authorities on a real-time basis. We prefer to seek clarity through timely discussion and prompt disclosure of all relevant information, with a particular focus on a risk-averse tax strategy.

Alignment assessment continued

Aligned activities

We analysed our eligible activities against technical screening criteria (TSC), DNSH and minimum safeguards assessment. Following this assessment, we arrived at the following aligned and non-aligned activities.

UK Regulated Business

Eligible economic activity	CC Mitigation	CC Adaptation	Alignment assessment: TSC	Alignment assessment: DNSH	Alignment assessment: Minimum safeguards	Aligned?	Reason
1 **UK National Grid Electricity Transmission (NGET)**	✓	✓	—	✓	✓	—	**TSC** Meets the 4.9 climate change mitigation TSC of being part of the interconnected European electricity system, but all turnover and costs associated with direct fossil fuel connections must be removed. Specific capex also meets the 4.9 climate change adaptation TSC of implementing adaptation solutions that substantially reduce the most important physical climate risks that are material to that activity. **DNSH and minimum safeguards** Compliant.
3 **UK Electricity System Operator (NGESO)**	✓		✓	✓	✓	✓	**TSC** Meets the 4.9 climate change mitigation TSC of being part of the interconnected European electricity system. **DNSH and minimum safeguards** Compliant.
2 **UK Electricity Distribution (NGED) inclusive of: West Midlands, East Midlands, South Wales and South West networks**	✓		—	—	✓	—	**TSC** Meets the 4.9 climate change mitigation TSC of being part of the interconnected European electricity system, but all turnover and costs associated with direct fossil fuel connections must be removed. **DNSH** All opex associated with PCBs must be removed. **Minimum safeguards** Compliant.

✓ Compliant — Partial compliance ✗ Non-compliant

Alignment assessment continued

US Regulated Business

Eligible economic activity	CC Mitigation	CC Adaptation	Alignment assessment: TSC	Alignment assessment: DNSH	Alignment assessment: Minimum safeguards	Aligned?	Reason
NY Electricity transmission 5 **US Niagara Mohawk Power Corporation (NMPC)**	✓	✓	—	✓	✓	—	**TSC** Meets the 4.9 climate change mitigation TSC of having more than 67% of newly enabled generation capacity in the system below the generation threshold of 100g CO_2e/kWh over a rolling five-year period. Specific capex also meets the 4.9 climate change adaptation TSC of implementing adaptation solutions that substantially reduce the most important physical climate risks that are material to that activity. **DNSH and minimum safeguards** Compliant.
NE Electricity transmission 4 **US New England Power Company (NEP)** 4 **US Massachusetts Electric Company (MECO)**	✓		✗	N/A	N/A	✗	**TSC** Does not meet the 4.9 climate change mitigation TSC of having more than 67% of newly enabled generation capacity in the system below the generation threshold of 100g CO_2e/kWh over a rolling five-year period, as there have been no connections to the system of any kind over the past five years.
US Electricity distribution 4 **US Massachusetts Electric Company (MECO)** 5 **US Niagara Mohawk Power Corporation (NMPC)**	✓	✓	—	—	✓	—	**TSC** Meets the 4.9 climate change mitigation TSC of having more than 67% of newly enabled generation capacity in the system below the generation threshold of 100g CO_2e/kWh over a rolling five-year period. Specific capex also meets the 4.9 climate change adaptation TSC of implementing adaptation solutions that substantially reduce the most important physical climate risks that are material to that activity. **DNSH** All opex associated with PCBs must be removed. **Minimum safeguards** Compliant.
NE Electricity distribution 5 **US Nantucket**	✓		—	—	✓	—	**TSC** Meets the 4.9 climate change mitigation TSC of having more than 67% of newly enabled generation capacity in the system below the generation threshold of 100g CO_2e/kWh over a rolling five-year period. **DNSH** All opex associated with PCBs must be removed. **Minimum safeguards** Compliant.

✓ Compliant — Partial compliance ✗ Non-compliant

Alignment assessment continued

US Regulated Business continued

Eligible economic activity	CC Mitigation	CC Adaptation	Alignment assessment			Aligned?	Reason
			TSC	DNSH	Minimum safeguards		
Gas distribution							
4 **US Massachusetts Gas (MA Gas)**	✓		—	—	✓	—	**TSC** The capex associated with replacing leak-prone pipes with plastic pipework meets the 4.14 climate change mitigation TSC of (i) retrofitting gas transmission and distribution networks to enable the integration of hydrogen and other low-carbon gases in the network, including any gas transmission or distribution network activity that enables the increase of the blend of hydrogen or other low-carbon gases in the gas system and (ii) repair of existing gas pipelines and other network elements to reduce methane leakage. **DNSH and minimum safeguards** Compliant, though we will re-evaluate this assessment if it does not align with the laws and regulations on the future of gas in our US jurisdictions.
5 **US Niagara Mohawk Power Corporation (NMPC)**							
5 **KeySpan Energy Delivery New York (KEDNY)**							
5 **KeySpan Energy Delivery Long Island (KEDLI)**							
Low carbon gas readiness capex only							
4 **US New England Hydro-Transmission Electric Company Interconnector**	✓		✗	N/A	N/A	✗	**TSC** Does not meet the 4.9 climate change mitigation TSC of having more than 67% of newly enabled generation capacity in the system below the generation threshold of 100g CO_2e/kWh over a rolling five-year period, as there have been no connections to the system of any kind over the past five years.
4 **US New England Hydro-Transmission Corp Interconnector**							
4 **New England Electric Transmission Corp Interconnector**							

✓ Compliant — Partial compliance ✗ Non-compliant

Alignment assessment continued

National Grid Ventures (NGV) business

Eligible economic activity	CC Mitigation	CC Adaptation	Alignment assessment: TSC	Alignment assessment: DNSH	Alignment assessment: Minimum safeguards	Aligned?	Reason
6 **National Grid Renewables – Solar PV**	✓		✓	✓	✓	✓	**TSC** Meets the 4.1 climate change mitigation TSC of generating electricity using solar PV technology. **DNSH and minimum safeguards** Compliant.
6 **National Grid Renewables – Wind Power**	✓		✓	✓	✓	✓	**TSC** Meets the 4.3 climate change mitigation TSC of generating electricity using wind technology. **DNSH and minimum safeguards** Compliant.
6 **National Grid Generation LLC (Genco)**	✓		✗	N/A	N/A	✗	**TSC** Does not meet the 4.29 climate change mitigation TSC of having lifecycle GHG emissions of lower than 100g CO_2e/kWh or any of the other TSCs.
Interconnectors, inclusive of:	✓		✓	✓	✓	✓	**TSC** Meets the 4.9 climate change mitigation TSC of being part of the interconnected European electricity system. **DNSH and minimum safeguards** Compliant.
6 **Interconnexion France-Angleterre (IFA1) – Interconnector**							
6 **Interconnexion France-Angleterre II (IFA2) – Interconnector**							
6 **North Sea Link (NSL) – Interconnector**							
6 **Viking Link (Viking) – Interconnector**							
6 **Multi-Purpose Interconnectors (MPI) – Interconnector**							

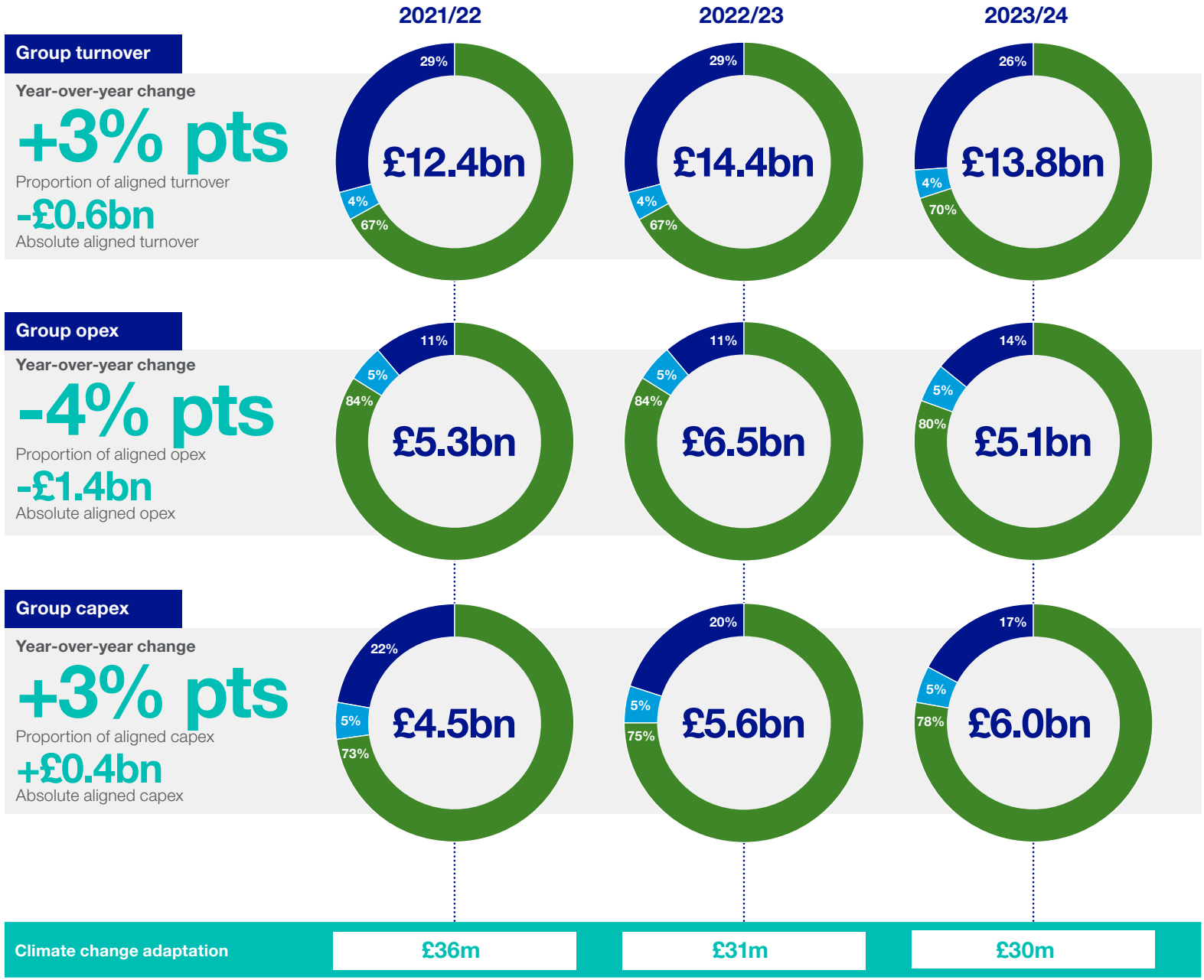
✓ Compliant — Partial compliance ✗ Non-compliant

Detailed results

For a detailed breakdown of our results in the EU Taxonomy tables, as set out in the Disclosure Delegated Act, please refer to our Responsible Business Report: Data Tables.

We have followed the required calculation methodology as per the legislation.

- Total from taxonomy-eligible and aligned activities (A.1)
- Total from taxonomy-eligible but non-aligned activities (A.2)
- Total from taxonomy-non-eligible activities (B)



Detailed results continued

Analysis

Overall, our green capex increased by £0.4bn driven by investment in key infrastructure projects to support net zero, specifically in NGET.

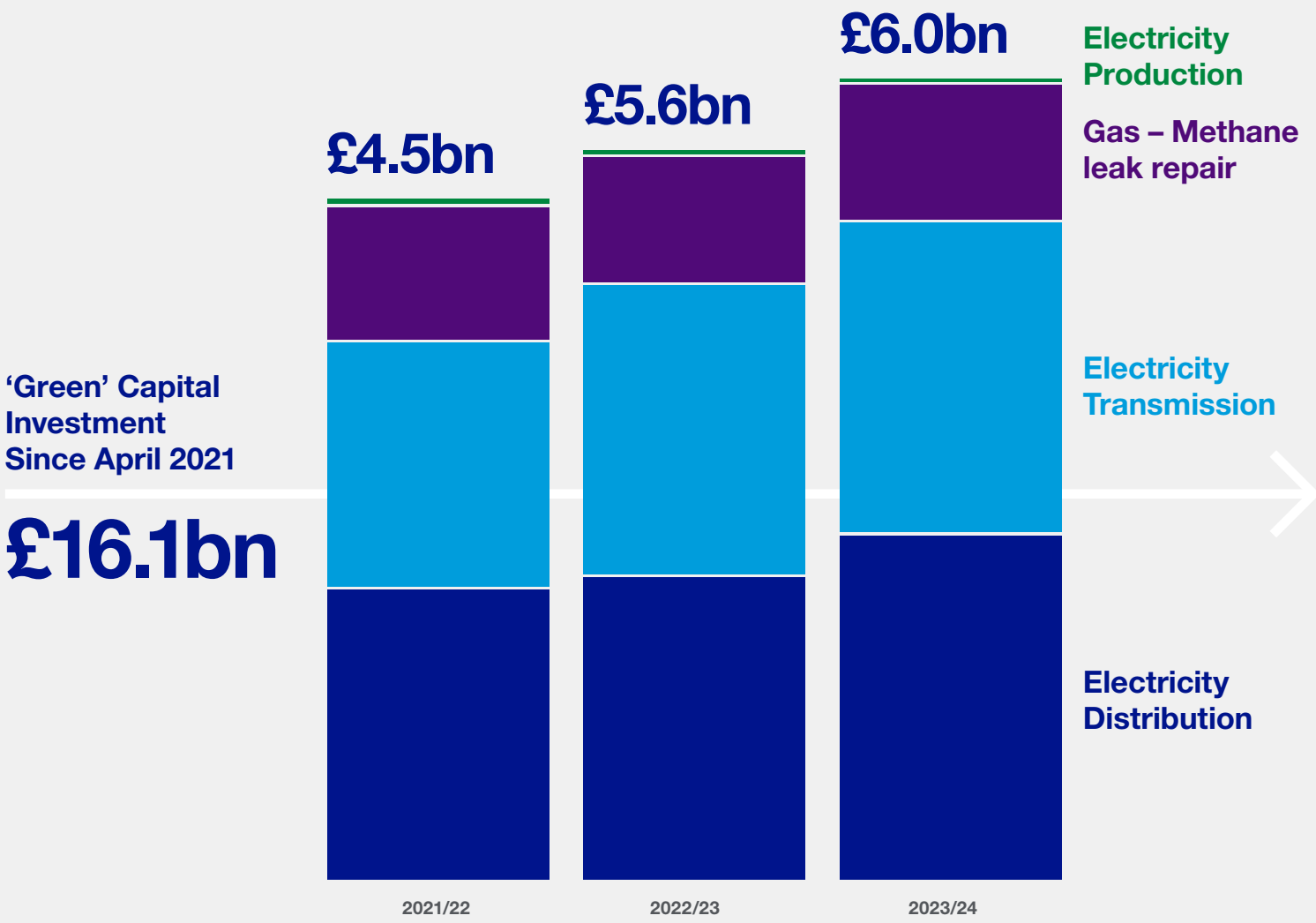
In addition, our green capex KPI increased to 78% from 75% in the prior year, demonstrating that we are increasingly focusing our investment on delivering the clean energy transition.

From 2021/22, we have increased our green investments in electricity transmission and distribution in the UK and US by 17% and 28% respectively.

As part of our investor guidance during our 2023/24 earnings announcement on 23 May 2024, we stated that our Group capital investment plan is to invest around £60 billion in the five-year period from April 2024 to March 2029. As part of this plan we aim to deliver £51 billion of green capital investment across the five-year period from April 2024 to March 2029. This commitment demonstrates our dedication to supporting sustainable investments that adhere to the EU's Taxonomy standards.

For the most up to date information, please refer to the investor section of our website https://www.nationalgrid.com/investors.

Green Capex[1]



1. Aligned to EU Taxonomy, direct investment into the decarbonisation of energy networks.

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