NATIONAL GRID PLC
Form 20-F
June 10, 2013
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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

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

For the fiscal year ended 31 March 2013

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

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 Section15(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 March 31, 2013 was

Ordinary Shares of 11 17/43 pence each	3,794,575,998

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes þ 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 þ

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 þ 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 þ	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 þ Other ¨

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 þ

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 2013 and is dated 10 June 2013. Details of events occurring subsequent to the approval of the annual report on 15 May 2013 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.

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Form 20-F Cross Reference Table

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Headlines

£3,644m +4%
Adjusted operating profit 2011/12: £3,495m

£3,754m +6%
Operating profit 2011/12: £3,539m

56.1p +12%
Adjusted earnings per share 2011/12: 50.0p (i)

62.6p +13%
Earnings per share 2011/12: 55.6p (i)

£23.8bn +7%
UK regulatory asset value 2011/12: £22.2bn

$15.0bn +4%
US rate base 2011/12: $14.5bn

40.85p +4%
Ordinary dividends 2011/12: 39.28p

11.2%
Group return on equity 2011/12: 10.9%

Excludes the impact of exceptional items, remeasurements and stranded cost recoveries. See page 50 for more information about these adjusted profit measures.

(i) Comparative earnings per share data has been restated for the impact of the scrip dividend issues.

Our financial results are reported in sterling. The average exchange rate, as detailed on page 50 was $1.57 to £1 in 2012/13 compared with the average rate of $1.60 to £1 in 2011/12. Except as otherwise noted, the figures in this Report are stated in sterling or US dollars. All references to dollars or $ are to the US currency.

Segmental reporting

The performance of our principal businesses is reported by segment, reflecting the management responsibilities and economic characteristics of each activity.

Throughout this Report, the following colours are used to indicate references to a particular segment:

UK Transmission

UK Gas Distribution

US Regulated

Activities which do not fall within these segments are reported separately and are identified as:

Other activities

Discussion relating to the Company as a whole is identified as:

Company activities

Important dates

5 June 2013

Ordinary shares go ex-dividend for 2012/13

24 July 2013

Scrip election date

29 July 2013

Annual General Meeting and interim management statement

21 August 2013

2012/13 final dividend paid to qualifying shareholders

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We have changed the way we present our Annual Report and Accounts so we can describe strategic information and our business model in a way that we believe is easier to understand. This information is set out in our Strategic Review, with more detailed information, where relevant, included in Additional Information.

We use a number of technical terms and abbreviations within this document. In the interest of saving paper, we do not define terms or provide explanations every time they are used; please refer to the glossary on pages 190 to 193 for this information.

Directors Report

The Directors Report, prepared in accordance with the requirements of the Companies Act 2006 and the UK Listing Authority s Listing, and Disclosure and Transparency rules, comprising pages 6 to 91 and 170 to 189, was approved by the Board and signed on its behalf by:

Alison Kay

Group General Counsel & Company Secretary

Company number 4031152

15 May 2013

Important notice

This document 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. For a description of factors that could affect future results, reference should be made to the full cautionary statement on the back cover of this document and to the risk factors section on pages 176 to 178.

Strategic Review pages 01 to 57

Corporate Governance pages 58 to 91

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

Financial Statements pages 92 to 169

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.

Additional Information pages 170 to 196

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.

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Strategic Review

Chairman s statement

The Board is proposing a

recommended final dividend of

26.36p

2011/12: 25.35p

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.

Sir Peter Gershon

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Strategic Review

Chief Executive s review

Impressions and reflections on 2012/13

It has been another hugely important year for National Grid, both in the UK and US. We have been working hard to secure appropriate regulatory arrangements while bedding down significant organisational changes on both sides of the Atlantic.

These activities create the foundation for our long-term success, in continuing to meet the needs of our customers, delivering our targeted returns and securing long-term financing for important investments.

In the US, following our restructuring and cost reduction programme, we have continued to embed the process changes we have introduced.

Superstorm Sandy tested the improvements we had made to our emergency response processes. Throughout 2012, we worked to improve these processes, from training and customer communications through to the way we work on damage assessment, repairing assets and providing accurate estimated times of restoration.

We also had to respond to a significant snowstorm in the US during the early part of 2013. As with Sandy, our employees hard work and dedication made sure that we were able to restore power to our customers quickly and efficiently.

How we performed during 2012/13

After a challenging 2011/12, we boosted our efforts to improve our safety performance. Regrettably, in early April 2013 one of our contractors was fatally injured while working on a gas main upgrade near Albany, New York. We have been thoroughly investigating this tragic event in order to learn from it and prevent a recurrence.

Safety is not just about keeping our people safe. It is also about making sure members of the public are not put at risk by our operations and we have seen significant progress in this area, with a 41% reduction in injuries to members of the public compared with last year.

We are committed to raising the standards of visible safety leadership across the business and supporting a culture of instinctive safety in our people. We have also been maintaining a relentless focus on process safety, supported by a new process safety management system.

We have delivered good financial performance across our businesses with a 12% increase in adjusted earnings per share. For more information on our financial results see page 06.

I am delighted that we received commendations for our contribution to the success of the London 2012 Olympic and Paralympic Games, working closely with the London Organising Committee to safely ensure resilient energy supplies to the venues.

However, there are areas that we need to improve. For example, in the UK we have a massive challenge to deliver the energy infrastructure the country needs, while minimising the impacts on communities and the environment. We know we need to change the way we engage with our stakeholders and the public about our infrastructure plans. We are making efforts to focus on this through a campaign called Powering Britain s Future. We have held a number of forums bringing together leaders from across the energy industry with stakeholders from government, consumer and environmental groups. Our aim is to develop a clearer energy story and explain the difficult decisions that need to be taken when balancing the need for, and cost of, this new infrastructure with protecting the landscape.

We are encouraging a national conversation about the UK energy challenge and a platform for people to share their ideas is provided at www.poweringbritainsfuture.co.uk.

In the US, we updated and consolidated our many legacy systems on to one single platform. With a system implementation of this scale and complexity we expected some difficulties following go live. We have, however, experienced operational difficulties that significantly exceeded our expectations and we have devoted significant time and resources to resolving these.

Learning from these challenges and events is particularly important if we are to drive continuous improvement.

Changes in regulation

We are restructuring our UK business, which includes focusing the organisation on four main end-to-end processes that deliver our regulatory outputs and value to our customers.

The changes aim to make sure we are well positioned to deliver value under RIIO, the new regulatory framework, and are prepared for our potential new role under Electricity Market Reform (EMR). This is intended to provide greater financial certainty to generation companies and aid growth of greener sources of power that will need connecting to the grid.

In the US, we will continue to submit rate filings so we can appropriately recover our cost of operations and invest so we can provide for the safe, reliable and efficient delivery of energy to customers. Over the past year, we received unanimous approval from RIPUC for rates that took effect in February 2013. Our New York filing also received unanimous approval, with new rates taking effect in April 2013.

People

I am committed to developing all our employees to the best of their abilities. I am also determined to create an inclusive, high performance culture at National Grid. We need people with the right skills and experience to meet the current and future requirements of our business. This will include a mixture of

experienced engineers and development programme trainees, from apprentices to graduates. That means we need people with STEM (science, technology, engineering and mathematics) skills, so I believe it is important for us to continue the work we are doing with schools, to inspire the next generation of engineers and technicians.

This will help us achieve our refreshed vision *connecting you to your energy today, trusted to help you meet your energy needs tomorrow* .

The results of our 2013 employee opinion survey, completed by 79% of our employees, included an engagement score of 63%. This is an important measure. It highlights, for example, the extent to which employees would recommend National Grid to others as a place to work, as well as giving their time and energy to make it a success. For more information see page 39.

In the previous year s survey, employees told us we could increase the opportunities we provide for personal development. Consequently, among the initiatives we have introduced is the development of an academy a global, centralised hub of all our learning and development. This provides a clear learning path for all our employees that is aligned to the needs of the business. It brings together and shares best practice from our own Company, as well as from our external partners.

I am proud of all our employees who have volunteered in their local communities, giving their time, skills and enthusiasm to support a wide range of projects. These ranged from environmental initiatives to projects helping young people improve their STEM skills, as well as supporting our various partner charities, such as Special Olympics GB, Girls Inc. in the US and City Year in both countries. I would like to take this opportunity to say thank you to everyone who has been involved in these valuable initiatives.

Our priorities for next year

- **Safety** our safety performance is moving in the right direction but it remains a top priority for us as we seek to achieve a world-class safety level;
- **Execution** we will only succeed if we deliver on our commitments consistently, effectively and efficiently. Performance matters and we have to push ourselves as hard as we can to drive the performance edge we will need this year; and
- **Customer and communities** we have refined a lot of our processes so customers and communities are at the heart of our focus, but we still have a lot more to do.

Steve Holliday

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Strategic Review

Financial review   in brief

This year has seen good financial performance. Our financial measures have mostly improved compared with the prior year and we continue to see opportunities for growth in the future.

52% +100 bps

Total shareholder return

£3,644m +4%

Adjusted operating profit*

56.1p +12%

Adjusted EPS*

£4,037m -10%

Cash generated from operations

13.6% +60 bps

UK return on equity

9.2% +40 bps

US return on equity

£33.7bn +8%

Regulated assets: UK RAV and sterling equivalent of US rate base

* Items presented as adjusted exclude exceptional items, remeasurements and stranded cost recoveries. See pages 50 and 51 for further details

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

Total shareholder return (TSR)

We measure TSR as a key performance indicator (KPI) on a cumulative three year basis. The measure reflects changes in our share price and also assumes dividends paid to shareholders over that period were reinvested in our shares. Cumulative TSR for the period 1 April 2010 to 31 March 2013 was 52% (1 April 2009 to 31 March 2012: 51%; 1 April 2008 to 31 March 2011: 4%). This reflects our strong dividend yield as well as the recovery in the financial markets since 2008/09.

Earnings measures

Adjusted operating profit

Our adjusted operating profit has increased 4% to a record high of £3,644 million, driven by higher net regulated income in our UK Transmission and UK Gas Distribution businesses of £277 million and £85 million respectively, as a result of the impact of inflation and other price control allowances. Our US Regulated business further contributed as a result of higher Niagara Mohawk deferral recoveries and higher revenues from the increase in rate bases of our FERC regulated entities.

Major storms in the US (Superstorm Sandy and Storm Nemo) had an adverse impact on operating profit of £136 million in 2012/13, £20 million higher than the costs of Tropical Storm Irene and the Massachusetts October snowstorm in 2011/12. Timing benefits of £16 million in 2012/13 were in line with the £18 million net benefit in 2011/12.

The £105 million decrease in adjusted operating profit for 2011/12 compared with 2010/11 was due to adverse timing differences of £256 million and higher storm costs in the US of £116 million (due to Tropical Storm Irene and the October snowstorm in Massachusetts). These were partially offset by an increase in UK regulated revenues of £220 million and improved results from other activities.

Adjusted earnings and EPS

Our adjusted net interest charge remained broadly level with 2011/12 at £920 million, with a reduction in the cost of our index-linked debt offsetting the impact of higher debt levels and loss on disposal of financial instruments. The £217 million decrease in adjusted net finance costs in 2011/12 to £917 million was mainly due to: lower interest rates on short term instruments; lower debt repurchase costs; the benefit of lower average net debt as a result of those debt buy backs; and a favourable variance in pension interest due to a higher than expected rate of return on US pension assets.

Our adjusted tax charge was £69 million lower than 2011/12, mainly due to changes in tax provisions in respect of prior years and a 2% decrease in the UK statutory corporation tax rate in the year, partially offset by increased taxes on higher taxable profits. As a result of this, our effective tax rate for 2012/13 was 25.0% (2011/12: 29.2%; 2010/11: 29.2%). The 2011/12 effective tax rate before exceptional items, remeasurements and stranded cost recoveries did not change from 2010/11 because a fall in prior period tax credits was primarily offset by a 2% reduction in the UK corporation tax rate and a change in the UK/US profit mix.

The above earnings performance has translated into adjusted EPS growth in 2012/13 of 6.1p (12%) (adjusted EPS growth in 2011/12 of 0.4p (1%)). The impact of the movements above on adjusted EPS for 2011/12 and 2012/13 has been shown in the chart opposite:

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Cash generated from operations

Cash generated from operations was £4,037 million (2011/12: £4,487 million; 2010/11: £4,854 million). Adjusted operating profit before depreciation, amortisation and impairment increased by £228 million year on year, however this was offset by a year-on-year reduction in working capital of £556 million and the cessation of stranded cost recoveries in 2012/13 (£247 million received in 2011/12). The adverse working capital is driven by the US, due to the timing of cost recoveries from LIPA relating to Superstorm Sandy, as well as increased receivables due to a colder winter and higher commodity prices in 2013 compared with 2012.

The reduction in cash generated from operations from 2010/11 to 2011/12 reflected lower operating profits, unfavourable movements in the UK due to higher Gas Distribution receivables, higher pension deficit payments and lower stranded cost recoveries than in 2010/11. These were offset by working capital movements due to the weather in the US (including lower receivables due to the milder winter, lower gas costs and improved collections).

Asset return measures

UK return on equity

The UK ROE has increased 60 bps to 13.6%, mainly driven by outperformance in the gas transmission and distribution businesses against allowed returns, as well as the benefit of a lower tax charge in the period. Our electricity transmission returns have remained broadly constant year on year. The UK ROE for 2012/13 has now returned to the same level as 2010/11, following UK RAV growth driven by RPI and investment in 2011/12.

US return on equity

The US ROE has increased 40 bps to 9.2%, mainly driven by customer growth in our Massachusetts Gas business and recognition of the full allowed return in our Niagara Mohawk electricity business following the reversal of a prior period provision. The increase of 50 bps from 2010 to 2011 mainly related to the impact of our restructuring savings and the full-year impact of our new Massachusetts Gas rate plan which was effective from November 2010.

Regulated assets

Our regulated assets have increased by £2.5 billion, reflecting the continued high levels of investment in our network in both the UK and US. The UK RAV increased by £1.6 billion reflecting inflation and significant capital expenditure in our UK Transmission business in particular. The US rate base increased by £0.9 billion, £0.5 billion due to foreign exchange movements and £0.4 billion due to investment in our networks and working capital movements.

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Strategic Review

Our vision and strategy

Our vision sets out our intentions and aspirations at the highest level, while our strategic objectives outline what we need to do to achieve that vision.

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What our vision and strategic objectives mean to us

Our vision sets out 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 sustainable energy infrastructure.

Deliver operational excellence achieve excellent 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.

Excellence in operational processes should allow us to manage our assets efficiently, deliver network improvements quickly and provide services that meet the changing demands of customers. Engagement with our customers and communities will make sure our outputs reflect their needs and priorities. It will help maximise the benefits our stakeholders derive from the value we deliver.

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. Creating an engaged and talented team that is aligned 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 good place to work.

Stimulate innovation promote new ideas to work more efficiently and effectively.

Our commitment to promoting innovation underpins how we will run our networks more efficiently and effectively and deliver on our regulatory incentives. Across our business, we will explore new ways of thinking and working to benefit every aspect of how we deliver on our customer and stakeholder commitments.

Embedding innovation and new technology into our operations makes sure we deliver continuous improvements in the quality and cost of our services.

Engage externally work with external stakeholders to shape UK, EU and US energy policy.

Policy decisions by regulators, governments and others directly affect our business. We engage widely in the energy policy debate, making sure our position and perspective shape future policy direction. We also engage with our regulators to manage uncertainty and provide the right mechanisms so we can deliver infrastructure that meets the demands of a changing energy landscape.

Embed sustainability integrate sustainability into our decision making to create value, preserve natural resources and respect the interests of our communities.

Our long-term sustainability strategy sets our ambition to deliver these aims and to embed a culture of sustainability within our organisation. That culture will make sure we 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.

Drive growth grow our core businesses and develop future new business options.

We continue our aim of gaining the best possible 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.

We review investment opportunities carefully and will only invest where we can reasonably expect to earn an adequate return. 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.

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.

Shareholder value

Regulatory frameworks operating under robust regulatory frameworks can help to reduce cash flow volatility. Shaping these frameworks to maintain a balance of risk and return underpins our investment proposition.

Reputation, safety and capability our approach to safety and our reliability record underpin our reputation and brand. These are important factors that enable positive participation in regulatory discussions and the pursuit of new business opportunities.

Efficient operations efficient capital and operational expenditure allows us to deliver regulatory outputs at a lower cash cost and reduces working capital requirements.

Maximising revenues positive performance under incentive mechanisms, and delivery of the outputs our customers and regulatory stakeholders require, helps us to maximise allowed revenue.

Funding and cash flow management positive net cash flows and an innovative funding strategy help to deliver long-term growth. Outperforming the allowed cost of debt can provide improved profitability.

Disciplined investment we can achieve future revenue and earnings growth by increasing our regulatory asset value and rate base in line with regulatory capital allowances. Investment in non-regulated assets helps us to use and enhance our core capabilities with the aim of delivering attractive returns.

Customer and community value

Safety and reliability providing reliable networks in a safe way is at the core of customer expectations.

Affordability providing services in a cost efficient way helps to reduce the impact on customer bills.

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

Environmental sustainability we aim to protect the environment and preserve resources for current and future generations.

Emergency services we provide telephone call centres, coordinate the response to make safe unplanned gas escapes and respond to severe weather events.

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

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Strategic Review

Operating environment

Our operations are influenced and affected by what is going on in the world around us. We shape our decision making to try and balance the impact of these external factors, so we can deliver value for our customers, shareholders and other stakeholders.

Macroeconomic factors

Our rate plans and price controls are agreed against the backdrop of the broader macroeconomic environment.

In the UK, low economic growth is projected in 2013 and, as a result, it is unlikely that we will see a significant decline in the unemployment rate during 2013.

Unemployment in the US has seen a slow but steady decline throughout 2012. However, with only modest growth forecast for 2013 this is likely to remain high for a while. In the US, we retain some risk of bad debts when customers are unable to pay their bills, so these conditions can have a more direct impact on our financial performance.

In the US, consumer confidence has remained weak, with more people believing that business conditions will worsen in the short term than those believing they will improve. This view puts considerable downward pressure on bills. We must accommodate our customers affordability concerns while fulfilling our obligations to provide safe and reliable services and making necessary system investments.

The environment for infrastructure investment in the UK and Europe is evolving, with new investors continuing to be attracted to regulated assets. Sovereign wealth and infrastructure funds are becoming more prominent investors in UK assets.

In the US, we saw a number of major utility mergers during 2012 as our peers and competitors sought to gain efficiencies from greater scale and position themselves for growth opportunities. We have also seen independent transmission developers pursuing large scale projects connecting wind power across the country, as well as prominent utilities investing capital in non-regulated solar assets.

Changing energy mix

Our networks exist to transmit and distribute energy from its source to its place of use. Changes to the energy mix and location of centres of supply and demand will create pressures on our networks. We may need to continue to invest in our networks to meet these challenges.

In the UK, some older coal fired power stations are closing to comply with the Large Combustion Plant Directive and recent fuel prices have reduced the economic viability of gas fired power stations to the point where some are now being mothballed or closed. Looking further ahead, a continued decline in fossil fuel fired electricity generation is to be expected if the government s carbon reduction targets are to be met.

New low carbon generation will not necessarily be located in the same place as existing plant and will probably require new connections. Where gas comes into the UK is also changing with forecast reductions in North Sea production and increased reliance on imported gas. We will need to adapt our network to ensure sufficient capacity is in place to move gas from these different source locations to the demand centres.

In the US, increased gas supplies, resulting from developments in shale gas, have led to lower gas prices and created increased demand. This is fuelling growth of gas distribution as customers convert to gas.

Additionally, our electricity distribution customers benefit from lower electricity prices as gas fired generation often sets the market price for electricity in the northeastern US. As more generation plants convert to low priced natural gas, opportunities for investment in additional gas network capacity may arise.

Energy policy

Policy decisions by governments, government authorities and others can have a direct impact on our business. They can affect the amount and location of investment required in our networks and the way we operate. They can also change our compliance obligations. Understanding the evolving policy environment is important to understanding the challenges and opportunities we have ahead.

In the UK, energy policy continues to evolve from the Climate Change Act 2008 which commits the UK government to reducing UK greenhouse gas emissions to a level at least 80% lower than a 1990 baseline by 2050.

In November 2012, the Energy Bill, which implements the main aspects of Electricity Market Reform (EMR), was introduced to parliament. EMR seeks to set out the future industry context and promote investment in low carbon generation by providing greater financial certainty to investors. The Energy Bill is expected to receive Royal Assent this year.

At a European level, the three cornerstones of sustainability, security of supply and affordability underpin energy policy. Greater levels of market integration, interconnection and renewable generation are fundamental to achieving these policy objectives. While European developments present challenges, the significant level of investment required may create opportunities for growth.

In the US, many of the developments at a federal level have been through federal agency regulations and Presidential executive orders. We have supported some additional requirements, such as those of the Environmental Protection Agency (EPA) to implement new air and water quality regulations. We are also working with EPA to ensure our Long Island power generation fleet complies with any new regulations and to remediate contaminated sites where we hold legacy liability.

At a state level, energy policy continues to evolve in the northeastern US. This is driven by interest in promoting energy efficiency, maintaining reliability and deploying renewable technologies that help meet environmental and energy diversity goals.

All of the states in which we operate have standards that meet or exceed EPA s regulations. In particular, the nine northeastern states that participate in the Regional Greenhouse Gas Initiative agreed to reduce power plant emissions and increase funding for energy efficiency and clean energy.

Regulatory developments

In the UK, the regulatory focus during the year has been the finalisation of the new RIIO price controls. RIIO gives greater focus to incentives and innovation than the previous regulatory regime.

The projected increase in offshore wind generation and interconnection has created a debate on the regulatory approach to electricity transmission investment a debate we are fully engaged in. Competition is already in place for offshore development in the UK and Ofgem has stated its intent to retain the option of using greater competition for certain large onshore projects.

In the US, we have completed new rate filings for our gas and electricity businesses in New York and Rhode Island. In Massachusetts, we are actively involved with the Massachusetts Commission and neighbouring utilities in the grid modernisation notice of inquiry. This addresses grid reliability during extreme weather conditions, system efficiency and interconnection of distributed generation.

We are also actively involved in the New York Energy Highway initiative to examine new ways of delivering infrastructure in the state. All these initiatives will present new opportunities to respond to customers needs and build the necessary infrastructure to address these needs.

In addition to the investment required for new connections and to meet the challenges of changing supply and demand patterns, we need to replace ageing infrastructure in both the UK and US. Cast iron gas mains still in use can be more than 100 years old and over time can create a safety risk and also contribute to greenhouse gas emissions through leaks.

The recent severe weather in the US has also highlighted the potential need for additional investment in network resilience. Regulators and policymakers are beginning to ask utilities to put plans in place to strengthen their networks ability to withstand the effects of severe weather.

Innovation and technology

New technology can change the way we do business. The pace of technological development in the energy sector is accelerating as new technologies take shape and approach commercial viability. HVDC technology could play an important part in the development of a more integrated electricity grid, particularly the extension of offshore links. While carbon-based generation is likely to remain a significant part of the global energy mix, carbon capture and storage technologies may become critical to governments achieving their climate change targets. Technologies such as energy storage, electric transportation and distributed generation, all have the potential to affect our networks significantly.

The development of smart grids will change how loads are balanced across the distribution network. It will allow our customers to make smarter energy choices and will increase network flexibility. New consumer products, such as alternative fuelled vehicles and distributed generation, will increase demand and require new infrastructure.

Innovation goes further than new technology. We need to increase the flexibility of our infrastructure to respond to developments as they arise. This can mean managing energy and networks differently, rather than creating new infrastructure to meet supply and demand changes.

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What we do

Electricity

The electricity industry connects generation sources to homes and businesses via transmission and distribution networks. Electricity is sold to consumers by companies who have bought it from the generators and pay to use the networks across which it is transmitted.

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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.

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Principal operations

UK Transmission

What we do

We own the electricity transmission system in England and Wales. Our networks comprise approximately 7,200 kilometres (4,470 miles) of overhead line, 1,400 kilometres (870 miles) of underground cable and 329 substations. We are also the national electricity transmission system operator, responsible for both the England and Wales transmission system, and the two high voltage transmission networks in Scotland, which we do not own.

Day-to-day operation of the system involves the continuous real-time matching of demand and generation output. We are also designated as system operator for the new offshore electricity transmission regime.

We own and operate the gas national transmission system in Great Britain, with day-to-day responsibility for balancing demand. Our network comprises approximately 7,660 kilometres (4,760 miles) of high pressure pipe and 23 compressor stations.

Principal risks

- The energy landscape in the UK and Europe is changing. These changes could have an impact on our business so it is important that we are involved in the discussions surrounding their development.
- In order to deliver strong financial and operational performance under RIIO, we will need to successfully complete multiple complex business improvement and transformation activities that will affect our people, processes and systems.
- Delivery of construction projects, to which we are committed, may be affected if we are unable to obtain planning consents in a timely manner.
- Our operations could be disrupted by industrial action by employees.

Where we are heading

2012/13 has been a significant year, marking the start of a major transformation programme that will enable us to respond to our changing external and internal operating environment.

Having established an operating model that allows us to see and understand more clearly the performance of our regulated businesses, we are now focused on driving performance to make sure we meet the needs of our customers and stakeholders and deliver value under the new price controls.

In particular we will need to be sharper in our commercial relationships, driving the performance of our contractors.

We have been asked by DECC to act as delivery body for its potential electricity market reforms (see page 10). We will carry out analysis to help inform Government decisions on energy policy, as well as administering key parts of the enduring regime.

How we are progressing

- Delivered strong safety, operational, customer and financial performance in 2012/13.
- Secured new eight year price controls for electricity transmission and gas transmission.
- Emphasised end-to-end electricity and gas transmission processes in our organisational design.
- Refined our organisational design and appointed managers into their roles. We are reducing the number of manager roles by 22% and, at the same time, we have clearly articulated people s accountabilities.
- Fundamentally changed our partnering approach for delivering major transmission capital projects. This involves revised contracts with our electricity alliance partners that make accountability clearer. We have also introduced additional layers of competition for delivery of some aspects of our work.

Priorities for the year ahead

- Continue to improve safety performance and maintain focus on specific areas including induced voltage.
- Build on the foundations we have established during 2012/13 and deliver under the first year of our new price control.
- Embed the organisational design through all layers of our business.
- Define and embed new ways of working.
- Continue to enhance our capabilities in process and performance excellence, as well as commercial and contract management.
- Increase innovation to help us meet the output measures we are committed to delivering under RIIO.
- Continue to work closely with DECC and Ofgem to help inform and manage security of supply through a period of significant change in the UK energy market.

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UK Transmission

The results of the UK Transmission segment for the years ended 31 March 2013, 2012 and 2011 were as follows:

	Years ended 31 March		
	2013 £m	2012 £m	2011 £m
Revenue	**4,246**	3,804	3,484
Operating costs excluding exceptional items	**(2,637)**	(2,450)	(2,121)
Adjusted operating profit	**1,609**	1,354	1,363
Exceptional items	**(43)**		(70)
Operating profit	**1,566**	1,354	1,293

Principal movements (2010/11 2012/13)

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Strategic Review

Principal operations

UK Gas Distribution

What we do

We own and operate four of the eight regional gas distribution networks in Great Britain. Our networks comprise approximately 131,000 kilometres (82,000 miles) of gas distribution pipeline and we transport gas from the gas national transmission system to around 10.9 million consumers on behalf of 26 gas shippers. Gas consumption in our UK networks was 306 TWh in 2012/13 compared with 259 TWh in 2011/12.

We manage the national gas emergency number (0800 111 999). This service, along with the enquiries lines, appliance repair helpline and meter enquiry service, handled 2,480,669 calls during 2012/13.

Principal risks

- The potentially dangerous nature of our activities, for our employees, contractors and the public, drives us to stay focused on process and personal safety.
- Our ability to deliver our operational performance and standards of service relies on the underlying availability, accuracy and integrity of our businesses systems and data.
- In order to deliver strong financial and operational performance under RIIO, we will need to realise the benefits of our end-to-end business processes and new contractual arrangements with our alliance partners.
- Our operations could be disrupted by industrial action by employees.

Where we are heading

Two years into our transformation programme in Gas Distribution, we have established the foundations for success under RIIO. We will now build on this so we can meet the needs of our customers and stakeholders and deliver value under the new price control.

Our customers and stakeholders have told us what they expect of us through the RIIO talking networks consultation, so we will continue to make sure we can provide a safe and reliable service at the right cost.

To make sure our transformation is sustainable we will continue to develop a culture of process and performance excellence so that all our people, including supervisors and field force, are empowered to innovate and improve our business.

We will also increase our commercial and contract management capability to make sure we can drive the performance of our contractors who deliver a significant proportion of our work.

How we are progressing

- Delivered strong safety, operational, customer and financial performance in 2012/13.
- Secured a new eight year price control for Gas Distribution.
- Completed the roll out of new systems and processes through our Gas Distribution front office (GDFO) project a significant milestone in our transformation programme. All four of our gas distribution networks are now using GDFO systems to help deliver our major processes: emergency response, repair, mains replacement and connections.
- Maintained our focus on process and performance excellence by continuing to build skills and capabilities and further strengthening a culture of continuous improvement.
- Agreed new terms and conditions with our 1,900 directly employed field force employees. The new arrangements support improved productivity and increased flexibility, so we can perform under RIIO.
- Agreed new contracts to deliver £3.5 billion of investment (primarily mains replacement and connections). These Gas Distribution strategic partnerships align our contract partners incentives with the way we are incentivised under RIIO.

Priorities for the year ahead

- Continue to improve safety performance and maintain focus on specific areas, including reducing cable strikes and safer operation of road vehicles.
- Maintain a strong focus on the service we provide to our customers, including improving our response to complaints and enquiries and showing our customer facing employees how customers rate the service they provide.
- Continue to build our capabilities in process and performance excellence, as well as commercial and contract management.
- Work closely with our Gas Distribution strategic partners so we change to the new contracts quickly and smoothly. An effective transition will help make sure we maintain a high standard of work, strong safety and customer performance and continue to meet work delivery targets.
- Increase innovation to help us meet the output measures we are committed to delivering under RIIO.

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UK Gas Distribution

The results of the UK Gas Distribution segment for the years ended 31 March 2013, 2012 and 2011 were as follows:

	Years ended 31 March		
	2013	**2012**	**2011**
	£m	**£m**	**£m**
Revenue	**1,714**	1,605	1,524
Operating costs excluding exceptional items	**(920)**	(842)	(813)
Adjusted operating profit	**794**	763	711
Exceptional items	**(31)**	(24)	(40)
Operating profit	**763**	739	671

Principal movements (2010/11 2012/13)

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Strategic Review

Principal operations

US Regulated

What we do

We own and operate electricity distribution networks in upstate New York, Massachusetts, and Rhode Island. Through these networks we serve approximately 3.4 million electricity consumers in New England and upstate New York.

We also own and operate 50 electricity generation units on Long Island that together provide 3.8 GW of power under contract to LIPA. Our plants consist of oil and gas fired steam turbine, gas turbine and diesel driven generating units ranging from 2 MW to 385 MW.

Our US gas distribution networks provide services to around 3.5 million consumers across the northeastern US, located in service territories in upstate New York, New York City, Long Island, Massachusetts and Rhode Island. We added 29,925 new gas heating customers in these areas in 2012/13.

We are responsible for billing, customer service and supply services. We forecast, plan for and procure approximately 13.9 billion standard cubic metres of gas and 30 TWh of electricity annually across three states.

We own and operate an electricity transmission system of approximately 14,000 kilometres (8,700 miles) spanning upstate New York, Massachusetts, Rhode Island, New Hampshire and Vermont operating nearly 160 kilometres (100 miles) of underground cable and 522 substations.

We also maintain and operate the electricity transmission and distribution system on Long Island owned by LIPA, covering 3,185 square kilometres (1,230 square miles). Our contract with LIPA expires on 31 December 2013, and we will continue to service and provide support during the transition process.

Principal risks

- The potentially dangerous nature of our activities, for our employees, contractors and the public, drives us to stay focused on process and personal safety.
- Our approach to preventing and responding to catastrophic gas or electricity network interruptions is affected by the increasing frequency and severity of storms and evolving stakeholder expectations.
- The transformation of our information systems may fail to deliver anticipated benefits, which could affect our US business plan or cause delays to financial reporting that breach our debt covenants.
- Our ability to recover incurred expenditure in a timely manner may be affected by the changes in regulation or decisions by regulators on regulatory filings.

Where we are heading

Having reorganised our US businesses in 2011 under a model that acknowledges our regulatory jurisdictions, we have introduced a programme that aims to make sure operational excellence is a hallmark of our processes and culture by 2015.

We call this journey towards operational excellence Elevate 2015 and it focuses on eight end-to-end business processes. During 2012/13, we focused on our meter to cash and emergency response processes. Others are now taking shape, including workplace safety, network operations, rate case management, customer service and asset maintenance.

As we enhance each business process, our decision-making criteria are governed by four main principles: safety and reliability, stewardship, customer responsiveness and cost competitiveness.

How we are progressing

- Overall reliability improved for our electricity and gas businesses despite the severe weather events experienced.
- Significant improvements to our emergency preparedness processes to better address safety, customer satisfaction and restoration response time. During Superstorm Sandy (see page 37) and Storm Nemo our restoration efforts were lauded by community leaders, regulatory officials and customers for our emergency preparedness, community outreach and communication, as well as relatively swift restoration times.
- New rate cases filed for our upstate New York and Rhode Island gas and electricity businesses, each of which was approved by its respective regulatory body. Officials praised the quality of the Company s rate case plan and supporting data as well as our community outreach and communications.
- We implemented our new enterprise resource planning system in November and December which, in time, is expected to enable further operational efficiencies and support process improvements.

Priorities for the year ahead

- Drive our focus and behaviours to prevent injuries and safeguard the public.
- Improve the customer experience through end-to-end process excellence and delivery of our work plan on time and on budget.
- Embed the new system into our end-to-end processes and begin to extract value from this investment in line with our plan.
- Embed a regulatory focus and rate case readiness into our business practices and systems. Commence preparations for expected rate case filings in calendar year 2014 for the electricity business in Massachusetts and the gas businesses in downstate New York and Long Island.
- Increase the level of our engagement with and volunteering in our communities.

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US Regulated

The results of the US Regulated segment for the years ended 31 March 2013, 2012 and 2011 were as follows:

	Years ended 31 March		
	2013	**2012**	**2011**
	£m	**£m**	**£m**
Revenue excluding stranded cost recoveries	**7,918**	7,516	8,391
Operating costs excluding exceptional items, remeasurements and stranded cost recoveries	**(6,665)**	(6,326)	(6,984)
Adjusted operating profit	**1,253**	1,190	1,407
Exceptional items and remeasurements	**170**	(296)	(51)
Stranded cost recoveries	**14**	260	348
Operating profit	**1,437**	1,154	1,704

Principal movements (2010/11 2012/13)

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Strategic Review

Principal operations

Other activities

Grain LNG

Grain LNG is one of three LNG importation facilities in the UK. It was constructed in three phases becoming operational in 2005, 2008 and 2010 respectively. It operates under long-term contracts with customers and provides importation services, storage and send out capacity on to the national transmission system. We are exploring with customers a number of developments to the Grain site to enhance its revenue earning capability.

BritNed

BritNed is a joint venture between National Grid and TenneT, the Dutch transmission system operator, which built, and now owns and operates a 1,000 MW subsea electricity link between the UK and the Netherlands, which is approximately 260 kilometres (162 miles) in length. BritNed, which entered commercial operations on 1 April 2011, is a merchant interconnector that sells its capacity via a range of explicit and implicit auction products.

Metering

National Grid Metering (NGM) provides installation and maintenance services to energy suppliers in the regulated market in Great Britain. It maintains an asset base of around 15 million domestic, industrial and commercial meters. Through Ofgem s Review of Metering Arrangements, National Grid has been appointed National Metering Manager to facilitate the transition to smart metering in the domestic sector.

NGM has also been leading a pricing consultation to define the tariff caps to apply in future to traditional domestic gas metering. This process is due to conclude in summer 2013. In addition, NGM has been further developing its services in the industrial and commercial market.

NGM achieved its highest customer satisfaction scores for the last six years for both domestic, and industrial and commercial businesses.

UK Property

National Grid Property is responsible in the UK for the management, clean up and disposal of surplus sites, most of which are former gasworks. This year has seen us embedding our outsourcing agreement with Capita Symonds that was signed in May 2012 and our new tender arrangements for the clean up of contaminated land. Both of these have started to deliver operational and financial efficiencies in managing and cleaning up our surplus estate.

Xoserve

Xoserve delivers transactional services on behalf of all the major gas network transportation companies in Great Britain, including National Grid. Xoserve is jointly owned by National Grid, as majority shareholder, and the other gas distribution network companies.

US non-regulated businesses

Some of our US businesses are not subject to state or federal rate-making authority, including interests in certain of our LNG road transportation, certain gas transmission pipelines (the Millennium and Iroquois gas transmission pipeline projects are regulated by FERC, however our minority equity interests in them are not), and certain commercial services relating to solar installations, fuel cells and other new technologies.

Corporate activities

Corporate activities comprise central overheads, insurance and expenditure incurred on business development.

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Other activities

The results of our other activities segment for the years ended 31 March 2013, 2012 and 2011 were as follows:

	Years ended 31 March		
	2013 £m	**2012 £m**	**2011 £m**
Revenue	**642**	715	678
Operating costs excluding exceptional items	**(654)**	(527)	(559)
Adjusted operating (loss)/profit	**(12)**	188	119
Exceptional items		104	(42)
Operating (loss)/profit	**(12)**	292	77

Principal movements (2010/11   2012/13)

Strategic Review

Our Board

The successful delivery of our strategy is dependent upon attracting and retaining the right talent. This starts with our Board; a broad range of expertise and backgrounds ensures a good balance of skills, expertise and knowledge. However, creating a high performing Board where directors work well together is not just about skills and experience; it is also about behaviours and dynamics.

As already highlighted, the Board has been in a state of transition recently. This has allowed us to think hard about creating an inclusive and diverse culture that fosters positive behaviour and encourages dynamics to come to the fore of all boardroom interactions. We have used the opportunity of the Board refresh to widen the range of knowledge and background of the members. The appropriate skills base is complemented by a diversity of thinking styles . Hence, lively debate and constructive challenge is encouraged at all times; the boardroom is a place where questions are valued, no debate is discouraged and all Non-executive Directors have an equal voice regardless of their background, expertise and tenure.

This enables the Board to be a sounding board for ideas. Management are encouraged to bring their proposals before the Board during the development phase to allow the Non-executive Directors the opportunity to input, challenge and review prior to a project seeking full financial sanction. In this way, the Board works collectively to challenge the Company to deliver superior performance and enhances the Company s ability to understand and anticipate opportunities and challenges.

On these pages we set out the age, committee membership and tenure of our Board members. For their full biographical details, see pages 180 to 182.

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Our Chairman is responsible for the leadership and management of the Board and its governance. By promoting a culture of openness and debate, he facilitates the effective contribution of all Directors and helps maintain constructive relations between Executive and Non-executive Directors.

Our Chief Executive is responsible for the executive leadership and day-to-day management of the Company, to ensure the delivery of the strategy agreed by the Board. Through his leadership of the Executive Committee, he demonstrates commitment to safety, operational and financial performance.

Our Senior Independent Director acts as a sounding board for the Chairman and serves as an intermediary for the other Directors, as well as shareholders as required.

Independent of management, **our Non-executive Directors** bring diverse skills and experience, vital to constructive challenge and debate. Exclusively, they form the Audit, Nominations, Remuneration and SEH Committees, and have a key role in developing proposals on strategy.

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Strategic Review

Our governance structure

Our Board	Our Board is collectively responsible for the effective oversight of the Company and its businesses. It also determines the strategic direction and governance structure that will help achieve the long-term success of the Company and deliver sustainable shareholder value. The Board sets the risk appetite for the Company and takes the lead in areas such as safeguarding the reputation of the Company and financial policy, as well as making sure we maintain a sound system of internal control (see page 30). The Board s full responsibilities are set out in the matters reserved for the Board, available on our website. In line with these responsibilities and the key challenges and opportunities facing the Company, the Chairman sets the Board s agenda, making sure adequate time is available to discuss all agenda
Committee oversight	The Board delegates authority to its committees to carry out certain tasks on its behalf, so that it can These operate committees efficiently are summarised and give the below right level and their of attention full terms and of consideration reference are to available relevant on matters. our website. The committees communicate and work together where required for example, on some risk matters the Safety, Environment and Health Committee collaborates with the Audit Committee. Committee agendas and schedules of items to be discussed at future meetings are prepared in line with the terms of reference of each committee.

Audit Committee	Finance Committee	Nominations

		Committee
Oversees the Company s financial reporting, and internal controls and their effectiveness, together with the procedures for identifying, assessing and reporting risks. It also oversees the services provided by the external auditors and their remuneration.	Sets policy and grants authority for financing decisions, credit exposure, policy for hedging and foreign exchange transactions, guarantees and indemnities. It also approves other treasury, tax, pensions and insurance strategies or, if appropriate, recommends them to the Board.	Responsible for considering the structure, size and composition of the Board and committees, and succession planning. It also identifies and proposes individuals to be Directors and executive management reporting directly to the Chief Executive, and establishes the criteria for any new position.

Management

Executive Committee

Led by the Chief Executive, the Executive Committee oversees the safety, operational and financial performance of the Company. It is responsible for making day-to-day management and operational decisions it considers necessary to safeguard the interests of the Company and to further the strategy, business objectives and targets established by the Board. The committee plays a key role in the development of our people and driving a high performance culture. In line with common practice, the Executive Committee has ceased to be a committee of the Board; its levels of authority, role and responsibilities remain unchanged.

It approves expenditure and other financial commitments within its authority levels and discusses, formulates and approves proposals to be considered by the Board.

There are currently ten members of the committee. They have a broad range of skills and expertise, which are updated through training and development.

Some members also hold external non-executive directorships, giving them valuable board experience. The committee also considers succession planning and the talent pipeline to the committee.

The committee officially met 11 times this year, but the members interact much more regularly. Those members of the committee who are not Directors all regularly attend Board and committee meetings with Alison Kay, Group General Counsel & Company Secretary, secretary to the Board and Nominations Committee. This means that knowledge is shared and every member is kept up to date with business activities and developments.

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items, including strategic issues. In order to operate effectively, the Board receives accurate, timely and clear information, including updates on legal, regulatory, corporate governance and best practice matters and presentations by internal and external advisors. To strengthen the Directors knowledge and understanding of the Company, Board meetings regularly include updates and briefings on specific aspects of the Company s activities. Additionally, the Non-executive Directors are expected to visit at least one operational site to meet local management teams and discuss aspects of the business with employees.

Attendance at Board and committee meetings during the year is set out on page 62.

To support discussion and decision-making, committee members receive papers in advance of meetings so they can prepare for and consider agenda items. Where appropriate, subject matter experts give presentations and provide the opportunity for directors to ask questions. Following discussion, as appropriate, matters are endorsed, approved or recommended to the Board by the committee. The chairman of each committee provides the Board with a summary of the main decisions and discussion points so the other directors are updated.

For more information about the Board and its committees and examples of the matters that they have considered during the year, see Corporate Governance from page 58.

Remuneration Committee	**Safety, Environment and Health Committee**

Determines remuneration policy and practices to attract, motivate and retain high-calibre executive directors and other senior employees to deliver value for shareholders and high levels of customer service, safety and reliability.	In relation to safety, environment and health, the committee reviews the strategies, policies, initiatives, risk exposure, targets and performance of the Company and, where appropriate, of its suppliers and contractors. It also monitors the resources we use for compliance and driving improvement in these areas.

Management Committees

To help make sure we allocate time and expertise in the right way, the Company has a number of management committees, which include the Disclosure Committee (see page 65 for more details), Business Conduct Committees and the Global Retirement Plan Committee. These management committees provide reports, where relevant, to the appointing committee in line with our governance framework on the responsibilities they have been delegated.

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Strategic Review

Internal control and risk management

The Board is committed to protecting our reputation and assets, as well as safeguarding the interests of our shareholders. We achieve this through maintaining a sound system of internal control.

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Our system of internal control and, in particular, our risk management process, has been designed to support our strategic and business objectives as well as internal control over financial reporting. We aim to do this through:

- mitigating risk;
- making sure our information, including financial reporting, is accurate and reliable;
- complying with our obligations both internal and external;
- applying sound governance practices; and
- making informed and timely decisions to further our objectives.

As we have shown in the diagram opposite, the Board establishes the control environment. Supported by dedicated, specialist teams, it sets risk appetite, approves policies and monitors performance. Where appropriate it delegates authority to its committees.

Combined with the assessments completed by process owners, this top down and bottom up approach is used to maintain quality within the internal control process.

Our internal controls are designed to manage rather than eliminate material risks. We balance the costs of internal controls with the magnitude and likelihood of the risks being managed in light of our risk appetite.

Accurate and reliable information plays a vital role in our decision making, while education, training and awareness are all important elements that help us maintain effective internal controls.

Our internal control process starts with identifying risks, compliance matters and other issues. We do this through routine reviews carried out by process owners and facilitated by relevant dedicated, specialist teams. We record risks in our risk register, assess the implications and consequences for the Group and determine the likelihood of occurrence.

We put in place action plans, controls and other process improvements designed to address the risks and issues we have identified. We assess the effectiveness of our controls regularly and seek independent assurance where it is appropriate to do so.

We formally report the outcomes of our risk identification and control assessments to senior management and the relevant oversight bodies. This informs our decision-making and provides assurances about our internal controls to management and the Board.

We regularly monitor our action plans, other process improvements and the status of risks. The results of our review help update the process as the cycle continues.

Internal control over financial reporting

We have specific internal mechanisms to govern the financial reporting process and the preparation of the Annual Report and Accounts. Our financial controls guidance sets out the fundamentals of internal control over financial reporting which are applied across the Group and the group accounting guides provide guidance on our accounting policies.

Within our processes we have system, transaction and oversight controls. In addition, our businesses prepare detailed monthly management reports which include analysis of their results along with comparisons to relevant budgets, forecasts and prior year results. These are presented to and challenged by senior management within Finance. The Finance Director, in turn, presents a consolidated management report to the Board.

These reviews are supplemented by quarterly performance reviews, attended by the Chief Executive and Finance Director. They discuss historical results and expected future performance and involve senior management from both operational and financial areas of the business.

Reviewing the effectiveness of our internal control

Each year the Board reviews the effectiveness of our internal control process, including financial reporting, to make sure it remains robust. The latest review covered the financial year to 31 March 2013 and the period to the approval of this Annual Report and Accounts. It included:

- the receipt of a letter of assurance from the Chief Executive which consolidates the main matters of interest raised through the year-end assurance process;
- where appropriate, assurance from our committees, with particular reference to the reports received from the Audit and SEH Committees on reviews undertaken at their meetings; and
- assurances about the certifications required under Sarbanes-Oxley as a result of our US reporting obligations.

Our internal control processes comply with the Turnbull guidance on internal control and the requirements of the UK Corporate Governance Code. They are also the basis of our compliance with obligations set by the Sarbanes-Oxley Act 2002 and other internal assurance activities.

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Strategic Review

What are the risks?

Below is an overview of some of the main risks we face that could have a material adverse effect on our business, financial condition, results of operations and reputation, as well as the value and liquidity of our securities. For a more comprehensive description, please see pages 176 to 178. We have included some examples of the actions implemented to address these risks. It is not always possible to eliminate a risk even where a response is in place and considered effective.

Some of our main risks

Risk description	Examples of mitigating actions
Aspects of the work we do could potentially harm employees, contractors, members of the public and the environment	We have established safety and occupational health plans, programmes and procedures that are aimed at continuous improvements in safety performance. Group wide initiatives are supplemented with specific regional safety programmes. These are aimed at addressing specific areas so that safety is at the forefront of every employee s mind. We also benchmark against other industry groups to seek and implement best practice. We continue to focus on process safety, aimed at preventing major incidents. This includes the process and procedures governing the development and design of our assets, as well as the competence of the people who will build, operate and maintain them. We monitor employee lost time injury frequency rate as a key performance indicator (KPI) as described on page 45. We also have other measures relating to personal and process safety, and use them to understand our safety strengths and identify any weaknesses we need to address.

Events outside our control, such as malicious attacks (including cyber security breaches) or severe storms, could cause a major network failure or compromise the security of our physical assets, processes, systems and data	We use industry best practices as part of our cyber security policies, processes and technologies. We continually invest in cyber strategies that are commensurate with the changing nature of the security landscape. Following the major US storms of 2011, we overhauled our emergency response processes and have since used the improved processes, tools and approach during our response to Superstorm Sandy and other severe weather events. We are using the lessons we have learnt to further refine the end-to-end process.
Our core business and growth strategies may be affected negatively by changes to our legal and regulatory framework and future energy policies	We participate in regulatory and energy policy development and implementation to help shape the outcomes. In the UK, we are working with DECC on its proposals relating to Electricity Market Reform. We have also restructured our business so we are prepared for our potential new role under Electricity Market Reform and to make sure we are well positioned to deliver value under RIIO. Our UK price controls have reopeners for some categories of expenditure where costs and volumes are currently uncertain; we can use these reopeners in certain circumstances to request additional allowances and output targets to be set when the cost and volumes become clear. In the US, we are maintaining our jurisdictional focus and we will continue to file new rate cases so our businesses can earn a fair and reasonable rate of return. Our rate filings include structural changes where appropriate, such as revenue decoupling mechanisms, capital trackers, commodity related bad debt true ups and pension and other post-employment benefit true ups, as described on pages 173 to 175.
Current and future business performance may not meet our expectations or those of our stakeholders	We have restructured our UK business as described above, establishing end-to-end process teams aimed at improving customer service and efficiency and building a culture of continuous improvement. We have a three-year US strategy (Elevate 2015) focused on safety and reliability, customer responsiveness, stewardship and cost competitiveness, with performance measures that are tracked and reported monthly. US jurisdictional presidents continue to develop strong relationships with local regulators and communities.

Our US business has implemented a new enterprise resource planning system. The successful delivery of this programme is seen as a key enabler for delivering our strategic objectives in the US.

We monitor network reliability, regulated controllable operating costs and customer satisfaction as KPIs, as described on pages 44 and 45.

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Some of our main risks

Risk description	Examples of mitigating actions
Business development decisions may not deliver targeted outcomes or meet all stakeholder expectations	We regularly monitor and analyse market conditions, competitors and their potential strategies, as well as the performance of our Group portfolio. We are also looking to access new sources of finance and capabilities through partnering. We have internal processes for the review and approval of investments in new businesses, disposals of existing ones and organic growth investment opportunities. These are reviewed and revised from time to time to ensure our approach supports our short- and long-term strategies. We undertake due diligence exercises on acquisition or partnering opportunities and carry out post-investment reviews to make sure lessons are learnt for the future.
Fluctuations in external market conditions, including foreign exchange, interest rates and commodity prices, could affect our financial position	Our treasury function manages financial risks, including foreign currency and interest rate risks, to within pre-authorised parameters and under policies and guidelines approved by the Finance Committee. For our US-based regulated businesses, within predefined risk parameters, we use forward purchase contracts for electricity, gas and electricity capacity, as well as derivative instruments linked to those commodities.
An inability to access capital markets at commercially acceptable interest rates could affect how we maintain and	We identify short-term liquidity and long-term funding requirements by regularly producing short- and long-term cash flow forecasts, along with undertaking financial headroom analysis. The assessment of our liquidity takes into account the regulatory requirements that may restrict our ability to pay

grow our business	dividends from some of our operating businesses. We maintain a number of commercial paper and medium-term note programmes to facilitate short- and long-term debt issuance. We manage refinancing risk by limiting the amount of debt maturities on borrowings in each financial year.
Customers and counterparties may fail to meet their obligations such as paying bills or delivering contracted services	Security deposits or other forms of collateral may be obtained from commercial and industrial customers to reduce the risk from customer default. In the US, we have processes and programmes aimed at minimising bad debts from retail customers. We maintain a diverse range of commodity suppliers to reduce the credit or non performance risk from the failure of any one supplier. The Finance Committee has agreed a policy for managing financial counterparty risk. This sets exposure limits based on an individual counterparty s credit rating from independent rating agencies. We also consider other leading indicators of counterparty financial distress and reduce exposure below the approved limits, if appropriate. Where multiple financial transactions are entered into with a single financial counterparty, a netting arrangement is usually put in place to reduce our exposure to the credit risk.
We may fail to attract, develop and retain employees and leadership with the competencies, values and behaviours required to deliver our strategy and vision	We introduced a new global leadership development framework in 2012. We are developing a global, centralised academy to allow us to gather and share best practice from within National Grid and from our external partners. This should help us build the skills and capabilities our business will need in the future, as well as contributing to employee development. We have described on pages 38 and 39 some of the ways we seek to engage employees, including how we promote inclusion & diversity.

We monitor employee engagement as a KPI, as described on page 45, and formally solicit employee opinions via a Group wide employee survey annually.

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Strategic Review

How executive remuneration aligns

to Company strategy

The Remuneration Committee aligns the remuneration policy to our Company strategy and main business objectives. Performance-based incentives are earned through achieving demanding targets for short-term business and individual performance, as well as creating long-term shareholder value.

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The Remuneration Committee determines remuneration policy and practices through which we aim to attract, motivate and retain high-calibre Executive Directors and other senior employees to deliver value for shareholders and high levels of customer service, safety and reliability.

Alignment to strategy

While aligning the remuneration policy to our strategic objectives, the Remuneration Committee aims to ensure the policy:

- reflects shareholders and customers interests;
- takes into account risk-related factors; and
- contributes to driving the highest possible ethical standards.

Each year we review our incentive plans, ie the APP and LTPP, to confirm the performance measures remain closely aligned with the Company s strategic objectives.

APP

	Steve Holliday and Andrew Bonfield	**Nick Winser**	**Tom King**
Financial measures for 2012/13 (i)	Adjusted EPS	Adjusted EPS	Adjusted EPS
	Consolidated cash flow	Consolidated cash flow	Consolidated cash flow
	UK ROE		

		UK adjusted operating profit	US operating profit (US GAAP basis)
	US ROE	UK ROE	US cash flow
	N/A	N/A	US ROE

(i) Financial measures represent 70% of the APP.

Individual performance objectives in the APP reflect 30% of the plan and are defined in terms of target and stretch performance requirements. The performance objectives change each year, depending upon business priorities. Examples of individual objectives include regulatory management, business development activities and customer satisfaction improvement programmes.

The Remuneration Committee may use its discretion to reduce APP awards to take account of significant safety or service standard incidents. In addition, the Remuneration Committee considers environmental, social and governance issues in its assessment of performance.

LTPP

Performance measure	**Definitions and performance period**	**Weighting**
Adjusted EPS	**Threshold performance** where EPS growth exceeds RPI growth by 3% **Upper target performance** where EPS growth exceeds RPI growth by 8% **Performance period** 3 years	50% of the plan
Relative TSR compared with the FTSE 100	**Threshold performance** where TSR is at the median of the FTSE 100	25% of the plan

		Upper target performance where TSR performance is 7.5% above that of the median company in the FTSE 100 **Performance period** 3 years	
UK and US ROEs	based on UK Transmission and UK Gas Distribution ROEs and on US Regulated returns	**Threshold performance** where allowed regulatory returns are achieved (UK) and -1% (US) **Upper target performance** where allowed regulatory returns are out-performed by 2% (UK) and 1% (US) **Performance period** 4 years	25% of the plan

If the Remuneration Committee considers the underlying financial performance of the Company does not justify the vesting of LTPP awards, even if some or all the performance measures are satisfied in whole or in part, it can declare that some or all the awards lapse.

Overall, the Remuneration Committee believes the measures offer a balance between meeting the needs of all our stakeholders and incentivising Executive Directors to achieve sustainable performance.

Strategic Review

What did we achieve?

It has been another important year for National Grid as we secured appropriate regulatory changes and continued to bed down organisational change in both the UK and US. Here, we highlight some of the work we did, and initiatives we introduced, during 2012/13 to support delivery of our strategy.

Delivering operational excellence

Safety remains a top priority for us and we strive to improve our performance. We also recognise the vital importance of good customer service and community relationships. Our licences and regulatory agreements set our reliability targets and these are linked to our revenue streams.

Safety

Our ambition is to achieve a world-class safety level by 2015, featuring a lost time injury frequency rate of below 0.1. We intend to achieve this through a relentless leadership focus, robust safety management systems and tactical actions focused on our main risks, which may vary between regions and business areas.

Our employee lost time injury frequency rate for 2012/13 was 0.17, compared with 0.18 in 2011/12. While this represents a marginal improvement we recognise that we need to do more to achieve our ambition. We have included below some examples of our main safety initiatives, which aim to reduce incidents.

In the UK, we introduced our Take Care campaign, which focused on cable avoidance in our UK Gas Distribution business. We also updated our overhead line rules for work at height and guidance about the use of equipment at height.

We connect office-based employees to the safety aspects of our operational activities through targeted campaigns, raising the profile of safety in the workplace and behaviours at home. Examples of our initiatives during 2012/13 include interactive experiences, screen savers and seasonal safety messages.

In the US, we launched an initiative aimed at reducing and eliminating risks associated with securing loads. This involved upgrading vehicles and improving load securing devices, as well as training and exercises.

At a local level, we developed safety plans that gave supervisors and crew leaders greater authority to take action to address their most pressing safety needs. We also arranged a number of sessions in which survivors of utility industry accidents shared how their lives had changed in an instant and talked to employees about how they can make a personal commitment to safety.

In 2012/13, we published our Company wide process safety management system and updated our process safety commitment statement. We have modified our global incident reporting system so we can better differentiate process related incidents to improve communication, enhance visibility and share information relating to process safety events.

We have been continually increasing awareness and developing our safety culture through training initiatives, including elearning.

Delivering customer service

We measure the success of our customer service initiatives through the Ofgem customer satisfaction studies and independent customer research in the UK. In the US, several independent customer research studies and other measures are used to supplement the four J.D. Power and Associates customer satisfaction studies. The results of the studies can be found on page 45.

In the UK, our customer satisfaction results have demonstrated improvement in some areas in Transmission and Gas Distribution. In the US, although the overall JD Power residential customer satisfaction quartile results remained unchanged and commercial studies saw a decline, we achieved significant improvements in key internal transaction studies including website satisfaction and electricity order fulfilment. Work continues to enhance service to our customers as part of our Elevate 2015 programme, large end-to-end process review and improvement activities, customer callback programme, and our more actionable approach to measuring customer satisfaction.

One area in which we have been improving how we communicate with customers is our response to storms. Through Twitter and Facebook we are now providing real-time weather updates, safety tips, outage reporting, restoration times and community resources before, during and after a storm. We are also using YouTube and Flickr to illustrate, through videos and photos, how we prepare for storms and restore service. More than 104,000 US customers are enrolled in our broadcast text alert programme, which we activate during major storms to provide outage updates and safety tips. During 2012/13, we launched a further texting programme that provides area specific outage numbers and estimated restoration times.

From their mobile devices, US customers can now report and check the status of their outages, as well as view important safety tips, contact information and outage data including maps, online via m.nationalgrid.com. During the February 2013 snowstorm, more than 11,000 customers reported outages through this website, which received around 205,000 visits.

As part of our preparations to respond to Superstorm Sandy, the most devastating storm to hit the US eastern seaboard in more than 100 years, more than 250 employees supported the community liaison effort, assigned to the towns expected to be hardest hit by the storms.

Reliability

We aim to deliver reliability by: planning our capital investments to meet challenging demand and supply patterns; designing and building robust networks; risk-based maintenance and replacement programmes; and detailed and tested incident response plans.

In the UK, we are pleased to report that our Gas Distribution business successfully met all its regulatory standards of service again this year with all networks running on Gas Distribution front office systems for emergency, repair, mains replacement and connections activities.

In the US, we met all but three of our regulatory reliability and service replacement targets. In New York, two gas metrics were slightly below target due to the severe impact of Superstorm Sandy and we have petitioned for an exemption on these measures in light of the special circumstances. In Massachusetts, we missed one of our electricity circuit level metrics and avoided a financial penalty due to earned offsets for good performance on the system metrics.

For further details on our reliability performance, see page 45.

UK business changes

We are restructuring our UK business so that we are well positioned to deliver value under RIIO and are ready for our potential new role under Electricity Market Reform.

We have completed our UK organisational design for senior leaders. We are consulting UK Transmission employees on a number of changes which, if agreed, will reduce costs and increase efficiency. We have redefined our organisational design, reducing the number of manager roles by 22%.

During the year, new terms and conditions of employment have been agreed for around 1,900 Gas Distribution directly employed field staff. The changes focus on rewarding individual rather than collective performance.

From 1 April 2013, UK Gas Distribution entered into contracts with Balfour Beatty Utility Solutions and a joint venture of Morrison Utility Services and Skanska Construction UK Limited called tRIIO, to replace our previous alliance and coalition arrangements. Mainly covering our mains replacement programme, the contractual framework is aligned to the new regulatory incentives regime.

US storm response updates

Superstorm Sandy was a significant test for our emergency response processes, which we overhauled following the major storms of 2011. Throughout 2012, we focused on employee development and training and upgrading our restoration processes and equipment. We improved the way we work on damage assessment, customer communications, securing restoration resources, repairing assets and providing accurate estimated times of restoration.

Before Sandy made landfall, we had thousands of employees ready in support roles, a full complement of line and tree crews, as well as hundreds of supplemental crews from across 40 states and five provinces in Canada.

Upstate New York, Massachusetts and Rhode Island had about 530,000 electricity outages and around 700 flood related gas outages (mainly in Rhode Island). We completed restoration in these service territories in six days.

In downstate New York, it took more than two weeks to restore the LIPA served Nassau and Suffolk Counties, which saw around 1.1 million wind and flood related electricity outages. These same counties, along with Brooklyn, Queens and Staten Island, experienced more than 140,000 flood related gas outages.

The Governor of New York has established a commission (commonly referred to as the Moreland Commission) to review the response of New York utility companies to storms in recent years. That Commission has indicated that it will conclude its work in late spring or early summer. In December 2012, MADPU issued an order detailing penalties associated with the response by a number of utilities to Tropical Storm Irene and the October snowstorm in 2011. This included a penalty of around $19 million relating to our Massachusetts Electric business. We are appealing this decision, as are the other utilities involved.

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Strategic Review

What did we achieve?

Continued

US foundation programme

We have continued work on our US foundation programme throughout the year. The programme relates to the development and implementation of our new US enterprise resource planning system, which went live during November and December 2012. The successful delivery of this programme is seen as a key enabler for delivering our strategic objectives in the US, by creating an integrated platform that allows process and system standardisation across our activities. The new system replaced two legacy and a number of ancillary systems and will support business processes for finance, human resources, supply chain and certain elements of our operational systems such as fleet and inventory management.

As with many system implementations of this magnitude and complexity, we expected some degree of difficulty in the months following go live. We have, however, experienced operational difficulties that significantly exceeded our expectations. The most substantial of these related to our payroll processing, where we experienced a number of errors in employee pay and delays in providing employees with their statutory tax statements. We implemented an extensive stabilisation programme to identify and resolve or mitigate these payroll issues and by year end they were substantively resolved. These and other system conversion difficulties and their consequential impacts have delayed production of local financial reporting. As a result, we have sought extensions of time relating to the filing of certain financial reports and other related regulatory filings from our US regulators, from some finance providers and other parties requiring financial statements from some of our operating companies.

Recognising the importance of these issues we have focused considerable efforts on their resolution, together with external support. We have undertaken a review of the project implementation to identify lessons learnt, particularly focused on the payroll issues, and this has been presented to the Audit Committee. We will continue to assess these lessons and identify changes to processes for other similar programmes in the future.

Engaging our people

Engaging our people helps to retain the best possible range of talent and experience, which will be necessary to meet the needs of our business. We are committed to developing our employees to the best of their abilities and to creating an inclusive and diverse culture.

We measure employee engagement through our employee opinion survey. Below we describe the results of this year s survey and highlight some of the actions that have been taken in response to previous ones.

Development

The results of our 2012 survey showed that one of the three main factors driving engagement in our Company was having opportunities for personal development.

To develop the leadership capability of our next generation of managers and middle level leaders, we introduced a new global leadership development framework in 2012.

Our UK business has developed an education and readiness programme to raise everyone s awareness and understanding of RIIO, and how we will need to change the way we work both as an organisation and as individual employees.

In the UK, our graduate retention levels are consistently high, standing at 85% in January 2013. We also achieved a number of awards (see panel External recognition).

We provide training and other support so that our people can build, maintain and operate our networks safely and reliably.

During 2012/13, we provided around 150,000 days of training for our employees and 20,000 days of training for non employees globally. We also increased the amount of specialist technical training delivered in-house, to reduce costs.

Appreciate

The results of past employee surveys showed us that employees see recognition as an important part of engagement. So, we have launched appreciate , a global recognition programme that encourages our people to recognise and reward their colleagues for a job well done. Features include career milestones and the Chairman s Awards, as well as an online system employees can use to send and receive feedback on great work they see. The system also administers non-financial awards.

External recognition

Some of the awards and other means of external recognition we have received over the last year include:

Inclusion in the Times Top 50 Employers for Women 2013. We have appeared in the list since 2006.

A ranking of 84 in the Times Top 100 Graduate Employers up 11 places from 2011.

Moving from 14 to 3 in The Job Crowd Top 50 Companies for Graduates to work for and first place for working within the energy and science sector.

Recognised by Diversity Inc. magazine as one of the top seven regional utilities for diversity in the US, as well as by Diversity Careers in Engineering/Technology as a best diversity company.

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Promoting inclusion & diversity

We aim to develop and operate our business with an inclusive and diverse culture, with equal opportunity in recruitment, career development, training and reward. This applies to all employees regardless of race, gender, nationality, age, disability, sexual orientation, gender identity, religion and background. Where existing employees become disabled, our policy is to provide continued employment and training wherever practical.

These policies support the attraction and retention of the best people, improve effectiveness, deliver superior performance and enhance our success.

We promote inclusion & diversity both within and outside our Company. In the US, we recognise the markets in which we conduct business are becoming increasingly diverse. We reflect this through our supplier diversity programme, through which we invite small businesses, as well as ones owned by women, veterans or people from minority groups, to participate in our sourcing opportunities. This means we can provide a fair, competitive environment that includes all firms in the communities we serve. Our female employees are able to access the Springboard and Spring Forward development programmes in the UK and Women Empowered in the US. On the basis of headcount, the percentage of women in management positions is 25.5%, a figure we intend to improve, and 22.7% of employees throughout the Company are women.

In the US, we attended 41 recruiting events focused on people with disabilities, ethnic diversity, women and veterans.

Our employee survey

The results of our 2013 survey, which was completed by 79% of our employees, have helped us identify specific areas where we are performing well and those areas we need to improve.

Our engagement index has fallen by three points to 63%. It is fair to assume the problems we experienced with payroll in the US and the extensive changes we have introduced in the UK have contributed to the fall in our engagement score.

Managers receive a simple scorecard that aims to create greater leadership accountability and we produce survey reports and action plans at Company, regional, business unit, function and team levels. Managers also have access to an engagement framework. This provides them with practical tools and guidance to support them when developing action plans for their teams.

Attracting the best people

During 2012/13, we received more than 90,000 applications for jobs and have welcomed nearly 2,000 new employees globally.

We have introduced a web-based recruitment system to improve our hiring process in the UK and are planning a similar initiative in the US.

In the UK, we have continued our programmes designed to inspire the engineers and scientists of the future. Last year, around 6,500 young people discovered more about energy through National Grid employees, and thousands more visited our website www.nationalgrideducation.co.uk.

In the US, we face similar challenges in attracting top quality, well trained candidates so we can maintain the number and quality of our workforce. Over the next 10 years, we expect to fill a significant number of management roles that require an engineering background, delivering a number of initiatives similar to those in the UK.

We also completed the third year of our engineering pipeline programme, which aims to inspire promising students to become engineers and provide them an opportunity for fast tracked employment with National Grid. During the year we selected 40 high calibre, high school students into the programme.

Stimulating innovation

Encouraging and adopting new ideas helps us to work efficiently and effectively. This in turn helps us to access investment and growth opportunities as well as to engage with our regulators. It is essential to efficiently deliver what is required.

New sources of funds

This year we issued more than £5 billion in new bonds and other debt to raise new capital as well as to refinance maturing debt. As we continue to invest in our networks and other assets, we will need to raise new financing in the future. To attract good pricing for our debt and maintain a strong balance sheet, we consider different options for how and where to do this.

Over the past year we achieved two firsts for National Grid.

We issued our largest maple bond one that is issued by a foreign company in the Canadian market for Canadian investors. We achieved a nominal amount of C$750 million the largest ever corporate maple bond at the time and followed this two months later with a second maple bond with a nominal amount of C$400 million.

We also issued our first hybrid bonds, achieving nominal amounts of £1 billion and 1.25 billion both with very good pricing. A hybrid bond has certain characteristics of both debt and equity and, as a result, is treated by our rating agencies as half equity and half debt in their analysis. This in turn helps us maintain our credit ratings, while securing the funding we need.

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Strategic Review

What did we achieve?

Continued

UK innovation initiatives

We have commissioned a study highlighting a least cost route to how the UK can meet its 2020 renewable and 2050 carbon targets. The study paid particular attention to heat and described the transitional and long-term role gas has to play as part of a balanced approach. The analysis has been adopted by DECC and has been used extensively in the development of the government s heat policy paper *The Future of Heating: Meeting the Challenge*, published in March 2013.

We have been involved in a project that is investigating the feasibility of injecting hydrogen gas, generated from electrolysis fed from excess renewables, into the UK gas networks. The project includes preliminary research into the application for the UK market and the creation of a generation simulation model. This aims to identify the possible scale of production and financially viable production facilities, as well as options for use.

We are also a partner in the European Gas Research Group, investigating the safe transportation, network developments and implications for customer appliances of hydrogen enriched natural gas.

We have continued to make good progress on developing the T-pylon and reached a major milestone this year by erecting the first full size prototype suspension pylon in January followed in April by the tension pylon. We are now conducting mechanical tests to verify the pylon s capabilities. You can read more about the project in our T-pylon blog, available on our website.

Our partnership with Manchester University in the UK has seen the development of an electrically insulating composite cross arm for transmission pylons. In future this may allow us to increase the voltage on overhead lines from 275 to 400 kV without replacing the existing pylons with taller structures.

Smart grid pilot in Massachusetts

We received approval of our $43.6 million (£27.8 million) smart grid pilot programme in August 2012. The pilot will be conducted in the US city of Worcester, Massachusetts. It will test customer acceptance of new technology, ranging from new meters to devices on our grid, to in-home devices that should help them save energy.

Plans are under way to open a new sustainability hub that will provide customers with an opportunity to see new technology and find out more about environmental issues.

In May 2012 we announced that we will participate in the Green Button initiative, a programme inspired by the White House s challenge to the energy industry. It is a joint effort among several utilities, technology companies and the federal government to help consumers save energy and money by providing access to standardised, routine, easy to understand data relating to their energy usage.

We plan to offer Green Button to the 15,000 customers who will be included in our smart grid pilot in Worcester.

Real-time information sharing

In the US, we have developed new technology to help keep our community liaison employees up to date with near real-time information during storms. Developed at a cost of less than $150,000, it displays information from many systems, from estimated restoration times to the location of crews, hospitals, schools and our lines, using a geographic mapping application.

Using the same technology, we built a damage assessment application to help better forecast restoration times. Employees and contractors use tablets or smartphones to collect information about parts of the system that are damaged. This information is instantly shared with our command centre and our jurisdictional presidents. It is also used to provide information to crews, which helps us to provide quicker restoration responses.

IdeasNet

Our strategy recognises that innovation must go beyond new technologies, as we look to embrace continuous improvement within everything we do.

During the year, we trialled programmes aimed at helping us improve the way we collaborate, share knowledge, generate ideas and exchange good practices. This involved using online social tools, including IdeasNet, which encourages employees to submit ideas that will improve the efficiency and effectiveness of our processes.

In the UK for example, many employees responded to a challenge to find ways of digging fewer and smaller holes as part of the work we do in our Gas Distribution business. A number of these ideas have been taken forward to the next stage of development.

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Engaging externally

We work with external stakeholders to shape energy policy as these decisions directly affect our business. We seek to understand the expectations of all our stakeholders so we can deliver a service that meets their needs.

Regulatory agreements

In the UK, we have agreed all the price control arrangements Ofgem has proposed for RIIO. In the US, we reached agreement on our rate case filings in Rhode Island and New York. We expect to file our next round of rate cases in 2014, including filings for our electricity business in Massachusetts and our downstate gas businesses in New York. More details on these filings can be found on pages 172 to 175. Our objective is to have the right cost of service with the ability to earn a fair and reasonable rate of return while providing a safe and reliable service to customers.

Powering Britain s Future

In the UK, we have launched a nationwide conversation about the challenges we face in delivering the energy infrastructure the country needs and minimising the impacts on communities and the environment.

Our Powering Britain s Future campaign aims to raise awareness about the scale of the energy challenge facing the UK and find common ground with stakeholders and the public so we can work together to find solutions.

The campaign started with a stakeholder forum in London, bringing together senior representatives from bodies including the Campaign to Protect Rural England, the consumer group Which? and the National Trust, as well as industry and government leaders.

You can find out more about the campaign at www.poweringbritainsfuture.co.uk.

Our Brussels office

In 2012, we opened an office in Brussels to give us a closer insight into the evolution of EU policy and legislation in the energy sector.

Talking networks

Consulting with the people who have a stake in what we do has always been fundamental to National Grid.

In preparing for the new UK regulatory framework RIIO, we wanted to make sure we fully understood our stakeholders priorities and could take their views into account when shaping our delivery plans.

We have continued our talking networks initiative to gather views from consumers, government, the energy sector and environmental organisations through workshops, surveys, meetings and forums. We have published the outcome of our consultations on the talking networks section of our website, describing the feedback we received and the action we are taking as a result.

Stakeholder engagement is an enduring approach that will continue through the RIIO period and beyond. Through talking networks we continue to encourage our stakeholders to let us know how we are doing, how they would like to engage with us and where we should focus our resources.

Doing the right thing

Conducting our business in an ethical manner is extremely important to us and at the heart of our policy of *doing the right thing*. We were very disappointed when we fell short of the standards we expect during some interactions with New York state employees. Following our disclosure to and continued cooperation with regulators, we agreed to pay a fine of $1.67 million to NYPSC. We have updated our internal policies and enhanced our business ethics training to help prevent a recurrence. We have also completed an independent review of our ethics and compliance programme. The Joint Commission on Public Ethics has not yet concluded its review of this matter.

Engaging customers in the US

Our US tagline Here with You, Here for You reflects our renewed commitment to customers and local communities. In 2012, we engaged with customers at nearly 280 local events, including county fairs in New York, Massachusetts and Rhode Island. Through these events, we highlighted our legacy in each respective community and talked to customers about safety and energy efficiency. We are confident that, because of our ongoing presence, customers view us as a local company with deep roots in our communities.

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Strategic Review

What did we achieve?

Continued

Embedding sustainability

By embedding sustainability into our decision-making we aim to create value, preserve natural resources and respect the interests of our communities.

Our approach to sustainability has involved developing our long-term strategy under the banner of Our Contribution. This responds to external drivers and input from stakeholders, drives efficiency, supports growth and profitability, and aims to:

- build a culture of sustainability within our organisation; and
- integrate sustainability into our decision-making and everyday activities, so we can protect and preserve natural resources, as well as respect the interests of the communities in which we operate.

Through our sustainability summit we worked with many of our external stakeholders to discover and define our long-term ambition for National Grid s climate change, sustainability and environmental strategy. The initial programme to deliver Our Contribution builds on projects developed through the summit.

Among the initiatives has been the launch of a competition for our UK suppliers. We have challenged them to find innovative ways of implementing the principles of the circular economy, promoted by the Ellen MacArthur Foundation, into the design of the materials, plant, processes and equipment they supply to us.

We have robust investigation and remediation programmes to clean up waste. We also have controls in place to minimise or mitigate releases to the environment during remediation activities. These range from containment to spill response contracts and equipment.

We called on these controls following a spill of suspected gas condensate and oily water in the Paerdegat Basin area of Brooklyn, New York during our operations there. We engaged a clean up contractor to clean out an affected sewer and used sweeps and booms to capture floating material in the basin. We will also consider whether a longer-term sampling and remediation effort is needed. Our actions and investigations continue but we may be subject to financial penalties as a result of this incident.

Climate change

This year our business units have continued their focus on reducing greenhouse gas emissions and we remain on target to achieve our 2020 and 2050 targets of a 45% and 80% reduction in emissions.

We measure and report our emissions of the six Kyoto greenhouse gases using the methodologies set out in the *WRI/ WBCSD Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition).*

Our total Scope 1 and 2 greenhouse gas emissions (excluding line losses) for 2012/13 were around 8.2 million tonnes carbon dioxide equivalent, representing a 58% reduction compared with our 1990 baseline. This equates to an intensity of 569 tonnes per £million of revenue.

Our Scope 1 and 2 greenhouse gas emissions are independently verified; a copy of the verification statement is available on our website.

We have continued our investigations into new technology and processes in areas such as capturing SF6 emissions and replacements for SF6 used in switchgear, where promising alternatives include CF3I (trifluoroiodomethane) and vacuum circuit breaker technology. As SF6 is 23,900 times more potent than CO2 any reduction or elimination will play a significant role in future emission reduction programmes.

Our Gas Distribution mains replacement programmes in the UK and US have continued to deliver a reduction in emissions due to gas leaks in line with expectations. In the UK, investment in pressure management equipment and an increased focus on system operating pressures has also helped reduce leakage.

In the US, we have completed the first phase of a project designed to identify vulnerable redundant oil filled electrical assets and remove them from the system. Our US electricity generation operations have also been incorporated into our US environmental management system, further extending the coverage of our operations certified to the international standard ISO 14001.

Driving growth

Growing our core businesses and developing future new business options depend on delivery of our investment plans. Combining this with operational and procurement efficiencies contributes to our ability to achieve strong returns and meet our commitment to investors.

Capital expenditure in the UK

Capital expenditure in the UK this year was £2.5 billion. Much of this work involves asset replacement but there are also a number of new initiatives. Two significant projects we have been working on are the Western Link and London power tunnels.

Western Link: The Western Link is a joint project with SP Transmission, part of Iberdrola Group. It will bring renewable energy from Scotland to homes and businesses in England and Wales, via a pair of HVDC cables, approximately 422 kilometres long, between Hunterston in Scotland and Deeside in North Wales. The cable will travel for 385 kilometres under the Irish Sea before coming ashore on the Wirral and travelling underground to Deeside.

At present, the Scotland and England power transmission networks are connected by two overhead power lines and some smaller 132 kV circuits across the boundary which are of limited capacity. The Western Link will provide a further connection, easing pressure on the existing bottlenecks and helping to bring more renewable energy through the system.

A contract valued at more than £1 billion has been let by the joint venture to a consortium which will design, manufacture and construct the link. Planning applications and easements are in progress and work has started on site.

The project is expected to become operational in 2016.

Upgrading to natural gas in New York

We have begun work on a project to connect our existing distribution systems in Brooklyn and Queens, New York the first pipeline to be installed in the area in 50 years. Known as the Brooklyn/Queens Interconnect, it will help meet future energy needs for customers.

This project will allow for more conversions to natural gas. The additional capacity will give New York City property owners a lower-cost alternative as they consider ways to comply with the city s Clean Heat initiative, which we support.

Power supply agreement with LIPA

We have a new agreement with LIPA that we filed with FERC that when effective will give Long Island better options for updating and modernising our power plants through repowering existing facilities while reducing energy costs, further improving environmental performance, and removing uneconomic generation. This is an important part of the effort to enhance the overall efficiency of Long Island s power supply resources.

Strategic workforce planning

To help drive growth, we need to consider our long-term workforce needs. Our strategic workforce planning approach allows us to look ahead up to ten years and forecast these needs, based on our business plans and an ageing workforce. In the UK, the approach has allowed us to plan for RIIO, identifying any gaps we may have in terms of skills and experience to meet new ways of working under the new regulatory arrangements.

We are now taking the same strategic workforce planning approach in our US business, beginning with our network strategy and operations teams. In 2012, we implemented a global workforce planning analytics tool and expect to develop our plans further by building on what we have learnt in the UK.

Clean Line investment

In November 2012 we announced a $40 million equity investment, of which $12.5 million was invested in 2012/13, in Clean Line, a developer of long distance, HVDC transmission projects to move renewable energy to market. This investment provides an avenue into a potential growth market for us.

Carbon capture and storage

Carbon capture and storage (CCS) is an innovative technology designed to capture, transport and permanently store carbon dioxide emissions beneath the seabed.

The UK is well placed for the deployment of CCS technology as there are clusters of power generation and industrial carbon dioxide emitters with nearby storage. At National Grid, we are looking to use our high pressure gas pipeline and wider project experience to create the initial infrastructure for CCS. By doing this, we believe we can demonstrate its potential and provide a basis for deployment.

During 2012/13, we have secured a storage site in the North Sea which has the capacity to support a network in the Yorkshire and Humber region and potentially beyond we are now further appraising the site to confirm its suitability. We have also consulted further on the proposed onshore pipeline route and have identified sites for above ground infrastructure.

Power stations and industry in the Yorkshire and Humber area produce around 15% of the country s carbon dioxide emissions. So, the decarbonisation of this cluster would bring significant benefits to the UK and help meet statutory targets to reduce greenhouse gas emissions by 80% by 2050.

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Measuring performance our KPIs

Financial KPIs

Strategic element #	KPI	Definition
All	**Total shareholder return**	Average of the closing daily TSR levels for the 30 day period up to and including that date, assuming dividends have been reinvested
All	**Adjusted earnings per share**	Adjusted earnings~ divided by the weighted average number of shares
All	**Group return on equity**	Adjusted earnings~ with certain regulatory- based adjustments divided by equity
Stimulate innovation: drive growth	**Regulated controllable operating costs**	Regulated controllable operating costs, excluding bad debts, as a proportion of regulated assets

We measure the achievement of our objectives, make operational and investment decisions and reward our employees using both qualitative assessments and quantitative indicators. To provide a full and rounded view of our business, we use non-financial as well as financial measures. Although all these measures are important, some are considered to be more significant than others, and these are designated as KPIs.

KPIs are used to measure our progress on strategic priorities, aligning with those activities that combine to deliver our strategy. Non-financial KPIs are often leading indicators of future financial performance as improvements in these measures build our competitive advantage, for example through attractive regulatory arrangements and in competition for future growth opportunities. Financial KPIs are trailing indicators of the success of past initiatives and specific programmes. They also highlight areas for further improvement and allow us to ensure our actions are culminating in sustainable long-term growth in shareholder value.

We have started a review to determine whether the current Group KPIs remain relevant under RIIO, as the way our allowed revenues are calculated and how they will vary according to our actual performance has changed.

It is possible that this may lead to increased volatility in our statutory revenue figures or some changes to the balance between operating and capital

Refers to the six elements of our strategy: operational excellence; engage our people; stimulate innovation; engage externally; embed sustainability; and drive growth

~ Adjusted earnings exclude exceptional items, remeasurements and stranded cost recoveries expenditure in the business. We will report on the new KPIs when they have been agreed by the Board.

Commentary on our overall financial results can be found on pages 46 to 57, and information on the performance and financial results of each business area is set out on pages 18 to 25.

Comparative data has been restated for the effect of the bonus element of the rights issue and the scrip dividend issues

à From continuing operations

* Rebased for rights issue

Prior years have been restated for consistency

D Prior years have been restated on a constant currency basis

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Non-financial KPIs

Strategic element	KPI	Definition
Deliver operational excellence	**Employee lost time injury frequency rate**	Number of employee lost time injuries per 100,000 hours worked on a 12 month basis
Deliver operational excellence	**Network reliability targets**	Various definitions appropriate to the relevant business area
Engage our people	**Employee engagement index**	Employee engagement index calculated using responses to our employee survey
Deliver operational excellence	**Customer satisfaction**	Our position in customer satisfaction surveys
Embed sustainability	**Greenhouse gas emissions**	Percentage reduction in greenhouse gas emissions against our 1990 baseline

Network reliability

	Performance					Measure	Target
	2008/09	**2009/10**	**2010/11**	**2011/12**	**2012/13**		**2012/13**

Electricity transmission UK	99.9999	99.9999	99.9999	99.999999	**99.99999**	%	**99.9999**
Gas transmission UK	100	100	100	100	**100**	%	**100**
Gas distribution UK	99.9999	99.999	99.999	99.999	**99.999**	%	**99.999**
Electricity transmission US	266	147	414	518 (i)	**346**	MWh losses	*
Electricity distribution US	114	114	123	121	**105 (ii)**	Minutes of outage	*

*Targets are set jurisdictionally by operating company

(i) 2011/12 result restated to reflect final data.

(ii) 2012/13 result excludes New Hampshire which was sold during the year.

See pages 22 and 37 for additional details on Elevate 2015 and network reliability, respectively

Customer satisfaction

		Performance (quartile)				Measure	Target
		2009/10	**2010/11**	**2011/12**	**2012/13**		
UK Gas Distribution		4th	4th	3rd	**3rd**	Quartile ranking	Improve
Gas distribution	US: Residential	3rd	2nd	3rd	**3rd**	Quartile ranking	Improve
Gas distribution	US: Commercial	2nd	4th	3rd	**4th**	Quartile ranking	Improve

Electricity	US: Residential	4th	3rd	3rd	**3rd**	Quartile ranking	Improve
Electricity	US: Commercial	3rd	2nd	2nd	**3rd**	Quartile ranking	Improve

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Andrew Bonfield

Finance Director

Introduction

This year has seen good financial performance across our business. Notwithstanding the impact of major storms in the US, we have seen a year of record adjusted operating profits. Adjusted earnings per share at 56.1p has increased by 12%, reflecting solid operational performance across all our regulated businesses and driven by increased revenue from RPI indexation and the rollover of the transmission price control in the UK and increased deferral recoveries in upstate New York in the US. Adjusted earnings also benefited from a lower effective tax rate and flat net finance costs, partially offset by increased costs for the implementation of our new enterprise resource planning system in the US and other higher operating costs.

In the coming year, we will seek to extract additional value from the investments we have been making through our transformation programmes and restructurings, our focus on end-to-end process improvements and our new US back office system. Coupled with the new RIIO price controls in the UK and the rate plans agreed in New York and Rhode Island in the US, we are well positioned for the future.

Our confidence in the outlook for the Group has allowed the Board to agree a new dividend policy to grow the dividend at least in line with RPI inflation each year for the foreseeable future. Our dividend is an important part of our returns to shareholders along with growth in the value of the asset base attributable to equity holders.

Continuing to deliver an attractive, growing dividend while maintaining a strong balance sheet are key targets for us in the coming years. We aim to do this through growth in assets, earnings and cash flows, supported by improved cash efficiency. Together with robust regulatory frameworks we are confident that we can maintain strong, stable credit ratings and a prudent level of gearing, while delivering attractive returns to shareholders.

Andrew Bonfield

Measurement of financial performance

We principally discuss our results on an adjusted basis. The rationale for using adjusted measures is explained on page 50. Results on an adjusted basis are presented before exceptional items, remeasurements and stranded cost recoveries. See pages 50 and 51 for further details and reconciliations from the adjusted profit measures to IFRS, under which we report our financial results and position.

Key performance indicators (KPIs)

Our financial KPIs are set out on page 44. Details of the total shareholder return (TSR) and adjusted earnings per share have been discussed in the financial review   in brief section on pages 06 and 07.

Group return on equity

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

Group ROE has increased in the year to 11.2%, reflecting our focus on driving efficient growth in our business. The increased return in 2012/13 was driven by higher revenues in the UK, due to inflation and other allowances in our price controls, higher US deferrals income and lower taxes due to a reduction in UK corporation tax rates and changes to tax provisions. Offsetting these, the return in 2012/13 was constrained by the impact of major storms in the year. Excluding these major storm costs, 2012/13 ROE was 11.7% (2011/12: 11.3%; 2010/11: 10.8%).

Regulated controllable operating costs

We measure regulated controllable operating costs as a proportion of our regulated assets, as measured by our UK RAV and our US rate base.

This ratio reduced to 6.6% in 2012/13, compared with 6.8% in 2011/12 and 7.3% in 2010/11 on a constant currency basis, reflecting our continued focus on cost optimisation (particularly in our US business) and our continued efficient investment in regulated assets.

Other performance measures

Return on capital employed

RoCE is designed to provide a performance comparison between our regulated UK and US businesses and is one of the measures that we use to make strategic and investment decisions around our portfolio of businesses.

The table below shows the RoCE for our businesses over the last three years:

	Years ended 31 March		
	2013	**2012**	**2011**
RoCE	**%**	**%**	**%**
UK regulated	**8.8**	8.6	8.5
US regulated	**7.1**	6.8	7.1

The UK RoCE has increased from 8.6% to 8.8% in 2012/13 mainly due to the benefits of inflation on our RPI-X price controls together with strong performance under incentive schemes and the decrease in the UK corporation tax rate from 26% to 24%. The increase in the US RoCE from 6.8% to 7.1% is primarily due to increased deferral recoveries for Niagara Mohawk. Excluding the impact of major storm costs, the US RoCE would have been 7.7%, an increase of 0.1% compared with 2011/12 (7.6%).

Interest cover

In order to continue to deliver sustainable growth, we remain disciplined in the way we manage our balance sheet. The principal measure we use to monitor financial discipline is interest cover, being a measure of the cash flows we generate compared with the net interest cost of servicing our borrowings. The table below shows our interest cover for the last three years:

	Years ended 31 March		
	2013	**2012**	**2011**
	times	**times**	**times**
Interest cover	**3.9**	3.9	3.8

Interest cover for 2012/13 has remained the same at 3.9 times, reflecting flat finance costs year on year.

The primary reasons for the increase in 2011/12 were a fall in finance costs driven by interest rates on short-term instruments combined with benefits from our 2010/11 debt buy back programme partially offset by a small decrease in our operational cash inflows for the year.

Our target long-term range for interest cover is between 3.0 and 3.5, which we believe is consistent with single A range long-term senior unsecured debt credit ratings within our main UK operating companies, National Grid Electricity Transmission plc (NGET plc) and National Grid Gas plc (NGG plc).

Some of our regulatory agreements impose lower limits for the long-term senior unsecured debt credit ratings that certain companies within the group must hold or the amount of equity within their capital structures. These requirements are monitored on a regular basis in order to maintain compliance. One of the key limits requires National Grid plc to hold an investment grade

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long-term senior unsecured debt credit rating. We believe our aim of maintaining single A range long-term senior unsecured debt credit ratings within our main UK operating companies is consistent with this. Further details on credit ratings can be found on the debt investors section of our website.

Dividends and dividend cover

The proposed total ordinary dividend for 2012/13 amounts to £1,494 million or 40.85 pence per ordinary share. This represents an increase of 4% over the previous year s ordinary dividend per share of 39.28 pence.

	Years ended 31 March				
Dividends	**2013 pence**	**2012 pence**	**2011 pence**	**2010 pence**	**2009 pence**
Interim	**14.49**	13.93	12.90	13.65	12.64
Final	**26.36**	25.35	23.47	24.84	23.00
Total	**40.85**	39.28	36.37	38.49	35.64
Dividends per ADS	**$**	**$**	**$**	**$**	**$**
Interim	**1.15**	1.10	1.02	1.15	0.95

Final	**2.01**	2.02	1.90	1.77	1.74
Total	**3.16**	3.12	2.92	2.92	2.69

Dividends expressed in dollars per ADS in the table above reflect the amounts paid or payable to ADS holders, rounded to two decimal places.

The final dividend proposed in respect of each financial year is reported in the financial statements for the following year. Therefore, the proposed final dividend for 2012/13 of 26.36 pence per share, amounting to approximately £967 million (assuming all dividends are settled in cash), will be reported in the financial statements for the year ending 31 March 2014.

Dividend cover

	Years ended 31 March		
Total ordinary dividends covered by:	**2013 times**	**2012 times**	**2011 times**
Adjusted earnings	**1.4**	1.3	1.4
Earnings	**1.5**	1.5	1.8

Scrip take up

Dividend	**Proportion taking up scrip**
2010/11 final	34%
2011/12 interim	7%
2011/12 final	48%
2012/13 interim	35%

Earnings

The following chart shows the five year trend in adjusted profit attributable to equity shareholders of the parent (adjusted earnings) and adjusted earnings per share.

In accordance with IAS 33, all earnings per share and adjusted earnings per share amounts for comparative periods have been restated as a result of shares issued via scrip dividends and the bonus element of the rights issue.

Diluted adjusted earnings per share and diluted earnings per share are shown in the table below:

	Years ended 31 March		
	2013 pence	**2012 pence**	**2011 pence**
Adjusted diluted earnings per share	**55.8**	49.7	49.3
Diluted earnings per share	**62.3**	55.4	60.9

Timing

As discussed on page 16, our allowed revenues are set in accordance with our regulatory price controls or rate plans. We calculate the billing rates we charge our customers based on the estimated volume of energy we believe will be delivered during the coming period. The actual volumes delivered will differ from this estimate and therefore our total actual revenue will be different from our total allowed revenue. These differences are commonly referred to as timing differences. If we collect more than the allowed level of revenue, the balance must be returned to customers in subsequent periods, and if we collect less than the allowed level of revenue we may recover the balance from customers in subsequent periods. In addition, in the US, a substantial portion of our costs are pass-through costs (including commodity and energy efficiency costs) and are fully recoverable from our customers. Timing differences between costs of this type being incurred and their recovery through revenue are also included in timing. The amounts calculated as timing differences are estimates and subject to change until the variables that determine allowed revenue are final.

Our operating profit for the year includes an estimated in year over collection of £16 million (2011/12: £18 million; 2010/11: £274 million) and our closing balance at 31 March 2013 was £126 million over-recovered. All other things being equal, the majority of that balance would normally be returned to customers in the following year.

Major storms

In 2012/13, two major storms in the US, Superstorm Sandy and Storm Nemo, had a material effect on the results of National Grid. These two major storms reduced operating profit by £136 million. In 2011/12, results were also affected by two major storm events, Tropical Storm Irene and the October 2011

snowstorms in Massachusetts, which reduced operating profit in 2011/12 by £116 million. There were no major storms in 2010/11.

The table below shows adjusted operating profit and operating profit excluding the impact of timing differences and major storms.

	Years ended 31 March		
Excluding the impact of timing differences and major storms	**2013 £m**	**2012 £m**	**2011 £m**
Adjusted operating profit	**3,764**	3,593	3,326
Operating profit	**3,874**	3,637	3,471

Adjusted earnings

The significant drivers affecting our adjusted earnings including impacts on adjusted operating profit, adjusted net interest charge and adjusted tax charge have been discussed in the financial review in brief section on pages 06 and 07.

Exceptional items

Exceptional charges of £84 million in 2012/13 consisted of restructuring costs of £87 million less a gain on sale of our EnergyNorth gas business and Granite State electricity business in New Hampshire of £3 million.

Exceptional charges of £122 million in 2011/12 consisted of restructuring charges of £101 million, environmental charges of £55 million and impairment charges of £64 million, offset by net gains on the disposals of subsidiaries of £97 million and other net gains of £1 million.

Exceptional charges of £350 million in 2010/11 consisted of restructuring costs of £89 million, environmental charges of £128 million, impairment costs and related charges of £133 million and other charges of £15 million, offset by net gains on disposals of three subsidiaries and an associate of £15 million.

Commodity remeasurements

Remeasurements on commodity contracts represent mark-to-market movement on certain physical and financial commodity contract obligations in the US. 2012/13 included a gain of £180 million (2011/12: loss of £94 million; 2010/11: gain of £147 million).

Exceptional finance costs and other remeasurements

There were no exceptional finance costs in 2012/13 or 2011/12. There were £73 million of exceptional finance costs during 2010/11 relating to the early redemption of debt following the rights issue in June 2010, offset by £43 million of exceptional interest income relating to tax settlements in the US. Financial remeasurements relate to net gains and losses on derivative financial instruments, 2012/13 included a gain of £68 million (2011/12: £70 million loss; 2010/11: £36 million gain).

Stranded cost recoveries

Stranded cost recoveries were substantially recovered in prior years, the £14 million recognised in 2012/13 represents the release of an unutilised provision recognised in prior years related to the disposed plants (2011/12: £260 million; 2010/11: £348 million).

Exceptional taxation

Taxation related to exceptional items, remeasurements and stranded cost recoveries changes each year in line with the nature and amount of transactions recorded.

In addition, exceptional tax from 2012/13 included an exceptional deferred tax credit of £128 million arising from a reduction in the UK corporation tax rate from 24% to 23% applicable from 1 April 2013. Similar reductions in the UK corporation tax rate in 2011/12 from 26% to 24% and in 2010/11 from 28% to 26% resulted in £242 million and £226 million deferred tax credit respectively.

More information on exceptional items, remeasurements and stranded cost recoveries can be found in note 3 to the consolidated financial statements on page 112.

Taxation

Tax strategy

We manage our tax affairs in a proactive and responsible way in order to comply with all relevant legislation and minimise reputational risk. We have a good working relationship with all relevant tax authorities and actively engage with them in order to ensure that they are fully aware of our view of the tax implications of our business initiatives. Responsibility for our tax strategy rests with the Finance Director and the Global Tax and Treasury Director who monitor our tax activities and report to the Finance Committee.

Total tax contribution

We have taken the decision to provide additional information on our total UK tax contribution. The total amount of taxes which we pay and collect in the UK year on year is significantly more than the corporation tax which we pay on our UK profits. Within the total, we include significant other taxes paid such as business rates and taxes on employment together with employee taxes and other indirect taxes.

For 2012/13 our total tax contribution to the UK Exchequer, inclusive of taxes collected and taxes borne, was £1.2 billion. Taxes borne by the Company directly in 2012/13 were £678 million, a 12% increase on taxes borne in 2011/12 of £603 million, due to higher corporation tax payments in the current year. Our 2011/12 total tax contribution was £1.1 billion. The Hundred Group s 2012 Total Tax Contribution Survey ranked National Grid as the 16th highest contributor of UK tax. The most significant amounts making up the 2012/13 amount were as follows:

Tax transparency

The UK tax charge for the year disclosed in the accounts in accordance with accounting standards and the UK corporation tax paid during the year will differ. For transparency, we have included a reconciliation on page 50 of the tax charge for the income statement to the UK corporation tax paid in 2012/13.

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The tax charge for the Group as reported in the income statement is £624 million (2011/12: £521 million). The UK tax charge as per note 5 to the accounts is £332 million (2011/12: £175 million) and UK corporation tax paid was £243 million (2011/12: £170 million), with the principal differences between these two measures as follows:

	Years ended 31 March	
Reconciliation of UK total tax charge per accounts note 5 to UK corporation tax paid	**2013 £m**	**2012 £m**
Total UK tax charge per accounts note 5 (current tax £289 million (2012: £181 million) and deferred tax £43 million (2012: £6 million credit))	**332**	175
Adjustment for non cash deferred tax items	**(43)**	6
Adjustments for accounts current tax charge relating to prior years	**17**	5
UK current tax charge	**306**	186
UK corporation tax instalments not payable until following year	**(155)**	(92)

UK corporation tax instalments of prior years paid in current year	**92**	76
UK corporation tax paid	**243**	170

Tax losses

We have total unrecognised deferred tax assets in respect of losses of £335 million (2011/12: £362 million) of which £319 million (2011/12: £353 million) are capital losses in the UK. These losses arose as a result of the disposal of certain businesses or assets and may be available to offset against future capital gains in the UK.

Development of future tax policy

We believe the continued development of a coherent and transparent tax policy in the UK is critical to help drive growth in the economy. As a result, we are actively contributing to the development of tax policy by engaging with government officials to promote sustainable investment.

We also contribute to research into the structure of business taxation and its economic impact by contributing to the funding of the Oxford University Centre for Business Taxation at the Saïd Business School.

We are a member of a number of industry groups which participate in the development of future tax policy, including the Hundred Group, which represents the views of Finance Directors of FTSE 100 companies and several other large UK companies and of which our Finance Director is Chairman of its Tax Committee. This helps to ensure that we are engaged at the earliest opportunity on taxation issues which affect our business.

Use of adjusted profit measures

In considering the financial performance of our businesses and segments, we analyse each of our primary financial measures of operating profit, profit before tax, profit for the year attributable to equity shareholders and earnings per share into two components.

The first of these components is referred to as an adjusted profit measure, also known as a business performance measure. This is the principal measure used by management to assess the performance of the underlying business.

Adjusted results exclude exceptional items, remeasurements and stranded cost recoveries. These items are reported collectively as the second component of the financial measures.

Note 3 on page 111 explains in detail the items which are excluded from our adjusted profit measures.

Adjusted profit measures have limitations in their usefulness compared with the comparable total profit measures as they exclude important elements of our financial performance. However, we believe that by presenting our financial performance in two components it is easier to read and interpret financial performance between periods, as adjusted profit measures are more comparable having removed the distorting effect of the excluded items. Those items are more clearly understood if separately identified and analysed. The presentation of these two components of financial performance is additional to, and not a substitute for, the comparable total profit measures presented.

Management uses adjusted profit measures as the basis for monitoring financial performance and in communicating financial performance to investors in external presentations and announcements of financial results. Internal financial reports, budgets and forecasts are primarily prepared on the basis of adjusted profit measures, although planned exceptional items, such as significant restructurings, and stranded cost recoveries are also reflected in budgets and forecasts. We separately monitor and disclose the excluded items as a component of our overall financial performance.

Reconciliations of adjusted profit measures to the total profit measure, that includes both components can be found on page 51.

Exchange rates

Our financial results are reported in sterling. Transactions for our US operations are denominated in dollars and so the related amounts that are reported in sterling depend on the dollar to sterling exchange rate. As the average rate of the dollar at $1.57:£1 in 2012/13 was stronger than the average rate of $1.60:£1 in 2011/12, the same amount of revenue, adjusted operating profit and operating profit in dollars earned in 2011/12 would have been reported as £150 million, £21 million and £22 million higher respectively if earned in 2012/13. In 2010/11, the average rate was $1.57:£1; if the revenue, adjusted operating profit and operating profit in dollars recognised in 2010/11 was earned in 2011/12 it would have been reported as £135 million, £21 million and £26 million lower respectively.

The balance sheet has been translated at an exchange rate of $1.52:£1 at 31 March 2013 ($1.60:£1 at 31 March 2012).

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Reconciliations of adjusted profit measures

Reconciliation of adjusted operating profit to total operating profit

Adjusted operating profit is presented on the face of the income statement under the heading operating profit before exceptional items, remeasurements and stranded cost recoveries.

	Years ended 31 March		
	2013 £m	2012 £m	2011 £m
Adjusted operating profit	**3,644**	3,495	3,600
Exceptional items	**(84)**	(122)	(350)
Remeasurements commodity contracts	**180**	(94)	147
Stranded cost recoveries	**14**	260	348

Reconciliation of adjusted earnings per share to earnings per share

Adjusted earnings per share is presented in note 6 to the consolidated financial statements.

	Years ended 31 March		
	2013 pence	2012 pence	2011 pence
Adjusted earnings per share	**56.1**	50.0	49.6
Exceptional items	**2.0**	4.7	(0.5)
Remeasurements	**4.3**	(3.3)	6.2
Stranded cost recoveries	**0.2**	4.2	5.9
Earnings per share	**62.6**	55.6	61.2

Total operating profit	**3,754**	3,539	3,745

Reconciliation of adjusted operating profit to adjusted earnings and earnings

Adjusted earnings is presented in note 6 to the consolidated financial statements, under the heading adjusted earnings.

	Years ended 31 March		
	2013	**2012**	**2011**
	£m	**£m**	**£m**
Adjusted operating profit	**3,644**	3,495	3,600
Adjusted net finance costs	**(920)**	(917)	(1,134)
Share of post-tax results of joint ventures	**18**	7	7
Adjusted profit before tax	**2,742**	2,585	2,473

Reconciliation of adjusted operating profit excluding timing differences and major storms to total operating profit

Adjusted operating profit excluding timing differences and adjusted operating profit excluding timing differences and major storms are discussed on pages 48 and 49.

	Years ended 31 March		
	2013 £m	**2012 £m**	**2011 £m**
Adjusted operating profit excluding timing differences and major storms	**3,764**	3,593	3,326

Adjusted taxation	**(686)**	(755)	(722)
Adjusted profit after tax	**2,056**	1,830	1,751
Attributable to non-controlling interests	**(1)**	(2)	(4)
Adjusted earnings	**2,055**	1,828	1,747
Exceptional items	**75**	174	(16)
Remeasurements	**156**	(122)	219
Stranded cost recoveries	**9**	156	209
Earnings	**2,295**	2,036	2,159

Major storms	**(136)**	(116)	
Adjusted operating profit excluding timing differences	**3,628**	3,477	3,326
Timing differences	**16**	18	274
Adjusted operating profit	**3,644**	3,495	3,600
Exceptional items, remeasurements and stranded cost recoveries	**110**	44	145
Total operating profit	**3,754**	3,539	3,745

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Financial position and resources

Summarised statement of financial position

	As at 31 March	
	2013 £m	**2012 £m**
Goodwill and intangibles	**5,617**	5,322
Property, plant and equipment	**36,592**	33,701
Investments and other non-current assets	**753**	687
Pension assets	**195**	155
Current assets*	**3,201**	2,611
Current liabilities*	**(3,282)**	(3,155)
Deferred tax liabilities	**(4,076)**	(3,738)
Provisions and other non-current liabilities	**(3,644)**	(3,652)

Net debt	**(21,429)**	(19,597)
Pensions and other post-retirement obligations	**(3,694)**	(3,088)
Net assets	**10,233**	9,246

* Excludes amounts related to net debt and provisions reported in other lines and includes assets and liabilities of businesses held for sale

Goodwill and intangibles

Goodwill and intangibles increased by £295 million to £5,617 million as at 31 March 2013. This increase primarily relates to foreign exchange movements of £266 million and software additions of £175 million offset by amortisation of £101 million. In 2011/12, goodwill and intangibles increased by £45 million to £5,322 million as a result of software additions offset by amortisation and the impairment of the acquisition-related intangible asset of £64 million. This related to the contract to operate and maintain the electricity distribution network on behalf of LIPA, which will not be renewed on expiry in December 2013.

Property, plant and equipment

Property, plant and equipment increased by £2,891 million to £36,592 million as at 31 March 2013. This was principally due to capital expenditure of £3,511 million on the extension of our regulated networks and foreign exchange movements of £680 million, offset by £1,281 million of depreciation in the year. Property, plant and equipment increased by £1,745 million to £33,701 million for the year ended 31 March 2012 due to capital expenditure of £3,172 million partially offset by £1,212 million of depreciation and net disposals of £279 million, primarily the disposal of OnStream in October 2011.

The table below shows our capital expenditure, including expenditure on both property, plant and equipment and intangibles, over the last five years, by segment. The largest area of organic growth is in the UK Transmission segment, and we expect that to remain the case for the next few years.

Capital expenditure increased in each of the three regulated businesses including record amounts in our UK Transmission and US Regulated businesses.

As a result of capital expenditure in 2012/13, and after allowing for depreciation, foreign exchange movements and in the UK, inflation, we estimate that our regulated assets have increased by approximately £2.5 billion (2011/12: £1.5 billion).

Investments and other non-current assets

Investments and other non-current assets have increased by £66 million to £753 million. This is principally due to changes in the fair value of our US commodity contract assets and available-for-sale investments, and an equity investment in Clean Line Energy Partners LLC of $12.5 million by 31 March 2013. For the year ended 31 March 2012, investments and other non-current assets decreased by £41 million to £687 million principally due to a £58 million decrease in the fair value of our US commodity contract assets driven by a fall in electricity prices partially offset by an increase in other receivables.

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Current assets

Current assets have increased by £590 million to £3,201 million at 31 March 2013. Driven by the US, this primarily reflects the timing of cost recoveries from LIPA relating to Superstorm Sandy and an increase in trade receivables due to colder weather in February and March 2013 compared with 2012, which also led to an offsetting decrease in inventories which were £85 million lower. For the year ended 31 March 2012, current assets decreased by £211 million to £2,611 million. This was due to a fall in trade receivables of £230 million, primarily reflecting the impact of warmer weather in March 2012 on our US Regulated segment revenues.

Current liabilities

Current liabilities have increased by £127 million to £3,282 million due to increased payables and accruals relating to Superstorm Sandy and Storm Nemo. Current tax liabilities were £152 million lower primarily due to higher tax payments made in 2012/13 and larger prior year tax credits arising in 2012/13, although these were partially offset by a larger current year tax charge. For the year ended 31 March 2012, current liabilities decreased by £286 million to £3,155 million. Trade payables were £190 million lower, reflecting the impact of lower commodity prices in our US Regulated segment. Current tax liabilities were £120 million lower primarily due to tax payments made in 2011/12.

Deferred tax liabilities

The net deferred tax liability increased by £338 million to £4,076 million. The main reasons for this movement were the £508 million deferred tax charge, including the impact of the reduction in the statutory tax rate for future periods of £128 million, partially offset by the deferred tax credit on actuarial losses on pensions and other post-retirement benefits. For the year ended 31 March 2012, the deferred tax liability decreased by £28 million to £3,738 million. This decrease mainly arose from the deferred tax charge for the year of £381 million being more than offset by the £403 million deferred tax credit arising on actuarial losses relating to pensions and other post-retirement benefits.

Provisions and other non-current liabilities

Provisions and other non-current liabilities decreased slightly by £8 million to £3,644 million as at 31 March 2013. Total provisions increased by £29 million in the year. The underlying movements include additions of £92 million and £83 million to the environmental and other provisions respectively, as well as foreign exchange movements of £65 million. The other provisions additions include £33 million of increased liabilities insured by our insurance subsidiaries. These are offset by payments of £231 million in relation to all classes of provisions. Other non-current liabilities have decreased by £37 million reflecting changes in the fair value of US commodity contract liabilities. For the year ended 31 March 2012, provisions and other non-current liabilities decreased by £106 million to £3,652 million. Additions to environmental provisions were £58 million primarily due to revisions to our cost estimates. This was offset by payments in relation to provisions totalling £228 million.

Net debt

Funding and liquidity risk management

Funding and liquidity risk management is carried out by the treasury function under policies and guidelines approved by the Finance Committee of the Board. The Finance Committee is responsible for the regular review and monitoring of treasury activity and for the approval of specific transactions, the authority for which fall outside the delegation of authority to management.

The primary objective of the treasury function is to manage our funding and liquidity requirements. A secondary objective is to manage the associated financial risks, in the form of interest rate risk and foreign exchange risk, to within pre-authorised parameters. Some examples of the management of funding and liquidity are given on page 33 and details of the main risks arising from our financing and commodity hedging activities can be found in the risk factors discussion starting on page 176 and in notes 30 and 31 to the consolidated financial statements.

Surplus funds

Investment of surplus funds, usually in short-term fixed deposits or placements with money market funds that invest in highly liquid instruments of high credit quality, is subject to our counterparty risk management policy.

Net debt trend

The trend in net debt as shown in the chart above highlights our rights issue in June 2010 and the significant capital expenditure programme we have had in the last few years.

Composition of net debt

Net debt is made up as follows:

	As at 31 March	
	2013 £m	**2012 £m**
Cash, cash equivalents and financial investments	**6,102**	2,723
Borrowings and bank overdrafts	**(28,095)**	(23,025)
Derivatives	**564**	705
Total net debt	**(21,429)**	(19,597)

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The increase in net debt of £1,832 million to £21,429 million is explained in the chart below:

Factors decreasing net debt

Our primary source of cash relates to operating cash flows as detailed separately below.

Factors increasing net debt

Our primary use of cash is for capital expenditure and other investing activities. This has increased by £214 million year on year primarily due to increased investment in our UK Transmission business. We also utilised cash for dividends which decreased by £196 million year on year. The decrease in cash dividends is due to significantly higher scrip take up in the year compared with 2011/12. This is offset by the growth in the dividend. Net interest paid was £38 million higher than prior year, reflecting higher average net debt during the year. Tax paid was £28 million higher than prior year primarily due to higher taxable profits. Non cash movements related to increases in the value of inflation linked debt and remeasurements and movements in the sterling to dollar exchange rate.

Operating cash flows

Cash flows from our operations are largely stable over a period of years. Our electricity and gas transmission and distribution operations in the UK and US are subject to multi-year rate agreements with regulators. In the UK, we have largely stable annual cash flows. However, in the US our short-term cash flows are dependent on the price of gas and electricity and the timing of customer payments. The regulatory mechanisms for recovering costs from customers can result in significant cash

flow swings from year to year. Changes in volumes in the US, for example as a consequence of abnormally mild or extreme weather or economic conditions affecting the level of demand, can affect cash inflows in particular.

For the year ended 31 March 2013, cash flow from operations decreased by £450 million to £4,037 million as detailed on page 07. For the year ended 31 March 2012, cash flow from operations decreased by £367 million to £4,487 million due to lower operating profits, unfavourable working capital movements, higher pension payments and lower stranded cost recoveries.

The increase of £482 million in 2010/11 to £4,854 million was due to higher operating profits and lower pension payments.

Borrowings

The Finance Committee controls refinancing risk by limiting the amount of our debt maturities arising from borrowings in any one year which is demonstrated by our maturity profile.

The maturity profile of gross borrowings by our major entities is illustrated below:

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During the year we continued to refinance where attractive opportunities arose, including issuing our first hybrid bonds worth £2.1 billion in March 2013. In total, we received £5.1 billion of proceeds from new loans and debt issuance, including a C$750 million bond in NGET in September 2012, and 1.25 billion and £1 billion from the hybrid bonds in NGG Finance in March 2013. We also repaid a total of £1.2 billion of borrowings during the year.

As at 31 March 2013, total borrowings of £28,095 million (2012: £23,025 million) including bonds, bank loans, commercial paper, finance leases and other debt had increased by £5,070 million representing our new loans and debt issuances in the year. We expect to repay £3,448 million of our maturing debt in the next 12 months including commercial paper and we expect to be able to refinance this debt through the capital and money markets.

Further information on borrowings can be found on the debt investors section of our website and in note 19 of the consolidated financial statements.

Derivatives

	2013 £m	**2012 £m**
Interest rate swaps	**303**	187
Cross-currency interest rate swaps	**512**	740
Foreign exchange forward contracts	**(48)**	59
Forward rate agreements	**(5)**	(5)
Inflation linked swaps	**(198)**	(276)
Total as at 31 March	**564**	705

We use derivative financial instruments to manage our exposure to risks arising from fluctuations in interest rates and exchange rates. We value our derivatives by discounting all future cash flows by externally sourced market yield curves at the reporting date, taking into account the credit quality of both parties. The decrease in our derivatives of

£141 million therefore represents movements as a result of underlying market variables and the composition of the derivative portfolio.

The currency exposure on our borrowings is managed through the use of cross-currency swaps and results in a net debt profile post-derivatives that is almost entirely sterling/dollar.

The impact on net debt from our use of derivatives can be seen in the currency and interest rate profiles shown below:

The interest rate profile of net debt is actively managed under the constraints of our interest rate risk management policy as approved by the Finance Committee. Our interest rate exposure, and therefore profile, will change over time. The chart below shows the interest rate profile of our net debt before derivatives.

We have invested some of the proceeds from the issuance of our hybrid bonds in short-term money funds at floating interest rates. As a result, we are currently in a net asset position on floating instruments and our exposure is shown as a negative in the chart above.

The charts below show the impact, as at 31 March 2013, of derivatives on our net debt for 2013/14 and future years. The 2013/14 position reflects the use of derivatives, including forward rate agreements to lock in interest rates in the short term. The effective interest rate on treasury managed debt for the year was 5.1% (2011/12: 5.4%). The future years position excludes derivatives that mature within the next year.

Further details on our foreign currency and interest rate risk management can be found in the risk factors discussion on pages 33 and 177 and in note 30(a) of the consolidated financial statements.

Net pension and other post-retirement obligations

We operate pension arrangements on behalf of our employees in both the UK and US and also provide post-retirement healthcare and life insurance benefits to qualifying retirees in the US.

In the UK, the defined benefit section of the National Grid UK Pension Scheme and the National Grid Electricity Group of the Electricity Supply Pension Scheme are closed to new entrants. We have started discussions with our employees and our trade union partners to ensure our defined benefit pension schemes are affordable and sustainable for the future. Membership of the defined contribution section of the National Grid UK Pension Scheme is offered to all new employees in the UK. We are currently reviewing the defined contribution arrangement we offer to employees and new hires in the UK.

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In the US, we operate a number of pension plans, which provide both defined benefits and defined contribution benefits. We also provide post-retirement benefits other than pensions to the majority of employees. Benefits include healthcare and life insurance coverage to eligible retired employees.

Pension plan assets are measured at the bid market value at the reporting date. Plan liabilities are measured by discounting the best estimate of future cash flows to be paid out by the plans using the projected unit method. Estimated future cash flows are discounted at the current rate of return on high quality corporate bonds in UK and US debt markets of an equivalent term to the liability.

A summary of the total UK and US assets and liabilities and the overall net IAS 19 accounting deficit is shown below:

Net plan liability	**UK £m**	**US £m**	**Total £m**
As at 1 April 2012	(668)	(2,265)	(2,933)
Exchange movements		(112)	(112)
Current service cost	(90)	(130)	(220)
Expected return less interest	66	3	69
Curtailments, settlements and other	(15)	(45)	(60)

Actuarial gains/(losses)			
on plan assets	1,028	148	1,176
on plan liabilities	(1,691)	(415)	(2,106)
Employer contributions	201	486	687
As at 31 March 2013	**(1,169)**	**(2,330)**	**(3,499)**
Represented by:			
Plan assets	17,392	5,893	23,285
Plan liabilities	(18,561)	(8,223)	(26,784)
Net plan liability	(1,169)	(2,330)	(3,499)

The principal movements in net obligations during the year arose as a consequence of a decrease in the discount rate following declines in corporate bond yields. Actuarial gains on plan assets reflected improvements in financial markets.

Plan assets are predominantly invested in equities, corporate bonds, gilts, property and short-term investments. Our plans are trustee administered and the trustees are responsible for setting the investment strategy and monitoring fiduciary investment performance, consulting with us where appropriate.

The investment profile of our pension plan assets is illustrated below:

Further information on our pension and other post-retirement obligations, including details of the actuarial valuations that are performed for our UK pensions can be found in note 29 to the consolidated financial statements.

Actuarial valuation of UK pensions

A triennial valuation is carried out for the trustees of our two UK defined benefit schemes by professionally qualified actuaries and agreed with us following consultation. The next full actuarial valuations of both the National Grid UK Pension Scheme and the National Grid Electricity Group of the Electricity Supply Pension Scheme are to be performed as at 31 March 2013 with the valuation results expected to be agreed by mid 2014.

Further detail on the results of the last full triennial valuations performed as at 31 March 2010 can be found in note 29 to the consolidated financial statements.

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Off balance sheet items

There were no significant off balance sheet items other than the contractual obligations shown in note 30(d) to the consolidated financial statements, and the commitments and contingencies discussed below.

Commitments and contingencies

The following table summarises the commitments and contingencies outstanding at 31 March 2013 and 2012.

	2013 £m	**2012 £m**
Future capital expenditure contracted but not provided for	**3,011**	2,728
Operating lease commitments	**742**	706
Energy purchase commitments	**3,995**	4,174
Guarantees and letters of credit	**1,332**	1,344

The increase in capital expenditure contracted but not provided for is a result of the continued ramp up in our capital investment programme.

The energy purchase commitments reflect obligations to purchase energy under long-term contracts. These contracts are used in respect of our normal sale and purchase requirements and do not include commodity contracts carried at fair value. Substantially all our costs of purchasing electricity and gas supply for our customers are recoverable at an amount equal to cost. The timing of recovery can vary between financial periods leading to an under- or over-recovery within any particular financial period (see timing differences as discussed on page 48).

We propose to meet all our commitments, as well as working capital requirements, from existing cash and investments, operating cash flows, existing credit facilities, future facilities and other financing that we reasonably expect to be able to secure in the future.

Through the ordinary course of our operations, we are party to various litigation, claims and investigations. We do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on our results of operations, cash flows or financial position.

Further information on commitments and contingencies can be found in note 27 to the consolidated financial statements.

Going concern

Having made enquiries, the Directors consider that the Company and its subsidiary undertakings have adequate resources to continue in business for the foreseeable future, and that it is therefore appropriate to adopt the going concern basis in preparing the consolidated and individual financial statements of the Company. The Directors consider that a robust going concern assessment process was undertaken and the results were discussed and challenged formally at the Audit Committee in May 2013, who recommended the Board s approval at the meeting in May 2013 prior to approving the Annual Report and Accounts.

The process undertaken involved consideration of the forecasts produced for the UK and US businesses for a period to March 2015. This period is considered to be the foreseeable future as required for this going concern assessment only, and is in accordance with company law, accounting standards and the Listing Rules. The forecasts include the impact of the RIIO price control framework on our UK regulated businesses and the impact of agreed and ongoing rate plan filings with the relevant US state and federal bodies for our US businesses. While we have forecasts that extend to the end of each of our current rate plans (for example until 2021 for the UK regulated businesses), we have not considered going concern formally for these periods, due to the increased forecasting risk and uncertainty involved.

This assessment also considered the significant solvency and liquidity risks involved in delivering our forecasts for the foreseeable future. These are wider than the current global economic uncertainty and include recognising the risks around the continued significant investment programme that the Group has committed to and the potential risk that the credit ratings on some of our issued debt are changed. Any change would increase the cost of servicing this debt, therefore reducing the overall profitability of the Group. The assessment also considered the Group s ability to obtain additional funding across a number of scenarios reflecting the current economic uncertainty, especially in Europe. This analysis also noted the fact that the debt markets remained a viable source of funding for the Group even at the height of the credit crunch in 2007 and 2008. Given the significance of maintaining our overall credit rating, the Group has policies and procedures in place to help mitigate this risk as far as possible, as described on page 33. Additional oversight is also provided by the Finance Committee (see page 66).

More detail on our financial risks, including liquidity and solvency, is provided in note 30 to the consolidated financial statements. There have been no major changes to the Group s significant liquidity and solvency risks in the year.

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Chairman s foreword

As part of the Board transition programme I reported last year, Nora Mead Brownell, Mark Williamson and Jonathan Dawson have joined our Board. We said goodbye to Stephen Pettit and Linda Adamany in 2012, with Ken Harvey and George Rose stepping down from the Board following the conclusion of this year s AGM.

On behalf of the Board, I would like to thank Ken and George for their commitment to the Company and the valuable contribution they have made as Non-executive Directors they have carried out their duties with diligence and care. Ken has been Senior Independent Director since 2004 and Remuneration Committee chairman since 2011, while George has been chairman of the Audit Committee for more than ten years. These are important roles in ensuring the Board meets its responsibilities to shareholders and stakeholders. The Nominations Committee report on page 67 sets out the recruitment processes followed for our new Non-executive Directors.

The fresh insight and external perspectives that Nora, Mark and Jonathan bring are complemented by the accumulated Company knowledge and understanding that our longer serving Directors provide. With the changes in membership, skills, experience and dynamics arising from the refreshing of the Board, we felt it would be timely to undertake an external review of the Board and its committees performance and effectiveness. The review was conducted with a focus on inclusion & diversity. Further details of the process, as well as examples of agreed actions, are set out on pages 60 and 61.

Following the publication of a new edition of the UK Corporate Governance Code last autumn, we have produced this year s Annual Report and Accounts in line with the updated requirements. This is part of our continuing commitment to best practice in corporate governance and I am pleased to tell you that we comply in full with the new requirements as detailed in our compliance statement.

Additionally, we have made some changes to the presentation, structure and content of the Annual Report and Accounts. Our approach takes on board elements of the draft regulations on narrative reporting and directors remuneration, published by the Department for Business Innovation and Skills in the last year.

I hope you find the changes helpful to your understanding of our strategy and performance, as well as how these link to Directors remuneration.

Sir Peter Gershon

Chairman

Governance contents

Governance framework

Compliance statement

The Board considers that it complied in full with the provisions of the UK Corporate Governance Code 2010 (the Code) and, additionally, the new edition of the UK Corporate Governance Code 2012 (the new Code) during the financial year being reported taking account of the transitional arrangements suggested by the Financial Reporting Council for external audit tendering.

This report explains key features of the Company s governance structure to provide a greater understanding of how the main principles of the Code and the new Code have been applied and to highlight areas of focus during the year. The report also includes items required by the Disclosure and Transparency Rules. The index at the top of the next page sets out where to find each of the disclosures required in the Directors Report. As required by the Code, our business model is explained starting on page 08.

A full description of the matters reserved for the Board, together with other documentation relating to the Company s governance, is available on our website.

Examples of changes during the year

On Stephen Pettit s departure, the Risk & Responsibility Committee which he chaired was replaced by a new committee, the Safety, Environment and Health (SEH) Committee chaired by Philip Aiken, to get a sharper focus on safety, environment and health matters. The areas of responsibility previously covered by the Risk & Responsibility Committee, and which are not within the remit of the SEH Committee, including security, corporate responsibility (beyond the specific areas of safety, environment and health), business conduct and inclusion & diversity, are now within the remit of the Board and other committees.

Additionally, in line with common practice, the Executive Committee is no longer a committee of the Board, although its levels of authority, role and responsibilities remain unchanged. For more information on the role and responsibilities of the Executive Committee, see page 28.

In relation to compliance with the new Code, the Board has considered and endorsed the arrangements to enable it to confirm the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and no changes to the assurance processes are required.

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Directors Report statutory and other disclosures (starting on page indicated)

The Board

The Board reserves a number of matters for its sole consideration where these matters impact the strategic direction, effective oversight and reputation of the Company.

Examples of Board focus during the year

- visible safety leadership and embedding genuine learning to help prevent repeat injuries through safety initiatives;
- RIIO and US rate cases;
- major storm activity lessons learnt;
- US foundation programme systems implementation;
- the 2013 strategic business plan assumptions;
- Electricity Market Reform, including future generation scenarios;
- Group financing strategy;
- the new dividend policy;
- refreshed corporate vision statement;
- results of 2012 employee opinion survey, including proposed high level actions to address key themes globally; and
- executive succession, including the results of external assessment and benchmarking of high performing individuals.

Examples of expected Board focus for next year

- review of safety performance and initiatives;
- strategy sessions;
- change programmes in the UK business to reflect RIIO and Elevate 2015 in the US;
- UK security of supply;

US foundation programme post systems implementation review;
UK and US operational deep dives;
talent management update, including regeneration of ageing workforce, capabilities, and inclusion & diversity; and
results of 2013 employee opinion survey and proposed high level actions.

The Board and its committees

In order to operate efficiently and to give appropriate attention and consideration to matters, the Board has delegated authority to its committees to carry out tasks as defined in the committees terms of reference, which are available on our website. Details about the workings of the Board and the committee structure are set out in summary on pages 28 and 29 with reports from each Board committee together with details of their activities during the year on pages 63 to 90.

The Executive Committee has responsibility for making management and operational decisions about the day-to-day running of the Company. Further information on the membership and operation of the Executive Committee is included on pages 28 and 29.

Board composition

The phased and orderly transition of the Board has continued as detailed in the Chairman s foreword to this report, noting that Maria Richter is expected to step down from the Board in July 2014. The Nominations Committee and the Board consider balance as a key requirement for the composition of the Board, not only in terms of the number of Executives and Non-executives, but also with regard to the mix of skills, experience, knowledge, independence and diversity. Biographical and experience details for current Directors are set out on pages 180 to 182. The Directors during the year are set out on page 62 together with details of committee membership and attendance. For further details regarding the Directors service contracts and letters of appointment, see pages 78 and 79 in the Remuneration Report.

Director induction and development

The Chairman, with the support of the Group General Counsel & Company Secretary, is responsible for the induction of new Directors and ongoing development of all Directors. Personal development and training needs were discussed at the one-to-one meetings with the Chairman as part of the Board performance evaluation process.

As the internal and external business environment changes, it is important to ensure the Directors skills and knowledge are refreshed and updated regularly. Updates on corporate governance and regulatory matters are provided at Board meetings, with details of development opportunities available in our online document library.

Non-executive Directors induction programme

On appointment to the Board, new Non-executive Directors receive an induction programme including:

Directors information pack to provide background information on our businesses and operations, policies and procedures as well as guidance on statutory duties as a director and other corporate governance matters;

one-to-one meetings with other Directors and senior management in the UK and US; and

operational site visits.

Programmes are tailored depending on the experience and background of each individual and the committees on which they serve.

Recognising that Nora s experience is predominantly in the US, her induction included a meeting with our external legal advisors to discuss the duties and requirements of being a director in the UK.

As Mark is chairman designate of the Audit Committee, he has met with members of senior management from the finance team including the Finance Director, Group Financial Controller, Director of Corporate Audit and US Chief Financial Officer. He has also met with our external auditors, analysts and brokers.

Jonathan has met our external remuneration advisors and senior management involved with the Remuneration Committee as he will be taking over as committee chairman. His induction programme includes meetings covering the regulatory environment in which we operate and our regulated businesses.

Non-executive Director independence

The independence of the Non-executive Directors is considered at least annually along with their character, judgement, commitment and performance on the Board and relevant committees. The Board, in its deliberations, specifically took into consideration the Code and examples of indicators of potential non independence, including length of service. Following the annual evaluation of independence, with a particularly rigorous review for those Directors who have served greater than six years, each of the Non-executive Directors, with the exception of the Chairman, at year end has been determined by the Board to be independent.

The experience and knowledge of Ken Harvey, George Rose and Maria Richter, who have each served on the Board for more than nine years, have been key to the orderly succession of our Board, facilitating a structured handover and continuity during this period of change.

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Corporate Governance

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Continued

Board evaluation and effectiveness

The Board agreed this year it would be beneficial and timely, given the changes in Board composition, to undertake an external evaluation of Board and committee performance to provide fresh insight and objectivity to the process. Schneider Ross was appointed to conduct an evaluation of the Board and its committees, having previously provided inclusive leadership training to the Company in 2009. The Board agreed this previous relationship would not impact in any way the independence of the review.

The Board recognises the value of inclusive leadership and a diverse Board. In considering the review process this year, it noted the anticipated benefits to be gained by undertaking an external review from an inclusion & diversity perspective.

Schneider Ross held confidential one-to-one interviews with 24 people comprising Directors and members of the leadership team. Mark Williamson and Jonathan Dawson did not participate due to the timing of their appointments. The focus for these discussions was on the behavioural aspects of Board effectiveness such as:

- how the Board works together as a unit;
- the quality of inputs, discussions and decision-making;
- the leadership demonstrated both individually and collectively; and
- specific themes, for example differences in perspectives between male and female Board members and more recently appointed Non-executive Directors were asked about their integration and induction to the Board.

Questionnaires were designed to gather views and feedback on the overall effectiveness, performance and processes of the Board and each of the committees including the Executive Committee. Additionally this year, regular attendees of the Board and committee meetings were surveyed to gain a different perspective and a more holistic picture of performance.

In total 47 people, including regular attendees and two external advisors, were invited to complete questionnaires anonymously online.

Schneider Ross presented the key conclusions of the evaluation at a meeting of the Nominations Committee with the Executive Directors present. Findings, which were debated openly, had been grouped into three themes:

- Mechanics: for example the role, composition and processes of the Board and its committees.
- Dynamics: such as teamwork, quality of discussions, debate and decision-making.
- Specifics: including leadership, succession planning, risk appetite and reporting, and inclusion & diversity.

As a result of their evaluation, Schneider Ross commented:

With the Board in the later stages of its transition, the boardroom dynamic continues to evolve. We have made a set of recommendations which, taken together, we believe should drive progress towards a truly high performing, inclusive Board where constructive challenge from a diverse group of Non-executive Directors makes its full contribution to excellent decision-making.

Each committee chairman was requested to prepare an action plan for their respective committee for presentation to the April Board meeting. Noting the suggestions, the Board agreed areas of improvement and actions for further enhancements. Progress against all action plans will be monitored throughout the year; see table opposite for examples.

In addition to the review by Schneider Ross and on receipt of its findings, Sir Peter met with each Board member to discuss their individual performance, with the exception of Ken Harvey and George Rose as they will not be standing for re-election at this year s AGM.

Progress against the examples from the combined action plan reported last year, which includes items identified from the performance evaluation process together with Sir Peter s complementary review, is set out opposite.

Director election and re-election

At a private meeting of the Non-executive Directors, Ken Harvey, as Senior Independent Director, led a review of Sir Peter s performance. In their deliberations the Non-executive Directors, with input from the Executive Directors, assessed his ability to fulfil his role as Chairman. They concluded that Sir Peter s performance and contribution are strong and that he demonstrates effective leadership. Ken also met privately with Schneider Ross to discuss feedback on the Chairman obtained from their review, which Ken then discussed with Sir Peter.

Following recommendations from the Nominations Committee, the Board considers all Directors continue to be effective, committed to their roles and have sufficient time available to perform their duties. There have been no significant changes to Sir Peter s commitments during the year and the arrangements he has in place to fulfil his role given he is also chairman of another FTSE 100 company are considered effective. Therefore, in accordance with the Code, all Directors, with the exception of Ken Harvey and George Rose, will seek election or re-election as set out in the Notice of the 2013 AGM.

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Area	Actions for 2013/14
Mechanics	Chief Executive to meet with Executive Directors immediately after each Board meeting to discuss how the Board operated as a team and contributions from Directors, and reflect on any learning. Feedback from these meetings to be shared as appropriate with the Chairman. Responsibility: Chief Executive
	Review and build on the one page executive summary for non standard papers introduced in July 2012 and consider its effectiveness in providing the Board with key information and clarity around requested contribution or action. Responsibility: Chairman and Chief Executive
	All committees, except the Nominations Committee and Executive Committee, to get together immediately before or after their meetings to discuss papers, presenters contribution and any matters they wish to consider without management present. Responsibility: Committee chairmen
	Thinking styles of candidates to the Board and Executive Committee to be taken into consideration once skill set and experience confirmed. Responsibility: Nominations Committee
Dynamics	Schedule a development session for the Board which may include thinking styles, inclusive leadership and exploring positive challenge through questioning techniques. Responsibility: Chairman and Group General Counsel & Company Secretary
	Review the following month s agenda and communicate to the Executive Directors the areas that presenters are to focus on. Responsibility: Chairman and Chief Executive
Specifics	Facilitate increased interaction between Non-executive Directors and high potential employees during site visits and presentations at Board meetings.

	Responsibility: Executive Directors
	Appoint a taskforce to review gender diversity and employee turnover. Responsibility: Chief Executive
	Implement an inclusion & diversity scorecard and review progress with the Board. Responsibility: Executive Committee

Area	Actions from 2012/13	Commentary
Board and committee performance evaluation		
Membership and attendees	During this period of Board transition, membership of all committees is to be reviewed to ensure appropriate alignment of skills and knowledge. Responsibility: Nominations Committee	As the Board transitions, committee composition has been reviewed to ensure the right balance of skills and experience is maintained taking into account the role and responsibilities of the committee and the existing membership.
Training and development	Training and development is key for all members of the Board. Formal training plans will be agreed between each Director and the Chairman. Responsibility: Board members	A record of training and development activities undertaken by Directors has been maintained throughout the year; for example external briefings and seminars, which have been complemented by technical and market updates to Board and committee meetings.
Role and structure	To review the terms of reference and remit of the Risk & Responsibility Committee,	The new SEH Committee focusing on safety, environment and health issues only, was formed at the end of July 2012 in place of the broader Risk & Responsibility Committee.

	including the advice sought from external advisors. Responsibility: Chairman, Chief Executive and Company Secretary & General Counsel	The new committee considered its external advisors. The additional areas previously reviewed by the Risk & Responsibility Committee were reallocated between the Board, Audit Committee and Executive Committee.
Complementary review		
Role and structure	Enable the Board and its committees to focus appropriately on addressing the key challenges and opportunities.	Together with the formation of the new SEH Committee, agendas were updated having reviewed the frequency with which items should be considered during the year.
Non-executive Directors	Facilitate an appropriate level of input and constructive challenge from the Non-executive Directors.	To facilitate preparations for and input to meetings, a secure online document library has been introduced providing access to Board and committee papers and reference materials.
Role and structure	Establish more clarity about the levels of assurance the Board needs in areas outside the remit of the Audit Committee.	A project is ongoing to review key data provided to external parties and the associated assurance processes.
Non-executive Directors	Increase Non-executive Director engagement with the operations.	Following positive feedback, the programme of Non-executive Director visits to Company sites in the UK and US will be continued.
Role and structure	Increase the effectiveness of scrutiny of operations and business processes.	The SEH Committee provides more focused scrutiny of operations and business processes in relation to safety, environment and health.

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Board and committee membership and attendance

Listed below is the Board and committee membership and attendance. Instances of non attendance during the year were considered and determined as being reasonable due to the individual circumstances. Should any Director be unable to attend a meeting, the Chairman and committee chairman are informed and the absent Director is encouraged to communicate opinions and comments on the matters to be considered.

	Board and committee membership, attendance (i) and independence						
	Board	**Audit Committee**	**Finance Committee**	**Nominations Committee**	**Remuneration Committee**	**SEH Committee (ii)**	**Executive Committee (iii)**
Non independent Non-executive Chairman							
Sir Peter Gershon	11 of 11			7 of 7			
Chief Executive							
Steve Holliday	11 of 11		4 of 4				3 of 3
Executive Directors							