

NATIONAL GRID PLC
Form 20-F
June 05, 2015
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended 31 March 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report _____

For the transition period from _____ to _____

Commission file number: 001-14958

NATIONAL GRID PLC

(Exact name of Registrant as specified in its charter)

England and Wales

(Jurisdiction of incorporation or organization)

1-3 Strand, London WC2N 5EH, England

(Address of principal executive offices)

Alison Kay

011 44 20 7004 3000

Facsimile No. 011 44 20 7004 3004

Group General Counsel and Company Secretary

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National Grid plc

1-3 Strand London WC2N 5EH, England

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class	Name of each exchange on which registered
Ordinary Shares of 11 17/43 pence each	The New York Stock Exchange*
American Depositary Shares, each representing five Ordinary Shares of 11 17/43 pence each	The New York Stock Exchange
6.625% Guaranteed Notes due 2018	The New York Stock Exchange
6.30% Guaranteed Notes due 2016	The New York Stock Exchange
Preferred Stock (\$100 par value-cumulative):	
3.90% Series	The New York Stock Exchange
3.60% Series	The New York Stock Exchange

* Not for trading, but only in connection with the registration of American Depositary Shares representing Ordinary Shares pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Securities Exchange Act of 1934: None.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Securities Exchange Act of 1934: None.

The number of outstanding shares of each of the issuer's classes of capital or common stock as of 31 March 2015 was

Ordinary Shares of 11 17/43 pence each 3,891,691,900

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files): Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

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If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

This constitutes the annual report on Form 20-F of National Grid plc (the Company) in accordance with the requirements of the US Securities and Exchange Commission (the SEC) for the year ended 31 March 2015 and is dated 5 June 2015. Details of events occurring subsequent to the approval of the annual report on 20 May 2015 are summarised in section Further Information which forms a part of this Form 20-F . The content of the Group s website (www.nationalgrid.com/uk) should not be considered to form part of this annual report on Form 20-F.

Table of Contents**Form 20-F Cross Reference Table**

Item	Form 20-F caption	Location in the document	Page(s)
1	Identity of directors, senior management and advisors	Not applicable	
2	Offer statistics and expected timetable	Not applicable	
3	Key Information 3A Selected financial data	Additional Information Summary consolidated financial information Strategic Report Financial review Financial Statements Unaudited commentary on consolidated statement of financial position Net debt Financial Statements Unaudited commentary on the consolidated cash flow statement Net debt Additional Information Other unaudited financial information Reconciliations of adjusted profit measures Additional Information Shareholder information Exchange rates Exchange Rates	190-191 20-23 91 93 186 180 Further
	3B Capitalization and indebtedness	Not applicable	Information
	3C Reasons for the offer and use of proceeds	Not applicable	
	3D Risk Factors	Additional Information The business in detail Risk factors	173-176
4	Information on the company 4A History and development of the company	Want more information or help?	196-
		Additional Information The business in detail Key milestones Strategic Report Chief Executive s review Strategic Report Our vision and strategy Strategic Report Operating environment Additional Information Shareholder information Articles of Association Financial Statements Consolidated statement of financial position Unaudited commentary on consolidated statement of financial position Property, plant and equipment Financial Statements Consolidated cash flow statement Unaudited commentary on the consolidated cash flow statement Net capital expenditure	Back cover 164 4-5 14-15 6-7 177-178 91 93

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	Additional Information Other unaudited financial information Commentary on consolidated financial statements for the year ended 31 March 2014	187-189
	Financial Statements Notes to the consolidated financial statements 2. Segmental analysis (c) Capital expenditure, depreciation and amortisation	98
	Strategic Report How our strategy creates value	15
4B Business overview	Additional Information The business in detail Where we operate	165
	Strategic Report Operating environment	6-7
	Strategic Report What we do Electricity ;	8-9

Table of Contents

Item	Form 20-F caption	Location in the document	Page(s)
		What we do Gas ;	10-11
		Our Business model ;	12-13
		Our vision and strategy	14-19
		and	
		How our strategy creates value	15
		Strategic Report Principal operations	27-36
		Strategic Report Delivering our strategy key performance indicators	16-19
		Financial Statements Notes to the consolidated financial statements 2. Segmental analysis and unaudited commentary on the results of our principal operations by segment	96-100
		Additional Information Internal control and risk factors Risk factors Infrastructure and IT systems We may suffer a major network failure or interruption, or may not be able to carry out critical operations due to the failure of infrastructure, data, technology or a lack of supply ; Law and Regulation Changes in law or regulation or decisions by governmental bodies or regulators could materially adversely affect us ; and Customers and counterparties Customers and counterparties may not perform their obligations	174
		Additional Information The business in detail UK regulation ; US regulation ; and Summary of US price controls and rate plans	174
		Strategic Report Our Business model	176
4C	Organizational structure	Financial Statements Notes to the consolidated financial statements 32. Subsidiary undertakings, joint ventures and associates Principal subsidiary undertakings	166-172
4D	Property, plants and equipment	Additional Information The business in detail Where we operate and	166-172
		Property, plant and equipment	185
		Strategic Report What we do Electricity ; What we do Gas ; and	8-11
		Our Business model ;	12-13
		Strategic Report Principal operations	27-36
		Strategic Report Our vision and strategy Embed sustainability and Drive growth	14
		Strategic Report Operating environment Changing energy mix ; Energy policy ; Regulation ; and Innovation and technology	6-7
		Financial Statements Consolidated statement of financial position Unaudited commentary on consolidated statement of financial position Property, plant and equipment	91

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Additional Information Other disclosures	Property, plant and equipment	185
Financial Statements Notes to the consolidated financial statements	11.	115-116

Table of Contents

Item	Form 20-F caption	Location in the document	Page(s)
		Property, plant and equipment	
		Financial Statements Notes to the consolidated financial statements 19.	123-125
		Borrowings	
4A		Additional Information Other disclosures Unresolved SEC staff comments	185
	Unresolved staff comments		
5			
	Operating and financial review and prospects		
	5A Operating results	Strategic Report Financial review	20-23
		Strategic Report Operating environment	6-7
		Additional Information The business in detail UK regulation ; US regulation ; and Summary of US price controls and rate plans	166-172
		Strategic Report Principal operations	27-36
		Financial Statements Consolidated income statement Unaudited commentary on the consolidated income statement	87
		Financial Statements Notes to the consolidated financial statements 2. Segmental analysis Unaudited commentary on the results of our principal operations by segment	99
		Additional Information Other unaudited financial information	186-189
		Financial Statements Notes to the consolidated financial statements 30. Financial risk management (d) Currency risk	144-145
	5B Liquidity and capital resources	Strategic Report Financial review	20-23
		Corporate Governance Going concern	54
		Financial Statements Consolidated cash flow statement	92-93
		Additional Information Internal control and risk factors Risk factors Financing and liquidity An inability to access capital markets at commercially acceptable interest rates could affect how we maintain and grow our businesses	176
		Financial Statements Notes to the consolidated financial statements 2. Segmental analysis Unaudited commentary on the results of our principal operations by segment	99
		Financial Statements Notes to the consolidated financial statements 26. Net debt	134-135
		Financial Statements Notes to the consolidated financial statements 19. Borrowings	123-125
		Financial Statements Notes to the consolidated financial statements 15. Derivative financial instruments	118-120
			171

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Additional Information The business in
detail FERC Short-term borrowing
authorisation

Additional Information Shareholder 180-181
information Material interests in shares

Material Interests in Shares and Material Further Information

iii

Table of Contents

Item	Form 20-F caption	Location in the document	Page(s)
		interest in American Depositary Shares	
	5C Research and development, patents and licenses, etc.	Additional Information Other disclosures Research and development	185
	5D Trend information	Strategic Report Financial review	20-23
		Strategic Report Principal operations	27-36
		Strategic Report Operating environment	6-7
	5E Off-balance sheet arrangements	Financial Statements Unaudited commentary on consolidated statement of financial condition Off balance sheet items	91
	5F Tabular disclosure of contractual obligations	Financial Statements Notes to the consolidated financial statements 27. Commitments and contingencies	136
	5G Safe Harbor	Important notice	1
		Want more information or help? Cautionary statement	Back cover
6			
	Directors, senior management and employees		
	6A Directors and senior management	Corporate Governance Our Board	43
		Additional Information Shareholder Information Board biographies	178-179
	6B Compensation	Corporate Governance Directors Remuneration Report	60-75
		Financial Statements Notes to the consolidated financial statements 3. Operating costs (c) Key management compensation	102
		Financial Statements Notes to the consolidated financial statements 22. Pensions and other post-retirement benefits	126-129
		Financial Statements Notes to the consolidated financial statements 29. Actuarial information on pensions and other post-retirement benefits	137-140
		Share Ownership	Further Information
	6C Board practices	Corporate Governance Our Board	43-49
		Additional Information Shareholder information	177-179
		Additional Information Other disclosures Conflict of interest ; and Director s indemnity	184-185
		Corporate Governance Our Board and its committees Audit Committee ; Finance Committee ; Safety, Environment and Health Committee ; Nominations Committee ; Executive Committee ; Management committees	49-59
		Corporate Governance Directors Remuneration Report Annual statement from the Remuneration Committee chairman	60-61
		Corporate Governance Directors Remuneration Report Approved policy table Executive Directors	62-65
			65

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Corporate Governance Directors	
Remuneration Report Approved policy table	
Non-executive Directors (NEDs)	
Corporate Governance Directors	67
Remuneration Report Service contracts	

Table of Contents

Item	Form 20-F caption	Location in the document	Page(s)
		and policy on payment for loss of office and Dates of Directors service contracts/letters of appointment	
	6D Employees	Financial Statements Notes to the consolidated financial statements 3. Operating costs (b) Number of employees	101
		Additional Information Other disclosures Employees	185
	6E Share ownership	Corporate Governance Directors Remuneration Report Shareholding requirement and Differences in remuneration policy for all employees	66
		Corporate Governance Directors Remuneration Report Statement of Directors shareholdings and share interests (audited information)	72-73
		Corporate Governance Directors Remuneration Report Annual report on remuneration	69-75
		Additional Information Other disclosures All-employee share plans Share ownership	184 Further Information
7			
	Major shareholders and related party transactions		
	7A Major shareholders	Additional Information Shareholder information Material interests in shares	180-181
		Material interests in shares and Material interest in American Depository Shares	Further Information
	7B Related party transactions	Financial Statements Notes to the consolidated financial statements 28. Related party transactions	137
	7C Interests of experts and counsel	Not applicable	
8			
	Financial information		
	8A Consolidated statements and other financial information	Financial Statements Report of Independent Registered Public Accounting Firm Audit opinion for Form 20-F	85
		Financial Statements Notes to the consolidated financial statements 1. Basis of preparation and recent accounting developments	94-96
		Financial Statements Consolidated income statement ; Consolidated statement of comprehensive income ; Consolidated statement of changes in equity ; Consolidated statement of financial position ; and Consolidated cash flow statement	86-93
		Financial Statements Notes to the consolidated financial statements analysis of items in the primary statements	94-135

Edgar Filing: NATIONAL GRID PLC - Form 20-F

	Financial Statements Notes to the consolidated financial statements supplementary information	136-158
8B Significant changes	Strategic Report Chairman s statement Subsequent Events	2-3 Further Information

v

Table of Contents

Item	Form 20-F caption	Location in the document	Page(s)
9	The offer and listing		
	9A Offer and listing details	Additional Information Shareholder information Exchange Rates , Share price , Price History	180-182 Further Information
	9B Plan of distribution	Not applicable	
	9C Markets	Additional Information Shareholder information Share price	181-182
	9D Selling shareholders	Not applicable	
	9E Dilution	Not applicable	
	9F Expenses of the issue	Not applicable	
10			
	Additional information		
	10A Share capital	Not applicable	
	10B Memorandum and articles of association	Additional Information Shareholder Information Articles of Association Additional Information	177-178 184
		Other disclosures Corporate governance practices: differences from New York Stock Exchange (NYSE) listing standards	
		Additional Information Shareholder information Share capital	181
	10C Material contracts	Additional Information Other disclosures Material contracts	185
	10D Exchange controls	Additional Information Shareholder information Exchange controls	180
	10E Taxation	Additional Information Shareholder information Taxation	182-183
	10F Dividends and paying agents	Not applicable	
	10G Statement by experts	Not applicable	
	10H Documents on display	Additional Information Shareholder information Documents on display	180
	10I Subsidiary information	Not applicable	
11			
	Quantitative and qualitative disclosures about market risk		
	11A Quantitative information about market risk	Financial Statements Notes to the consolidated financial statements 15. Derivative financial instruments	118-120
		Financial Statements Notes to the consolidated financial statements 30. Financial risk management (a) Credit risk ; (b) Liquidity risk ; (c) Interest rate risk ; (d) Currency risk ; (e) Commodity risk ; (f) Capital risk management ; and (g) Fair value analysis	141-148
		Strategic Report Financial review	20-23
	11B Qualitative information about market risk	Financial Statements Notes to the consolidated financial statements 15. Derivative financial instruments	118-120
		Financial Statements Notes to the consolidated financial statements 30. Financial risk management (a) Credit risk ;	141-148

Edgar Filing: NATIONAL GRID PLC - Form 20-F

(b) Liquidity risk ; (c) Interest rate risk ; (d)
Currency risk ; (e) Commodity risk ; (f)
Capital risk management ;and (g) Fair value
analysis

Strategic Report Financial review

20-23

vi

Table of Contents

Item	Form 20-F caption	Location in the document	Page(s)
		Additional Information Internal Control and Risk factors Risk Factors	173-176
12	Description of securities other than equity securities		
	12A Debt securities	Not applicable	
	12B Warrants and rights	Not applicable	
	12C Other securities	Not applicable	
	12D American depositary shares	Additional Information Shareholder information Description of securities other than equity securities: depositary fees and charges	180
		Additional Information Shareholder information Depository payments to the Company	180
		Additional Information Definitions and glossary of terms	192-195
13		Not applicable	
	Defaults, dividend arrearages and delinquencies		
14		Not applicable	
	Material modifications to the rights of security holders and use of proceeds		
15		Additional Information Internal control and risk factors Disclosure controls and internal control over financial reporting	173
	Controls and procedures		
16		Corporate Governance Audit Committee Experience	51
	16A Audit committee financial expert		
	16B Code of ethics	Additional Information Other disclosures Code of Ethics	184
	16C Principal accountant fees and services	Corporate Governance Audit Committee External audit	52
		Financial Statements Notes to the consolidated financial statements 3. Operating costs (e) Auditors remuneration	102
	16D Exemptions from the listing standards for audit committees	Not applicable	
	16E Purchases of equity securities by the issuer and affiliated purchasers	Not applicable	
	16F Change in registrant s certifying accountant	Not applicable	
	16G Corporate governance	Additional Information Other disclosures Corporate governance practices: differences from New York Stock Exchange (NYSE) listing standards	184
	16H Mine safety disclosure	Not applicable	
17		Not applicable	
	Financial statements		
18		Financial Statements Company accounting policies	159

Edgar Filing: NATIONAL GRID PLC - Form 20-F

Financial statements

Financial Statements Notes to the consolidated financial statements 1. Basis of preparation and recent accounting developments	94-96
Financial Statements Consolidated income statement ; Consolidated statement of comprehensive income ; Consolidated statement of changes in equity ; Consolidated statement of financial position ; and Consolidated cash flow statement	86-93
Financial Statements Notes to the	94-135

Table of Contents

Item	Form 20-F caption	Location in the document	Page(s)
		consolidated financial statements analysis of items in the primary statements	
		Financial Statements Notes to the consolidated financial statements	136-158
		supplementary information	
		Financial Statements Report of Independent Registered Public Accounting Firm Audit opinion for Form 20-F	85
19		Filed with the SEC	

Exhibits

Table of Contents

Table of Contents**Overview**

<u>About National Grid</u>	01
----------------------------	----

Strategic Report pages 02 - 41

<u>Chairman's statement</u>	02
<u>Chief Executive's review</u>	04
<u>Operating environment</u>	06
<u>What we do</u>	08
<u>Our business model</u>	12
<u>Our vision and strategy</u>	14
<u>Delivering our strategy – key performance indicators</u>	16
<u>Financial review</u>	20
<u>Our people</u>	24
<u>Principal operations</u>	27
<u>Internal control and risk management</u>	38

Corporate Governance pages 42 - 75

The Corporate Governance Report, introduced by the Chairman, contains details about the activities of the Board and its committees during the year, including reports from the Audit, Nominations, Remuneration, Finance, and Safety, Environment and Health Committees, as well as details of our shareholder engagement activities.

<u>Corporate Governance contents</u>	42
<u>Directors' Report and other disclosures</u>	59
<u>Directors' Remuneration Report</u>	60

Financial Statements pages 76 - 163

Including the independent auditors' reports, consolidated financial statements prepared in accordance with IFRS and notes to the consolidated financial statements, as well as the Company financial statements prepared in accordance with UK GAAP.

<u>Financial Statements contents</u>	76
<u>Introduction to the financial statements</u>	77
<u>Statement of Directors' responsibilities</u>	78
<u>Independent auditors' report</u>	79
<u>Report of Independent Registered Public Accounting Firm</u>	85

Additional Information

pages 164 inside back cover

Additional disclosures and information, definitions and glossary of terms, summary consolidated financial information and other useful information for shareholders, including contact details for more information or help.

[Additional Information contents](#)

164

We use a number of technical terms and abbreviations within this document. For brevity, we do not define terms or provide explanations every time they are used; please refer to the glossary for this information.

[Definitions and glossary of terms](#)

192

[Want more information or help?](#)

196

Online

For a full search facility, please go to the pdf of our Annual Report and Accounts 2014/15 in the investor relations section of our website (www.nationalgrid.com) and use a word search.

Table of Contents

Table of Contents

Strategic Report

Chairman's statement

It's been a challenging year for the energy sector. Energy policies in the UK and US have continued to evolve against a backdrop of political uncertainty, seeking an acceptable balance between affordability to consumers, security of supply and sustainability considerations.

In focus:

**The Board is proposing
a recommended
full-year dividend of**

42.87p

(2013/14: 42.03p)

In the UK, we saw debate around the cost of living lead to a sharper focus on the costs of energy and the competitiveness of energy markets. This focus has included an Energy and Climate Change Select Committee inquiry into energy network costs, as well as an investigation by the Competition and Markets Authority into the supply and acquisition of energy in Great Britain.

In the UK, Electricity Market Reform

(EMR) was implemented successfully, and we saw developments in significant interconnector projects (see page 27). In the US, there were mid-term US congressional and gubernatorial elections and debate continued on essential infrastructure, resilience and sustainability.

Transparency

In January we announced our decision to stop publishing formal Interim Management Statements (IMs), following the changes in legislation that removed this requirement. Mandatory requirements to publish information can frequently provide

an unnecessary focus on matters of little relevance to a long-term business such as National Grid.

Alongside our major announcements at the half year and full year we will continue to provide updates covering market and Company developments.

We also continue to provide commentary on both our IFRS reported results and underlying economic (regulatory) performance, including reconciliations between the key metrics for both results. To help explain this more fully, we have increased the commentary on our regulatory performance on page 23, and have included further analysis of our regulatory performance by segment on page 100. We support the development of an accounting standard for rate-regulated activities, which would reduce the need for additional explanations of our results, and submitted a response to the IASB's project in January this year.

Dividend

The Board has recommended an increase in the final dividend to 28.16 pence per ordinary share (\$2.1866 per American Depositary Share). If approved, this will bring the full-year dividend to 42.87 pence per ordinary share (\$3.3584 per American Depositary Share), an increase of 2.0% over the 42.03 pence per ordinary share in respect of the financial year ending 31 March 2014.

In August 2014 we began a share buyback programme designed to operate alongside our scrip dividend option, which we offered for the interim dividend and will offer again for the full-year dividend. The buyback programme, which operates under authorities granted at our 2014 AGM, is designed to balance shareholders' appetite for the scrip dividend option with our

desire to operate an efficient balance sheet with appropriate leverage.

Effective governance

In July 2014, John Pettigrew, who joined the Board in April 2014, became Executive Director, UK and Nick Winser and Maria Richter both stepped down from the Board.

Table of Contents

Philip Aiken stepped down from the Board in February 2015 before his appointment as Balfour Beatty's new Chairman. He was a National Grid Non-executive Director for six years and played an important role in chairing our Safety, Environment and Health Committee. Following Philip's departure, Paul Golby was appointed as chairman of the Safety, Environment and Health Committee, as well as a member of the Audit Committee. Paul remains a member of the Nominations and Remuneration Committees.

Tom King stepped down from the Board and left the Company on 31 March 2015. He was succeeded by Dean Seavers, who joined the Company in December 2014 and, following a thorough handover, joined the Board as Executive Director, US with effect from 1 April 2015.

John and Dean's appointments bring fresh perspective, experience and challenge to our Board. Dean joined us after a career that has included business leadership roles of major divisions within GE, United Technologies and Tyco. In particular, he has led major change and performance improvement programmes that have improved operational efficiency and customer satisfaction – important priorities for our US business.

As you can read on page 17, we are adding new KPIs to our reporting, so we can more fully reflect the issues that really matter to the Company and our stakeholders. For our 2014/15 Report, we have included workforce diversity as a new KPI and you can read more about our approach to this on pages 18 and 19, as well as progress in relation to our Board diversity policy on page 58.

You can find more information about our approach to being a responsible business, including our Total Contribution Report, on our website.

Looking ahead

We will face both opportunities and challenges over the coming year. For example, in the UK Ofgem has concluded its Integrated Transmission Planning and Regulation project. As part of this, the System Operator is expected to undertake a number of new advisory roles. We have a long track record in successfully managing potential conflicts of interest from our System Operator role and will work closely with Ofgem to make sure this continues.

I would like to thank Nick, Tom, Philip and Maria for their commitment to the Board and the very valuable contribution they have made.

National Grid's UK regulated entities appointed Catherine Bell and Clive Elphick as Non-executive Directors with effect from 1 April 2014. The appointment of two Non-executive Directors is a new requirement promoted by Ofgem, which has termed the appointments Sufficiently Independent Directors. The arrangements are designed to enhance the financial ring-fencing conditions that already exist in the companies' licences.

Responsible business

At National Grid, we believe that what we do and how we do it are equally important. In July 2014, National Grid was named Responsible Business of the Year 2014 by Business in the Community (BITC). To win this award we had to demonstrate how we operate responsibly in everything we do, and how we are improving the outcomes for society through our work.

I was delighted that the judging panel commended our long-term vision based on trust and connectivity. They noted our foresight in using technology and innovation to develop solutions that protect our employees, customers and wider society; and recognised our appetite to inspire others.

In the UK, we are in discussions with the Living Wage Foundation about the opportunity to become a fully accredited Living Wage

In the US we expect to file important applications for new rate plans – you can read more about this on page 169. We will continue to work with policymakers, customers, and stakeholders to transform the energy industry through initiatives in Massachusetts, New York, and Rhode Island (see pages 33 to 35).

We must adapt to developments in corporate governance requirements. For example, the updated UK Corporate Governance Code enhances the quality of information investors can expect to receive about the long-term health and strategy of listed companies, and encourages companies to be more transparent about risk management and internal control.

Finally, 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.

Sir Peter Gershon

employer. We can confirm that all our UK employees fulfil the criteria for accreditation. We are also working through the Living Wage Charter to understand the impact it would have on our supply chain, including the companies our suppliers use as sub-contractors, should we decide to adopt it.

Table of Contents

Strategic Report

Chief Executive's review

I'm really proud of our performance this year. Overall, our businesses in both the UK and US achieved a strong operating performance.

In focus:

**Employee
engagement score**

75%

(2013/14: 71%)

In the UK, there has been a lot of public focus on how secure and reliable our energy supply is, particularly on tighter margins between electricity supply and demand in the winter. Despite tighter margins than previous years, we were able to operate the system without calling upon our additional reserve. This was because of stronger than expected plant availability, mild weather,

healthy wind output and consistent interconnector imports from France and the Netherlands.

We also tendered the two new balancing services for additional reserves of supply. Although these additional reserves were not used, this was a sensible precaution in case of colder weather or a series of unexpected plant shutdowns.

In the US, we saw an extremely harsh and prolonged period of plunging temperatures and record levels of snowfall in parts of New England,

particularly in February and March. Again, our network resilience held up well. We have invested millions of dollars in both our electricity and gas infrastructure to improve resilience and help reduce the impact of service interruptions.

In December 2014 we received an award for excellence in energy efficiency from Platts Global Energy. Platts commended us for ongoing initiatives to upgrade equipment, reduce emissions, and improve safety and network efficiency. And in March 2015, the Edison Electric Institute presented us with its Emergency Recovery Award for our power restoration efforts following the severe ice storm in northern New York in December 2013.

Safety

Safety remains a hugely important priority for us. Regrettably, there were two fatalities during the year – a member of the public in the UK who fell when climbing on one of our pipelines, and a contractor at our Rhode Island gas distribution business. Despite these incidents, we achieved our best-ever Group safety performance during 2014/15. We can never be complacent about our performance and must continually strive to improve.

Our operations

We have continued to provide good value and reliability for customers while keeping our element of bills as low as possible.

We are totally committed to providing the best value we can for our customers, investors and other stakeholders, so we're working hard to make sure we are being

as efficient as possible in everything we do. To help achieve this, we have continued to develop a way of working we call Performance Excellence, which you can read about on page 27. We also reorganised our UK business to increase clarity around what we do and who is accountable.

In the US, we finally completed the stabilisation work on our new financial systems (see page 34). This fixed a number of long-standing problems, such as inefficient payroll processing, which had previously required expensive manual interventions. Long term,

Table of Contents

the robust data we can produce with the new systems is an essential foundation to the future performance improvements and regulatory filings that we need for profitable growth in the US.

It is increasingly recognised in the US that investment levels in some areas will need to rise compared with the earlier part of this decade, and we have seen increased activity this year, making it our highest ever year of US investment.

In December 2014 the NYPSC approved \$200 million gas infrastructure investment in Long Island to speed up the replacement of ageing pipe and extend the use of natural gas to more customers.

The NYPSC also published the results of the regulatory audit of our New York gas companies. These audits are a regular feature of the New York regulatory process. The audit was broadly supportive of our performance and structure and, as is usual, made some helpful recommendations for further improvement. We have responded with an implementation plan to provide these benefits on behalf of New York customers.

to bring the world of work to life for secondary school children. Our US initiatives include partnering with seven local community colleges to deliver energy utility technology training programmes that are designed to equip people for jobs in the energy industry. We are doing a great deal of work in this area, as you can read on page 24.

All this is business as usual for us – the BITC recognition is not the result of any special new initiative we have done to win the award. But it would not have been possible without the efforts of our employees. I was delighted to see that the results of our 2015 employee opinion survey – a good measure of how satisfied employees are with their employer – included an engagement score of 75% our highest since we started conducting Group-wide employee opinion surveys.

I would like to thank all our people for making a positive impact, through their work for National Grid, their volunteering and fundraising achievements, and by getting involved in activities that really matter to us and to society.

As you can read on pages 18 and 19, our customer satisfaction scores were mixed. We exceeded our UK electricity and gas transmission targets. However, we did not meet our US targets and I recognise this is an area in which we must improve.

Responsible Business of the Year

As Sir Peter has described in his statement, National Grid was named Responsible Business of the Year 2014, which is BITC's top award. I am extremely proud of this achievement, which is terrific recognition of how we are running a responsible and sustainable business, bringing long-term benefits to society. Although BITC is a UK body, the award was given to the entire Company and recognises the excellent work we're doing across our entire service area in the UK and US.

For example, in the UK we are completing a test line for the T-pylon at our training academy. It is smaller than the existing lattice towers and provides communities with added choice. Our property business entered into a new arrangement with the Berkeley Group to develop a number of our sites in London and the surrounding area. The first phase of investments could lead to the development of over 7,000 new homes, including affordable housing, alongside schools and public spaces.

Our EmployAbility programme provides supported internship opportunities for students with additional learning needs. Now into its second year, we have extended the programme and will continue to do this across more of our UK sites.

We are helping schools, parents and children see engineering as a modern, dynamic, desirable sector with a great future. Our careers education

Priorities for 2015/16

Safety: continue to build on our strong performance so we can achieve a consistent world-class safety performance;

Customers and stakeholders: improve the service we provide for our customers and continue to build trust among our stakeholders;

Performance Excellence: focus on being efficient in our end-to-end processes so we can continue to improve our overall performance and efficiency; and

Regulatory filings: prepare and file applications for new rate plans in New York, Long Island and Massachusetts.

Steve Holliday

programmes in the UK include Careers Lab, an initiative we developed that has now been taken up by BITC. It links working professionals with schools

Table of Contents

Strategic Report

Operating environment

The UK economy has been recovering steadily in the past year, with 2.6% economic growth, falling unemployment and falling inflation.

Growth in the fourth quarter of 2014, however, dropped to 0.5% as sluggish eurozone growth depressed exports and wider geopolitical events increased the perceived risk of investment. In the US, employment levels have continued to rise. The Federal Reserve ended its quantitative easing programme of bond purchases, though treasury yields continue to be at or near

historical lows. GDP increased 2.4% in 2014, although growth in the first quarter of 2015 was only 0.2%.

Below, we highlight our main market drivers and the impact they have on our business.

Market driver

Impact

Changing energy mix

Changing fuel costs and environmental programmes are affecting traditional electricity generation

UK

In February 2015 DECC announced the results of the first Contracts for Difference (CfD) auction allocation rounds, with wind technology making up the bulk of contracted generation. Continued support for solar PV through Feed in Tariffs (FiTs) and the Renewables Obligation contributed to growth in installed solar PV.

Older fossil fuel plants continue to face the challenge of environmental regulations while the new nuclear plant at Hinkley received State Aid approval from the European

This could lead to significant network investment opportunities

UK

Increasing deployment of large-scale wind, large-scale solar PV and nuclear will require more investment in transmission networks to connect new plant and reinforce the network. Variable output from solar PV and wind makes balancing demand and supply more challenging.

More interconnection between the UK and adjacent European markets will deliver net benefits to the UK.

Commission in October 2014.

US

US

In the US, shale gas development has continued to keep national wholesale prices low.

Environmental Protection Agency regulations have led to generator retirements or increased costs for compliance.

Renewables are growing their share of electricity generation and account for a significant amount of newly installed capacity. Distributed generation, such as rooftop solar, has grown substantially in our service territory.

Lower national wholesale gas prices have increased the amount of gas used for electric generation, causing constraints into the northeast US.

Oil to gas conversions will continue as gas maintains its price advantage. New interstate gas pipeline capacity is needed to overcome growing gas demand.

The electric transmission system will need upgrades and rebalancing due to generation retirements and to connect new renewable sources. Increasing amounts of distributed generation, particularly solar, will require investment in the electric distribution network.

Energy policy

Sustainability, security of supply and affordability underpin EU policy

Against a difficult economic and financial background, the EU's energy policy is underpinned by sustainability, security of supply and affordability. In October 2014 the EU heads of state agreed the EU's 2030 Climate Change and Energy Framework. This includes a 40% reduction target for carbon emissions, alongside other objectives for renewables, energy efficiency and interconnections.

Negotiations for a new international agreement on climate change continued at the twentieth session of the Conference of Parties (COP20) in Lima in December 2014. Nations are looking to the Paris worldwide conference in 2015 as the next opportunity to work out a new climate change deal.

Finally, the creation of a genuine energy union was highlighted as one of the main priorities of the new European Commission, which took office in November

Policy decisions can affect our investment needs and compliance obligations

Greater levels of market integration, interconnection and renewable generation are fundamental to achieving the EU's policy objectives.

While European developments present challenges, the significant level of investment required will create opportunities for growth. For example, potential future interconnector opportunities include connections between the UK and France, Ireland, Denmark and Iceland. Such opportunities would help the EU achieve its interconnection targets. See page 27 for more information about our interconnector projects.

2014.

UK energy policies are attracting investment and there is significant political focus on reducing costs for consumers

Energy policy continues to evolve from the Climate Change Act 2008, which commits the UK Government to reducing UK greenhouse gas emissions to at least 80% lower than a 1990 baseline by 2050. The Energy Act 2013 implements the main aspects of EMR, and puts in place measures to attract the investment needed. The run-up to the General Election in May 2015, saw a sharp focus on the costs of energy and the competitiveness of energy markets.

National Grid is central to the delivery of EMR and active on driving down costs

National Grid has been performing its role as delivery body for the Government on EMR, as described on page 39.

The focus on the cost of energy is important to National Grid. We are working hard to highlight to our stakeholders how the RIIO regulatory framework is helping us to reduce costs for consumers while creating incentives for vital investment.

Table of Contents

Market driver

Impact

US policy is evolving to meet environmental and energy diversity goals

In the US, many federal level developments have been through federal agency regulations and Presidential executive orders. At a state level, energy policy continues to evolve in the northeastern US, driven by interest in promoting energy efficiency, maintaining reliability and deploying renewable technologies that help meet environmental and energy diversity goals.

Regulation

Infrastructure investment needs must be balanced with affordability

Regulators acknowledge that there is a significant need for infrastructure investment. However, affordability continues to be a primary concern.

Ageing gas mains can be riskier to use and can contribute to greenhouse gas emissions through leaks. Regulators and policymakers are asking utilities to put plans in place to strengthen their networks' ability to withstand the effects of severe weather.

UK regulators want greater efficiency and innovation

Options for increased renewable and distributed generation are being explored

In the US, the impact on natural gas dependency has resulted in an evaluation of the best way of increasing fuel diversity through renewable and distributed generation resources. We continue to support movement towards a clean energy economy; and support additional measures to increase America's energy productivity.

We must accommodate customers' cost concerns and also provide safe, up-to-date systems

We must accommodate our customers' affordability concerns while fulfilling our obligations to provide safe and reliable services and upgrading our systems. Investment is required for new connections, to meet the challenges of changing supply and demand patterns, and to replace ageing infrastructure in the UK and US.

This is driving them to favour more market competition

In the UK, the regulatory focus during the year has been on the RIIO price controls which give greater focus to incentives and innovation than the previous regulatory regime.

We continue to be engaged in the debate on the regulatory approach to electricity transmission investment, stemming from the projected increase in offshore wind generation and interconnection.

In the UK, Ofgem is reviewing the arrangements for planning and delivering Britain's transmission networks

We are facing new challenges from an ageing infrastructure and a changing energy mix. Technical developments and innovation also mean that there could be opportunities to coordinate and integrate those investments.

The Integrated Transmission Planning and Regulation (ITPR) project is looking at long-term challenges such as ageing infrastructure, the changing energy mix, technical developments and innovation, to assess whether the regulatory arrangements currently in place are sufficient to ensure coordination and efficiency in the future planning of electricity transmission.

US regulators are focused on system modernisation and integration of new distributed energy resources

State officials in Massachusetts and New York have approved gas system investment programmes to accelerate replacement of ageing infrastructure. The Massachusetts Grid Modernization proceeding and New York's Reforming the Energy Vision effort both focus on deploying advanced electric grid capabilities to improve reliability, more fully exploit distributed energy resources, and provide new opportunities for customers to control their energy use.

In the UK, competition is already in place for offshore development and Ofgem has stated its intent to retain the option of using greater competition for certain large onshore projects.

For more information about network efficiency and innovation, see pages 27 to 31.

We need to make sure the network is planned in an economic, efficient and coordinated way

Ofgem has proposed enhancing our role as System Operator (SO) so that the SO has a greater role in system planning. No organisation is currently responsible for taking an overarching view of system development, so opportunities for coordination can potentially be missed. We are working with Ofgem to develop the framework for how the system will be planned and how assets will be managed.

Investments to modernise networks and integrate distributed resources will offer new options and value to customers

We are expanding gas system enhancement investment programmes and are developing electric grid modernisation plans. Through our regulatory efforts and stakeholder engagement we are seeking to create a regulatory framework that integrates distributed energy resources into the electric grid in a way that is cost effective and delivers benefits to customers.

In the US, FERC is reforming transmission planning and promoting competition in the transmission industry

FERC issued Order 1000 in 2011 to improve transmission planning and increase competition in the transmission industry. Policies to comply with the Order took effect in New York and New England in 2014 and 2015, respectively.

Innovation and technology

Performance improvements and cost declines have led to continued growth in new technologies

Distributed generation of solar power has grown significantly due to price declines and tax incentives. Energy storage is growing in the US as certain states set goals and other utilities announce investment plans for storage capacity.

The UK hit a record high for wind generation in 2014 of 28 terawatt hours (TWh), 15% greater than the previous year.

Plug-in electric vehicle sales in the US and worldwide grew, even as gasoline prices dropped throughout the past year.

Competitive transmission planning provides opportunities for us

Order 1000 has opened our service territory to competition from non-incumbent transmission developers and also created opportunities for us to compete for transmission projects outside of our current geographic footprint.

Further investment in electricity distribution networks may be necessary to integrate these new technologies

Investment in renewable energy continues to grow. Regulatory proceedings are underway to enhance the value of distributed resources to the grid and give customers more control over their energy use.

These could require significant network investment in order to integrate new and variable resources and provide customers with more information on their usage.

Table of Contents

Strategic Report

What we do Electricity

The electricity industry connects generation sources to homes and businesses through transmission and distribution networks. Companies that pay to use transmission networks buy electricity from generators and sell it to consumers.

System operator

As system operator (SO) for England and Wales, we coordinate and direct electricity flows onto and over the transmission system, balancing generation supply and user demand. Where necessary, we pay sources of supply and demand to increase or decrease their generation or usage.

We have the same role for the two high voltage electricity transmission networks in Scotland and we are SO for the offshore electricity transmission regime.

Our charges for SO services in the UK are subject to a price control approved by Ofgem. System users pay us for connection, for using the system and balancing services.

As electricity transmission SO, our price control includes incentives to minimise the costs and associated risks of balancing the system through buying and selling energy, as well as procuring balancing services from industry participants.

will deliver significant benefits to consumers. These include opportunities for interconnection with Iceland, Denmark and a further link with France.

We also jointly own and operate a 224 kilometre interconnector between New England in the US and Canada.

We sell capacity on our UK interconnectors through auctions and on our US interconnector through wholesale markets and bilateral contracts.

Transmission systems generally include overhead lines, underground cables and substations. They connect generation and interconnectors to the distribution system.

We own and operate the transmission network in England and Wales. We operate but do not own the Scottish networks. We are also working in a joint venture with Scottish Power Transmission to construct an interconnector to reinforce the GB

In the US, similar services are provided by independent system operators.

transmission system between Scotland and England and Wales.

Generation is the production of electricity from fossil fuel and nuclear power stations, as well as renewable sources such as wind and solar. In the US, we own and operate 50 fossil fuel-powered stations on Long Island and 4.6 MW of solar generation in Massachusetts. We do not own or operate any electricity generation in the UK.

In the US, we jointly own and operate transmission facilities spanning upstate New York, Massachusetts, New Hampshire, Rhode Island and Vermont.

We sell the electricity generated by our plants on Long Island to LIPA under a long-term power supply agreement. The contract allows us to recover our efficient operating costs and provides a return on equity on our investment in the generation assets.

Distribution systems carry lower voltages than transmission systems over networks of overhead lines, underground cables and substations. They take over the role of transporting electricity from the transmission network, and deliver it to consumers at a voltage they can use.

For solar generation, we recover our costs and a reasonable return from customers in Massachusetts through a solar cost adjustment factor. This is added to the electricity rate, net of revenues earned from the solar assets.

We do not own or operate electricity distribution networks in the UK.

In the US, our distribution networks serve around 3.5 million customers in upstate New York, Massachusetts and Rhode Island.

Transmission grids are often interconnected so that energy can flow from one country or region to another. This helps provide a safe, secure, reliable and affordable energy supply for citizens and society across the region.

The supply of electricity involves buying electricity and selling it on to customers. It also involves customer services, billing and the collection of customer accounts.

Interconnectors also allow power suppliers to sell their energy to customers in other countries.

We do not sell electricity to consumers in the UK.

Great Britain is linked via interconnectors with France, Ireland, Northern Ireland and The Netherlands. National Grid owns part of the interconnectors with France and The Netherlands. We are also now entering the construction phase for two new interconnectors, between the UK and Belgium and Norway. We are continuing to work on developing additional interconnector projects, which we believe

All our customers in the US can select a competitive supplier for the supply component of electricity utility services. Where customers choose National Grid, they pay us for distribution and electricity costs. Where they choose to buy electricity from third parties, they pay us for distribution only and pay the third-party supplier for the electricity. Our base charges for electricity supply are calculated to recover the purchased power costs.

Table of Contents

Table of Contents

Table of Contents

What we do Gas

The gas industry connects producers, processors, storage, transmission and distribution network operators, as well as suppliers to industrial, commercial and domestic users.

System operator

As system operator we are responsible for the high pressure gas National Transmission System (NTS) in Great Britain. We have responsibility for the residual balancing activities on the NTS and for keeping the physical system within safe operating limits.

Our price control, set by Ofgem, includes incentives that aim to maintain and improve our daily operational efficiency and are subject to renegotiation at set intervals.

Gas used in the UK is mainly sourced from gas fields in the North and Irish seas, piped from Europe and imported as LNG.

There are seven gas reception terminals, three LNG importation terminals and three interconnectors connecting Great Britain via undersea pipes with Ireland, Belgium and the Netherlands. Importers bring LNG from the Middle East, the Americas and other places.

We are the sole owner and operator of gas transmission infrastructure in Great Britain.

In the US, we hold a minority interest in two interstate pipelines: Millennium Pipeline Company and Iroquois Gas Transmission System. Interstate pipelines are regulated by the Federal Energy Regulatory Commission (FERC).

In the UK, gas leaves the transmission system and enters the distribution networks at high pressure. It is then transported through a number of reducing pressure tiers until it is finally delivered to consumers.

There are eight regional gas distribution networks in the UK, four of which are owned by National Grid. In the US, gas is delivered by the interstate pipeline companies to local distribution networks. Each local distribution company has a geographically defined service territory and is the only local distribution company within that

Gas used in the US is produced mainly in North America. We import LNG from a number of countries.

territory. Local distribution companies are regulated by the relevant local state's utility commission.

We do not produce gas in either the UK or US.

Our networks deliver gas to 10.9 million consumers in the UK and 3.6 million customers in the US.

In the UK, we own and operate Grain LNG, an importation terminal and storage facility at the Isle of Grain in Kent, which charges customers under long-term contracts for various services. These include access to our importation terminal, storage facilities and capacity rights.

Pipeline shippers bring gas from producers to suppliers, who in turn sell it to customers.

In the US, we own and operate LNG storage and vaporisation facilities, as well as an LNG storage facility in Providence, Rhode Island, where we store gas for third parties for a fee. We also buy gas directly from producers and LNG importers for resale to our customers.

We do not supply gas in the UK. However, we own National Grid Metering, which provides meters and metering services to supply companies, under contract.

The transmission systems generally include pipes, compressor stations and storage facilities, including LNG storage. They connect production through terminals to the distribution systems.

In the UK, customers pay the supplier for the cost of gas and for its transportation. We transport the gas through our network on behalf of shippers, who pay us transportation charges.

In the UK, gas enters the transmission system through importation and reception terminals and interconnectors and may include gas previously held in storage.

In the US, gas distribution companies, including National Grid, sell gas to consumers connected to their distribution systems.

Compressor stations located along the network play a vital role in keeping large quantities of gas flowing through the system, particularly at times of high demand.

In most cases in the US, where customers choose National Grid, they pay us for distribution and gas costs. Where they choose to buy gas from third parties, they pay us for distribution only and pay the third-party supplier for the gas and upstream transportation capacity.

Also in the US, except for residential consumers in Rhode Island, customers may purchase their supply

The gas transmission system has to be kept constantly in balance, which is achieved by buying, selling and using stored gas. This means that, under normal circumstances, demand can be met.

from independent providers with the option of billing for those purchases to be provided by us.

Table of Contents

Strategic Report

Our business model

How we generate long-term value.

12

Table of Contents

NATIONAL GRID ANNUAL REPORT AND ACCOUNTS 2014/15

13

Table of Contents

Strategic Report

Our vision and strategy

Our vision describes our intentions and aspirations at the highest level. Our strategic objectives set out what we believe we need to achieve to deliver our vision and be recognised as a leader in the development and operation of safe, reliable and resilient energy infrastructure.

Strategic objective	Description	How we deliver
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Deliver operational excellence

Achieve world-class levels of safety, reliability, security and customer service.

Our customers, communities and other stakeholders demand safe, reliable and secure supply of their energy. This is reflected in our regulatory contracts where we are measured and rewarded on the basis of meeting our commitments to customers and other stakeholders.

Pursuing excellence in all our operational processes will allow us to manage our assets efficiently, deliver network improvements quickly and provide services that meet the changing demands of our customers.

Engage our people

Create an inclusive, high-performance culture by developing all our employees.

It is through the hard work of our employees that we will achieve our vision, respond to the needs of our stakeholders and create a competitive advantage. Encouraging engaged and talented teams that are in step with our strategic objectives is vital to our success.

Our presence within the communities we serve, the people we work with and our opportunities to grow both individually and as a business are all important to making National Grid a great place to work.

<p>Stimulate innovation</p>	<p>Promote new ideas to work more efficiently and effectively.</p>	<p>Our commitment to innovation allows us to run our networks more efficiently and effectively and achieve our regulatory incentives. Across our business, we explore new ways of thinking and working to benefit every aspect of what we do.</p> <p>Embedding innovation and new technology into our operations helps us deliver continuous improvements in the quality and cost of our services.</p>
<p>Engage externally</p>	<p>Work with external stakeholders to shape UK, EU and US energy policy.</p>	<p>Policy decisions by regulators, governments and others directly affect our business. We engage widely in the energy policy debate, so our position and perspective can influence future policy direction. We also engage with our regulators to help them provide the right mechanisms so we can deliver infrastructure that meets the changing needs of our stakeholders.</p>
<p>Embed sustainability</p>	<p>Integrate sustainability into our decision making to create value, preserve natural resources and respect the interests of our communities.</p>	<p>Our long-term sustainability strategy sets our ambition to deliver these aims and to embed a culture of sustainability within our organisation.</p> <p>That culture will allow us to make decisions that protect and preserve natural resources and benefit the communities in which we operate. We remain committed to our targets of a 45% reduction in Scope 1 and 2 greenhouse gas emissions by 2020 and 80% by 2050.</p>
<p>Drive growth</p>	<p>Grow our core businesses and develop future new business options.</p>	<p>We continue to maximise value from our existing portfolio, while exploring and evaluating opportunities for growth. Making sure our portfolio of businesses maintains the appropriate mix of growth and cash generation is necessary to meet the expectations of our shareholders.</p> <p>We review investment opportunities carefully and will only invest where we can reasonably expect to earn</p>

acceptable returns.

Combining this disciplined approach with operational and procurement efficiencies gives us the best possible opportunity to drive strong returns and meet our commitments to investors.

Table of Contents

Relevant KPIs

Employee IFR

Network reliability

Customer satisfaction

See pages 16 19

Employee engagement
index

Workforce diversity

See pages 18 19

Our vision

*Connecting you to your
energy today, trusted to
help you meet your energy
needs tomorrow.*

How our strategy creates value

Our vision and strategic objectives explain what is important to us, so we can meet our commitments and deliver value.

Customer and community value

Shareholder value

Value added

Network reliability

See pages 16 19

Safety and reliability we strive to provide reliable networks safely, which is essential to safeguard our customers, employees and the communities in which we operate.

Regulatory frameworks operating within sound regulatory frameworks provides stability. Making sure these frameworks maintain a balance between risk and return underpins our investment proposition.

Customer satisfaction

See pages 18 19

Affordability we strive to provide services efficiently, which helps to reduce the amount of money consumers have to pay for their energy.

Reputation our approach to safety and our reliability record underpin our reputation. These are crucial factors that contribute towards positive regulatory discussions and help us pursue new business opportunities.

Greenhouse gas emissions

See pages 18 19

Customer service providing essential services that meet the needs of our customers and communities is a crucial part of the value they expect from us.

Efficient operations efficient capital and operational expenditure allows us to deliver network services at a lower cost and reduces working capital requirements.

Sustainability we strive to protect the environment and preserve resources for current and future generations.

Maximising incentives if we perform well against our incentives, and deliver the outputs our customers and regulatory stakeholders require, we can make the most of our allowed returns.

Regulated asset growth

Adjusted EPS

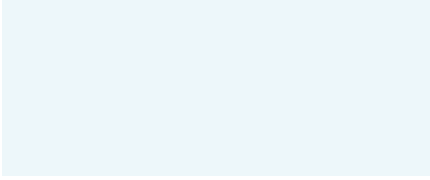
See pages 16 17

Emergency services we provide telephone call centres, coordinate the response to gas emergencies, and respond to severe weather events.

Funding and cash flow management securing low-cost funding and carefully managing our cash flows help us maintain strong returns for our investors.

Community engagement we listen to the communities we serve and work hard to address concerns about the development of our networks. Our employees volunteer for community-based projects and we support educational initiatives in schools.

Disciplined investment we can increase our revenue and earnings by investing in both regulated and non-regulated assets. This helps us deliver attractive returns for our shareholders.



NATIONAL GRID ANNUAL REPORT AND ACCOUNTS 2014/15

15

Table of Contents

Strategic Report

Delivering our strategy key performance indicators

The Board uses a range of financial and non-financial metrics, reported periodically, against which we measure Group performance.

KPI and definition

Our performance

Adjusted EPS

Adjusted earnings represent profit for the year attributable to equity shareholders. This excludes exceptional items, remeasurements and stranded cost recoveries (see pages 103 and 104).

Adjusted earnings per share provides a measure of shareholder return that is comparable over time.

Group return on equity (RoE)

Adjusted EPS pence¹

1. Comparative amounts have been restated to reflect the impact of additional shares issued as scrip dividends.

Group return on equity %

We measure our performance in generating value for our shareholders by dividing our annual return by our equity base.

This calculation provides a measure of the performance of the whole Group compared with the amounts invested by the Group in assets attributable to equity shareholders.

Regulated asset growth

Maintaining efficient growth in our regulated assets ensures we are well positioned to provide consistently high levels of service to our customers and increases our revenue allowances in future years.

Value added

Reflects value to shareholders of dividend and growth in National Grid's assets, net of the growth in overall debt.

Employee lost time injury frequency rate

Number of employee lost time injuries per 100,000 hours worked in a 12 month period.

Total regulated assets and regulated asset growth £bn

1. US base rate calculated as at 31 December 2010 in this year.
2. Estimated figure until the conclusion of the regulatory reporting cycle.

Value added £bn

Employee lost time injury frequency rate per 100,000 hours worked

Our ambition is to achieve a world-class safety performance of below 0.1.

Table of Contents

We are adding new KPIs to better reflect the issues that matter most to our Company and our stakeholders. For this 2014/15 Report, we have included information about workforce diversity, as set out on pages 18 and 19. We aim to include two further new KPIs in our 2015/16 Report. These relate to community engagement and investment in education, skills and capabilities. Executive remuneration is linked to some of our KPIs.

Commentary

Target

For the year ended 31 March 2015, adjusted earnings attributable to equity shareholders increased by £174 million to £2,189 million. This increase in earnings resulted in an adjusted earnings per share of 58.1 pence, an increase of 9% on 2013/14.

Overall adjusted net finance costs reduced by £75 million across the Group which was broadly offset by a higher adjusted tax charge of £114 million reflecting the increase in profits across the Group.

The adjusted EPS target set as part of executive remuneration for APP was more than met with 100% of maximum achieved (see page 70).

[See page 20](#)

The earnings increase was driven by a £199 million increase in adjusted operating profit. With the exception of our UK Gas Distribution business, we saw increases in adjusted operating profit across all of our business segments.