-------------------------------------------------------------------------------------------National Grid 2012-2013

**Impressions and reflections on 2012/13**

This has been a significant year for National Grid, which has seen substantial change in both the UK and US.

One of the most important changes we have seen is Ofgem’s introduction of RIIO, a new eight year regulatory framework in the UK. In February 2013, we agreed all the UK RIIO price control arrangements proposed by Ofgem. The Board believes the combination of revenue allowances and incentive mechanisms provides a good opportunity to earn appropriate returns for investors, while delivering essential infrastructure investment for the benefit of consumers and the UK economy.

The Board has seen improved operational performance in the US, as well as the outcome of important rate filings, as Steve describes in his review on page 05. Also in the US, our response to Superstorm Sandy showed we have made improvements in our operational processes and the way we interact with our stakeholders.

Superstorm Sandy was a significant example of the changing weather patterns that we are increasingly seeing in both the UK and US, with 2012 being one of the wettest years on record in the UK. This creates considerable operational challenges for our business and, when severe weather events occur, we need to be able to respond effectively and efficiently.

We announced our new dividend policy in March 2013. This has been a top priority for the Board over the last year and is an important part of the way we create shareholder value. The new policy will aim to grow the ordinary dividend at least in line with the rate of RPI inflation each year for the foreseeable future. It will also support our long-term ambition to target a sustainable dividend in real terms for our shareholders, while helping us maintain the strong balance sheet we need to fund the business. The Board has recommended an increase in the final dividend to 26.36p per ordinary share, ($2.0088 per American Depositary Share), in line with our one year policy of targeting 4% growth in the year 2012/13, bringing the full year dividend to 40.85p per ordinary share.

**Being a responsible business**

We contribute to our communities directly and indirectly in many ways. We maintain and operate the critical infrastructure needed to keep the lights on and the heating working across the UK and northeastern US, we employ more than 25,000 people and in 2012/13 contributed ￡1.2 billion in taxes in the UK alone.

Our contribution goes further. For example, we estimate we support around 30,000 jobs in the first tier of our supply chain – in other words, jobs in companies that are our suppliers across the globe.

We are proud of our role serving the communities in which we operate. We strive to be a responsible business, seeking to balance the need to build infrastructure efficiently with consideration for the environment.

We are constantly looking for new ways to build and maintain our networks, applying innovative design and being both creative and flexible in our approach to connecting people to the energy

they need.

The way in which we conduct business with our partners is equally important. Our aim of forging strong relationships built on trust is reflected in our refreshed vision statement. It is also reflected in our line of sight – the framework that we use to link our objective setting right back to our strategy and vision. In addition to focusing on *what* we must do to achieve our vision, we are now placing even greater emphasis on *how* we do it.

I firmly believe that a company needs to act and behave responsibly in seeking to meet the varied needs of its many stakeholders, and our role as an essential utility reinforces that requirement. To this end, we are implementing a comprehensive communications programme in 2013/14 to help remind all employees of the standards that are expected of us collectively and as individuals.

**Effective governance**

We are implementing the phased transition of the Board’s membership that I set out in last year’s Annual Report and Accounts. The challenges we have over the coming years in the UK and US require a fresh focus, so we have been investing time and effort to develop the Board, refreshing its balance of skills, experience, knowledge and diversity. This brings a broad range of perspectives and challenge, which together with strong teamwork are important factors that I believe contribute to an effective board.

Over the year we have welcomed Nora Mead Brownell, Mark Williamson and, most recently, Jonathan Dawson to our Board as Non-executive Directors. You can read more about the committees they have joined on page 62, as well as the appointment process on page 67.

As a result of the Board’s transition, Stephen Pettit and Linda Adamany stepped down from the Board in 2012 and Ken Harvey and George Rose will step down at this year’s AGM.

Ken has been the Senior Independent Director since 2004 and chairman of the Remuneration Committee since 2011. Mark Williamson will succeed Ken as Senior Independent Director and Jonathan Dawson will take over from him as chairman of the Remuneration Committee. George has been chairman of the Audit Committee for more than 10 years and Mark Williamson will take over this role when George steps down. Chairmanship of these committees plays an important role in making sure the Board meets its responsibilities to shareholders and stakeholders.

I would like to thank Ken and George for their commitment to the Board and the very valuable contribution they have made. In January 2013, Helen Mahy left the Company after 11 years. I would like to thank Helen for her valuable contribution and commitment to the Company and the Board. We have appointed Alison Kay as our new Group General Counsel & Company Secretary. See page 182 for her biography.

**Looking ahead**

As we enter a new phase for National Grid, I believe we are well positioned for the future. We have a refreshed Board that is operating effectively and will continue to set the tone at the top, helping us to meet the challenges we have on both sides of the Atlantic.

On many occasions during the year – in particular during Superstorm Sandy – our employees’ dedication to customers has been outstanding. I am confident that our people will continue to help make National Grid a company we can all be proud of and I thank all our employees for their hard work and commitment to our success.

-------------------------------------------------------------------------------------------National Grid 2013-2014

It has been an important and challenging year for National Grid – and the energy sector in general – on both sides of the Atlantic.

Although we did not experience any major storm-related outages in our service areas during 2013/14, severe winter weather conditions – the polar vortex in the US and serious flooding in the UK – continued to test the resilience of our networks. I am pleased to report these have performed well as a result of prudent investments in past years, as well as the commitment of our people.

Energy policies in both the UK and US strive to find an acceptable balance between affordability to the ultimate consumers, security of supply and sustainability considerations. Particularly since last September, the focus of UK media and political attention has been moving between each of these three factors, with no enduring consensus of what constitutes the optimum position.

In the UK, the eight year RIIO settlement we accepted in February 2013 incentivises us to be as efficient as possible while ensuring that savings we achieve can be shared with consumers. Through these incentives we can maximise our efforts to help hard-pressed consumers and deliver good returns to our shareholders.

**Transparency**

In our continuing efforts to be fair, balanced and understandable in our reporting we are including additional information this year and explaining some technical matters in greater detail, so that we are as transparent as we can be.

In particular, I draw your attention to one aspect of our results. There have always been differences between IFRS reported results and underlying economic performance; however, one of the benefits of the RIIO price control regime is that it provides greater transparency of regulatory adjustments to revenue in our principal UK businesses. The commentary on ‘timing differences and regulated revenue adjustments’ contained in the Financial review on page 08 aims to help understanding of this matter.

The Board has recommended an increase in the final dividend to 27.54p per ordinary share ($2.3107 per American Depositary Share). If approved, this will bring the full-year dividend to 42.03p per ordinary share ($3.4801 per American Depositary Share), an increase of 2.9% over the 40.85p per ordinary share in respect of the financial year ending 31 March 2013.

**Effective governance**

We have developed a new remuneration policy to align more closely with RIIO, the continued evolution of our US business and shareholder value creation. The policy will be subject to shareholder approval at the AGM in July – a requirement of recent legislation. You can read our full Remuneration Report, introduced by Jonathan Dawson, our new Remuneration Committee Chairman, on page 58.

As we describe on page 07, the high level of take-up of the scrip dividend in the last couple of years led to concerns about the potential dilutive effect of this option. This meant that we decided not to offer the scrip element for the 2013/14 interim dividend paid in January this year, as our forecast capital investment programme was already fully funded. I do appreciate, from the letters sent to me, that this caused some dissatisfaction. We have now identified a way of offering the scrip option for both the full-year and interim dividend, which balances shareholders’ appetite for the scrip dividend option with our cash requirements. At the AGM we are seeking approval for the allotment and buy-back authorities we need to do this. The scrip dividend option has been offered for the 2013/14 final dividend subject to shareholder approval of the relevant resolutions at the AGM.

Nick Winser, Executive Director UK, will step down from the Board in July 2014 at the AGM. He will continue with his roles as President of the European Network of Transmission System Operators for Electricity (ENTSO-E) and as Chairman of National Grid Electricity Transmission (NGET) and National Grid Gas (NGG) through to July 2015 before leaving the Company. After July 2015, the role of President of ENTSO-E will no longer be undertaken within the Company, and arrangements for a smooth handover of Nick’s other responsibilities will be announced in due course.

This year we have welcomed Therese Esperdy and John Pettigrew to our Board and we will be saying goodbye to Maria Richter following the AGM.

During Maria’s 10 years with the Company she has made a significant contribution to the Board and Finance Committee in particular and I would like to thank her for her commitment and wish her all the best in her future endeavours.

Therese, who will be taking over as chairman of the Finance Committee from Maria, brings a wealth of corporate finance and debt market experience to our Board. We have also appointed a new Executive Director, John Pettigrew. John joined National Grid as a graduate entrant in 1991 and has been a member of the Executive Committee for nearly two years.

The appointments of Therese and John have been part of a significant transition of the Board over the last three years through which we have secured a broad range of skills, experience, perspectives and challenge. Together with strong teamwork, I believe these qualities are contributing towards an effective Board, which will continue to set the right tone from the top, helping to meet the challenges ahead.

**Being a responsible business**

Our vision statement ‘Connecting you to your energy today, trusted to help you meet your energy needs tomorrow’ emphasises the importance of trust, which we earn not just by meeting our commitments, but by making sure that we do so in the right way. That is why how we work is as important as what we do, and why doing the right thing is at the core of everything we do.

During 2013/14 we spent time reinforcing the standards we expect of our employees in terms of ethical behaviour. As part of this, we have sent our employees a refreshed copy of ‘Doing the

Right Thing’, which is our guide to ethical business conduct.

We contribute to the communities in which we operate directly and indirectly in many ways. We maintain and operate the critical infrastructure needed to keep the lights on and the heating working across the UK and northeastern US; we employ more than 23,000 people; and in 2013/14 contributed ￡1.4 billion in taxes in the UK alone. Additionally, we estimate we support more than 28,500 jobs in the first tier of our supply chain –companies that are our suppliers across the globe.

We aim to develop and operate our business with an inclusive and diverse culture. You can read more about our approach to diversity on page 41, as well as our Board diversity policy on page 56.

**Looking ahead**

Over the next 12 months the UK and US will see a dynamic political environment. In the UK, the Scottish independence referendum later this year and the general election in 2015 are likely to increase the focus on issues such as the affordability and security of energy supply, as will the proposed review of the energy industry by the Competition and Markets Authority.

In the US, the mid-term US Congressional elections are on the horizon, together with the gubernatorial elections (election of the state governor) in New York, Rhode Island and Massachusetts. We expect debate to continue on essential infrastructure, resilience and sustainability, including our Connect21 dialogue with stakeholders. You can read more about Connect21 on page 35.

Our people have a crucial role to play in meeting the opportunities ahead. I would like to thank our employees for their hard work and dedication over the past year. Rising to the challenges brought by severe weather and changes within the industry, they have continued to make National Grid a company we can be proud of.