

Stewardship

London | Thursday 3 July 2014



Cautionary statement

This presentation contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements include information with respect to National Grid's financial condition, its results of operations and businesses, strategy, plans and objectives. Words such as 'anticipates', 'expects', 'should', 'intends', 'plans', 'believes', 'outlook', 'seeks', 'estimates', 'targets', 'may', 'will', 'continue', 'project' and similar expressions, as well as statements in the future tense, identify forward-looking statements. These forward-looking statements are not guarantees of National Grid's future performance and are subject to assumptions, risks and uncertainties that could cause actual future results to differ materially from those expressed in or implied by such forward-looking statements. Many of these assumptions, risks and uncertainties relate to factors that are beyond National Grid's ability to control or estimate precisely, such as changes in laws or regulations, presentations from and decisions by governmental bodies or regulators (including the timeliness of consents for construction projects); the timing of construction and delivery by third parties of new generation projects requiring connection; breaches of, or changes in, environmental, climate change and health and safety laws or regulations, including breaches or other incidents arising from the potentially harmful nature of its activities; network failure or interruption, the inability to carry out critical non network operations and damage to infrastructure, due to adverse weather conditions including the impact of Superstorm Sandy and other major storms as well as the results of climate change or due to unauthorised access to or deliberate breaches of National Grid's IT systems and supporting technology; performance against regulatory targets and standards and against National Grid's peers with the aim of delivering stakeholder expectations regarding costs and efficiency savings, including those related to investment programmes and internal transformation projects (including the US financial system and controls); and customers and counterparties (including financial institutions) failing to perform their obligations to the Company. Other factors that could cause actual results to differ materially from those described in this presentation include fluctuations in exchange rates, interest rates and commodity price indices; restrictions and conditions (including filing requirements) in National Grid's borrowing and debt arrangements, funding costs and access to financing; regulatory requirements for the Company to maintain financial resources in certain parts of its business and restrictions on some subsidiaries' transactions such as paying dividends, lending or levying charges; inflation; the delayed timing of recoveries and payments in National Grid's regulated businesses and whether aspects of its activities are contestable; the funding requirements and performance of National Grid's pension schemes and other post-retirement benefit schemes; the failure to attract, train or retain employees with the necessary competencies, including leadership skills and any significant disputes arising with the National Grid's employees or the breach of laws or regulations by its employees; and the failure to respond to market developments and grow the Company's business to deliver its strategy, as well as incorrect or unforeseen assumptions or conclusions (including unanticipated effects) relating to business development activity, including assumptions in connection with joint ventures. For further details regarding these and other assumptions, risks and uncertainties that may impact National Grid, please read the Strategic Review section and the 'Risk factors' on pages 176 to 178 of National Grid's most recent Annual Report on Form 20-F, as updated by National Grid's unaudited half-year financial information for the six months ended 30 September 2013 published on 21 November 2013. In addition, new factors emerge from time to time and National Grid cannot assess the potential impact of any such factor on its activities or the extent to which any factor, or combination of factors, may cause actual future results to differ materially from those contained in any forward-looking statement. Except as may be required by law or regulation, the Company undertakes no obligation to update any of its forward-looking statements, which speak only as of the date of this presentation.

Attendance



Sir Peter Gershon



Jonathan Dawson



Mark Williamson



Paul Golby



Nora Mead Brownell

Agenda

- ◆ National Grid Performance
- ◆ Board operation
- ◆ Remuneration & Audit Committee

The background of the slide is a photograph of a building facade. The 'nationalgrid' logo is mounted on the wall in large, metallic, three-dimensional letters. The letters are reflective and show a sunset or sunrise scene. The building has a dark, textured ceiling and a window to the left. The sky is blue with some clouds.

nationalgrid

Returns and value added

Group Return on Equity

11.4%

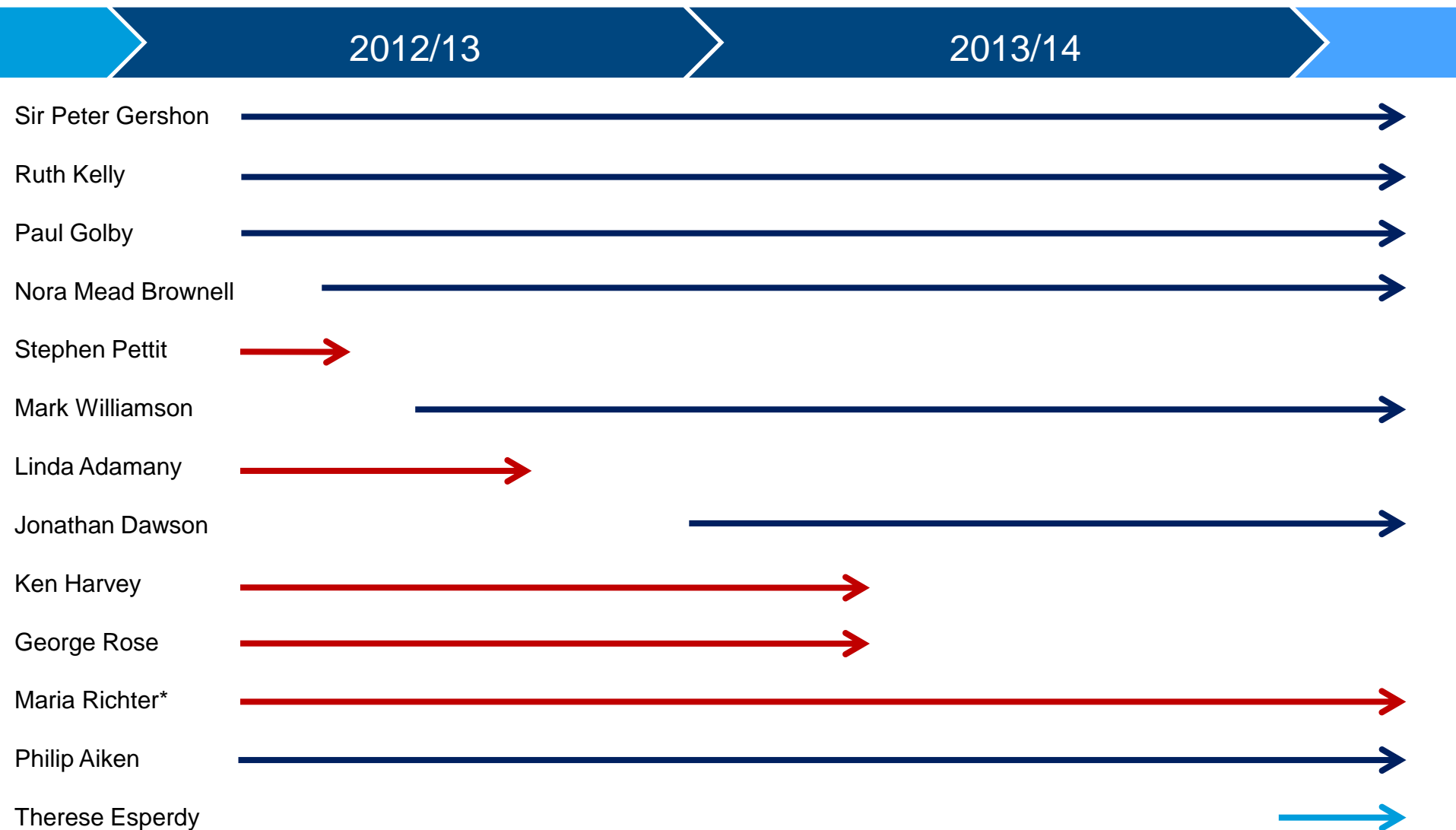
- ◆ Good measure of the progress this year

Value Added

£2.1 bn

- ◆ Clear, long term measure of value creation

Board changes

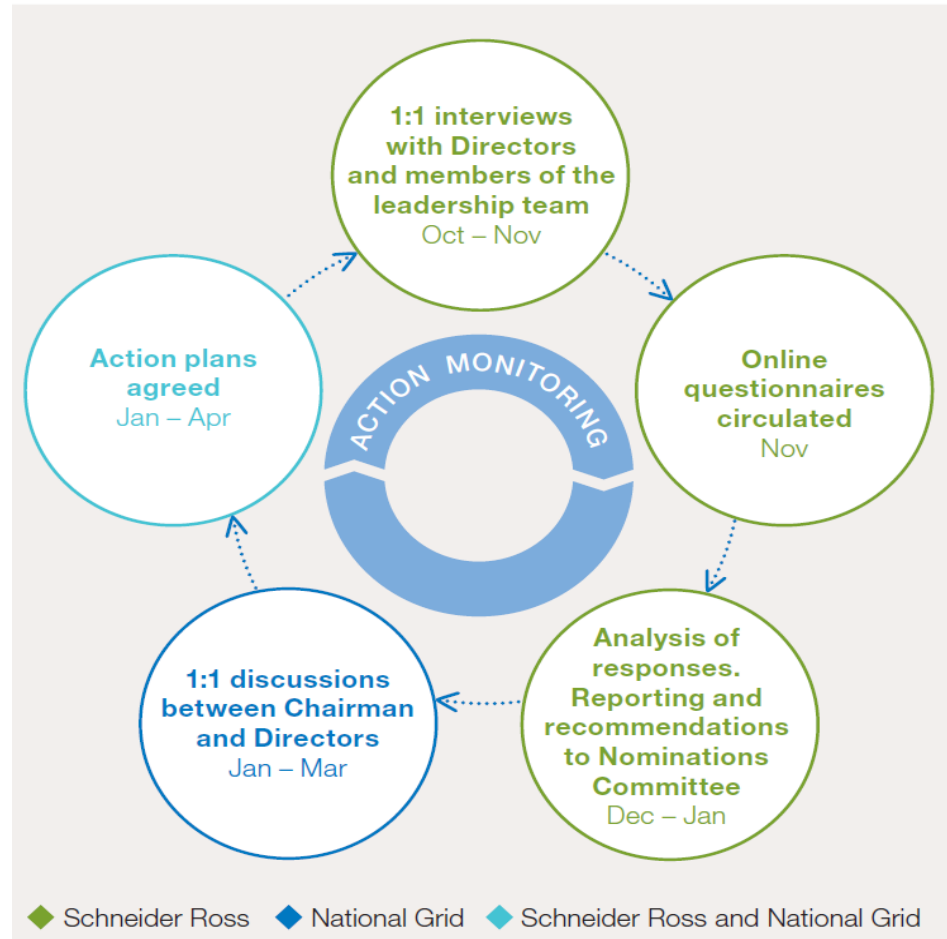


*Maria Richter will step down from the Board after the next AGM

Board & Committee evaluation

- ◆ Interviews with each Director
- ◆ Areas covered:
 - ◆ Decision making
 - ◆ Quality of discussions
 - ◆ Degree of challenge
 - ◆ Balance between Board & Committees
 - ◆ Board effectiveness
- ◆ ‘Thinking style’ session held for the Board

Board and committee evaluation process



Board actions

- ◆ Decision making
- ◆ Board discussions
- ◆ Degree of challenge
- ◆ Board focus
- ◆ Effectiveness of Board

The background of the slide is a photograph of a building facade. The 'nationalgrid' logo is prominently displayed in large, metallic, three-dimensional letters. The letters are reflective, showing a sunset or sunrise scene with a bright sun and silhouettes of trees. The sky above the building is a clear blue with some light clouds. The overall lighting is bright, suggesting daytime.

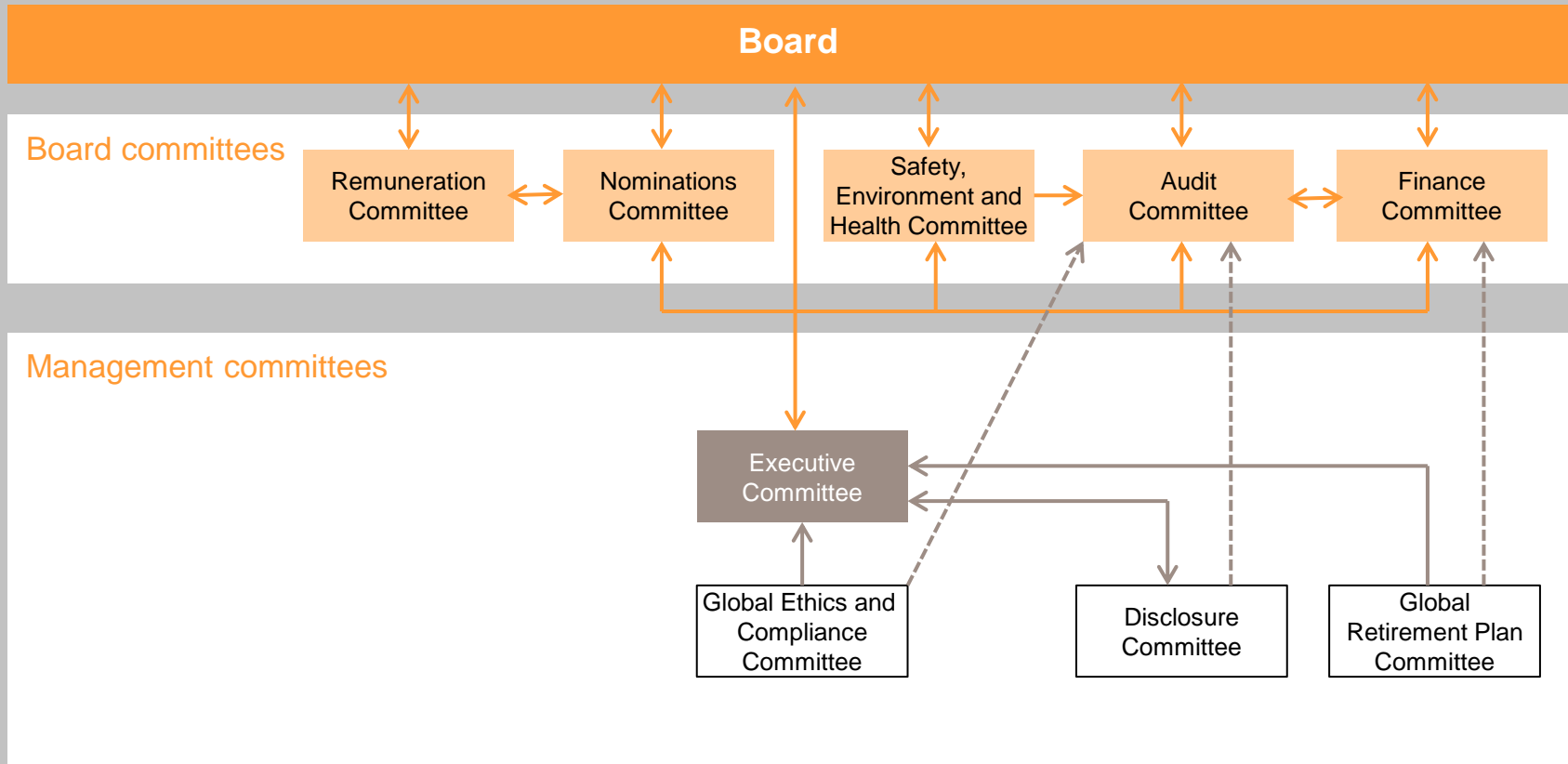
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Workings of the Board

- ◆ Met 11 times
- ◆ Focus on reviewing the strategic issues, opportunities and challenges
 - ◆ Review of safety performance and initiatives
 - ◆ RIIO delivery and business change programme
 - ◆ Leadership and Management
 - ◆ Role in industry, including future energy scenarios and EMR

The logo for nationalgrid, featuring the word "nationalgrid" in a lowercase, sans-serif font. The letters are white with a slight shadow, set against a dark background. The background of the entire slide is a photograph of a building facade with the logo visible at the bottom.

Board and Committee interactions



Remuneration Committee



Jonathan Dawson



Nora Mead Brownell



Paul Golby



Mark Williamson

Committee role:

- ◆ **Attract, motivate and retain** high calibre individuals
- ◆ Ensure remuneration policies remain **in line with strategy and goals** of the Company
- ◆ Policies representing the **interests of our shareholders, customers and regulators**

Philosophy on Executive Directors reward

Salary	To attract, motivate and retain high-calibre individuals, while not overpaying
Benefits	To provide cost-effective benefits to attract and retain high calibre individuals
Pensions	To reward sustained contribution and assist attraction and retention
APP	To incentivise and reward the achievement of annual financial and strategic business targets and the delivery of annual individual objectives
LTPP	To drive long term performance, aligning Executive Director incentives to key strategic objectives and shareholder interests

Review of remuneration strategy

**July –
November 2013**



Review of existing arrangements and assessment of alternatives

**November 2013
– March 2014**



Consultation and refinement

Feedback from investors

Investor views

Explicit linkage between LTPP and dividend strategy

Our response

- ◆ If dividend policy was not maintained the committee has discretion to reduce the vesting percentage irrespective of performance against principal measures

Executives not to be paid more for the same performance

- ◆ Long term performance targets for a maximum payout are more stretching
- ◆ Targets to be reviewed annually

Shares awarded under the APP should be subject to some form of retention

- ◆ Two-year holding period on shares awarded, regardless of whether the share ownership requirement has been met
- ◆ LTPP duration now three years + two year retention

Key outcomes

- ◆ Re-balancing of variable pay from annual to long term performance plan
- ◆ Stronger alignment with our business and the long-term value drivers around a dividend-led total return
- ◆ Increased alignment with shareholders by requiring a significantly higher number of shares held
- ◆ Stretching performance targets for management to earn the higher potential rewards from the long term performance plan

The image shows a close-up of the National Grid logo on a building facade. The logo is rendered in large, metallic, three-dimensional letters. The letters are dark, possibly black or dark grey, and have a reflective surface that captures the light from the sky and the building's structure. The background is a blurred view of the building's exterior, showing architectural details like windows and structural elements. The overall tone is professional and industrial.

Reward structure

	Annual Performance Plan			Long Term Performance Plan			Share Ownership
	Maximum	Timing	Performance measures	Maximum	Timing	Performance measures	
Current	150%	50% deferred into shares for 3 years	70% Financial 30% Individual	225% CEO 200% EDs	75% 3 years* 25% 4 years*	50% EPS 25% TSR 25% ROE	Guideline 200% CEO 125% EDs
Proposed	125%	50% paid in shares held for 2 years	70% Financial 30% Individual	350% CEO 300% EDs	100% 3 years* then held for 2 years	50% Value growth 50% ROE	Requirement 500% CEO 400% EDs

* Performance period

Audit Committee



Mark Williamson



Philip Aiken



Ruth Kelly



Maria Richter

Committee role:

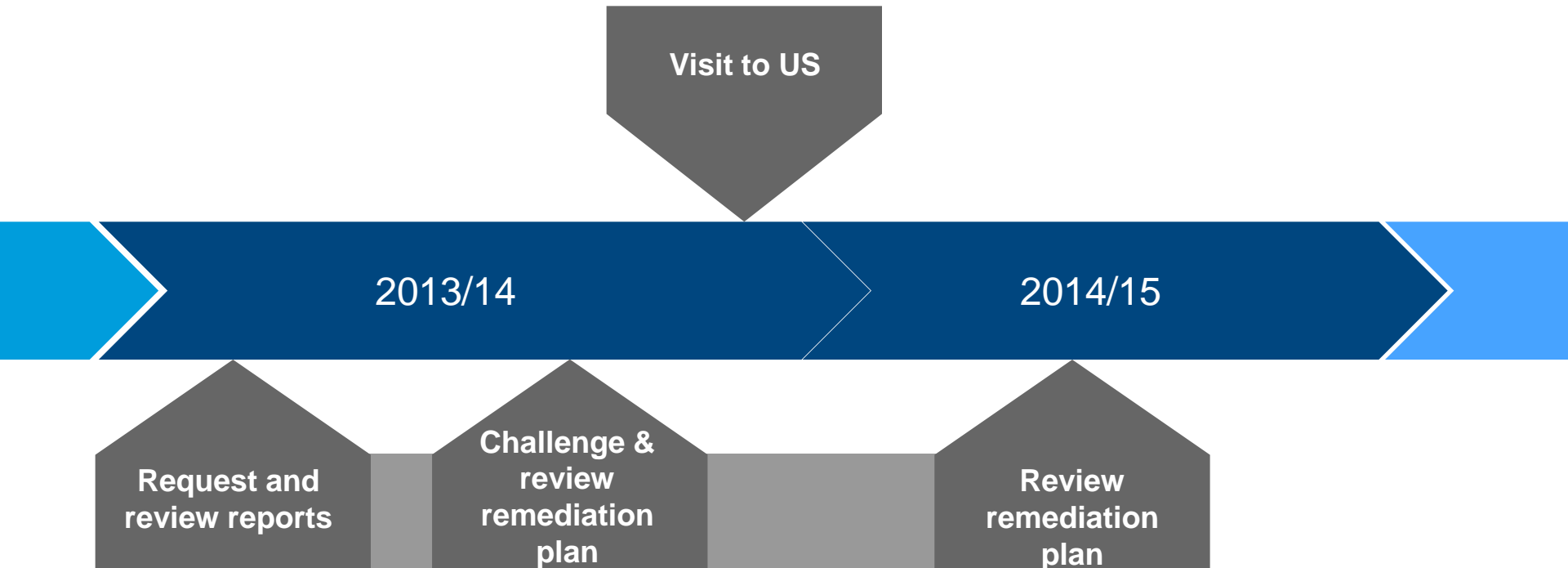
- ◆ **Oversee financial reporting, internal controls**, and identification, assessment and reporting of **risk**
- ◆ Oversight of **external auditors**
- ◆ **Disclosure Committee** reports into Audit Committee – assists with accuracy and timeliness of external disclosures

Audit – Key focus

- ◆ US finance function and new Enterprise Resource System
- ◆ Accounting information for RIIO
- ◆ Long Island Power Authority MSA transition
- ◆ Presentation of exceptional items

The image shows the 'nationalgrid' logo in large, metallic, three-dimensional letters mounted on a building facade. The letters are reflective and show a sunset or sunrise scene. The background of the slide is a photograph of a building with a blue sky and clouds.

Audit Committee process



Audit – Key focus

- ◆ US finance function and enterprise resource system
- ◆ Accounting implications of RIIO
- ◆ Long Island Power Authority MSA transition
- ◆ Presentation of exceptional items

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Internal control – risk and compliance

Improvements to risk management

- ◆ Enhanced approach for risk reporting to the Executive Committee
- ◆ Scope of risk discussions widened
- ◆ Board participation in an interactive risk workshop

The image shows the National Grid logo in large, metallic, three-dimensional letters mounted on a building facade. The letters are illuminated from within, and the background shows a sunset or sunrise scene with a bright orange and yellow sky. The logo is positioned in the lower right quadrant of the slide, partially overlapping the white text box.

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Audit tender

- ◆ PwC have been our external auditors since 2002
- ◆ The committee has agreed that a tender is not in the company's best interest at this time
- ◆ Will be re- examined annually

The background of the slide is a photograph of a building facade. The National Grid logo is prominently displayed in large, metallic, three-dimensional letters. The letters are illuminated from within, and the background of the letters shows a sunset or sunrise scene over a body of water. The building's structure, including a window and a dark overhang, is visible in the foreground.

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Summary

- ◆ Board well positioned to support National Grid in the next stage of its development
- ◆ Fair and balanced approach to remuneration
- ◆ Audit Committee continue to effectively challenge and review
- ◆ Completed Board transition; well set for the future

Stewardship

Appendices

Value Added

How we drive our shareholder return

+ Net asset growth*	£1,973m
+ Dividend paid	£1,059m
- Growth in net debt	£(917)m
+ Goodwill	£18m
= Value Added	£2,133m

* Consists of UK and US regulated assets plus other invested capital
Constant currency figures calculated by applying the closing 2014 rate (\$1.67 to £1.00) to March 2013 balances (when the closing rate was \$1.52 to £1.00)

Group Return on Equity

For the year ended 31 March (£m)	2014	2013 (storm adjusted)	2013	2012 (storm adjusted)	2012
Regulatory operating profit per ROCE	3,468	3,696	3,611	3,472	3,356
IFRS operating profit for non-regulated companies	131	62	11	207	207
Share of post tax results of JV's	28	18	18	7	7
Minority Interest	12	(1)	(1)	(2)	(2)
Treasury managed interest deduction	(1,055)	(1,057)	(1,057)	(1,042)	(1,042)
Group tax charge	(581)	(665)	(619)	(744)	(697)
Tax adjustment for ROCE adjustments and non treasury interest	73	44	44	4	4
Adjusted profit for RoE	2,076	2,097	2,007	1,902	1,833
Opening capital employed	33,128	31,424	31,424	29,272	29,272
Non-regulated companies opening net book value	1,185	979	979	1,205	1,205
Joint ventures	371	341	341	356	356
Opening Goodwill	5,028	4,776	4,776	4,776	4,776
Group enterprise value	39,712	37,520	37,520	35,609	35,609
Opening net debt	(21,429)	(19,597)	(19,597)	(18,731)	(18,731)
Group equity value	18,283	17,923	17,923	16,878	16,878
Group RoE – nominal (adjusted group profit after tax / group equity value)	11.4%	11.7%	11.2%	11.3%	10.9%

- Business performance, excluding exceptional items, remeasurements and stranded cost recoveries
- Prior year numbers restated for impact of changes to financial accounting standard IAS 19 ('Employee Benefits')

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