nationalgrid

# Responsible Business Report 2020/21

Bring Energy to Life

PRINCIPAL PARTNER
UN CLIMATE CHANGE CONFERENCE UK 2021
IN PARTNERSHIP WITH ITALY

# We exist to 'Bring Energy to Life'. This is our Purpose.

**We do this by delivering the electricity and gas that our customers and communities rely on and we aim to do this in ever more sustainable, reliable, safe, fair and affordable ways. National Grid operates at the heart of the energy system, connecting millions of people to the energy they use every day. Behaving responsibly is key to our success and our stakeholders expect it of us. This Responsible Business Report (RBR) sets out our progress.**

## Vision

**To be at the heart of a clean, fair and affordable energy future**

## Values

**Every day we… do the right thing, find a better way and make it happen**

### About this report

This RBR, covering the financial year to 31 March 2021, is the first standalone document to provide a comprehensive view of our non-financial performance for some years although information has been provided regularly on our website and through other channels.

Our stakeholders have high expectations of how we behave as a business and our objective in publishing this RBR is to update them on our progress. We aim to publish every year, in parallel with publication of our Annual Report and Accounts (Annual Report), and whilst we hope this document is useful to all interested groups, it is intended particularly for:

- customers, and the communities we serve;
- regulators, and the governments of the countries and states that host our business;
- investors and debt providers;
- our colleagues; and
- business partners and suppliers.

This RBR covers all operations and activities under our control throughout the year (except where otherwise stated), documenting our performance across our most material issues. A full list of our subsidiaries is provided in our 2020/21 Annual Report on pages 204 to 207. Further information on the basis of the preparation of this report, which we believe has been prepared in accordance with the GRI Standards: Core option, (subject to GRI approval) and is substantially compliant with disclosure requirements set out in SASB standards relevant to our industry sector, is provided on pages 55 - 57 of this document, and in the separate '**Reporting Methodology**' document.

A glossary of terms is provided on pages 65 - 66.

### Our approach to responsible business

Our overall approach is aimed at supporting the fulfilment of our Purpose and can be summarised as:

- identifying our key stakeholders, how they interact with our operations, activities and value chain, and the issues that are relevant to them;
- adopting a logical process for prioritising those issues, to identify the most material matters; and
- responding to the priorities by developing appropriate strategies, policies, programmes and performance indicators, and reporting regularly and transparently on our progress.

In this way, we intend to become a more sustainable business and, in particular, to fulfil our objective to be at the heart of successful transition to a Net Zero economy.

During 2019 and the first half of 2020, in acknowledgement of rapidly increasing expectations of corporate behaviour, we re-examined our approach to being a responsible business, looking to create a step-change in the level of ambition across our sustainability agenda. This exercise involved substantial stakeholder engagement and culminated in the publication of our **Responsible Business Charter** which summarises our commitments to performance improvements and will shape our actions for years to come. More information on this process is provided on pages 9 - 12.

Please think of the environment and don't print this report if it can be avoided.

## Net Zero

**Our Net Zero commitment is to reduce our own greenhouse gas emissions to Net Zero by 2050**

Front cover image
**Kailyn Brenn**
US
Overall winner

For more information on the artwork in this report see page 67.

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# Review of the year

## Our commitments and ambitions

**In October 2020, we published our Responsible Business Charter (RBC) and this sets out a series of commitments, including quantitative targets, against which we will hold ourselves accountable. At this stage, as the commitments are only months old, we have discussed our positioning against them in the body of this Report. In future Reports, we will provide an 'at a glance' progress summary in our 'Review of the Year' section.**

The 2020/21 financial year has been an important one for National Grid. We have published our new RBC, setting out a range of new commitments and ambitions to guide our programmes, and have published this RBR, our first public report on performance for several years. The RBR has been prepared in accordance with the GRI Standards: Core option (subject to GRI approval) which requires a detailed description of our performance and management approach relating to material responsibility issues. This review provides a high level summary of our progress, under the five headings of our RBC. The full RBR provides substantially more detail on the issues set out below.

### The environment

During the year, we have continued to work with our stakeholders to ensure that we are at the centre of the transition to a cleaner energy system: bringing innovation, resources and our extensive capabilities to projects involving electricity, transport and heating.
We have expanded our interconnector capacity and connected additional renewables to the grid system. We look forward to reporting on the performance of National Grid Renewables in the next RBR.

We achieved the previous GHG emission reduction target set out in the 'Our Contribution' publication (2017) and have started the journey to achieving our Net Zero commitment, now verified by the Science Based Target initiative as being in line with a well below 2°C pathway. Combined Scope 1 and 2 emissions increased by 7.1% against the previous year, primarily due to increased running time of US generation assets, highlighting that achievement of Net Zero is not entirely in our own hands.

Our Scope 3 target has been amended and is now also verified by SBTi. Scope 3 emissions decreased by 6.2%, driven largely by reductions in sales of gas and electricity in the US. The COVID-19 pandemic impacted heavily on business air travel, where emissions fell dramatically. Energy consumption, excluding energy for power generation, decreased by 16.5% in relation operational use, transport and purchased electricity. We are just starting to measure our management of the natural environment and will report more fully on this in the future, as well as enhancing our reporting of waste and water management.

## Awards and ratings

### CDP

Achieving an 'A' grading (the highest) for our response to the Climate Disclosure Project for the fifth consecutive year

### FTSE4Good

Remaining a constituent of the FTSE4Good Index

### ISS-oekom

We have been assessed by ISS-oekom as a leader in our industry group.

### 82/100 S&P

S&P ESG evaluation score

### 2020 Ethnicity Awards

'Best Network Group' for ONE (one of our UK Employee Resource Groups)

### Ethisphere

Included on the 2021 World's Most Ethical Companies Honoree List

## Review of the year continued

### Our communities

We have maintained a solid performance in relation to protecting the public and, during the COVID-19 pandemic we delivered a reliable supply of electricity and gas, and demonstrated the resilience of our networks and the ability to recover from extreme weather events, particularly in the US. We supported our customers with new initiatives relating to suspension of debt collection and customer termination activities, and we provided direct charitable support to disadvantaged communities we serve, as well as help with energy efficiency and connecting the unconnected to gas supplies.

We launched our Grid for Good programme, aimed at helping disadvantaged young people to build skills in relation to the clean energy transition and improve employability, whilst providing a platform to boost volunteering opportunities for our colleagues. At the year end, over 1,200 people are involved in the Grid for Good pathway, and colleagues have donated over 6,200 hours of their time. we estimate our total community investment for the year at approximately £11.3m.

### The economy

We have maintained levels of investment in energy infrastructure at approximately £5bn and fostered new innovations through internal projects and investments in start-ups, our portfolio comprising 23 companies and four fund investments at a fair value of £178m at the end of the year. Examples of innovation are provided throughout the RBR. We also continued to issue green bonds to finance investment in energy efficiency and other sustainability initiatives, with Niagara Mohawk Power Corporation issuing its first green bond for $600 million.

We have continued to work with our suppliers to ensure they behave responsibly and have set a target for the proportion of top suppliers that have active emission reduction targets (75%). We support supplier diversity, and pay promptly, improving the ratio of suppliers paid to contractual terms in both the UK and US – now both at, or above, 90%.

### Our people

The health, safety and wellbeing of our colleagues remains our top priority. We have seen an improvement in the lost time injury frequency rate (see glossary) during the year, but deeply regret the fatality of a contractor colleague through a tragic accident at one of our US facilities.

Our Grid: voice engagement survey saw a 5.2% increase in the 'engagement' score of our colleagues, and a 4.7% increase in the 'safe to say yes' index, a measure of whether colleagues are confident to speak out safely. We have appointed a Chief Diversity Officer and are driving multiple initiatives to improve diversity, diversity awareness and transparency across our business. The diversity of our Board and Senior Leadership Group have both improved but we recognise that we still have a long way to go, for example in the roll-out of unconscious bias training.

### Our governance

We released our updated Code of Ethics and continued to promote ethical and responsible behaviour across the business. We received no reports of bribery-related issues during the year.

# Our business

## National Grid plc is one of the world's largest investor-owned energy utilities, committed to delivering electricity and gas safely, reliably and efficiently to the customers and communities we serve.

National Grid owns a range of high-quality, long-life assets with low commercial risk profiles, typically supported by long-term contracts or stable regulatory arrangements. Our core regulated businesses in the UK and US generated over 90% of our operating profits this year. We also own a diverse and growing portfolio of commercial energy operations which form our National Grid Ventures business.

## Our new operating model

National Grid's vision is to be at the heart of a clean, fair and affordable energy future in an industry sector where the pace of change is accelerating with increasing focus on decarbonisation, digitalisation and decentralisation. In order to ensure we can effectively and efficiently deliver the financial, customer and regulatory outcomes that will help us on our journey towards Net Zero, we are changing our operating model as a company. Our new operating framework will consist of six business units and more detail is provided on page 2 of our Annual Report.

## UK Electricity Transmission

### Electricity Transmission

We own the high-voltage electricity transmission (ET) network in England and Wales. We are responsible for ensuring electricity is transported safely and efficiently from where it is produced; reaching homes and businesses safely, reliably and efficiently. We also facilitate the connection of assets to the transmission system.

### UK Electricity System Operation

Since 1 April 2019, the ESO operates as a separate legal entity within National Grid. We are responsible for making sure supply and demand of electricity is balanced in real time across Great Britain (GB). While we operate as the ESO across GB, we do not own the transmission assets in Scotland.v

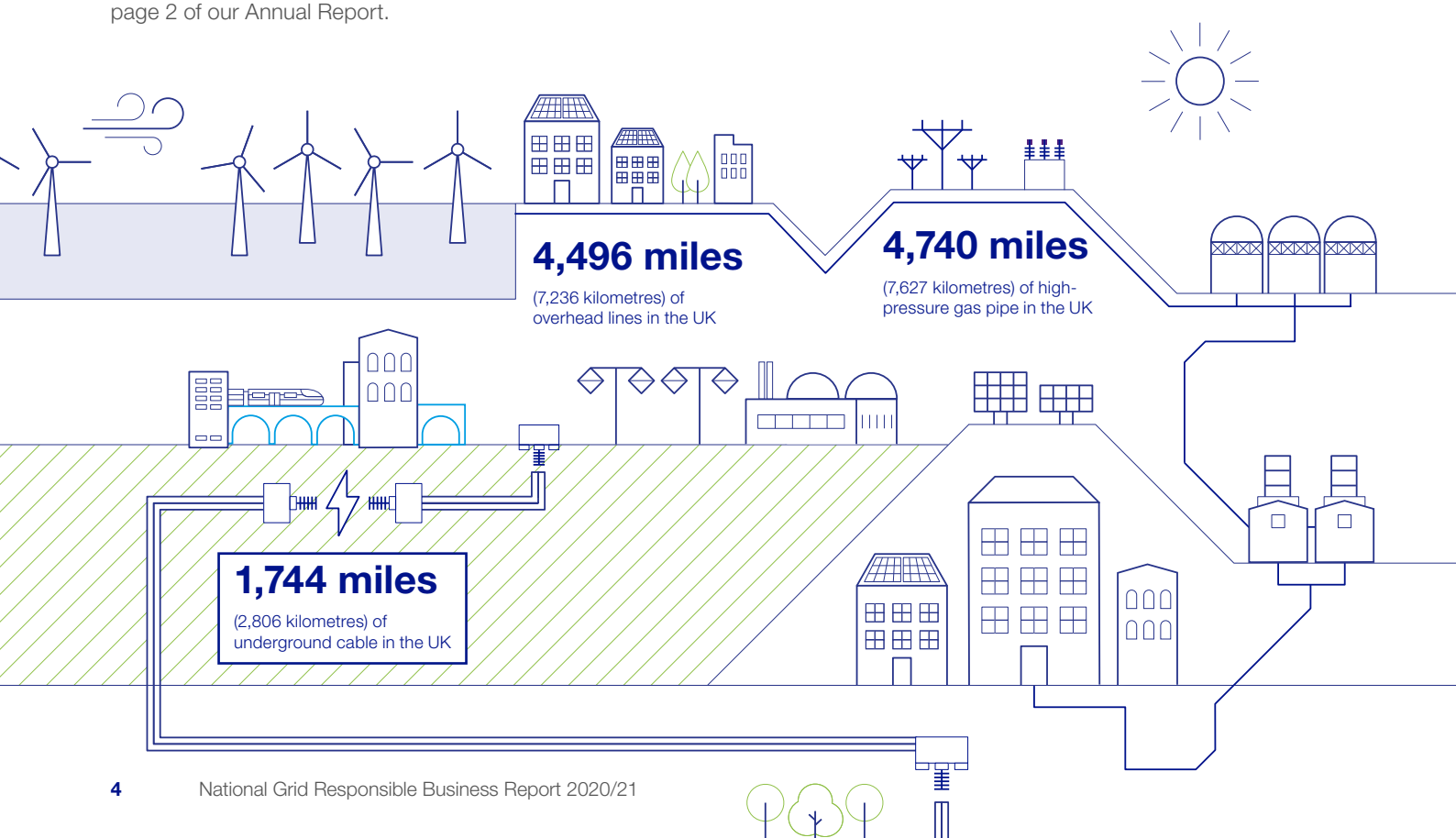
On 18 March 2021, National Grid announced it had agreed to buy Western Power Distribution Group from PPL Corporation. Conditional on completion of the purchase, WPD Group will form an additional UK Electricity Distribution business unit.

### Statutory operating profit (%)

### Underlying operating profit (%)

### RAV, rate base and other assets (%)

- UK Electricity Transmission (including ESO)
- UK Gas Transmission
- US Regulated (New England and New York)
- National Grid Ventures and other activities



**Our business** continued

## UK Gas Transmission

Our UK Gas Transmission (GT) business comprises both the gas transmission assets and an integrated gas system operator.

We also own and operate the high-pressure gas transmission network in Great Britain. We are responsible for making sure GB's gas is transported safely and efficiently from where it is produced to where it is consumed.

As the Gas System Operator we are responsible for ensuring that supply and demand are balanced in real time on a day-to-day basis.

**8,972 miles**

(14,439 kilometres) of electricity transmission overhead lines in the US

**73,010 miles**

(117,498 kilometres) of electricity distribution circuit miles in the US

## US Regulated

### New England

**Electricity**

We own and operate transmission facilities and distribution networks across Massachusetts, New Hampshire, Vermont, and Rhode Island. Conditional on completion of the purchase of WPD Group and certain regulatory approvals, we have agreed to sell our Rhode Island electricity distribution business to PPL.

**Gas**

We own and operate gas distribution networks across Massachusetts and Rhode Island. We have also agreed to sell our Rhode Island gas distribution business to PPL.

### New York

**Electricity**

We own and operate transmission facilities and distribution networks across upstate New York. We also own and operate electricity generation facilities on Long Island.

**Gas**

We own and operate gas distribution networks across upstate New York and on Long Island.

## National Grid Ventures and other activities

National Grid Ventures (NGV) manages our diverse portfolio of energy businesses that are similar to our core regulated operations. This operating segment represents our main strategic growth area outside our regulated core business, in competitive markets across the US and the UK. The business comprises commercial operations in energy metering, electricity interconnectors, renewables development and the storage of liquefied natural gas (LNG) in the UK.

This includes National Grid Renewables (formerly Geronimo), a leading wind and solar developer in North America and commercial operations at the 200 MW Crocker Wind Farm in Clark County, South Dakota.

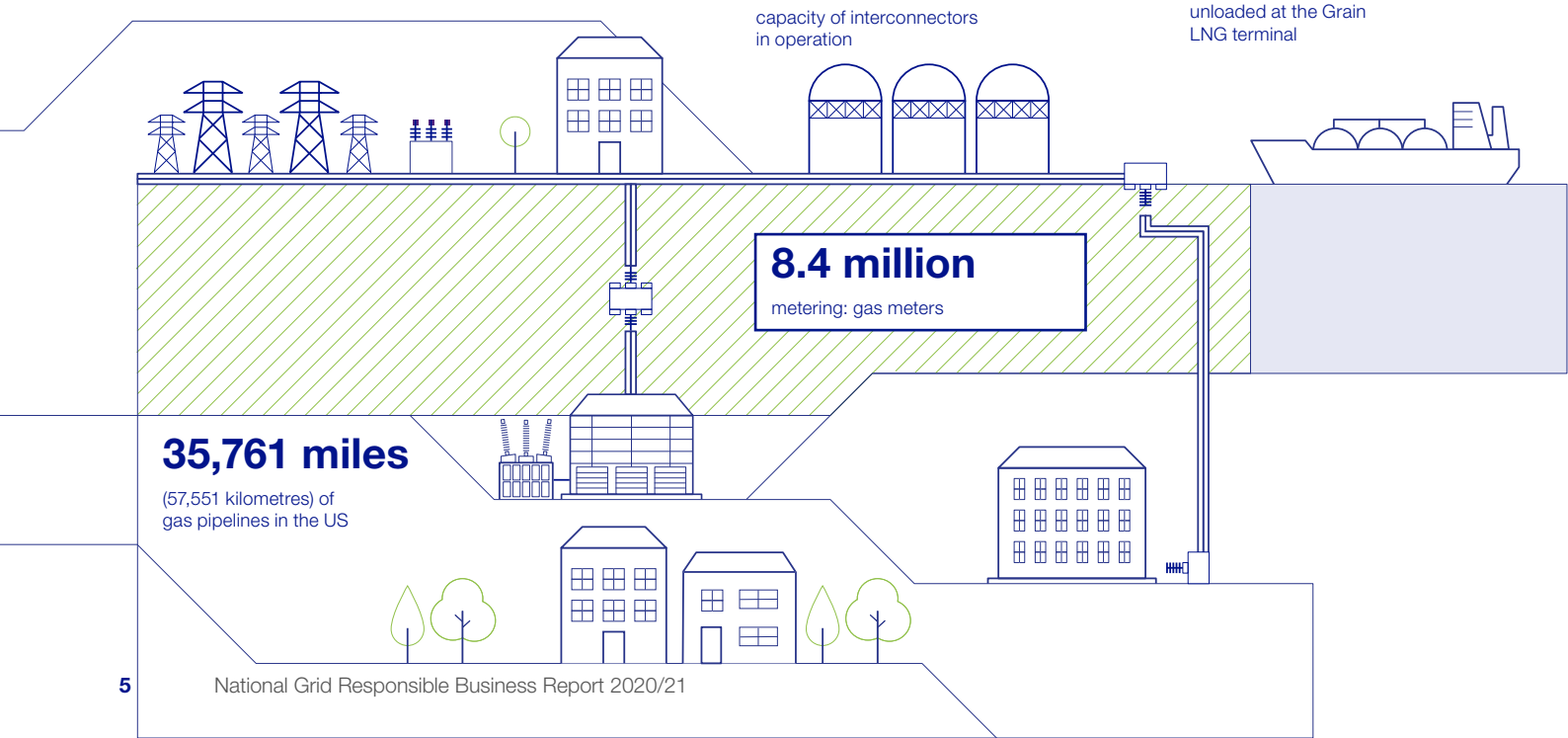
Our other activities that do not form part of any of the segments described here, or NGV, primarily relate to our UK property business together with insurance and corporate activities in the UK and US, and the Group's investments in technology and innovation companies through National Grid Partners (NGP).

**5 GW**

capacity of interconnectors in operation

**49 ships**

unloaded at the Grain LNG terminal



**8.4 million**

metering: gas meters

**35,761 miles**

(57,551 kilometres) of gas pipelines in the US

# Chairman's statement

**The past year has reminded us how fragile our societies can be. We have witnessed the COVID-19 pandemic bring pain, loss and the difficulties of isolation, to friends, families, colleagues and our broader communities.**

Few around the world have been left untouched. At the same time, the steady deterioration of our natural environment and the particular risks presented by advancing climate change, are now clear to all and the urgent need for action is at the top of the agenda of many of our most important stakeholders.

In the context of these and other threats, I am immensely proud of the way that the Company has stepped up to the challenges. In our Annual Report, we have set out in detail how we have responded to the health crisis but this only gives a flavour of how people across the business have shown the determination, commitment and ingenuity to ensure that we delivered on our Purpose and provided the communities we serve with clean, affordable and reliable energy for their needs.

In 2020, we published our Responsible Business Charter, our statement of how the business will step up its efforts over the coming years to exceed the expectations of our stakeholders – expectations that continue to increase.

In November 2020, the UK Prime Minister unveiled an ambitious ten-point plan to support the drive towards a Net Zero emissions position by 2050. The plan covers a range of measures from expanding offshore wind and hydrogen production capacity, to carbon capture and underground storage and tree planting. In April 2021, these plans were accelerated, with a further announcement that the UK would deliver a 78% cut in emissions by 2035, with a greater focus on electric cars, low-carbon heating and renewable electricity.

In the US, President Biden recently held a virtual summit of 40 world leaders and his administration announced its goal to reduce emissions by between 50% and 52%, by 2030 from 2005 levels. We acknowledge the challenge, and are taking action to support these goals.

Our Charter includes our climate change strategy, setting out the changes we will make to support the transition to a new and cleaner energy system, and help deliver the goals of government and other partners who have themselves laid out challenging targets for the journey to Net Zero. As an enabler of this, we must demonstrate our credibility in the climate agenda by committing to our own Net Zero target and we are reaffirming this by including a resolution at our AGM, seeking shareholder approval for our 2050 goal and interim targets. The announcement of our proposed acquisition of Western Power Distribution in the UK[1], is a one-off opportunity to acquire a significant scale position in UK electricity distribution and puts us at the forefront of delivering Net Zero across the electricity sector, as demand rises substantially in the years ahead.

As a large business, in a pivotal role in the energy system, we also accept that we have a responsibility to encourage and persuade others to adopt challenging goals, as it is only by acting in a coordinated way – across business, policy-makers, academia and others – that we can deliver the changes necessary to drive down emissions. For this reason, I am proud we have taken the step to be a principal partner of the COP26 event to be held in Glasgow later in the year.

Another key theme in our Charter is to tackle the issue of inclusion and diversity, whether this relates to recruitment, remuneration, promotion and advancement or just the ability for all colleagues to come to work knowing that they are valued for who they are and what and how they contribute to our Purpose. We know that we are making progress in this area but there is always more to do, and I am pleased that our Board gender diversity has improved to 38.5%.

I recognise the importance of hearing and responding to the voices of our stakeholders as it is only in this way that we can truly achieve our Purpose, live our Vision and Values, and serve the communities that rely upon us. We are re-affirming our commitment to the Principles of the United Nations Global Compact and are guided in our actions by the United Nations Sustainable Development Goals. With this Responsible Business Report (RBR), we are enhancing the transparency with which we address our priority issues. I am pleased to say the RBR is aligned with internationally recognised reporting standards and we aim to improve our disclosure further in the coming years.

I end my tenure as Chairman, proud of the way the Company has strengthened its capabilities and credibility as a responsible business, and confident that it is well placed to respond to the challenges and opportunities that lie ahead.

**Sir Peter Gershon**
Chairman

1. Subject to regulatory approval.

# Chief Executive Officer's statement

## Our Purpose is to Bring Energy to Life and we do this by delivering the electricity and gas that our customers and communities rely on in a reliable, safe, fair and affordable way.

Recently we have had to do this through the unprecedented challenge of the COVID-19 pandemic and my sincere thanks go out to all of my colleagues who have worked so hard to ensure that critical supplies of energy have got to where they needed to be.

As Sir Peter has said in his statement (page 6), the other great challenge we face is climate change. I am very encouraged by the acceleration of the agenda as businesses, governments, regulators and stakeholders come together with the shared ambition of reaching Net Zero by 2050. What we see now is that ambitious words are backed by ambitious regulation. The Energy Act of 2020 was passed by US Congress in December 2020, and Massachusetts, Rhode Island and New York all issued instruments designed to massively reduce emissions from transport. In the UK, the Government issued its Energy White Paper, setting out the steps to cut emissions from industry, transport and buildings over the next ten years, while creating new jobs.

We announced our Net Zero commitment in November 2019. Our Scope 1 and 2 interim target to reduce direct emissions 80% by FY2031 (from a FY1991 baseline) was already aligned to a well-below two degrees pathway consistent with the ambition requirements of the Paris Agreement and Science Based Targets initiative (SBTi) but, over the last few months we have worked closely with the SBTi to increase the ambition of our Scope 3 target to also align to this pathway. Our Scope 3 target will now cover emissions across our entire value chain – not just for the energy we sell – with a commitment to reduce the carbon emissions 37.5% by FY2034 (from a FY2019 baseline).

We continue to make the investments, such as the proposed acquisition of Western Power Distribution in the UK[2], and to deliver the significant engineering projects, that are vital to helping meet these targets and commitments. In the US, our wind and solar projects are generating significant levels of clean, renewable energy. We signed a power purchase agreement with Basin Electric Power Cooperative for a large solar project in South Dakota which is expected to generate 128 MW of clean power from 2022. We also started construction on a 40 MW Michigan Solar Portfolio which, when completed later this year, will power around 8,000 homes.

IFA2, our second interconnector between the UK and France, also went into operation. With a capacity of 1,000 MW, the 149-mile subsea power cable can provide enough energy to power one million British homes. We continue to work on interconnectors with Norway and Denmark which will provide additional energy security and access to further sources of renewables.

Our Responsible Business Charter (RBC), the result of extensive stakeholder engagement and research, is our roadmap. The RBC sets out a series of commitments and ambitions relating to five key aspects of how we operate: our environmental approach, how we support the communities we serve, how we value, develop and keep safe our colleagues, our contribution to the broader economy, and our approach to governance. We will review and enhance the RBC on a regular basis and report progress annually through this Responsible Business Report (RBR), alongside the Annual Report.

We are under no illusions as to the scale of the challenges ahead. To meet our ambitious Net Zero target to reduce our Scope 1 and 2 emissions, and our Scope 3 reduction target, we must work with a range of stakeholders to achieve radical, step-change advances in technology. To achieve true diversity across our own business, and our supply chains, we must be bold and build new understanding and attitudes, as well as changing processes and delivering appropriate training. To drive the clean energy transition, we must reskill our business and the sector as a whole. To protect the natural environment we must work with local communities to enhance biodiversity and nature.

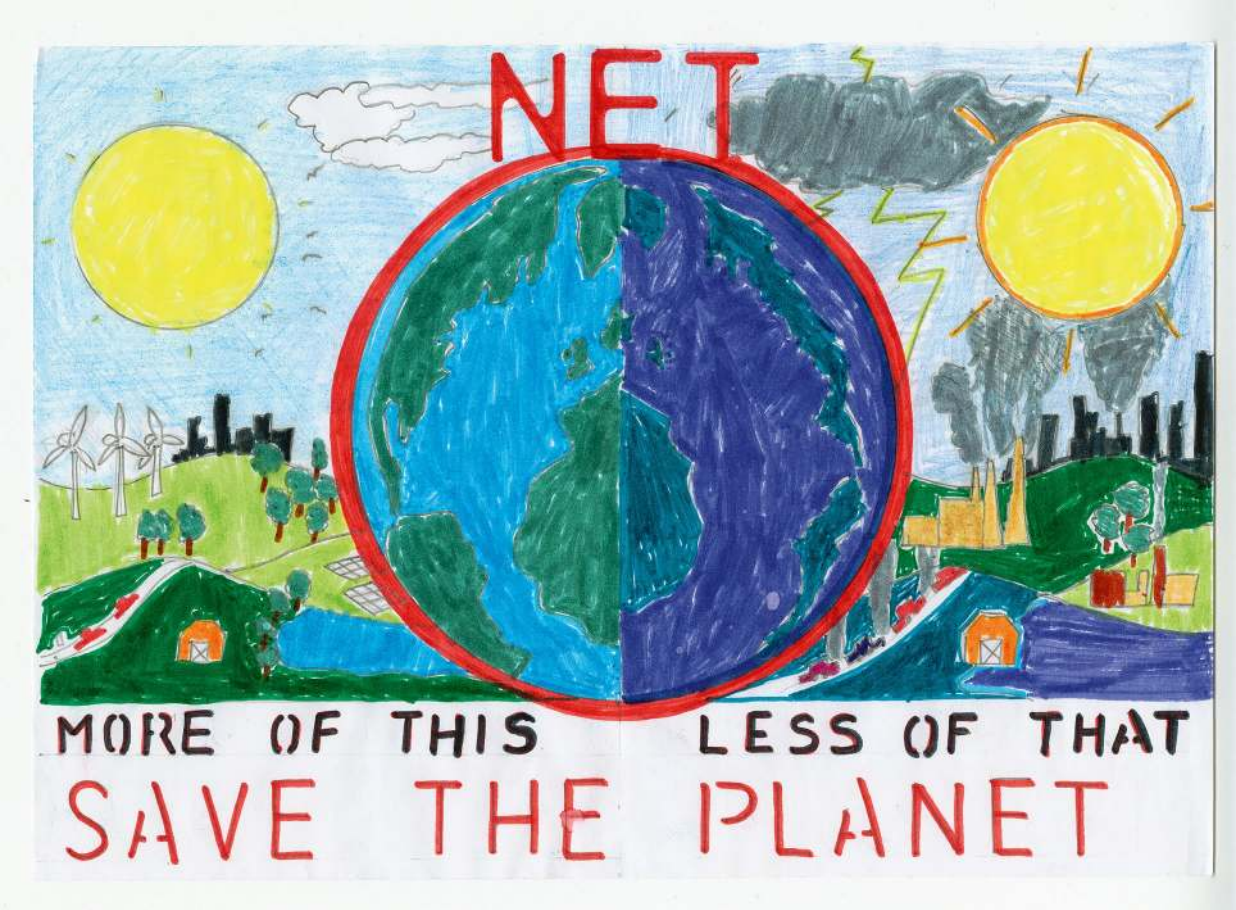
We must do all of this while maintaining our network reliability (see page 30), controlling costs and keeping our workforce and the public safe. Every injury is one too many, and I am deeply sorry to report that, in November 2020, one of our contractor colleagues suffered a tragic accident at one of our facilities in New York, and lost his life.

We face the next year with our plans in place, ready to accelerate execution and looking forward to participation at COP26 as a principal partner. I hope you find this RBR helpful and I would welcome your feedback.

**John Pettigrew**
Chief Executive

2. Subject to regulatory approval.

# Our approach to responsible business




Zakariya Patel | UK | Age group 6 and up

**In this section we set out how we approach doing business in a responsible way. This involves the following key elements:**

## Engaging stakeholders

Stakeholder engagement is critical to the success of our business as it underpins the development of our strategy and the regulatory approval of our business plans. Engagement helps to identify the broader sustainability trends and specific issues which we need to address as a business.

More information is provided on page 9

## Assessing materiality

Through the comprehensive review of our RB approach noted above, we assessed identified issues through a 'Total Societal Impact' (TSI) methodology and against the output of our stakeholder engagement. This enabled us to establish priorities for action.

More information is provided on page 11

## Designing strategy

By focusing on our material issues, we create and embed a strategy that meets our stakeholders' expectations and includes commitments and quantitative targets which galvanise the business and against which we can be held accountable.

More information is provided on page 12

## Developing governance

We continually review our governance arrangements to ensure that our responsible business programme receives the appropriate level of review and challenge, that adequate resource and oversight are available to drive progress and that a comprehensive risk management process is in place.

More information is provided on page 13

## Embedding values and ethical behaviour

Underpinning all that we do is ensuring we behave in an ethical way, in accordance with our stated values and business policies. We have zero-tolerance of bribery and corruption and take great care to ensure our reputation is not tarnished through poor behaviour.

More information is provided on page 14

# Stakeholder engagement

## The role of stakeholder engagement

Successful strategic, regulatory and commercial outcomes demand that we focus on the needs of our stakeholders in everything we do. Stakeholders are active and empowered in the markets where we operate and their expectations are set by comparisons to other companies and organisations that they deal with, as well as through media reporting, and their own values and priorities. We must engage effectively with stakeholders to better understand and deliver on these expectations and, where appropriate, stakeholder engagement professionals within the business help to link relevant stakeholders to subject matter owners to help ensure their voices are heard and our decisions best reflect their needs and priorities.

We must also ensure that information on stakeholder interests is able to inform strategic-level decisions, and developments are reported on a regular basis to the Board or a Board Committee. In some instances, one or more members of the Board may be involved directly in the engagement, such as with shareholders and employees. A summary of our key stakeholder groups, and how we have engaged with them over the course of the year, is provided in our Annual Report on pages 46 to 51.

It is important we maintain the standard and consistency of our engagement across all stakeholder interactions. To this end, we have introduced a Stakeholder Engagement Business Management System (BMS) Standard, which sets out our approach to engagement through the 'Strategy – Plan – Do – Check – Act' framework, and commits the business to three core principles:

- stakeholder engagement is integral to our governance and will add value to National Grid and its stakeholders by focusing on material issues;
- stakeholder engagement must have a clearly defined scope that creates opportunities for transparent dialogues leading to an agreed decision-making process; and
- the stakeholder engagement process must be appropriate to the stakeholder and performed in a timely, flexible and responsive manner.

To further enhance our processes, in the UK, we are assessed by AccountAbility against the AA1000 Stakeholder Engagement Standard (which we adopted in 2016), an internationally-recognised framework for stakeholder engagement excellence, which itself embodies the principles of inclusivity, materiality and responsiveness. We have achieved rising assessment scores and are in the top 10% of all organisations assessed worldwide by AccountAbility.

## Key stakeholder engagement activities

A summary of engagement activities is presented in the Annual Report. In this section of the RBR, we use three examples of engagement to look at how stakeholder engagement helps us to identify priorities for action and how it informed our responsible business strategy, embodied in our Responsible Business Charter (RBC), published in October 2020.

**Example 1: Business Plan Development**

In the UK and US our business planning is overseen by strict regulatory controls to ensure that we deliver against the network reliability and resilience, affordability and, increasingly, the environmental and other social requirements of the communities we serve. To develop plans that are acceptable to our regulators we have to demonstrate that we have conducted adequate stakeholder engagement to determine these requirements in detail.

In the UK, we develop such plans under the RIIO process and we undertook extensive engagement in the period leading up to the submission of the plan in December 2019. A summary of this engagement is provided below.

We have also carried out extensive consumer research covering more than 1,000 domestic consumers and 600 business consumers to determine the financial acceptability of our business plans and continue to be challenged by an Independent User Group, which meets regularly to scrutinise and challenge our plan and its implementation.

Extensive detail on this engagement and consultation is provided **here** and **here**.

The RIIO stakeholder process highlighted issues beyond the financial terms of the regulatory settlement, and placed significant emphasis on broader environmental, social and ethical considerations. This has helped to shape our responsible business strategy.

In the US, the regulatory environment works differently but nevertheless provides opportunities to hear from a range of interested parties as part of the settling of rate cases. Rate cases are generally set on an annual basis, but settlements can be agreed that last for three or more years. This frequent re-visit of key business parameters allows us to remain up to date with key stakeholder concerns.

## Stakeholder engagement continued

In advance of filing our submissions, we will look carefully at customer feedback information and, as the process continues, we hear from a range of 'intervenors', organisations that have a stake in the outcome of the rate case. Intervenors range from energy-focused organisations, to environmental and consumer rights groups. The interest and engagement of environmental organisations has increased significantly in recent years such that a recent case involved approximately 20 different organisations.

**Example 2: Development of the Responsible Business Charter**
We carried out specific, extensive research to inform the development of our new RB strategy, which is embodied within our RBC. As part of this process we first identified the long list of possible issues relevant to our stakeholders. This included:

- reviewing relevant laws, regulations, management system and reporting standards (such as the Global Reporting Initiative (GRI) and Sustainability Accounting Standards Board (SASB)), voluntary codes, principles and agreements, and international initiatives such as the UN Sustainable Development Goals (SDGs);
- benchmarking ourselves against good practice in our sector and across high-performing listed companies; and
- reviewing our performance against the multiple rankings and ratings developed by ESG-focused investors, identifying the issues that are of importance to investors.

We then reviewed the list with external and internal responsible business and subject matter experts to identify likely priority areas before consulting widely with stakeholders. This included:

- 61 external stakeholder interviews;
- 12 citizen focus groups (UK and US); and
- polling 5,000 UK and US energy consumers of which 52% were US customers.

### Summary of stakeholder engagement in the UK RIIO-T2 business planning process

| Electricity | Gas |
|---|---|
| Establishing stakeholder priorities – face-to-face workshops and online surveys with multiple respondents which established eight stakeholder and three consumer priorities which formed the basis of the plan. | From 2017 to 2019 we carried out a comprehensive listening exercise, engaging with 795 stakeholders from 369 organisations, covering more elements of our business plan than ever before. |
| Working with stakeholders to build the detail of our plans – consultation with more than 1,000 individuals from key stakeholder segments, 11,000 household consumers, 750 business consumers and hundreds more through our satisfaction survey and complaints processes. | We have listened to consumers through a robust engagement programme, surveying more than 13,500 household bill payers, 750 non-domestic consumers and 66 major energy users. |
| Priority issues identified included:<br>• transitioning to the future energy system;<br>• affordable electricity;<br>• safe and reliable network;<br>• the environment and communities;<br>• transparency;<br>• innovation; and<br>• easy connection and use. | Priority issues identified included:<br>• facilitating the whole energy system of the future;<br>• safe, reliable and flexible gas supply;<br>• environment and communities;<br>• transparency and effective communications; and<br>• efficiency and affordability. |

The emerging priorities were tested with management, and levels of ambition and commitment were developed through:

- 41 senior leader interviews;
- 8 employee focus groups (UK and US); and
- dedicated sessions at a senior leader offsite meeting.

With support from external experts, we also conducted a process to assess the Total Societal Impact (TSI) of different options for action on the prioritised issues to better understand where we could have the most impact when setting our future strategy. Through this extensive process we developed our RBC which was published in October 2020. More detail on this is provided below.

**Example 3: Investor engagement – ESG Day and research**
In 2020, we conducted a survey of investors and analysts in relation to our responsible business programme. 202 people from 166 institutions, from across the world, and representing both equity investors and debt providers, responded to the survey.

The respondents included industry specialists and generalists, ESG specialists and non-specialists, and those invested and not invested. Overall, the view of our approach ranged from 'neutral' to 'good', with a very small number either responding below neutral or 'very good'.

The areas of greatest interest were listed as: environment – renewables and storage; social – employee well-being; governance – risk management/role and composition of the Board.

The survey was followed by a one-day ESG event held for investors and analysts. Feedback from the day was collected from 72 people from 66 institutions. Satisfaction with ESG policies, ESG reporting and communications, and overall progress on ESG, ranged from 79 to 81 (out of 100) which was reported as being high in comparison to similar surveys conducted.

# Materiality

Materiality is the principle that determines which issues are sufficiently important that it is essential for us to report on them and ensure the emphasis within our report reflects their relative priority. In this RBR, we include issues that can be considered important for reflecting our economic, environmental, and social impacts, or influencing the decisions of our stakeholders.

In the previous section which looked at our extensive stakeholder engagement programmes, we indicated how we took into account a broad range of views and opinions on issues relevant to the business, and how this shaped both our core business planning and the development of our RBC. Issues were prioritised with those particular goals in mind. However, the content and emphasis within our RBR requires some modification of the prioritisation in the RBC, as it serves a different purpose.

The RBC identifies where we need to step up our level of ambition, and to make new commitments to stakeholders. However, the document does not reflect, to the same degree, a number of ongoing priority areas. These need to be covered in this RBR in order to be transparent and meet the information needs of stakeholders. To reflect this, a number of issues were added to the prioritisation, and these include employee and public health, safety and well-being, business ethics (e.g. anti-bribery and corruption), privacy and compliance. This process was reviewed and approved by the Responsible Business Steering Committee.

Based on this, our 'map' of material issues, under the 'pillars' established in the RBC, is indicated below.

These issues are covered in the sections of the RBR which follow. Certain issues that are included in the RBC (e.g. risk management, stakeholder engagement and our approach to transparency) do not feature in the chart below as they are covered in this 'Our Approach' section.

**Figure 1: Material issues for GRI reporting purposes**

| The environment | Our communities | The economy | Our people | Our governance |
|---|---|---|---|---|
| • Enabling the clean energy system<br>• Our own emissions and energy consumption<br>• Air quality<br>• Compliance<br>• Land use<br>• Circular economy/ waste management<br>• Water | • Network reliability and resilience<br>• Service affordability<br>• Public safety<br>• Developing STEM skills for the future<br>• Customer satisfaction<br>• Human rights<br>• Compliance | • Right tax<br>• Economic contribution<br>• Investment (long-term/ regional)<br>• Supply chain<br>• Compliance | • Employee health, safety and well-being<br>• Fair pay<br>• Skills development<br>• Inclusion & diversity<br>• Social mobility<br>• Employee rights | • Board representation & role<br>• Business ethics/ bribery & corruption |

# Our strategy and its implementation

Our responsible business strategy, as embodied in our RBC, is shaped by the expectations of our stakeholders (described above) and the application of quantitative TSI methodology. These factors, in turn, have been shaped by sustainability-related trends, and the risks and opportunities these present. This context has been described in more detail in our Annual Report (pages 15 to 17).

The RBC sets out those areas where we recognised a need to step up and it sets out our ambitions, and the more concrete commitments that will underpin how we will achieve them. It is important to emphasise that some issues have not been allocated 'commitments' in the RBC as they already are, and continue to be, top priorities (e.g. employee and public health and safety). We have grouped issues into five 'pillars', each of which is covered in detail in the sections which follow.

To ensure our RBC truly drives progress, we are embedding our new commitments into the business plans of each business unit through cascaded targets. Progress against these targets are assessed at the highest level through our Quarterly Business Review (QBR) process and executives held to account.

The RBC will be reviewed on a regular basis and refreshed as necessary to ensure we continue to focus, and make progress, on the right areas of the agenda.

### The environment

While continuing to manage our environmental performance responsibly, we have emphasised the need to facilitate the transition to a clean energy system, to achieve Net Zero by 2050 for our Scope 1 and 2 emissions, dramatically reduce our Scope 3 emissions and continue to improve the biodiversity of land that we own.

More information is provided on page 17

### Our communities

While continuing to place public safety, and network reliability and resilience as top priorities, we are focusing in particular on the affordability and fairness of our service to the community, and developing the skills of young people from some of the more deprived communities where we operate to help us in the clean energy transition.

More information is provided on page 29

### The economy

We are continuing to develop our infrastructure, invest in innovation that benefits our customers and wider society, and pay the right tax, as well as working to influence our supply chain to focus on diversity and responsible behaviour.

More information is provided on page 37

### Our people

While continuing to ensure our people are kept safe and healthy, and that work conditions meet their expectations, we are stepping up our efforts in relation to diversity and inclusion – focusing on fairness in pay and opportunity, transparency and training around issues of gender and ethnicity.

More information is provided on page 42

### Our governance

We will hold ourselves accountable on these commitments and ensure that stakeholder voices continue to be heard at the highest level, and that they influence our approach. We will ensure we maintain the highest standards of ethical conduct.

More information is provided on page 51

# Governance and oversight

The senior point of contact for responsible business matters is the Head of Responsible Business who reports via the Chief Strategy and External Affairs Officer to the CEO.

Overall responsibility for oversight of the responsible business programme rests with the Board, with certain specific topics delegated to the relevant Board Committees, including the Safety, Environment and Health (SEH) Committee and the Audit Committee (which oversees our responsible business reporting). Details of the Committees' activities during the year are provided in our Annual Report on pages 83 and 89.

The Board is collectively responsible for the effective oversight of the Company and its businesses. It determines the Company's strategic direction and objectives, business plan, viability and governance structure to help achieve long-term success and deliver sustainable shareholder value. This includes specific oversight of issues such as our commitment to achieve Net Zero emissions by 2050, and the development of our RBC. Achievement of certain ESG-related objectives key to the business strategy in a given year impacts the annual incentive award for senior management, and the Remuneration Committee also considers whether any remuneration payments (covering base salary, annual incentive and/or long-term incentive) should be adjusted in light of all relevant factors, including ESG performance. Looking ahead to 2021/22, group-wide achievement on ESG-related objectives will account for a greater proportion of the annual incentive award and the Committee will be further considering the role that ESG should play in remuneration when it reviews the Executive Directors' Remuneration Policy during 2021 ahead of a shareholder vote on the policy at the 2022 AGM.

The Board also plays a key role in creating the right culture across the business and uses a culture scorecard to help monitor progress. Getting direct input from our people is an important part of tracking progress and the Board hears views through the employee engagement survey, employee participation in Board events and through internal communication channels. Board members engage with employees on a broad array of issues such as gender pay, culture and putting responsibility into action.

As the energy transition accelerates, our new strategic architecture sets out how we will respond and shape our business over the next decade. To ensure success, we are working to change our current culture to one with a greater sense of purpose, strengthening our focus on results and performance, with leaders who empower, steer and act decisively.

More broadly, the Board recognises that stakeholder engagement will continue to play an important role in how we take business decisions. This includes listening to our stakeholders' views, inviting external guests to meetings, and using independent research to bring the voice of the customer and other stakeholders into the boardroom. Detailed information on how the Board hears from stakeholders is set on pages 46 - 51 of the Annual Report.

Details relating to our ownership, overall governance structure, the Board, our Chairman and individual Board members, including their responsibilities, activities and remuneration, can be found in our Annual Report from page 67.

As the majority of our most material issues relate to core business activities, the consideration and effective management of related risks is governed by the Audit Committee of the Board (page 83 of the Annual Report). This includes risks identified through processes such as the TCFD disclosure (page 61 of the Annual Report) and several responsible business-related issues are present amongst the principal risks disclosed on pages 24 - 27 in the Annual Report. These include climate change, privacy and data security, energy supply disruption, and the risk of safety or environmental damage from catastrophic failures of assets. Our detailed understanding and consideration of responsible business-related risk feeds into our core business plans (e.g. the RIIO-T2 process) and is strengthened by our extensive stakeholder engagement.

In order to ensure we make progress on our RBC commitments we operate a Responsible Business Steering Committee (which met twice in 2020/21), involving members of the Executive Committee.

## Risk management

We have created a new role of Chief Risk Officer, responsible for overseeing the risk management, ethics and compliance frameworks across National Grid. Risks are managed through an Enterprise Risk Management process based on a top-down and bottom-up approach that supports all business areas to identify the main risks to achieving our business objectives.

For each risk the effectiveness of our internal controls is assessed when calculating the financial, operational and reputational impacts, and how likely the risk is to materialise. Where current risk levels are outside of agreed target scores and our risk appetite, the business area identifies and implements actions to close the gap. These are collated and reported at functional and regional levels on a regular cadence. The most significant risks for the UK, US and NGV businesses are highlighted in regional risk profiles. Additionally, the Executive Committee and the Board may also identify and assess other principal risks. These risks and any associated management actions are cascaded through the organisation as appropriate.

# Purpose, vision and values

We are guided by our purpose, vision and values in all that we do. These are set out below.

| | |
|---|---|
| **Our purpose** | To Bring Energy to Life |
| **Our vision** | To be at the heart of a clean, fair and affordable future. |
| **Our values** | Everyday we.... do the right thing, find a better way and make it happen.<br>Taken together, these values guide our actions and behaviours as a responsible business and help us create the culture we need to tackle the world's greatest energy challenges with passion and purpose.<br>**"Do the right thing"** means we act safely, inclusively and with integrity. We support and care for each other, and ensure it is safe for colleagues to speak up.<br>**"Find a better way"** is all about working as one team to find solutions, embracing learning and new ideas.<br>**"Make it happen"** means being bold and acting with passion and purpose, taking ownership to deliver for customers and focusing on progress over perfection. |

## United Nations Sustainable Development Goals (SDGs)

We support the United Nations SDGs and our RBC sets out those goals we feel are relevant to our business. However, there are several SDGs where our activities and programmes can make a particularly strong contribution.

| SDG | National Grid Activities and Programmes |
|---|---|
| Achieve gender equality and empower all women and girls. | We have established multiple commitments in our RBC relating to improving diversity of all kinds within our company and supply chain. |
| Ensure access to affordable, reliable, sustainable and modern energy for all. | Our Purpose is to 'bring energy to life' and through the development and management of energy infrastructure, our role in the transition to clean energy systems, and our Net Zero commitment, we act in support of SDG 7. |
| Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. | We aim to provide the clean, affordable and reliable supply of energy that underpins economic growth whilst, through our Grid 4 Good programme, we support young people from disadvantaged backgrounds to develop the skills to find employment in the clean energy transition. |
| Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation. | We invest in building, maintaining and innovating energy networks that will be resilient in the face of climate change, and deliver the clean energy to power sustainable industrialisation in the communities we serve. |
| Take urgent action to combat climate change and its impacts. | As well as playing a central role in enabling the clean energy transition, we have committed to deliver Net Zero greenhouse gas emissions by 2050, while strengthening the ability of our assets to withstand the impacts of climate change. |

# Delivering on priorities

**Noah Ortega Reyes | US** | Age group 12 to 16

**In this section we report our approach to managing specific material issues, including quantitative performance measures.**

**The environment**

More information is provided on page 17

**Our communities**

More information is provided on page 29

**The economy**

More information is provided on page 37

**Our people**

More information is provided on page 42

**Our governance**

More information is provided on page 51

# Addressing our material issues

## Five Pillars of the Responsible Business Charter

Our material issues are categorised within five 'pillars', as illustrated below. In each section, we set out, or cross-refer to, our management approach, how we engage with relevant stakeholders, the commitments we have made within the RBC, and our performance in the year, together with case studies to illustrate the steps we are taking.

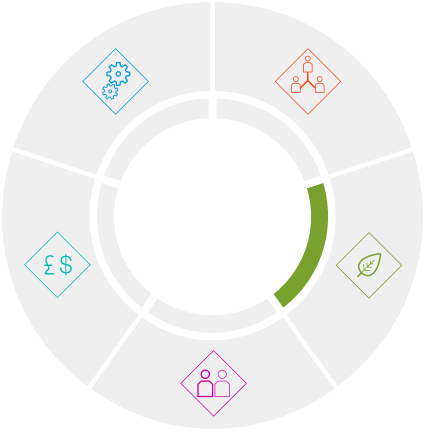
## Metrics and Assurance

Our performance data is subject to different levels of assurance, including external assurance, and a reporting process and controls review by National Grid's Finance second line risk and controls team. This is indicated in the data tables provided on pages 58 to 64. The methodology for calculation of these metrics is contained in a separate publication, 'Reporting Methodology' which can be referenced **here**.

More information is provided on page 55.

# The environment

## We will enable a fair and affordable transition to a clean energy economy, and reduce our own emissions.



## Summary of our Responsible Business Charter Commitments

**The Charter sets out the next stage of our environmental commitments.**

Achieve Net Zero by 2050. We will reduce Scope 1 and 2 greenhouse gas (GHG) emissions 80% by 2030, 90% by 2040, and to Net Zero by 2050 from a 1990 baseline.

Reduce Scope 3 GHG emissions 37.5% by financial year 2034 (from a financial year 2019 baseline)

Note: this target has been revised through the SBTi process – see below.

Reduce $SF_6$ emissions from our operations 50% by 2030, from a 2019 baseline.

Move to a 100% electric fleet by 2030 for our light-duty vehicles, and pursue the replacement of our medium and heavy-duty vehicles with zero carbon alternatives.

Reduce energy consumption in our offices 20% by 2030, from a 2020 baseline (amended from 2019 baseline).

Improve the natural environment by 10% on the land we own by 2030.

Achieve zero carbon emissions from business air travel. From this year (2020) onwards, we will reduce our annual air miles travelled by at least 50% from a 2019 baseline on an enduring basis, and we will offset any remaining emissions responsibly.

## Our further ambitions

Accelerate our Net Zero target wherever possible. We will work to achieve Net Zero in each part of our business as fast as we can. Where we need to pursue carbon offsetting, we will seek offsetting options that deliver multiple benefits.

Eliminate all $SF_6$ gas from our assets by 2050. Technology and solutions are not yet available to achieve this. Therefore, we will work with partners from across the sector to identify, develop and implement SF6-free solutions at the earliest opportunity.

Further reduce our Scope 3 emissions from selling gas to our customers beyond 2030 to be consistent with the targets set by the markets in which we operate (e.g. Net Zero by 2050).

In the UK, the National Grid ESO (Electricity System Operator) will be able to operate a zero-carbon system by 2025.

**The environment** continued

## Introduction

Human development can only be sustainable if we remain within environmental limits relating to the quality and quantity of natural resources on which we rely. This requires society to reduce the amount of pollution that is present in the air, water, and soil, particularly compounds which accumulate. It requires a halt to emitting levels of greenhouse gases that cause damaging climate change.

Scientific opinion is clear that there is an urgency to ensuring natural resources and systems are conserved and restored in order to secure a more sustainable future and several of the UN Sustainable Development Goals (SDGs) are focused on driving environmental improvements. Recent years have seen an upsurge in public awareness of environmental issues, and climate advocacy groups have been more widespread, active and supported, than ever before. Climate change is the defining challenge of this generation and continues to rise up the corporate agenda, against a background of evolving societal attitudes to climate change and the role of energy companies in leading and meeting Net Zero commitments.

Being at the heart of the energy system in the UK and the northeastern US, we are significantly impacted by regulatory steps taken by governments on climate change. The UK became the first major economy to commit to a legally binding target of Net Zero emissions by 2050. The states of New York and Massachusetts have each set an economy-wide limit of Net Zero carbon emissions by 2050, with at least 85% of reductions from their states' own energy and industrial emissions (the remainder via carbon offsets). New York legislated the target of 100% carbon-free electricity by 2040. Rhode Island maintained a legally binding target to reduce carbon emissions by 80% below 1990 levels by 2050, and the Governor is targeting 100% renewable electricity by 2030. Environmental performance is built into the business planning processes managed by our regulators in the UK (RIIO-T2) and US (various rate cases).

In addition to GHG emissions, we also need to manage other impacts and have programmes in place to improve the natural environment, manage air pollution and improve waste management. Water is largely only used for cooling and although of low materiality, we have included some information on water use. We also aim to influence our supply chain through engagement and the development of standards to which all suppliers must adhere.

We also recognise the commercial benefits of taking proactive action to address our impacts. As well as minimising the risk of fines and reputational damage from breaching environmental regulations, increased efficiency in our energy and raw materials use can reduce costs throughout the value chain.

## Our management approach

We engage extensively in relation to the role we can play in the transition to a clean energy system and this includes broad consultation to determine our priorities and with other businesses, and government, to help put in place practical solutions, such as interconnectors, EV charging infrastructure and other zero carbon projects. We participate in various climate change related organisations and are a principal partner of the COP26 meeting to be held in Glasgow later this year.

In addition to direct engagement, we also provide extensive data on our performance through public submissions to Climate Disclosure Project (CDP) and many other ESG disclosures to investors. These include data on climate change (where our responses have been ranked 'A' grade for quality for the last five years), as well as both water and supply chain management.

Our strategy in relation to environmental performance is laid out in our RBC, itself a product of extensive stakeholder engagement and quantitative analysis. This includes a series of commitments and quantitative targets, most prominent of which is our commitment to Net Zero by 2050 (see below), which will guide and challenge us over both the short and long term. This builds on the significant progress made against our previous strategy statement 'Our Contribution'.

Environmental performance is reported monthly to the Executive Committee and quarterly to the SEH Committee (page 89 in the Annual Report), with deep dive annual sessions with the full Board. Reports include KPIs and specific reporting on progress against RBC commitments. Business units are embedding plans to achieve our RBC goals into their business planning and these are scrutinised by the CEO and CFO as part of the quarterly business review process. Our strategic report (page 21 in the Annual Report) contains a number of climate-related KPIs, demonstrating the importance of environmental management to meeting stakeholder requirements, and to our commercial success.

Environmental risks are considered as part of our overall enterprise risk management approach and, last year, as part of the review and update process, climate change risk was elevated to be a principal risk of the business (page 26 of the Annual Report). We undertake a detailed review of exposure to climate risk and our assessment is set out in our response to the Task Force on Climate-related Financial Disclosures (TCFD) framework (pages 61 - 67 of the Annual Report). We have committed to meeting the full requirements of the TCFD.

We operate an Environmental Sustainability Policy which establishes environmental compliance and environmental sustainability performance requirements for all operational and non-operational activities. All our operations, other than National Grid SMART and National Grid Interconnector businesses, are certified to the environmental management system standard ISO 14001.

### Net Zero know-how: Testing the future of energy

Our Deeside Centre for Innovation (DCI) will open its doors in October 2021. It will be a state-of-the-art test centre and collaboration hub for academics, low-carbon start-ups, utility companies and equipment manufacturers. It will be the first test centre in Europe where innovations can be tested at voltages up to 600 kV in a live substation environment, bridging the gap between laboratory testing and installation on the network but avoiding putting any operational substation at safety risk, nor affecting the continued supply of electricity. The DCI is already the hub for our innovation team who are working on a wide range of projects, including testing alternatives to $SF_6$, heat recovery from transformer losses and hydrogen power-cell solutions.

We look forward to describing our progress in future reports.

## Our performance

We have a dual role to play in helping to conserve the natural environment. We can reduce the impacts on the environment derived from our own activities but, as a result of the quantitative TSI analysis carried out, we believe we can also have a far larger positive effect through our ability to enable the transition to a cleaner energy system with all the benefits that brings in the fight against climate change. This section looks at both these aspects of our contribution.

### Our enabling role

We will play a leading role in enabling and accelerating the transition to a clean energy system. The energy system will look very different in a Net Zero world, and we are working to accelerate the transition, while balancing decarbonisation, affordability and reliability of supply. We are working closely with the UK Government, US partners and partners around the world to demonstrate decarbonising solutions as part of our work for COP26.

### Electricity supply

We expect demand for electricity to rise as transport and some heat becomes electrified. To meet this demand, we are connecting renewables as quickly and efficiently as possible, investing in grid modernisation and continuing to build international interconnectors. We also make use of demand-side management through our energy efficiency and demand-side response programmes in the US and UK.

**Renewable energy connections**

**950 MW**

Connected to US and UK transmission and distribution grids during the year, including Triton Knoll 1 in the UK and Cassadaga Wind Farm in the US.

Electricity Interconnectors are high voltage cables that connect the electricity systems of neighbouring countries, allowing us to trade excess power, such as renewable energy created by the sun, wind and water.

## **The environment** continued

We already have interconnectors linking us to France (IFA1 and IFA2), Belgium and the Netherlands and each year they power five million homes with clean energy, helping us to balance reliability of energy supply, lowest GHG emissions and lowest cost.

We have developed detailed interconnector models of the GHG emission impacts of the flows of electricity out to 2050, based on projected decarbonisation of neighbouring country grids and known interconnector projects. We are working on two more interconnectors to link us with Norway (North Sea Link – expected to be operational in 2021) and Denmark (Viking Link – expected to be operational in 2024). Once operational, Viking Link will be the world's longest subsea interconnector (760km) and will provide 1.4 GW of energy.

More information is available **here**.

**Interconnector capacity**

**5 GW**

An increase of 1 GW due to IFA2 going live.

**Transport**

In a Net Zero world, all road transport will be decarbonised by 2050. Our role is to make sure that renewable electricity is linked to the right charging infrastructure, to enable the increase in electric vehicles.

In the UK, the Government announced a ban on the sale of petrol and diesel cars from 2030 and we have worked with them to secure £950 million of funding for electricity infrastructure to support this transition over the next five years. We continue to engage extensively with the transport industry to enable accurate planning of network capacity, and to facilitate the building of electricity network flexibility. We are also supporting other low carbon alternatives, such as hydrogen and synthetic fuels, for heavy transport, maritime and aviation. More information on EVs can be found **here**.

CARBON LIGHTHOUSE
PROFITABLE CLIMATE SOLUTIONS

### Investing in innovation

We are investing in innovation to help tackle climate change. National Grid Partners has taken a stake in Carbon Lighthouse, an industry leader in energy efficiency and greenhouse gas reductions.

Carbon Lighthouse offers commercial real estate owners guaranteed energy and carbon emission savings through its patented thermodynamic model and deep-data approach, continuously optimising building performance to minimise energy waste.

### US: Integrating renewable natural gas (RNG) and hydrogen

We are preparing for the transformation of the gas network by integrating RNG and hydrogen into our supply, anticipating development of supportive regulatory and policy frameworks. These initiatives include:

- **Newtown Creek** – investment in a public-private partnership with NYC for a demonstration project at NYC's largest wastewater treatment plant utilising wastewater and food waste to produce RNG. This is expected to be operational in summer 2021.
- **HyBlend project** – participation in a Department of Energy initiative with six national laboratories and over twenty industry partners to address the technical barriers for hydrogen blending into the gas network.
- Conducting a hydrogen blending study with a local university in Long Island, Stony Brook, with financial support from NYSERDA.
- In partnership with a local New York startup company, Standard Hydrogen, we are developing a multi-use hydrogen project to demonstrate how hydrogen can be utilized in multiple sectors including power generation, transportation and heat. The project will also assess storage of hydrogen.

## **The environment** continued

### Natural gas

The decarbonisation of the natural gas system, the dominant source of heating in our markets, is uniquely challenging and there is no one-size-fits-all solution. We are committed to achieve this to both enable a cleaner energy system for all, and to facilitate achievement of our own challenging Scope 3 emission target relating to sale of natural gas in the US. We are continuing to refine our plans in the US and are engaged in multiple projects to develop solutions under a five-point 2050 plan, which includes:

- decarbonising the gas network with RNG and hydrogen;
- integrating innovative technologies to decarbonise heat, including heat pumps and geothermal networks;
- reducing demand through energy efficiency and demand response;
- reducing methane emissions from our own gas network while working with the industry to reduce emissions through the entire value chain; and
- investing in large scale carbon management technologies (e.g. carbon capture and storage, and carbon offsets).

Specific projects include scaling RNG from sustainable biomass feedstocks, laying the foundation for hydrogen use through research projects and working towards creating appropriate policy frameworks.

We are also working with customers and regulators to enable a range of other potential solutions. For example, shortly after the year end, National Grid, ConEdison and the New York City (NYC) Mayor's Office of Sustainability released the results of a landmark study, 'Pathways to Carbon-Neutral NYC: Modernize, Reimagine, Reach'. The study, which was supported by Drexel University, the Energy Futures Initiative (EFI), and ICF, found that the gas network has an enduring role and NYC can achieve carbon neutrality by 2050 through significant deployment of renewable energy, deep decreases in building and transportation sector emissions and transitioning to low-carbon fuels.

On 18 March 2021, we announced that we will be initiating a sale process later this year for a majority stake in our UK Gas Transmission business, comprising both the gas transmission assets and an integrated gas system operator (as well as our UK metering business which forms part of NGV).

More information on how we see the future of gas can be seen **here**. Gas transmission has a central role in the energy transition, including work in the UK on decarbonising the gas network and reducing methane emissions from the network. We see this as an important part of the future of the business.

### Involvement in COP26

National Grid is a principal partner for COP26, the global climate change summit to be hosted in the UK in November 2021. It is arguably the most important climate event since the 2015 Paris Agreement, as governments will be reporting progress and agreeing new actions to cut emissions. We are working with the UK Government in planning for COP26, as well as hosting and participating in events and exhibition spaces at the summit. COP26 provides a global platform to show that achieving Net Zero is possible with the technologies we have today and that we are innovating to make our progress faster, stronger and easier.

We are excited to play our part in supporting delivery of a successful COP26 which we hope encourages and inspires ambitious action to tackle climate change in this critical decade.

## **The environment** continued

### Our own environmental impacts

Our own environmental impacts are shaped by the nature of our assets, operations and activities. These fall into six main elements:

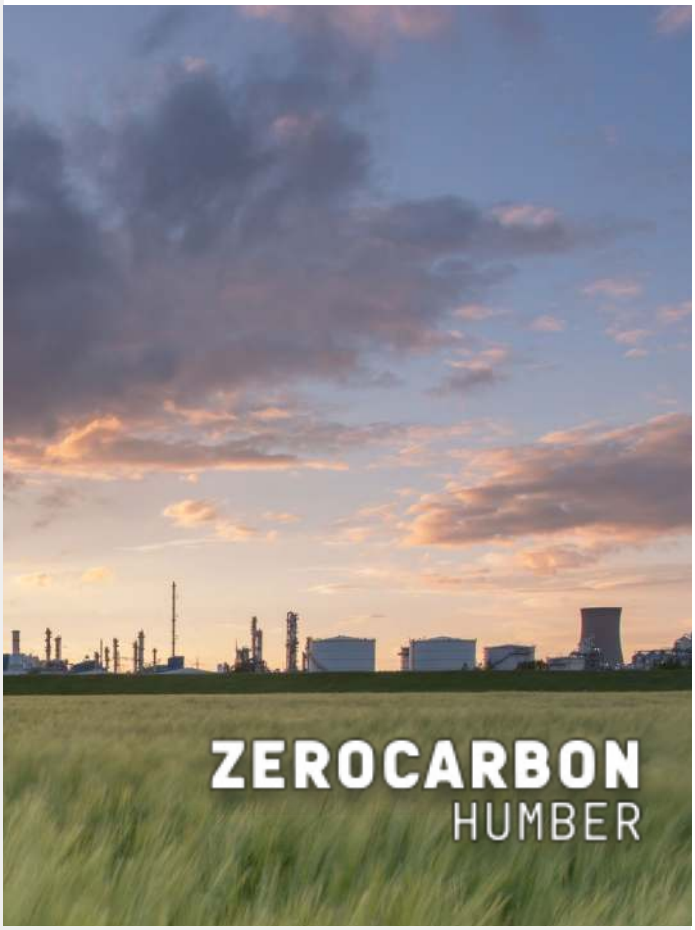
- GHG emissions – derived from our electricity and gas transmission and distribution, electricity generation, other operational activities such as our vehicle fleet, as well as upstream and downstream factors such as our procurement, and sale of gas in the US;
- energy consumption – closely tied to our emissions, relating to energy consumed to drive our operations;
- air quality – emissions of NOx, SOx and particulate matter as a result of our operations;
- biodiversity and land enhancement;
- waste – from our operations, and construction and capital projects; and
- water use – mainly used for cooling at our generation facilities and for electricity line cooling.

### Zero Carbon Humber

To reach Net Zero by 2050, the UK must deploy large scale CCUS (Carbon Capture Utilisation and Storage) infrastructure to drive the decarbonisation of industry and power generation, produce clean hydrogen, and support the removal of greenhouse gases. CCUS can deliver considerable environmental and socio-economic benefits by helping to capture greenhouse gases, protect and create jobs, improve quality of life, reduce energy costs for families and businesses, and support the economic viability of the UK's most heavily industrialised clusters.

The Humber region is historically one of the UK's industrial powerhouses, but it is also the most carbon intensive industrial cluster in the country, emitting 12.4 million tonnes $CO_2e$ per year. Developing decarbonising solutions and shared regional infrastructure in the area could preserve up to 55,000 manufacturing and industrial jobs by enabling energy intensive industries to continue to operate and thrive whilst decarbonising.

We are one of the founding members of Zero Carbon Humber, a partnership of organisations looking to develop the world's first zero carbon industrial cluster in the Humber by 2040. The scheme is anchored on the development of the world's largest hydrogen production plant at Saltend. Hydrogen is derived from methane, the by-product being $CO_2$. National Grid's role would be to build the $CO_2$ pipeline which would transport compressed $CO_2$ from Saltend, and other partner companies, for storage in a salt aquifer under the North Sea. At the same time we would provide infrastructure to transport the hydrogen for industrial businesses to use as a carbon-emission free fuel.




For more information, please visit:
**https://www.zerocarbonhumber.co.uk/**

## **The environment** continued

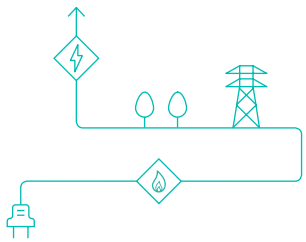
Of these categories, we assess our GHG emissions to be the most material, by some margin. At the other end of the spectrum, our inclusion of water use is largely driven by societal expectation rather than the volume, or degree of contamination, related to our use.

**GHG Emissions**
Our GHG emissions arise from a number of different sources, as indicated in the diagram below.

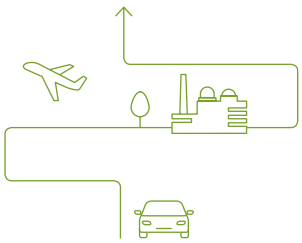
We are committed to reporting transparently on our climate change programme and, in addition to our TCFD report, we achieved the CDP Climate Change 'A List' rating for the fifth consecutive year.

### Understanding our greenhouse gas emissions

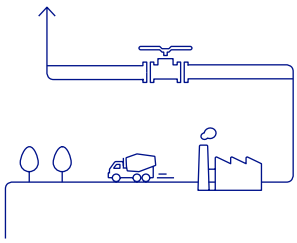
**Scope 2: Indirect**



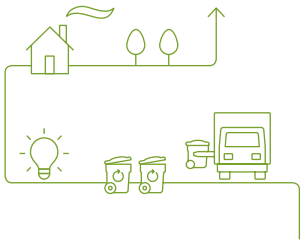
**Scope 3: Indirect**



**Scope 1: Direct**



**Scope 3: Indirect**



**Upstream** →

- Line losses from our electricity transmission and distribution lines
- Energy purchased for use at our facilities
- Use of electric drive compressors in our gas business

- Purchased goods and services
- Business travel
- Employee commuting

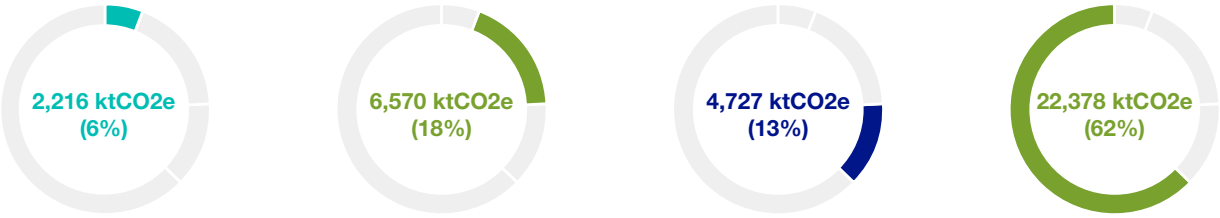
**Our operations** →

- Long Island Power Authority electricity generation
- Leaks and venting from our gas transmission and distribution systems
- $SF_6$ leaks from our electric equipment
- Fleet vehicle use
- Gas-fired compressor use

**Downstream** →

- Use of 'sold product' or emissions from our customers' use of the gas and electricity we purchased on their behalf
- Waste management

### **Relative scale of GHG emissions** (kt $CO_2e$)



## **The environment** continued

### Scope 1 and 2

In 2012, we developed our environmental sustainability strategy, 'Our Contribution', and set targets to deliver progress through to the end of 2020. This included a target to reduce Scope 1 and Scope 2 emissions by 45%. Our actual performance was nearer to a 70% reduction and so, in November 2019, we published our new Net Zero target, committing us to a more ambitious and challenging programme.

### RBC commitments

Achieve Net Zero by 2050. We will reduce Scope 1 and 2 greenhouse gas (GHG) emissions 80% by 2030, 90% by 2040, and to Net Zero by 2050 from a 1990 baseline.

Reduce $SF_6$ emissions from our operations 50% by 2030, from a 2019 baseline.

Move to a 100% electric fleet by 2030 for our light-duty vehicles, and pursue the replacement of our medium- and heavy-duty vehicles with zero carbon alternatives.

Reduce energy consumption in our offices 20% by 2030, from a 2019 baseline.

Implement carbon pricing on all major investment decisions by the end of 2020.

Our Net Zero by 2050 commitment is broken down into nearer term elements to ensure that we not only hit our target, but achieve it sooner if possible. Our first focus is our 80% by 2030 commitment for Scope 1 and 2 emissions and initiatives are in place to reduce emissions across the business. Current projections are underpinned by considerable assumptions and careful tracking of these, alongside our internal performance, will be vital to our success.

Our interim Scope 1 and 2 carbon reduction targets are verified by the Science Based Target initiative (SBTi), demonstrating a clear, credible commitment to deliver our longer term Net Zero strategy in line with a well below 2°C pathway.

As we refine our strategy, we acknowledge that we face a series of challenges, as we try to balance this goal with the other elements of the energy 'trilemma' for our stakeholders, by also ensuring we provide a reliable, continuous supply of energy, at the lowest possible cost.

While there are many actions we can and will take to meet our Net Zero emissions target, two of the key challenges are:

- our accountability for the GHG emissions from the electricity generation fleet of power stations on Long Island, which make up 66% of total Scope 1 emissions in 2020/21, but where we have no direct control over their day-to-day management e.g. whether they are burning natural gas or oil. The Long Island Power Authority and their agent, Public Service Enterprise Group Energy Resources & Trade, bid the generating units into the New York Independent System Operator's (NYISO) energy market and the NYISO issues day ahead and real time energy awards based on bid price and system needs. The current contract runs until 2028 and ahead of this decision point we are working to facilitate further renewable generation on the Island, supporting New York States' (NYS') ambitions for generation from 100% low carbon sources by 2040. As these generation units are well-maintained, cost-effective, and critical to meeting the energy needs of our customers, we believe they are part of the affordable transition to a clean energy future; and
- reliance on other players (electricity generators, policy makers and regulators, customers and consumers) to drive decarbonisation of the power grid, such that the Scope 2 emissions calculated from losses from our electricity transmission and distribution lines continue to fall. These emissions made up 94% of total Scope 2 emissions in the year.

### Energy efficiency programmes with green financing

We are working on a variety of energy efficiency projects financed, or refinanced, by the issue of Green Bonds.

In June 2020, Niagara Mohawk Power Corporation which owns and operates electricity distribution and transmission facilities in upstate New York, issued a green bond for $600 million. Just over 5% of this amount is being invested in energy efficiency programmes including energy storage projects which are estimated to deliver annual savings of 36 MWh.

Green bond-financed energy efficiency projects in the UK, including elements of the London Power tunnels programme, are estimated to deliver 4 MWh of annual savings. More information is available **here**.

## **The environment** continued

In both cases, the trajectory of the regulatory framework, and the rise in public awareness of the risks of climate change, will help to mitigate against these challenges, and we lobby key stakeholders to set and meet their own ambitious targets, demonstrated by our commitment to COP26 and involvement in other fora. As an organisation we are proactively working to support the decarbonisation of the wider power sector through investment in new connections, networks, data and modelling, energy efficiency and, through NGV, new US renewables supply, to support wide policy goals to deliver the emissions reductions needed.

Scope 1 emissions were 4,727 kt$CO_2$e, a 21.1% increase on the prior year (3,903 kt$CO_2$e). Of this, 86% arose in the US, 14% in the UK.

The sources of emissions are indicated in the chart below. The increase in Scope 1 emissions resulted mainly from generation emissions exceeding projected levels due to increased LIPA operating hours, required to replace shortfalls in off-island generation and transmission.

We have a commitment in our RBC to move to a 100% electric fleet by 2030, for our light-duty vehicles. At the year end, the proportion of electric light-duty vehicles stands at 2%, representing a total of 66 vehicles, indicating we have made a start but recognise there is a long way to go. Market developments should enable an acceleration in future years.

We have a specific commitment in the RBC to reduce emissions of sulphur hexafluoride ($SF_6$) by 50% by 2030 from a 2019 baseline. $SF_6$ is widely used in the electricity industry for its insulating properties but it is also one of the most potent greenhouse gases, with a global warming potential 23,500 times that of $CO_2$ and is highly regulated in both the UK and US. We are required to monitor and report our $SF_6$ emissions to regulators either annually (UK) or should they exceed a defined threshold (US).

In the US, we are trialling the implementation of non-$SF_6$ vacuum circuit breakers. In the UK, NGV has embarked on an asset replacement programme relating to the IFA interconnector which is estimated to reduce $SF_6$ emissions through leakage by over 70%, by 2025. Our ambition is to eliminate the use of $SF_6$ from our operations entirely. Emissions of $SF_6$ were 321 kt$CO_2$e (2019/20, 326 kt$CO_2$e), a reduction of 1.5%.

Scope 2 emissions are reported on a market basis and location basis:

- Market basis – 2,264 kt$CO_2$e, a 13.7% reduction on the prior year.
- Location basis – 2,216 kt$CO_2$e, a 14.1% reduction on the prior year.

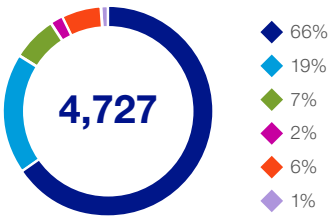
The sources of emissions are indicated in the chart below.

Approximately 61% of Scope 2 emissions (location basis) were generated in the UK, with the remainder through US operations. Reduction in Scope 2 emissions was mainly due to a reduction in emissions from line losses, resulting from a reduction in grid electricity carbon intensity.

Combined Scope 1 and Scope 2 emissions are one of our core KPIs (page 21 of the Annual Report) and rose slightly relative to the previous year as the increase in Scope 1 emissions, driven by power generation, outweighed Scope 2 reductions from line losses. Our combined Scope 1 and 2 emission intensity is 0.47 kt$CO_2$e/£m revenue (2019/20 – 0.45 kt$CO_2$e/£m revenue).

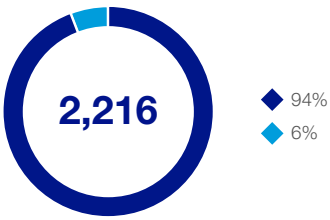
This data confirms that we exceeded the targets set in the 2012 'Our Contribution' strategy and are 68% below our 1990 baseline. We have developed detailed plans for how we will meet our ambitious interim 2030 reduction target and,

### **Scope 1 emissions** (kt $CO_2$e)



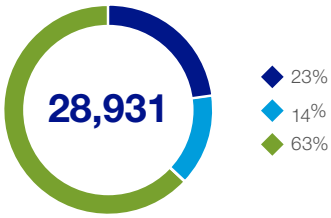

- Power generation (LIPA)
- Methane leakage and venting
- $SF_6$ Leakage
- Fleet vehicle emissions
- Gas-fired combustion
- Other

### **Scope 2 emissions** (kt $CO_2$e)




- Line losses
- Electricity Consumption

### **Scope 3 emissions** (kt $CO_2$e)




- Cat. 1 (Purchased goods and services)
- Cat. 3 (Fuel & energy related activities)
- Cat. 11 (Use of sold products – electricity and gas)

This chart relates to the top three categories only, which make up over 99% of the total. See p26 for other categories.

despite the increase in combined Scope 1 and 2 emissions in 2020/21, remain confident of hitting our interim Net Zero target.

Carbon is assessed at different stages of our investment cycle to inform what we build and how we build it. Carbon has been considered using an internal carbon price in the US and UK for major projects and we have been using a weighted carbon assessment in our competitive tender process in the UK for a number of years. Alongside specific carbon reduction policies, this helps us to reduce the carbon impact of our infrastructure.

### Scope 3

#### RBC commitments

Reduce Scope 3 GHG emissions 37.5% by financial year 2034 (from a financial year 2019 baseline).

Note: this target has been revised through SBTi process – see below.

Achieve zero carbon emissions from business air travel. From this year (2020) onwards, we will reduce our annual air miles travelled by at least 50% from a 2019 baseline on an enduring basis, and we will offset any remaining emissions responsibly.

In recent months, we have worked closely with the SBTi to increase the ambition of our Scope 3 target to a well-below two degrees pathway consistent with the ambition requirements of the Paris Agreement. Our Scope 3 target, verified by SBTi, will now cover emissions across our entire value chain – not just for the energy we sell – with a commitment to reduce the carbon emissions 37.5% by financial year 2034 (from a financial year 2019 baseline).

Our total Scope 3 emissions are calculated as 28,948 kt$CO_2$e for the year, indicating their relative significance in comparison to combined Scope 1 and 2 emissions. Total Scope 3 emissions reduced 6.2% on the previous year, driven largely by reductions in Category 11: Sold product. We report Scope 3 emissions across six categories as defined in the GHG protocol. The chart (above) indicates the relative importance of emissions from Category 1: Purchased goods and services, Category 3: Fuel & energy related activities and Category 11: Use of product sold. The remaining Scope 3 categories accounted for less than 0.1% of the total and could not be illustrated in the chart. These included Categories 5 (Waste generated in operations – 6kt$CO_2$e), 6 (Business travel – 6 kt$CO_2$e) and 7 (Employee commuting – 5kt$CO_2$e).

Emissions from air travel of 10kt$CO_2$e last year, fell to 0.3kt$CO_2$e in the current year, driven by the impact of the COVID-19 pandemic. Total miles from air travel fell from 24 million to 0.7 million.

The biggest challenge in meeting our Scope 3 reduction target is presented by our sale of natural gas in the US. In the short term we expect to see these emissions rise as consumers switch to gas (which we supply) from more GHG-intensive fuels such as heating oil (which we don't supply). This is obviously beneficial in the fight against climate change, and for the growth in our customer base, but will add to our reported emissions. Therefore, the efforts to decarbonise gas transmission and distribution will also be crucial for achieving our 2030 target.

Scope 3 emissions arising from the procurement of goods and services are a significant proportion of the total. We are working with our supply chain partners to influence the development of their climate change strategies and target setting. We track the number of our top 250 suppliers which have developed active carbon reduction targets and aim for at least 75% achievement. This is managed through our participation in the CDP Supply Chain programme. More information on our supply chain management is provided on pages 39 to 41.

### Energy

#### RBC commitments

Reduce energy consumption in our offices 20% by 2030, from a 2020 baseline (amended from 2019 baseline).

Our energy consumption consists of both fuel consumed and energy purchased from third parties, including renewable energy. Total energy consumption was 2,602 GWh (9,367,585 Gj), a decrease of 16.5% on the previous year. Of this, 99% was from non-renewable sources, with no significant change from the previous year. The balance relates to solar energy generated at UK offices, and renewable energy procured in the US.

63% of the total energy consumed was in the UK, with the balance consumed in the US.

**Table 1: Breakdown of energy consumption (GWh)**

| | 2020/21 | 2019/20 |
|---|---|---|
| Operational consumption | 1,409 | 1,676 |
| Transport consumption | 378 | 384 |
| Electricity consumption | 659 | 922 |
| Heating consumption | 156 | 133 |
| **Total** | **2,602** | **3,115** |

In the table, electricity consumption includes the energy consumed in operating the generation assets in the US. Total energy does not include fuels consumed for power generation on behalf of LIPA, the contracting body, amounting to 16,155 GWh (net of energy required to operate the generation assets), a 28% increase on the prior year. As a result, we have not subtracted electricity generated from the annual total energy consumption figure.

## **The environment** continued

Our energy intensity is 0.18 GWh/£m revenue, a reduction of 17.8% on the previous year.

In addition to energy consumed, we calculate that system losses accounted for a further 11,154GWh, of which 52% occurred in the US. This was a 6.6% decrease on the previous year.

The comparative data, previously reported in the 2019/20 Annual Report, has been restated to account for a minor misstatement and a change in reporting methodology.

### Air quality

In addition to GHG emissions, we also generate other emissions to air from our operations and we are required to monitor and report these to regulatory bodies in both the UK (Environment Agency) and US (Environmental Protection Agency (EPA) and state regulators). Stationary sources of these emissions include gas compressors in the UK, the burning of natural gas and fuel oil in the US (to generate electricity through our Long Island generator fleet) and submerged combustion vaporizers for NGV (UK).

Other sources may include air emissions from back-up generators, small domestic boilers, vaporizers and process gas boilers on sites and from mobile sources (e.g. from our vehicle fleet). Air emissions from these potential sources are thought to be immaterial and are currently not monitored. Our emissions for the year are indicated below:

**Table 2: Air quality – Emissions from stationary sources (tonnes)**

| | 2020/21 | 2019/20 |
|---|---|---|
| Sulphur oxides (SOx) | 129 | 322 |
| Nitrogen oxides (NOx) | 2,214 | 1,850 |
| Particulate matter (PM) | 231 | 231 |

The NOx emissions increased due to the longer running time of our generation assets (see Scope 1 above) whereas SOx emissions decreased due to the proportion of natural gas increasing in the fuel mix, relative to oil.

### Biodiversity and land enhancement

**RBC commitments**

We will: Improve the natural environment by 10% on the land we own by 2030.

We have set a commitment to improve the natural environment of the land we own, whether operational or non-operational. Improvement is taken to mean increased biodiversity, endangered species protection, creation of habitats e.g. for pollinators, and other initiatives. As an example, in the US this metric will be monitored through a Natural Capital Improvements (NCI) Project Tracker tool, to enable project leads to update status at least monthly. In the UK we will build on the work we have done to improve the natural environment at 50 of our sites, which has been delivered via our site-based sustainability action plans.

In addition to committing to enhancing the natural environment on land we own, we are also supporting the remediation of historic pollution of certain sites, some of which we no longer own. At 31 March 2021 the Group has £1,700 million (last year, £2,071 million) of environmental provisions, of which 90% are in the US.

**Supporting the monarch butterfly**

In the US, we have enrolled in the Monarch Candidate Conservation Agreement with Assurances (CCAA), which is a voluntary conservation programme on energy and transportation lands that will result in a net benefit to monarch butterflies. This is a partnership between U.S. Fish & Wildlife Service and energy and transportation entities across the country, with a nationwide goal of enrolling up to 26 million acres of land and contributing over 300 million stems of milkweed, and 2.3 million acres of monarch foraging habitat. Our commitment relates to conservation measures across over 100,000 acres, including seeding and planting to restore or create habitat and conservation mowing and scrub clearance to enhance floral resource habitat.

## **The environment** continued

These relate to a number of sites owned and managed by subsidiary undertakings together with certain US sites which are no longer owned. More than half of the US provision relates to three former sites which were identified by the EPA as sites of significant contamination (Superfund sites). Further information is provided on page 184 of the Annual Report.

In the UK, we manage and regenerate our brownfield surplus estate, working with communities to return redundant sites back into beneficial use to provide new homes and employment opportunities. In 2020/21, we disposed of 44 sites and exchanged contracts on a further five land sales, to facilitate the delivery of thousands of new homes across the UK. Through our joint venture with the Berkeley Group, St William Homes, approximately 7,000 homes are already under construction across London and the South East, of which around 30% will be affordable housing.

In March 2020, we entered into a joint venture with Places for People, one of the largest regeneration, development, and property management companies in the UK and a registered provider of affordable housing. As part of the venture, called National Places, we aim to deliver up to 20 sites for much needed housing across the UK, and we have now exchanged on the first land acquisition.

**Table 3: Waste generated (metric tonnes)**

| Waste | Hazardous | Non-hazardous | Total |
|---|---|---|---|
| Reuse | 0 | 63,206 | 63,206 |
| Recycled | 8,042 | 65,296 | 73,338 |
| Landfill | 9,389 | 5,068 | 14,457 |
| Other disposal methods | 8,748 | 12,235 | 20,983 |
| **Total Generated** | **26,179** | **145,805** | **171,984** |

### Circular economy – waste management

Waste is generated from a range of activities and sources, including office and warehouse waste, waste from distribution and transmission gas pipe and electricity line laying, repair and maintenance, capital project delivery and power generation. The different categories of waste are summarised in table 3. This total excludes certain predominantly non-hazardous civil wastes managed by contractors as part of large-scale capital projects e.g. tunnelling, where we need to improve our data collection processes. The volumes of soil, gravel etc. can be substantial, although the vast majority is either reused or recycled, typically for landscaping projects. As a result, the table understates the total waste generated. We aim to improve our waste data capture over time.

Hazardous waste relates to commercial property activity in the UK where soils, aggregates and other waste are removed from contaminated land, with the balance consisting of oil, PCB and lead-contaminated materials, and other items. Approximately 30% of hazardous waste is recycled, and 36% is sent to landfill.

For non-hazardous waste, approximately 3% is sent to landfill, whilst almost 90% is either reused (43%) or recycled (45%). Other disposal methods include thermal processing and incineration. Our target is to divert 100% of office waste from landfill and this has been achieved through the terms of contracts with our waste management partners in the UK and US. No waste is disposed of onsite.

We are committed to reducing the use of single use plastics and plan to report on this in future RBRs.

### Water

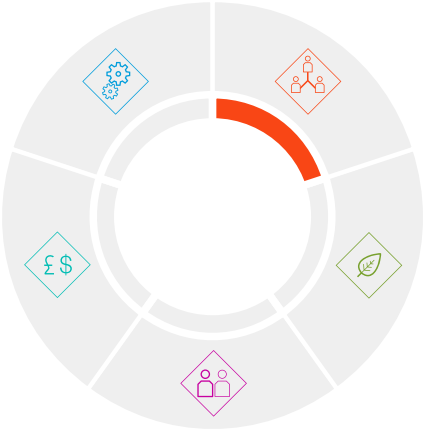
Water consumption relates almost entirely to use for cooling purposes and abstracted water is not altered other than being slightly warmed by the process. During the year, 1,444 million cubic metres were withdrawn. Of this total, over 99% relates to the use of seawater for cooling the generation assets in the US. All of this abstracted water is returned to the sea. Of the remaining water used, none is abstracted from water-stressed areas. Only 0.1% of the total is discharged to third party sewer.

### Compliance with environmental legislation

To our knowledge, we have not received any fines or non-monetary sanctions in relation to any breaches of environmental regulations.

# Our communities

## We will deliver sustainable energy safely, reliably and affordably, ensuring no one gets left behind.



## Our Responsible Business Charter commitments

**We will strive for affordability and fairness, and we will develop skills for the future, with a focus on lower income communities.**

Deliver energy in a fair and affordable way to the communities we serve.

Play our role in ensuring no one is left behind in the transition to clean energy. The associated benefits should be enjoyed by all.

Continue to reinvest in energy infrastructure at approximately £5 billion each year.

Achieve 500,000 employee volunteering hours by 2030. Through volunteering, our people will help equip the next and future generations to participate in the clean energy transition.

Report transparently on energy costs throughout the energy transition – on average costs per household for our UK transmission network and for our US electric and gas business.

Develop skills for the future, with a focus on lower income communities, providing access to skills development for 45,000 people by 2030.

## Our further ambitions

Play a meaningful role in the COVID-19 recovery and enable people in our communities to gain employment in the clean and just recovery.

Help customers reduce their energy usage through energy efficiency programmes and education.

## Introduction

As National Grid has evolved and grown in scale in the UK and US, we have become part of the fabric of the communities we serve. We keep the lights on, we keep them warm, we help economies thrive. We are an operator, an employer and a supplier. We support our communities with the time and expertise of our people, and through corporate giving programmes.

The basis of our approach to responsibility in our communities is built on safely maintaining the reliable, resilient energy systems society expects. It is also about making sure our economic and social role has the greatest possible positive impact - continually developing our infrastructure but also helping customers use energy more efficiently. Beyond core service delivery it also includes partnering with charity organisations, and encouraging our colleagues to donate their time in support of social, economic and environmental causes. Helping our communities recover from the COVID-19 crisis is a key part of this.

We support the concept of a 'just transition' to a more sustainable energy system and will publish a strategy on our contribution later this year.

## Our management approach

### Engagement and strategy

The delivery of our core services to the community is a heavily regulated activity and as such involves extensive engagement with the relevant regulatory bodies. As part of the regulatory process we also engage with customers and the broader community, and must provide evidence we have done so. You can read more about our customer satisfaction performance below and on page 22 of the Annual Report. Additional detail on our extensive stakeholder engagement is provided on pages 9 and 10 above.

This engagement drives our business planning approach, and our strategy and its execution are fully transparent to the regulatory bodies.

### Governance

Responsibility for oversight of the delivery of our business plans rests with the Board and further details of this governance is provided on page 49 of the Annual Report. Maintenance of a reliable network is a core KPI and our performance is discussed below and on page 21 of the Annual Report.

### Risk management

We monitor our network performance closely and disruption to supply is categorised as a principal risk to the business. Further information is provided on page 27 of the Annual Report.

## Our performance

Our primary responsibility to communities has been to safely maintain the resilient energy systems society expects. It's also about making sure our economic, social and environmental role in the community has the greatest possible positive impact. This involves developing infrastructure and helping customers use energy more efficiently. However, we also aim to go beyond this delivery of our core responsibility by partnering with charity organisations, encouraging our people to support social, economic and environmental development, and to help communities thrive.

### Our core responsibility

**Public safety**

Public safety is a key priority for the business, and the relevant risks are scrutinised at each Board meeting. 'Catastrophic asset failure resulting in a significant safety and/or environmental event' is identified as a 'Principal Risk' of the business and mitigated appropriately, as set out on page 27 of the Annual Report and Accounts.

Potentially hazardous activities include: the generation, transmission and distribution of electricity; and the storage, transmission and distribution of gas. Electricity and gas utilities typically use and generate hazardous and potentially hazardous products and by-products.

We operate an extensive process safety approach and carry out risk assessments in relation to all the hazardous operations in our portfolio (see pages 44 - 45).

We track and record all injuries to members of the public that may be connected with our operations and activities. During 2020/21, no members of the public lost their lives but, unfortunately, there were five reported injuries, all in the US, as a result of our activities during the year.

**Reliability and Resilience**

Reliability and resilience of our networks are part of our regulatory duty, but also our social contract. We plan our capital investments to meet increasingly challenging demand and supply patterns, designing and building robust networks, having risk-based maintenance and replacement programmes, and detailed and tested incident response plans in response to extreme weather events. We measure network reliability separately for each of our business areas and both our UK and US networks continued to maintain excellent reliability. You can find reliability performance metrics for our networks and interconnectors on page 62, and on page 21 of the Annual Report.

We anticipate increasing incidence of extreme weather events, and more information on this, and our response to recent weather impacts in the US, is provided on page 42 of the Annual Report.

**Affordability**

Our regulated businesses are carefully monitored to ensure that we are providing value for money for energy consumers. In the UK, the government has indicated it expects energy bills in 2030 to be in line with 2019. Prices are agreed with regulatory bodies and we report transparently on the proportion of average cost of energy per household that relates to our costs.

## **Our communities** continued

### RBC commitments

Deliver energy in a fair and affordable way to the communities we serve.

Play our role in ensuring no one is left behind in the transition to clean energy. The associated benefits should be enjoyed by all.

Report transparently on energy costs throughout the energy transition – on average costs per household for our UK transmission network and for our US electric and gas business.

The contribution of UK transmission costs to consumer bills, and average customer bills for gas and electricity in the US, including data relating to low income customers, is provided on page 62.

In the US, we have been helping our customers through the unprecedented difficulties of the COVID-19 pandemic in a number of ways. We conducted more than 32,000 no cost Virtual Home Energy Assessments in New England to provide energy saving guidance safely and remotely. Customers were provided with energy saving products and were eligible for offers on approved insulation and air sealing, helping deliver savings on bills.

In Upstate New York, we submitted a request for new delivery prices beginning in July 2021. We also proposed up to $50 million in COVID-19 relief to support

### Innovation for network reliability and resilience

NGP, our investment and innovation arm, searches for innovations to keep us at the forefront of the energy industry.

In October 2020, we announced a new investment in startup, AiDash. AiDash uses high-resolution satellite imagery coupled with AI technology to help protect distribution grids from overgrown plant life that can spark disruptions or fires. This means our vegetation management teams can focus on areas of the network that carry the greatest risk of vegetation driven outages, reducing operational costs, and improving the reliability of the electricity network.

### Innovation to improve reliability and save costs

In the US, before contractors carry out excavations, they must call '811' so that utility operators can identify buried infrastructure and thus prevent damage and injury. Given the potential safety, reliability and cost impacts from excavation damage, National Grid U.S. maintains active 'Damage Prevention' teams to monitor inbound '811 tickets', find contractors who haven't obtained tickets, and stop accidents before they happen.

In downstate New York we reduced the damages for nearly a decade before plateauing. Colleagues had to identify higher risk excavations by 'feel' as there were insufficient resources to manually assess 600,000 tickets per year.

In 2016, we partnered with Urbint, to drive the rate lower. Urbint's AI-powered software, 'Lens for Damage Prevention', examines historical incident data as well as the age, type, and location of assets. It combines this with a representation of forces that impact underground assets including soil conditions, elevation, weather, population density, and construction, and assigns risk scores to 811 tickets.

Results showed most damages were coming from a small percentage of tickets, with one of the strongest predictors being the contractor doing the work. By targeting problem excavators and proactively intervening on risky job sites, we reduced our damage rate by 37% from 2016 to 2020 and improved our relationships with excavators. Recognising the power of innovation to improve our service capabilities, National Grid Partners, our strategic investment and innovation arm, invested in Urbint in 2019.

## **Our communities** continued

our most economically vulnerable residential customers, as well as businesses that are struggling because of the financial impact of the pandemic. We suspended our debt collection and customer termination activities across our US jurisdictions resulting in lower customer collections and additional provisioning for bad and doubtful debts.

In the UK, we actively supported Ofgem's measures to protect customers by relaxing network charge payment terms for suppliers and shippers facing cash flow challenges as a result of COVID-19.

In the UK around 4 million households are in fuel poverty, unable to heat their home to the temperature needed to stay warm and healthy. As well as being on low incomes many of these households are also faced with the additional burden of relying on heating systems that are expensive to run and/or inadequate for their needs.

To help address this issue, in 2017, National Grid provided £150m to establish the Warm Homes Fund (WHF) to be administered by Community Interest Company, Affordable Warmth Solution (AWS), designed to support local authorities, registered social landlords and other organisations working in partnership with them, to address some of the issues affecting fuel poor households. More information on the WHF is provided in the case study below.

### Warm Homes Fund

The WHF is active across England, Wales and Scotland, incentivising the installation of affordable heating solutions in fuel poor households who do not use mains gas as their primary heating fuel, supplementing local strategic plans and other funding. The WHF aims to reduce bills, increase comfort in non-gas fuel poor households, and improve health outcomes for some of the most severe levels of fuel poverty. The fund is split into three categories:

- **Category 1:** Urban homes and communities – new gas heating systems for space heating and domestic hot water for vulnerable households.
- **Category 2:** Rural homes and communities – where there are no gas mains connections and primarily focused on 'non-gas' solutions such as air source heat pumps, oil and LPG.
- **Category 3:** Specific energy efficient/health related solutions – supporting national or regional programmes to promote programmes in relation to fuel poverty.

To maximise the impact of the WHF, all properties are expected to be insulated to recommended industry standards and those bidding for WHF grants are encouraged to seek additional funding to ensure these standards are met.

At the beginning of the year, approximately £26m of the WHF remained unallocated but this has now been earmarked across a range of projects, including programmes with National Energy Action, Connect for Help and the Fuel Bank Foundation (FBF). Launching earlier this year, FBF will receive £3m from the WHF over three years, enabling provision of financial support via a £49 voucher to people unable to top up their prepayment gas or electricity meter. On average, £49 will keep the lights and heating on in a home for up to two weeks.

### Customer Satisfaction

As noted above, we engage extensively with our customers as part of a regulated process. In the UK we do not own the energy that flows through our electricity cables and gas pipes. This energy is owned by our customers, such as electricity generators and gas shippers. These industrial customers, together with domestic consumers through a small portion of their energy bills, pay to use our networks.

In the US, we have nearly seven million residential and commercial accounts.

Our performance in relation to keeping our customers happy is indicated below and on page 22 of the Annual Report.

**Consumer Trust Survey (US only)**

**66.2%**

An increase from 59.8% recorded in 2019/20

## Helping communities to thrive

### RBC commitments

Develop skills for the future, with a focus on lower income communities, providing access to skills development for 45,000 people by 2030.

Through upskilling young people with STEM skills, we will positively impact lives and help to grow the future energy workforce needed to enable the energy transition.

Achieve 500,000 employee volunteering hours by 2030. Through volunteering, our people will help equip the next and future generations to participate in the clean energy transition.

We aim to ensure that our economic and social role in the community has the greatest possible positive impact and we partner with community organisations to enhance programmes. We are members of Business in the Community (BiTC) – where we participate in a number of their leadership teams - and Business for Societal Impact, and this helps us gain insights into successful programmes run by other businesses.

Total community investment for 2020/21 was £11.3m (2019/20, £47m), and was impacted heavily by the COVID-19 pandemic, causing the cancellation of community activities and limiting the ability of the WHF to work on site.

Over recent years we have supported a broad range of causes. These have tended to relate to either educational or environmental programmes, generally focused on the communities we serve, or those impacted by capital projects. In 2020/21 we sharpened our focus.

Unemployment and social exclusion amongst young people existed before the COVID-19 pandemic, but the economic downturn in the UK and US has seen youth unemployment rise significantly, pushing young people even further away from the job market and creating a 'lost generation'.

Research we commissioned in 2019, our **'Net Zero Skills Report'**, indicated a potential skills gap of 400,000 people to complete a successful transition to the clean energy system. Putting these two factors together we have committed to supporting disadvantaged young people to build careers in the energy sector by working with our partners to deliver training and skill-development opportunities at scale.

We are showing this support for communities in the US and the UK through the launch of our flagship programme 'Grid for Good' to help give young people hope of meaningful employment.

### Unlocking clean energy in our communities

We have given lower-income families in the US an opportunity to play an active role in the future of energy by connecting residents in Buffalo's Fruit Belt to solar power at no cost. In a disadvantaged corner of New York state, we installed solar photo-voltaic systems on 74 rooftops, and residents continue to share the benefits of energy innovation across their community. This project has been financed by the Green Bond referred to on page 38.

**Our communities** continued

## Grid for Good

Grid for Good aims to improve social mobility for disadvantaged or disconnected young people in the communities we serve by facilitating enhanced upskilling and providing employment opportunities in National Grid and our supply chain. In this way we will both help to address the Net Zero skills gap in the energy sector and improve the diversity in our workforce, better reflecting the communities we serve.

Grid for Good supports 16 to 25 year olds fulfilling one or more of the following criteria:

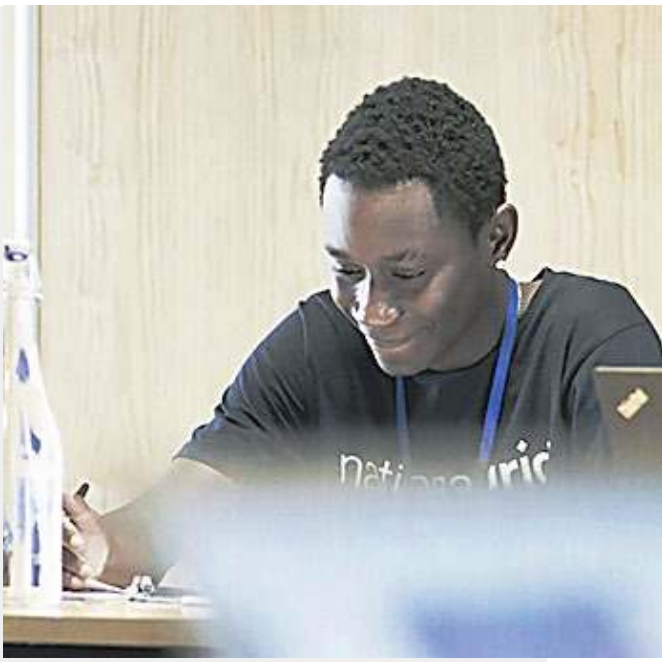
- low/no education e.g. young people who have left school without achieving the grades which support employment;
- shock unemployment e.g. young people who have suffered recent unemployment;
- ex-Offenders e.g. young people who are hampered by a criminal record; and
- ethnically diverse backgrounds e.g. young people who are facing added socio-economic disadvantage.

Grid for Good is partnering with a small number of established charities which align with our clean energy objectives and are experts with the focused target demographic outlined above.

The Grid for Good pathway is an end to end skills curriculum designed to enable candidates to reach their potential through a range of volunteer powered sessions and opportunities provided by National Grid, its supply chain and industry peers.

Our candidates benefit from peer networking, work readiness technical upskilling, mentoring and help starting to build their career in the industry. Grid for Good charity partners select young people for the programme and manage their progress through the pathway. At 31 March 2021, 1,261 young people were progressing along this pathway – made up of 792 in the UK and 469 in the US.

Volunteers participate as knowledge sharers, educators, coaches, mentors, and facilitators. Grid for Good will enable colleagues to feel more directly connected to our communities, giving them a real opportunity to make a difference. At 31 March 2021, 6,207 hours of volunteering had been delivered across 1,031 volunteering events, mainly relating to mentoring opportunities. Of these 43% of total hours were delivered in the US.



Grid for Good is creating partnerships with other organisations across the energy sector. We are focused on creating a collaborative model where partners contribute employee volunteer resources, job opportunities, and support towards the successful running of Grid for Good. At 31 March 2021, five young people had been employed at National Grid through Grid for Good.

We are committed to the success of Grid for Good. In our RBC, we have targeted 'Access to skills development opportunities for 45,000 people by 2030, and 250,000 employee volunteering hours through to 2030'. Through volunteerism, our employees will help equip the next and future generations to participate in the clean energy transition.

Grid for Good aims to deliver 50% of this targeted upskilling and 25% (125,000) of the targeted volunteering hours over the next 10 years. We will continue to publish our progress on a regular basis.

## **Our communities** continued

In addition to Grid for Good, in the UK, we are involved in several different programmes providing value to our communities. A number of these are summarised below:

- **Community Grant Applications** – we invite communities affected by our infrastructure projects to apply for grants to support local projects which deliver social, economic or environmental benefits. Where there is a close link to the capital project in question, applicants can request up to £20,000. Where this link is less strong, the maximum amount is £10,000. In 2020/21, we approved grants to the value of £605,355, supporting over 47 beneficiaries;
- **Infrastructure projects** – where we are engaged in very large capital programmes we partner with other organisations to deliver additional community benefits at scale. Examples include projects such as Hinkley Connection (further details can be found **here**) which recently won the Utility Week Award for Community Engagement, and our London Power tunnels projects (see case study, right);
- **Institute of Engineering and Technology Bursaries** – over the course of our involvement, we have supported over 20 young people who have had to overcome personal challenges to gain qualifications and pursue careers in engineering disciplines;
- **Environmental centres** – we have provided locations for several environmental organisations on land that we own and continue to support them through contributions to annual running costs. Examples include the Iver Environment Centre, the FSC Field Studies Council at Bishops Wood, The Conservation Volunteers at Skelton Grange and Groundwork at West Boldon Lodge; and
- **Employee volunteering** – we work with a partner organisation to identify and manage opportunities for colleagues to volunteer their time in local communities. This has included running employability workshops, providing business mentoring, and telephone befriending.

In addition to these programmes, we also collaborate with business partners where we work jointly on major infrastructure projects. For example, we are working with Statnett, Norway's transmission system operator, to build an electricity interconnector between Kvilldal in Norway and Blyth in England. As part of this commitment, the companies are also supporting the local communities and in the UK this has meant the development of an education centre at the site, which hosts local academies, along with donations of laptops, clothes, baby equipment to the local community, and the support of reading schemes in schools.

In the US, the business provides funding of approximately $7.9m per annum through centrally-led programmes in support of organisations such as the Red Cross, City Year and Girls Inc., and programmes led more locally through management teams in New York, Massachusetts and Rhode Island.

Our partnership with Girls Inc. creates STEM pathways for girls across the Northeast of the US, especially under-represented and underserved girls. The support for summer and year-round STEM programming helps girls build connections between liking STEM and pursuing STEM. Additionally, the partnership creates opportunities for girls to access the role models they need to envision a future career in

### Case study: London Power Tunnels – Phase 2

National Grid is building a new network of cable tunnels, 20.2 miles (32.5km) in length, across South London and the £1bn project is essential for ensuring the safe and continued supply of electricity across the capital.

As part of our commitment to the affected community, in partnership with our contractors, we are working with social enterprise MyKindaFuture, to deliver a science, technology, engineering and mathematics (STEM) and careers outreach programme across South London. The programme aims to reach 100,000 secondary school pupils across the project's construction timeline. Delivered in partnership with our contractors, the partnership with MyKindaFuture builds on the success of our original phase one LPT community project, which engaged over 30,000 school children across the Capital.

This work will give pupils the opportunity to participate in National Grid interactive STEM workshops, and it will also deliver careers fairs and online mentoring for students in years 12 and 13, helping inspire them about careers in science, technology and engineering.

## **Our communities** continued

STEM fields. Our colleagues and women with careers in STEM help girls expand their understanding of what they can achieve, and allow for them to begin to imagine themselves pursuing, and succeeding in, STEM education and career pathways. The programme helped 86% of girls participating in the Partnership to earn As and Bs in science (compared to 79% for the entire network).

We also support the National Grid Foundation, which was created to enhance the quality of life across its grant making territory. The Foundation strives to help its partner organisations create opportunities to today's and tomorrow's educational and environmental issues. Its objective is based on the principle that giving people the tools to build hope is an essential ingredient in the development of individuals, families and building stronger communities. Since its inception in December of 1998, the Foundation has granted $30 million to local community organisations.

The Foundation is governed by a board of 11 directors, eight of whom are non-National Grid employees and represent our target communities. More details can be found at: **www.nationalgridfoundation.com/**.

**Number of colleague volunteering hours**

**18,050**

This is an increase of almost 75% on 2019/20.

**Number of young people provided access to skills development**

**1,261**

All relating to Grid for Good in 2020/21.

The launch of Grid for Good has started to make a key contribution but we are aware that we will need to continually reinforce and innovate our programmes to enable us to meet our RBC commitments.

### US – City Year

In the US, our long-standing partnership with City Year ensures that students in systemically under-resourced schools are provided the support they need to thrive and contribute to their communities. City Year AmeriCorps members partner with schools in Boston MA, Providence RI and Buffalo NY to help students cultivate social, emotional and academic skills that are important in school and life.

In addition to improving the lives of students, City Year AmeriCorps members acquire valuable skills that prepare them to become civically engaged leaders. As a founding Team Sponsor in Buffalo, we work closely with AmeriCorps members to support their learning and professional development and partnered with the NY Lt. Governor to discuss the meaning of service.

As the City Year Providence STEM sponsor, our partnership served 4,500 students across six Providence schools. The City Year Boston Civic Engagement Team (BCE), sponsored by National Grid, quickly adapted its service at the onset of the pandemic to best serve the needs of the City of Boston and the Boston Public Schools. City Year BCE AmeriCorps supported contacting elderly residents to ensure their needs were being met and where necessary connected directly with services, they have also supported take-home learning and food distribution for Boston Public School students.

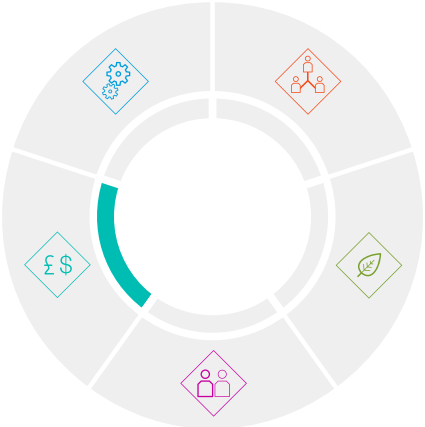
### Case Study: National Grid Foundation

Due to the impact of COVID-19, in the calendar year 2020 the Foundation has provided an incremental $1.5m in COVID-19 related relief to a range of organisations, as well as an additional $1m of heating and emergency assistance to those desperately in need across the three states. Primarily, the Foundation concentrates its giving and support to organisations that focus on education and the environment. It also provides funding for fuel-neutral emergency heating programmes.

In 2020, the Foundation supported 18 environmental organisations with $200,000 and 51 educational non-profits with $800,000. Four major organisations that provide heating fund and emergency assistance programmes received $500,000 in grants. Approximately $1.5m in grants was distributed to community organisations, giving a combined total of donations for 2020 of approximately $3m.

# The economy

**We will power and heat society, and partner with regulators, our business partners, suppliers and other key stakeholders.**



## Our Responsible Business Charter commitments

Maintain reinvestment in our infrastructure and demonstrate the social benefits of our capital delivery programmes.

Continue to influence our supply chain to operate as responsible businesses.

Continue to invest in developing technologies and innovations that benefit our customers and wider society.

Work across our supply chains to ensure that, together, we reflect the diversity of the communities we serve and respond to the economic needs of those communities.

## Our further ambitions

Build partnerships with small and local businesses, and all suppliers who set clear ambitions related to environment, diversity, economic well-being and recovery, and governance.

Help the economy and supply chain recover from the COVID-19 crisis.

## Introduction

Our economic contribution to society comes primarily through delivering safe and reliable energy. We make sure energy reaches homes and businesses safely, reliably and efficiently. But our contribution as a responsible, purpose-led business goes further – as an employer, a tax contributor, a business partner, and a community partner.

This section looks at how we make a broader contribution to society through:

- the distribution of the economic value we generate;
- our continuing investment in vital energy infrastructure;
- how we work with and influence our suppliers; and
- paying the right tax.

## Our management approach

### Engagement

We help national and regional governments formulate and deliver their energy policies and commitments. Our approach to regulatory consultation is to seek a framework that puts consumers at the centre of our price control, while enabling the clean energy transition. Evolving that partnership to help enable the clean energy transition and slow the pace of climate change before it cannot be reversed, will also be key in protecting future economic growth, and safety and well-being, in society.

The management of our investment process is closely aligned with the business planning process which is largely governed by UK and US regulation. Our Annual Report discusses these processes in depth and more information can be found in sections on our business units (pages 40 to 45) in the corporate governance sections, and the regulatory discussion (pages 228 - 235). Other investment-related risks are discussed on page 238 of the Annual Report.

## Our performance

### RBC commitments

Maintain reinvestment in our infrastructure and demonstrate the social benefits of our capital delivery programmes.

Continue to invest in developing technologies and innovations that benefit our customers and wider society.

Work across our supply chains to ensure that, together, we reflect the diversity of the communities we serve and respond to the economic needs of those communities.

Continue to influence our supply chain to operate as responsible businesses.

### Investment

**Green Finance**

Our business will play a key role in enabling the clean energy transition. To do so, we must invest in the decarbonisation of our networks and we are issuing Green Financing Instruments to support these efforts. In November 2019, we published our Green Financing Framework (the 'Framework'), and this is aligned with the ICMA[3] Green Bond Principles and the LMA[4] Green Loan Principles. Our Framework was externally verified and more information is available on our **website**.

Last year, National Grid Electricity Transmission plc, our UK electricity transmission business, issued the Group's inaugural green bond of €500 million (January 2020), followed by three additional bonds of HK$422 million, $85 million and €100 million respectively. In addition, this year, Niagara Mohawk Power Corporation, our business that owns and operates electricity distribution and transmission facilities in upstate New York, issued its first green bond for $600 million (June 2020). Finally, we executed the first ever multi export credit agency covered green loan

3. ICMA – International Capital Market Association
4. LMA – Loan Market Association

**Table 4: Direct economic value generated and distributed (£m)**

| | 2020/21 | 2019/20 |
|---|---|---|
| **Direct economic value generated[5]** | **16,169** | **15,831** |
| **Economic value distributed** | | |
| Operating costs[6] | 8,261 | 8,185 |
| Employee wages and benefits[7] | 3,053 | 2,906 |
| Payments to providers of capital[8] | 2,341 | 2,059 |
| Payments to government[9] | 2,276 | 2,261 |
| Community investments | 11 | 47 |
| **Economic value retained** | **227** | **373** |

5. Direct economic value generated contains Revenue, finance income, National Grid's share of joint ventures & associates post-tax results, profit/(losses) after tax from discontinued operations, £563m (2020: £533m) of taxes collected and paid to the government on behalf of employees and £711m (2020: £626m) of sales taxes collected on behalf of the government.
6. Operating costs exclude Employee wages and benefits, community investments and taxes borne in the year that are not captured in the corporation tax paid for the year, including an adjustment from corporation tax paid to the corporation tax charge measured under IFRS.
7. Employee wages and benefits include £563m (2020: £533m) of taxes collected and paid to the government on behalf of employees. Pension costs incurred by the Company, share based payment expenses, severance costs and other retirement costs are included.
8. Equity dividends, interest expenses and other finance costs are included within payments to providers of capital.
9. Payments to government includes £711m (2020: £626m) of taxes collected on behalf of the government, primarily sales taxes. Cash payments in respect of income taxes, property taxes and employment taxes borne by the employer are included in the disclosure.

## **The economy** continued

worth $743 million to fund the Viking Link interconnector (April 2020). In line with the commitments detailed in our Framework, we have issued our first Green Financing Report covering the allocation of our green bonds' proceeds towards investment in renewable energy, energy efficiency, clean transport and other environmental improvements. This document can be accessed **here**.

**Total investment in energy infrastructure**

**£5.0bn**

Meeting the commitment in our RBC

National Grid established National Grid Partners (NGP) to 'disrupt itself' and advance the energy systems of tomorrow. This includes incubating and investing in startups at the intersection of energy and emerging tech; launching new businesses from scratch; business development; and infusing an entrepreneurial culture into National Grid. NGP's portfolio at the close of the fiscal year comprises 23 companies and four fund investments, at a fair value of £178m. During the year, we invested a further £38m in technologies and innovations.

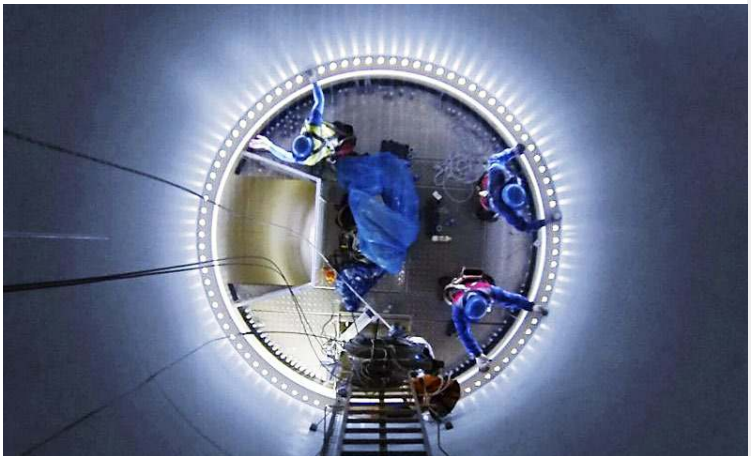
**Table 5: Spend profile (top five countries by billing office location)**

| | Percentage of overall spend |
|---|---|
| United States | 64% |
| United Kingdom | 32% |
| Italy | 1% |
| India | 1% |
| Germany | 1% |

### Working with suppliers

We work with over 6,000 suppliers, spending over £5bn per annum with them, cascading economic benefit through society. The main categories of spend include overhead line services, underground cable services, works and engineering services, transmission services, tunnelling, compressor maintenance, consultancy and HR services. The business model is primarily direct contracting and project-based with a level of sub-contracting through major tier 1 suppliers. In some instances, our supply chains are complex and have a global reach, but over 95% of our tier 1 suppliers are based in the US and UK.

As with many large businesses, our supply chain spend is focused on some key categories, and we spend 42% of our total annual budget with just 25 organisations. Table 5 details the top 5 countries based on office billing location and spend for calendar year 2020. We recognise the need to manage potential risks beyond first tier suppliers and to communicate our expectations and ethical standards through our directly contracted suppliers and further down the supply chain.



### Risk mapping beyond tier 1 suppliers

We have been working with a tier 1 contractor on one of our main UK infrastructure construction projects – Hinkley Point – to map out the supply chains associated with establishing the haul roads for the site and identify where the risks may arise. The contractor has developed a supply chain map from sourcing the raw materials through to production and to construction of the road. This includes the quarries which will be used and reference to the supply chain management processes that are in place.

The project will complete in 2025 and we will aim to transfer learning and mitigations to other similar projects.

### Supply chain engagement

We work closely with our suppliers and peers to build on our knowledge and promote best practice in the industry. Expanding the diversity of suppliers in our supply chain is an important part of our procurement strategy. We understand the value of an inclusive supply chain that is richly diverse with ethnic minority, women, LGBTQ, disabled, small and medium enterprises and other businesses reflective of our diverse communities across the globe. In the US, we are active members of the National Minority Supplier Development Council that helps advance business opportunities for certified minority business enterprises through programmes and other education offerings. As a member of the Edison Electric Institute Utility Industry Group, National Grid has an opportunity to share and implement best practices for diverse supplier utilisation and development across the electric and gas industries, and membership in the Sustainable Purchasing Leadership Council supports our efforts to address social, economic and environmental impacts in our supply chain to build healthy communities both locally and globally.

In the UK we are involved with the United Nations Global Compact Modern Slavery Working Group. We work actively with the Supply Chain Sustainability School (SCSS) to build knowledge and capability through the supply chain and are signatories of the Construction Protocol and The People Matter Charter – industry initiatives organised to promote awareness and address issues of modern slavery in the supply chain.

Furthermore, in the UK, as part of the consultation RIIO-T2 process, we engaged with our supply chain on our proposed Responsible Procurement Plan commitments and, supported by the SCSS, delivered webinars which included polling questions on our proposed focus areas.

We are fair to our suppliers and are committed to paying them promptly. In the US, 90% are paid to contractual terms (2019/20, 88%). In the UK, 91% (2019/20, 89%).

### Risk assessment

In 2017 we carried out a high-level modern slavery risk assessment of our top 250 suppliers (based on spend). This was followed by more detailed risk assessments and action planning with those companies identified as potentially high risk. Criteria include potentially high-risk categories of product or service, or country of origin, supply chain complexity and levels of sub-contracting.

Subsequently we developed a sustainability assessment tool, embedding human rights considerations and other sustainability criteria into our strategic sourcing process and this ensures that all new suppliers are screened using these criteria. In the UK, the tool maps to the relevant Achilles Utilities Vendor Database (UVDB) questions and requires a positive response against the key questions, the majority of which are mandatory at the pre-qualification stage of our sourcing process. Random assessments are conducted at a tier 1 level. In the US, sustainability questions are integrated as part of the strategic sourcing process.

We share our risk assessment approach with suppliers via our webpage, providing transparency and encouraging use of the tool in their own supply chains.

Based on our risk assessment processes, and the profile of our major suppliers, we consider the risk of child, forced and compulsory labour amongst our directly contracted suppliers, to be low. We are not aware of any of these suppliers where the right of workers to freedom of association or collective bargaining is at significant risk.

### Policies, expectations and influence

Our Global Supplier Code of Conduct ('GSCoC) includes specific language on sustainability and modern slavery. We require all suppliers to acknowledge our GSCoC as a condition of doing business. We seek to embed the document into all our strategic agreements, and remind suppliers annually of our latest GSCoC version. Therefore, we expect our suppliers to comply with all applicable local, state, federal, national and international laws, and to adhere to the principles embedded in the GSoC. This includes the UK Bribery Act 2010 and the US Foreign Corrupt Practices Act 1977. We also require them to adhere to the Principles of the United Nations Global Compact, the International Labour Organisation (ILO) minimum standards, the Ethical Trading Initiative (ETI) Base Code, and the US Trafficking and Violence Protection Act 2000. We expect all our suppliers to be compliant with the Modern Slavery Act 2015 and to publish a Statement, regardless of whether this is a legal requirement.

We provide specific guidance and briefings for high-risk areas, so contractors, agents and others who are acting on behalf of National Grid do not engage in any illegal or improper conduct.

In the UK, we are an accredited Living Wage Foundation employer (see page 47) and the real living wage is a requirement for suppliers based in the UK. The rates are communicated annually and application is verified in areas of potential risk, such as catering and cleaning contracts.

We have embedded sustainability into the strategic sourcing process. For example, in the UK, for recent tenders supporting our RIIO-T2 business plan, 5% of the supplier score is allocated to sustainability criteria overall. Our aim is to have 100% of sourcing events considering sustainability and all applicable events will be tracked and verified in the future. In the US, the sustainability assessment tool is used at the event strategy, tender and evaluation stages.

## **The economy** continued

We track a number of measures, including those in table 6, below. The potential human rights issue indicated in the table was investigated but no action was required. No supplier contracts were terminated due to sustainability-related factors during the year.

As well as focusing on human rights, we aim to leverage our position in the value chain to influence our suppliers to reduce their carbon emissions. We encourage suppliers to respond to the CDP Climate Change Supply Chain programme and 87% of those requested did so in the most recent CDP cycle, compared to 68% average response rate. We have also established a commitment that at least 75% of our top 250 suppliers will have active carbon reduction targets by 2026. At the year-end, 122 (49%) suppliers reported active targets.

### Supplier Diversity

We operate a Global Supplier Diversity Policy which outlines our commitments to diversity, equity, inclusion in the supply chain and within all aspects of our business units. We expect our suppliers to extend the same in their own supply chains.

We are working to create an inclusive and diverse supply chain by raising awareness of the existence and capabilities of diverse suppliers and being proactive in identifying sourcing and sub-contracting opportunities for diverse suppliers. We track and report spend with diverse suppliers and invest in mentoring and skills development to help support today's and tomorrow's energy and utility sector. Our mentoring partnerships include The Greater Boston Chamber of Commerce Pacesetters Program, the New York New Jersey Minority Supplier Development Council, the National Minority Business Council and the National Utility Diversity Council.

### Training and awareness

During 2019 we assessed the training needs associated with managing supplier engagement around sustainable procurement and decent working practices and training will be a key element in the Responsible Procurement Strategy which is under development. Procurement personnel are trained annually on supply chain corporate responsibility topics and we have established sustainability ambassadors in the UK and US with monthly meetings and a focus on ensuring delivery of the agenda through the procurement category teams.

A modern slavery awareness video has been developed and communicated to all employees, that details the signs to look out for both in and out of work and also who to contact if you have a concern that somebody may be a victim of modern slavery.

We have raised awareness of our GSCoC within our contract management community. We encourage our suppliers to utilise the free training and resources that are available through the SCSS and promote relevant initiatives suppliers, including the People Matter Charter and the Construction Protocol. We track uptake (see table 6 above).

### Table 6: Supply chain metrics

| Measure | 2020/21 | 2019/20 | 2018/19 |
|---|---|---|---|
| Number of potential human rights issues identified through our supplier screening process | 1 | 1 | 0 |
| Number of modern slavery issues reported through our confidential helplines | 0 | 0 | 0 |
| Number of non-supplier organisations we have engaged with | 30 | 31 | 15 |
| Number of suppliers that have signed up to the Construction Protocol | 14 | 12 | 0 |
| Number of suppliers that have signed up to the People Matter Charter | 8 | 5 | 0 |

**We identify the following as diverse categories:**

- Minority business enterprise
- Women business enterprise
- Small business enterprise
- HubZone small business
- Disadvantaged business enterprise
- LGBTQ-owned business
- Veteran-owned business
- Service-disabled veteran-owned small business
- Historically black colleges and universities
- Small disadvantage business
- Green certified

### Tax

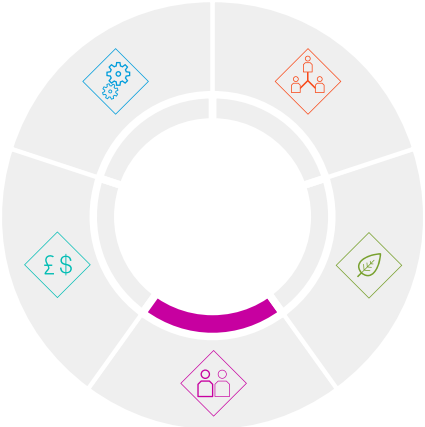
Our approach to tax is part of our commitment to being a responsible business, and is guided by our values.

When making decisions on tax matters, we follow the CBI's Statement of Tax Principles. We do not enter into artificial arrangements or structures or conduct operations in tax havens or low tax jurisdictions, where the sole purpose is to achieve tax savings. We'll also continue taking legislative and regulatory requirements into account, as well as their tax consequences, when we consider business developments. Our tax contribution, as well as the employment opportunities and essential services that we provide, supports public services and contributes to the sustainable development of the regions in which we operate.

We are committed to a coherent and transparent tax strategy and recognise our economic role in society in doing this. Further information, and country by country tax reporting is provided on pages 36 and 37 of our Annual Report.

# Our people

**We seek to find the best talent and develop the right skills to enable and accelerate the energy transition, and strive to build a diverse workforce and inclusive culture.**



## Our Responsible Business Charter commitments

Be as transparent as possible internally and externally on gender and ethnicity/race. This will include reporting on recruitment, promotion, progression and leaver rates by diverse groups.

Achieve 50% diversity in all our new talent programmes by 2025.

Maintain fairness across the organisation for pay and make sure our pay practices do not show bias. We will work until pay equity is achieved for our people.

Achieve 50% diversity in our Senior Leadership group by 2025.

Provide unconscious bias training to all our people over the next year.

## Our further ambitions

Eradicate discrimination of any kind, and create a culture where our people feel confident to speak out safely.

Develop the skills needed for the Net Zero workforce of the future by investing in developing our people, so they can enable the clean energy transition.

Among our people, reflect the diversity of the communities we serve.

## Introduction

We employ around 23,540 people (2019/20, 23,060), located both in the UK (6,657) and the US (16,890) and they are the lifeblood of our business. We are reliant on our colleagues to deliver success for the business and our stakeholders, and we aim to attract and retain the best people by striving to be recognised as an employer of choice. People are attracted to work for businesses which can demonstrate a clear purpose that benefits society. It is important for us to match their aspirations, and we work towards going beyond delivery on the core aspects of the employer/employee relationship, to create a culture focused on the value we can add to society – the subject of this Report.

Key metrics relating to our workforce include:

### Table 7: Full-time and Part-time colleagues

| | Full-time | | Part-time | |
|---|---|---|---|---|
| | Number | % | Number | % |
| UK | 6,363 | 96% | 294 | 4% |
| US | 16,778 | 99% | 112 | 1% |
| Total | 23,141 | 98% | 406 | 2% |

The proportion of colleagues working part-time has remained static from last year.

### Table 8: Annual Employee Turnover[10] (voluntary and non-voluntary)

| | Voluntary[11] | Non-voluntary[12] | Total |
|---|---|---|---|
| UK | 3.8% | 1.2% | 4.9% |
| US | 6.1% | 1.2% | 7.2% |
| Total | 5.4% | 1.2% | 6.6% |

10. Turnover is defined as employees who have left in the last 12 months as a percentage of headcount last year.
11. Voluntary turnover relates to employees who have left through either resignation or retirement.
12. Non-voluntary turnover includes other reasons, including dismissal, severance, etc.

National Grid traditionally has low voluntary turnover and high employee tenure, driven by high engagement and good career opportunities. Due to COVID-19 and subsequent hiring freezes, we have seen annual turnover decrease from 9.8% to 6.6%.

### Table 9: Temporary employees and agency workers

| | UK | US | Total |
|---|---|---|---|
| Regular | 6,570 | 16,829 | 23,399 |
| Temporary | 77 | 61 | 138 |
| **Total Employees** | **6,647** | **16,890** | **23,537** |
| **Agency Workers** | **776** | **547** | **1,323** |
| **Grand total** | **7,423** | **17,437** | **24,860** |

## Our management approach

We engage extensively with our colleagues through a number of channels and processes. This enables us to understand their needs and requirements and build a culture that will help to drive our performance and develop a skilled and motivated workforce. This includes an independently managed annual colleague listening process – the 'Grid:voice survey' – to help us identify areas that colleagues believe we need to improve. This year, 81% of colleagues took part in the survey (last year – 82%) and our engagement index score was 81% favourable, an increase of 4% on the previous year.

The Board receives regular updates on employee matters via meeting papers and key discussions and decisions are reported in the Annual Report. Also, in response to the 2018 UK Corporate Governance Code, our Board has implemented a range of Employee Voice on Board (EVOB) activities to ensure that there is meaningful engagement between the Board and our workforce. A detailed description of Board engagement, and the key issues and actions emerging, is provided on pages 78 to 80 of the Annual Report.

We also engage with colleagues through their representatives in various trades unions. In the UK, we have a collective bargaining agreement with four recognised trades unions covering our staff grades and this is the formal mechanism for consultation and negotiation on a range of matters including pay and terms and conditions of employment. We have an Employee Relations framework at national level and local level which is used to facilitate collective discussion with the trades unions.

In the US, we commit to collective bargaining with 21 unions, setting out terms and conditions of employment for represented employees. Neither party may deviate from the terms of the collective bargaining agreement, except in extraordinary circumstances.

We encourage positive employee listening, engagement and feedback. There are a number of trade union recognition agreements in place for collective bargaining purposes. In 2020/21, approximately 54% of our global population were covered by these agreements. This includes our staff grades in direct operations in the UK and our union populations in the US but does not include other colleagues who may be involved in collective bargaining, as this data is not currently tracked. Therefore, this percentage is likely to under-report the actual position. None of our colleagues are denied the right to exercise freedom of association or collective bargaining, and all employees have a contract of employment which cannot be changed without prior consultation.

We have a Human Resources BMS which sets out what is expected of our leaders when managing their colleagues throughout the employment lifecycle including resourcing, performance management, reward, leadership skills and capability development and talent management. As our colleagues are based solely in the UK and US, we consider the risk of child, forced or compulsory labour to be extremely low.

## Our Performance

### Health, Safety and Well-being (HSW)

We have a fundamental duty of care to ensure our colleagues are kept safe at work, and that their health is not impacted as a result of their employment. The health, safety and well-being of employees and contractors is our primary concern and a key priority for everyone at National Grid. Any safety incident is one too many and we continually work to improve our performance through effective policies, standards, procedures and training. We liaise regularly with the Health & Safety Executive in the UK and Occupational Safety and Health Administration in the US along with the relevant State regulators.

We engage extensively with our workforce on HSW topics and conduct annual surveys relating to safety arrangements. HSW matters are fully integrated into a broad range of training and competence assessments and we work collaboratively with trade unions. In the UK, we hold regular safety fora with union leadership, and hold events where the union safety representatives are invited to engage on a range of relevant topics and provide feedback. In the US, there are Safety Policy Committees (SPCs) where we engage with unions on a range of safety topics. In both cases we consult on policy introductions or changes with the unions, for example our drug and alcohol policies, amongst other items. Meetings tend to be held monthly or quarterly dependent on the focus.

Several Business Management System (BMS) Standards, which are described in the following sections, form the direction for an implemented HSW management system, which includes an Incident Management System (IMS) and governance arrangements. The requirements are applied across the business, as applicable, and are relevant to our own employees and to contractors. The management system has been developed to meet the regulatory requirements operating in the UK and US, enhanced by best practice arrangements to deliver continual improvement. The overall management system is not certified to a recognised management system standard although certain local elements are. All relevant activities and operations are covered by an appropriate BMS Standard and all elements are covered by internal audit processes on a rolling basis. No employees or contractors are excluded from coverage.

Our prioritisation of safety is supported by our Occupational Safety BMS Standard and this ensures that no matter where in the world our colleagues or contractors work, they can expect to receive a consistent and high level of protection for their safety. In addition, we operate a Well-being and Health BMS Standard which enables our business to proactively manage health risks and controls by fostering a proactive approach to well-being that can measure and target areas of greatest impact for the business.

The Process Safety BMS Standard helps to protect people (colleagues and members of the public) and the environment from the risk of major accidents by establishing a safety-focused culture. Process safety is an important commitment and our aim is to be recognised as a high performer in process safety through the demonstration of industry-leading risk controls, performance and cultural maturity across the management of all of National Grid's Major Hazard Assets (MHAs). We have implemented our Process Safety Management System (PSMS) within all our MHA businesses and our performance is audited by internal and external teams periodically.

### Our response to COVID-19 – keeping our colleagues safe

Our commitment to being a responsible business has been the governing principle behind our response to the COVID-19 pandemic. From the outset, our focus was on ensuring colleagues are regularly briefed on the actions being taken to keep them safe, whether as key workers out on site keeping gas and electricity flowing, or working from home, for those able to do so.

Steps have included setting up onsite accommodation for control room staff in both the US and UK, with established shift patterns, running well-being pulse surveys to get feedback from colleagues (to which 70% responded), facilitating the safe return to work by making offices COVID-19 secure and establishing the necessary protocols, or switching to conducting home energy assessments virtually (for example, more than 32,000 assessments were conducted in New England when in-person home energy assessments were suspended due to the pandemic).

## **Our people** continued

These Standards are underpinned by Incident Reporting Protocols which set out the criteria and process for the internal reporting of different levels of incident, near miss or good catch. The Protocols are supported by our IMS for incident reporting, tracking and follow up. We have a STOP campaign, and any worker can stop a job or challenge a colleague if they believe a task is unsafe. We operate an anti-harassment and bullying policy and a confidential whistle-blowers' hotline (see page 53) and both seek to protect workers against possible reprisals.

A fundamental element of the HSW management system involves hazards and risks being identified within each of the businesses, using our documented hazard and risk procedures. These assessments are used to identify appropriate controls that form part of the overall HSW management system. Higher level risks are identified within the enterprise risk management system and are assessed via consistent criteria. This approach feeds into the risk registers for business areas and ultimately to group level.

Each business unit reviews its HSW performance locally and prepares a HSW plan, that sets out key priorities for the year. The plans promote action to improve performance in areas of higher risk, or to enhance existing management approaches to introduce best practice. The business plans feed up to UK, US and NGV plans and up to a Group plan, with each level undertaking progress monitoring.

HSW teams in our UK, US and NGV businesses report through local line management but also maintain close collaboration and a dotted line of reporting to the Head of Safety, Health and Environment at Group level. This role is two steps from the Group CEO. There is close scrutiny of performance through both the Executive Committee and the Safety, Environment and Health (SEH) Committee of the Board. During the year, the SEH Committee was chaired by Paul Golby and supported by Earl Shipp, both Non-Executive Directors (NEDs) with extensive safety and risk management expertise. Colleagues have an opportunity to raise safety concerns with the Board directly through the 'Employee Voice' engagement sessions with NEDs. The SEH Committee's main areas of focus in 2020/21 have been:

- employee health and well-being;
- safety culture;
- gas safety and reliability;
- Liquefied Natural Gas (LNG) and compressed Natural Gas (CNG);
- SEH risks and mitigation; and
- sustainability and climate change.

More information can be found on page 89 of the Annual Report.

We measure HSW performance through a combination of leading and lagging indicators. Lost Time Injury Frequency Rate (LTIFR) is one of the core KPIs of the business (see page 22 of the Annual Report). Our metrics relate both to colleagues and contractors and we have been increasing our focus on leading indicators as we try to recognise indicators to proactively reduce the risk of incidents occurring. Key metrics are reported monthly to the Executive Committee and quarterly to the Board SEH Committee. To ensure that metrics are aligned with changing circumstances, there is also a 'deep dive' annual review across HSW metrics at both the Board and Executive Committee level.

### Case study: Suicide awareness and prevention

One in five adults experience suicidal feelings at some point in their lives. Research indicates men are three times more likely to die by suicide than women, and that the suicide rate in construction workers in the UK is over three times the national average for men. We also know that men are less likely to seek help. In the UK suicide is the greatest cause of death for men under 50.

Men make up appproximately 75% of our workforce so it is important that we provide supportive tools for managers and colleagues to create a culture of openness where employees can talk, and to de-stigmatise mental health concerns. These are not comfortable conversations, so the tools include ways of 'starting a conversation' and approaches to assessing risk and actions to take. Our 'pathway to suicide prevention at work' walks a manager or colleague through steps to take if they believe a colleague is struggling, and signposts supporting resources, such as the Employee Assistance Programmes (EAPs).

## **Our people** continued

**Lost time injury frequency rate (LTIFR)**

**0.10**

This meets our ongoing target, and represents an improvement for the UK, US and Group overall. NGV experienced an increase in LTIFR due to three minor site accidents.

**Fatalities**

We regret to report that in November 2020, in the US, a tragic event took the life of one of our contractor colleagues.

Comparative data can be found on page 22 of the Annual Report and definition of LTIFR is in the glossary. The main causes of lost time injuries across the Group continue to be related to musculoskeletal (MSK) or 'soft tissue' injuries. These injuries are generally related to over-extension or poor body positioning, repetitive motion and slips, trips, and falls.

All SHE central teams have qualified occupational health specialists and we operate Employee Assistance Programmes (EAPs) that provide additional health support both occupational and non-occupational. These are regularly reviewed and checked, and employee feedback sought. All EAPs and associated services are well publicised internally across the business.

### Investing in our colleagues

Responsibility towards our people also means training them and (re)skilling them for the evolving needs of our businesses. Based on our 2019 study, 'Net Zero Skills Report', we have identified the need, for example, to enhance skills in data analytics, customer interactions to design and implement new energy technologies, such as renewables and heat pumps. This need for new skills will be partly met through our community initiatives such as Grid for Good (see page 34).

The safety and competence of our operational workforce is fundamental to us being able to deliver a safe and reliable service. Having a skilled workforce also ensures we are compliant with our legal obligations.

We have five US and one UK training centres with fully equipped Gas and Electricity training assets, which provide specialist technical, safety, refresher and new starter development programmes. In the UK, there are usually around 230 to 240 New Talent learners on Apprenticeship, Higher (Foundation Degree) Apprenticeships and Graduate development programmes. Similarly, in the US, we offer gas and electric entry level college certificate programmes and partner with the Centre for Energy and workforce development.

The US business holds quarterly Learning Councils, comprised of leaders from our global Academy and the line of business as well as the represented workforce, to identify and address skills gaps in their workforce. Significant changes to training that could impact career progression are incorporated into collective bargaining agreements.

With the rapid change to working from home we worked quickly to create support for our leaders, many of whom were managing their teams remotely for the first time. We took the opportunity to innovate our learning solutions and we introduced two new ways of learning which have had a positive impact on our leaders. Firstly, we established regular virtual instructor led sessions, with our partner MindGym, on topics such as leading virtually, emotional intelligence and being resilient. Over 4,000 colleagues attended a session and feedback has been excellent, as the sessions have engaged attendees through high energy interactivity. We also fast tracked a pilot of LinkedIn Learning with over 400 colleagues. Feedback has been positive with 82% of pilot users stating that they've used the learning immediately.

### Table 10: Average training days per employee

| Business Area | Total Training Days | Training Days Per Employee |
|---|---|---|
| UK | 26,688 | 4.0 |
| US | 70,354 | 4.2 |
| Total | 97,042 | 4.1 |

The average training days per employee has fallen since 2019/20 (6.0 days per employee) primarily due to the COVID-19 pandemic but also as a result of a shift to digitised learning.

We have a segmented performance management approach to meet the needs of our different employee groups, Management, US Unionised and UK Staff. Throughout the performance year, our employees receive ongoing actionable, continuous performance feedback. At a minimum they receive an annual review of performance, and this is linked to pay for certain groups.

Our management and UK union employees are assessed and rewarded against both 'what' they have achieved against set SMART objectives, which have been determined between manager and direct report, as well as 'how', by demonstrating our values. Our US union colleagues receive appraisals that vary by union and they are evaluated against specific aspects of job performance (e.g. 'meets deadlines' and 'trains others') and how they demonstrate behaviours (for example 'respect for diversity').

### Table 11: Promotion rate by geography

| | Promotion rate* | |
|---|---|---|
| | 2020/21 | 2019/20 |
| UK | 6.1% | 14.1% |
| US | 13.5% | 16.1% |
| Total | 11.5% | 15.5% |

* The promotion rate represents the number of colleagues promoted to a higher grade as a percentage of total headcount.

## Fair Pay

### RBC commitments

Maintain fairness across the organisation for pay and make sure our pay practices do not show bias. We will work until pay equity is achieved for our people.

We believe that everyone should be appropriately rewarded for their time and effort. In the UK, we continue to be accredited by the Living Wage Foundation. We also go above the Living Wage requirements and voluntarily pay our trainees the Living Wage. We undertake a Living Wage review each year to ensure continued alignment and increase individual salaries as required. Our commitment to our direct employees extends to our contractors and the work they do on behalf of National Grid. In addition to fair pay, we aim to provide a range of benefits to our colleagues, including shared parental arrangements in the UK that go beyond statutory minimums. In the US, all colleagues are paid above the statutory minimum in each state.

When making remuneration decisions for our Executive Directors and other senior leaders, our Remuneration Committee takes account of the remuneration arrangements and outcomes for the wider workforce.

Our CEO pay median ratio is 81:1 for UK-based colleagues (2019/20 – 86:1). Our Group-wide median ratio is 54:1 (2019/20 – 53:1). The impact of COVID-19 on the workforce was a topic of thorough discussion at the Remuneration Committee.

## Diversity, Equity and Inclusion (DEI)

### RBC commitments

Be as transparent as possible internally and externally on gender and ethnicity/race.

Achieve 50% diversity in our Senior Leadership group by 2025.

Achieve 50% diversity in all our new talent programmes by 2025. We will work with charities, diverse colleges and universities, and organisations in the community to attract those from under-represented backgrounds.

Provide unconscious bias training to all our people over the next year. We will continue our programme of training to build awareness of cultural differences and understanding of the importance of diversity, and necessity of achieving equity and inclusion.

We aim for our workforce to reflect the diversity of the communities we serve. We are committed to providing an inclusive, equal and fair working environment by driving inclusion and promoting equal opportunities for all, and ensuring our workforce, whether part-time, full-time or temporary, is treated fairly and with respect. We are working to eliminate discrimination and ensure that selection for employment, promotion, training, development, benefit and reward is equitable and accessible to everyone. We want to create a culture of inclusion where everyone can bring their authentic selves to work, are encouraged to speak up, and can freely express any concerns that do not align with our company values.

We have appointed a Chief Diversity Officer, who will partner with senior executives across the business to drive progress.

We have 16 Employee Resource Groups (ERG) (11 in the US; 5 in the UK), which are all highly active and visible across the business. They deliver events and awareness-raising campaigns throughout the year, including celebrations of Black History Month, Women in Engineering, Diwali, International Men's Day, Transgender Day of Remembrance, and Purple Light Up. Our ERGs provide crucial support, opportunities, and development for all employees and our ONE ERG won a UK Ethnicity Award for Best Network Group and we were also placed in the top 10 in the Outstanding Employer category. In the US, we were recognised as one of the Best Places to Work for LGBTQ Equality (Human Rights Campaign), and One of the Best Employers for Diversity 2020 (Forbes), and the PrideUSA ERG was awarded Top LGBTQ+ Employee Network of the Year (2020) by the national Out in STEM organisation.

During the year, to help us to build a strong, evidence-based approach to creating a more inclusive culture, we completed an independent assessment of diversity and inclusion maturity across five key dimensions: recruitment and retention, attraction, development, accountability and

We review gender and ethnicity pay gaps annually in both the UK and US, and these are reported one year in arrears.

### Table 12: UK and US Gender Pay Gap

| | 2019/20 | | 2018/19 | |
|---|---|---|---|---|
| **Measure** | **UK** | **US** | **UK** | **US** |
| Mean Gender Pay Gap | 1.5% | 13.5% | 3.7% | -22.8% |
| Mean Gender Incentive Gap | -25.4% | -23.5% | -7.2% | -20.1% |

### Table 13: UK and US Ethnicity Pay Gap

| | 2019/20 | | 2018/19 | |
|---|---|---|---|---|
| **Measure** | **UK** | **US** | **UK** | **US** |
| Mean Ethnicity Pay Gap | 2.9% | 8.0% | 3.0% | 5.6% |
| Mean Ethnicity Incentive Gap | 46.5% | 9.9% | 55.6% | 9.1% |

## **Our people** continued

resources. The assessment included an examination of our policies and processes, auditing of existing National Grid employee engagement data and 13 focus groups to deep dive into employee experiences at National Grid. The five key focus areas identified for improvement were:

- upskilling middle management;
- improving support for, and integration of, Employee Resource Groups into core business strategies;
- building a more robust and sustainable DEI training programme;
- developing a cohesive DEI strategy and communicating it effectively; and
- prioritising diversity recruitment and retention.

We are focused on addressing these issues and our Executive Inclusion Council and the Inclusion Council Advisory Board have increased the frequency of their meetings and our main priority will be to finalise a DEI Strategy and identify key targets, goals, and metrics.

We have been focusing on raising awareness of DEI issues and training our colleagues. In the US, 84 out of 95 US Executives completed eight hours of training and 30 leaders completed an additional eight hours of training in race, racism, and racial equity topics. We are building on this training through structured dialogue sessions and two-hour training sessions to discuss the impacts of these issues in the workplace. This programme is targeted at all leaders of others and more than 1,400 people have completed dialogue sessions.

The UK has offered similar opportunities; partnering with organisations such as Enact to provide impactful, immersive development opportunities.

In addition, ten participants from the US ERGs received Transformational Diversity, Equity, and Inclusion Certification through The Boston Chamber of Commerce and ten more stakeholders from across the business will participate before the end of the financial year. We have converted our Diverse Leaders training course to a virtual platform and a second cohort of leaders has begun their six-month journey that will continue through to March. The ERG Mentoring Programme has hundreds of people participating as mentors and mentees.

### Case Study: UK DEI initiatives

The Executive Director of the UK business hosted several inclusion sessions with small, diverse groups of people from across the business. These sessions allow colleagues to tell us about their personal experiences at work so that we can listen, understand and act and we have also established specific communication platforms (e.g. on Yammer) to support dialogue on diversity topics. We have completed a successful pilot of anonymising CVs, resulting in increased offers to a more diverse pool of candidates and this will now be implemented for all UK core recruitment in 2021.

### Women's empowerment

In addition to the other information in this section, we have a number of programmes focused directly on women's empowerment.

We run development programmes for women in our organisation (SpringBoard and SpringForward) and, in the UK, our Chief Engineer sponsored a 'Women in Engineering' project specifically to increase the number of women hired, targeting women leaving education or returning from career breaks. We run insight days for potential applicants where attendees consist of 100% women or 50% women and 50% ethnic minorities and to continually improve our processes to attract women into the organisation, we access best practice from Inclusive Employers, Business in the Community and Women in Engineering in the UK.

With senior executive sponsorship, we have developed a mentoring and development programme for women to assist in addressing the barriers women face at work. This is backed by a suite of family policies for caring for dependants leave, maternity leave and flexible working policies.

## **Our people** continued

Across the Company, 39% of colleagues were recorded as completing unconscious bias training (9% in 2019/20). In our RBC, we committed to provide unconscious bias training to all colleagues during 2020/21. While training was made available to all colleagues online, there have been a number of internal and external factors which have impacted our ability to achieve greater completion. There are also colleagues who work remotely who utilise face-to-face briefings and other communication channels to deliver the messages, which are not factored into this reporting. The 39% is significantly up on last year and reflects a very high degree of participation in the UK, and for those that have reliable access to online learning. We are focused on improving completion rates further.

We saw our 'Safe to Say Yes' index score, as measured in our Grid:voice survey, improve from 64% in 2019/20 to 67% this year. This addresses the survey question, "Where I work, it is safe to say what I think".

We are committed to transparency and reporting annually on our progress on diversity on our Board, at senior manager level, among new joiners and our workforce as a whole. In the UK, we report our diversity metrics (gender, ethnicity and age profile) on a quarterly basis, comparing the data with the communities we serve. Data is shared with Executive Directors, always respecting the privacy of individual colleagues, to enable action planning. In the US and UK, we send out regular updates on our gender and ethnicity diversity metrics, and the practical steps taken on DEI action plans. UK and US Executive teams have joined interactive sessions exploring how senior leaders can be the foundation of a diverse and inclusive culture. Additionally, regular inclusion and listening sessions across the organisation allow colleagues to share their experiences on what it feels like to work here and the actions that we can take to improve.

We remain focused on bringing the best diverse talent into our organisation and supporting them to reach their full potential. We also adopt this approach to our future talent, with our Apprenticeship and Graduate programmes actively encouraging applications from diverse candidates (see table 14 below).

A total of 19.5% of our workforce (2019/20 – 18.3%) has self-declared as identifying as racially or ethnically diverse. However, we are aware that 4.5% of total headcount 'declined to state' a response. Whilst this has improved from 7.2% last year we will work to reduce this further.

We have close partnerships with external best practice organisations and are active members of sector- and industry-wide groups which ensure we are sharing best practice and campaigning at a sector-wide level for greater inclusion for all. This includes, in the UK, the Energy Leaders Coalition, and Business in the Community (Employment and Skills Leadership Team and Future Skills and Good Works Taskforce). We are also signatories of the Social Mobility Pledge in the UK. In the US, partners include The Partnership, The Boston Chamber of Commerce, CenterState CEO, Gartner, and Affirmity.

Our policy is that people who identify as having a disability should be given fair consideration for all vacancies against the requirements for the role. Where possible, we make reasonable accommodations and provide additional resources for employees who identify as having a disability. We are committed to equal opportunity in recruitment, promotion and career development for all colleagues, including those with disabilities.

The following tables show the breakdown in numbers of colleagues by gender and ethnicity at different levels of the organisation. We have included information relating to subsidiary directors, in accordance with the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

We define 'senior management' as those managers who are at the same level, or one level below, the Executive Committee. Our definition also includes those who are directors of subsidiaries, or who have responsibility for planning, directing or controlling the activities of the Group, or a strategically significant part of the Group, and are employees of the Group.

### Table 14: Attracting diverse talent

| | 2020/21 | | 2019/20 | |
|---|---|---|---|---|
| | UK | US | UK | US |
| Graduates applicants – % female | 24% | 30% | 25% | 31% |
| Graduate applicants – % ethnically and racially diverse | 59% | 49% | 57% | 51% |
| Internship applicants – % female | 22% | 36% | 28% | 36% |
| Interns attracted – % ethnically and racially diverse | 58% | 45% | 45% | 52% |

## **Our people** continued

### Table 15: Diversity as at 31 March 2021

| | 2020/2021 | | | 2019/20 | | |
|---|---|---|---|---|---|---|
| | The Board[14] | Senior Leadership Group[15] | Workforce | Our Board | Senior Leadership Group | Workforce |
| Diverse[13] | 46.2% | 44.6% | 37.9% | 41.7% | 42.1% | 37.4% |

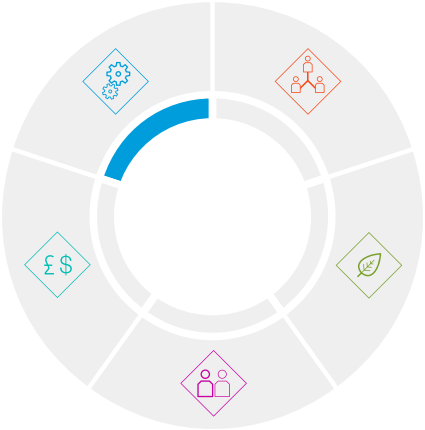
13. A diverse employee is defined as a colleague who identifies as female, as a person with a disability, as gay, bi-sexual or lesbian or from an under-represented ethnic/racially diverse background.
14. 'Board' refers to members as defined on the Company website.
15. This includes the Executive Committee members and the most senior colleagues in the Company. Please note, this differs from the definition in the Annual Report which refers to 'senior management' and includes both senior colleagues and subsidiary directors.

### Table 16: Gender and ethnic diversity in hires, promotions and leavers

| | 2020/21 | | 2019/20 | |
|---|---|---|---|---|
| | % Female | % Ethnic minority | % Female | % Ethnic minority |
| External hires | 27.1% | 29.3% | 33.0% | 28.0% |
| Promotions | 21.3% | 17.9% | 22.3% | 16.2% |
| Leavers | 29.4% | 21.8% | 31.5% | 23.4% |

# Our governance

**We will make sure our governance mechanisms reflect our commitments, and that the principles of responsibility guide us in everything we do.**



## Our Responsible Business Charter commitments

Continue to review and adapt our governance policies to reflect and support our responsible business commitments and ambitions.

Continually review the Company culture to ensure it is inclusive.

Listen to our people and ensure their voices are heard at Group Executive and Board level.

Ensure the voices of all our stakeholders are heard and understood by the National Grid Board.

Achieve 50% diversity in our Group Executive Committee.

## Our further ambitions

Aim for our responsible business actions and impact to differentiate us from our peer group, and to make us a clear choice for ESG[16]-minded investors.

Meet and ultimately exceed the Hampton-Alexander and Parker diversity review standards and achieve 50% diversity in our Board.

Build a company where everybody can achieve their potential.

16. ESG - Environment, Social and Governance

## Introduction

In the last few years the role of company Boards has been under the microscope. In the UK, the Corporate Governance Code was revised in 2018 and greater emphasis was placed on promoting the long-term success of the Company for the benefit of its members as a whole, and in doing so having regard to the likely consequences of any decision on the interests of the Company's employees, the need to foster the Company's business relationships with suppliers, customers and others, and the impact of the Company's operations on the community and the environment. It also stressed the desirability of the Company maintaining a reputation for high standards of business conduct.

From transparency and culture, to making sure we have a diverse leadership team, we are committed to the highest standards of corporate governance and making sure we apply best practices.

The National Grid plc Board is collectively responsible for the effective oversight of the Company and its businesses. It determines the Company's strategic direction and objectives, business plan, viability and governance structure to help achieve long-term success and deliver sustainable shareholder value.

In order to be effective, we believe our Board needs to hear the voices of our stakeholders and to have the diversity of ethnicity, gender and experience to make the decisions which will enable us to fulfil our purpose and deliver our strategy.

In this section, we look at how the Board listens to the voices of stakeholders, and its diversity, and our approach to managing business ethics, including anti-bribery and anti-corruption and our compliance performance.

## Our management approach

Our approach to stakeholder engagement is set out in detail on pages 9 and 10 of this document and our section 172 Companies Act 2006 disclosure is set out on pages 46 to 51 of our Annual Report.

Our approach to corporate governance is set out in detail in the Annual Report on pages 68 to 92 and this includes the role of the Board and its Committees in enterprise risk management, strategy and business plan development, and oversight of environmental, health, safety and well-being performance of the Company.

## Our performance

### RBC commitments

Continue to review and adapt our governance policies to reflect and support our responsible business commitments and ambitions.

Continually review the Company culture to ensure it is inclusive.

Listen to our people and ensure their voices are heard at Group Executive and Board level.

Ensure the voices of all our stakeholders are heard and understood by the National Grid Board.

Achieve 50% diversity in our Group Executive Committee.

### Diversity of the Board

Leadership diversity, in the Board, the Group Executive Committee and our Senior Leadership group, is important in tackling today's challenges and setting the right direction for the Company, and is a priority for us. The Board and its committees will continue to evolve to ensure the right balance of skills, experience, independence and incentives to reach our responsible business goals.

Board and senior management diversity is covered in table 15 on page 50.

### Ethical Conduct

Our values underpin everything that we do (see page 14). To help our colleagues to always "Do the Right Thing" we have developed policies, processes and governance that set and monitor our approach to ensuring we behave ethically and in compliance with laws and regulations. This includes preventing fraud, bribery and corruption and other financial crimes, and how we address the human rights of our stakeholders in their interactions with our operations and activities.

| Do the Right Thing |
| --- |
| Act safely, inclusively and with integrity |
| Support and care for each other |
| Speak up, challenge and act. |

A key element of our approach is our Code of Ethics, a copy of which can be downloaded **here**.

## **Our governance** continued

The Code applies to all employees and Board members, and is updated every three years with the latest version released in November 2020. The Code covers:

- acting responsibly: safety, environmental protection, insider threats, physical security, community volunteering, investment and sponsorship, and human rights;
- people and behaviours: drugs and alcohol, discrimination, harassment and bullying, workplace violence;
- conflicts of interest: conflicts of interest, relationships with third parties, price-sensitive information, insider trading and material non-public information;
- anti-corruption and transparency: fraud, bribery and corruption, gifts and hospitality, business travel and expenses, use of company resources, political interactions and lobbying, competition; and
- information and communication: data privacy, electronic communications, information security, managing records, social media.

During the year, 98% of colleagues with access to online learning resources completed training on the Code, which requires them to affirm that they have read and understood the Code. For other colleagues, information on the Code is communicated through face-to-face briefings and other channels. During 2021 we will release new training to support the updated Code.

Our Code provides guidance to colleagues on how to assess if an action is 'right' and how to raise concerns properly and safely, where these arise. The document is issued to all colleagues and is supported by a global communication and training programme to promote a strong ethical culture. Our UK and US Ethics and Compliance Committees (ECC – committees of the Group Executive made up of regional directors and chaired by the Group General Counsel and Company Secretary) oversee the Code of Ethics and associated awareness programmes. As part of our global training strategy, we introduced an e-learning course for all colleagues so they can adequately understand the Company's zero-tolerance approach to fraud, bribery and corruption of any kind.

The Code is supported by an Ethics BMS Standard which requires that our senior leaders must make sure appropriate training is completed, they have discussed information relating to the Code in their teams, and that they appoint an Ethics Champion (UK) or Ethics Liaison (US) for their area.

To enhance regulatory compliance, in conjunction with the recent operating model changes, we have created a US Compliance function led by a US Chief Compliance Officer, independent from the business, and reporting to the US President. The US Compliance function is responsible for establishing regulatory compliance assurance processes. These efforts are part of our work to enhance second line of assurance and will focus on the more than 6,000 regulatory obligations across the US.

To ensure compliance with the UK Bribery Act 2010 and other relevant legislation, we operate a risk assessment process across the Company on an annual basis to identify higher-risk areas (such as system access controls, supplier fraud and potential conflicts of interest) and make sure adequate policies – such as our Anti-Financial Crimes policy which applies to all colleagues and those working on our behalf – and procedures are in place to address them.

We have a confidential internal helpline, and an external 'Speak-Up' helpline that is available at all times in all the regions where we operate. We publicise the contact information to our colleagues and on our external website so concerns can be reported anonymously. Our policies make it clear that we will support and protect whistle-blowers and any form of retaliation will not be tolerated.

During 2020/21, we received 227 reports of breaches of our Code of Ethics. These reports are received through various reporting channels, including our internal and external helplines. For the reports that were closed during the year, 36% were substantiated following investigation and resulted in various disciplinary actions, including 17 dismissals. We categorise reports against our Code of Ethics and the main themes from reported cases related to People and Behaviour, and Information and Communication categories. None of our investigations over the last 12 months have identified cases of bribery.

Ethical behaviour topics are discussed twice a year at the Executive Committee, and the Audit Committee of the Board. Details of material cases are provided along with coverage of broad themes, 'Speak-Up' trends and benchmark comparisons and, increasingly, we are including additional metrics on the number and types of cases arising. Particularly serious issues that arise are reported as they occur. More granular metrics and reports are provided to our Regional ECCs. Members of the Executive Committee, and all colleagues, receive training under a three-year rolling plan, with several specific modules being covered each year (e.g. bribery, modern slavery, and issues of particular importance regionally etc.).

Any cases alleging bribery are referred immediately to the relevant ECC so the members can satisfy themselves that cases are investigated promptly and, where appropriate, acted upon, including ensuring any lessons learnt are communicated across the business. We investigate all allegations of ethical misconduct thoroughly and, where appropriate, we take corrective action and share learnings.

Each of our business areas is required to consider its specific risks and maintain a compliance framework, setting out the controls it has in place to detect and prevent bribery. As part of our compliance procedure, the business self-assesses the effectiveness of its controls and provides evidence that supports its compliance. Each year, all function heads are asked to certify the compliance in their area, and to provide details of any exceptions. This culminates in presentation of a Certificate of Assurance from the Chief Executive to the Board (following consideration by the Audit Committee). You can read more about the Audit Committee's role on pages 83 to 87 in the Annual Report.

### Human Rights

Respect for human rights is incorporated into our employment practices and our values, which are integral to our Code of Ethics. This is vital in maintaining our reputation as an ethical company that our stakeholders want to do business with, and that our employees want to work for.

Although we do not have a separate human rights or slavery and human trafficking policy, we cover these issues through related policies and procedures relating to diversity, anti-discrimination, privacy and equal opportunity etc. and our Global Supplier Code of Conduct (GSCoC) integrates human rights into the way we interact with our supply chain (page 39).

We have a BMS Standard on privacy, as well as an external facing privacy policy. This year, in the UK, we have had one incident regarding data privacy which was reportable to the Information Commissioner's Office, and it did not require follow-up.

### Political Donations and Lobbying

We're committed to maintaining a high standard of corporate political engagement worldwide. We do this by assessing and making our policies, procedures and practice visible, with reference to Transparency International Guidance. We have Global Corporate Policies on Political Contributions, on Responsible Lobbying, and on Employment of Former Public Officials and Secondment of Employees into Public Bodies. As well as clear guiding principles, we have developed an integrated management approach and Board accountability and oversight.

At this year's AGM, the Directors will again seek authority from shareholders, on a precautionary basis, for the Company and its subsidiaries to make donations to registered political parties and other political organisations and/or incur political expenditure as such terms are defined in the Companies Act 2006. In each case, donations will be in amounts not exceeding £125,000 in aggregate. More details on the rationale for this are set out on page 246 of the Annual Report.

National Grid made no political donations during the year, as such terms are defined for the purposes of the Companies Act 2006 and the Political Parties, Elections and Referendums Act 2000. National Grid USA and its two affiliated political actions committees (PAC) for New York and Federal elections made political donations in the US totalling $35,000 (£25,365) during the year.

National Grid USA's affiliated New York PAC (NYPAC) was funded partly by contributions from National Grid USA and certain of its subsidiaries and partly by voluntary employee contributions. National Grid USA's affiliated Federal PAC was funded wholly by voluntary employee contributions. The NYPAC did not receive any corporate contribution during the past fiscal year.

### Compliance

All business areas are required to fully report any compliance incidents. In 2020/21, we paid a total of approximately £20 million in significant[17] fines and penalties pursuant to regulatory requirements. These include, in the US, £15.7 million relating to a settlement approved by the New York Public Service Commission in March 2021. The settlement resolved certain historic non-compliances relating to operator qualifications and cathodic protection requirements in the gas business. The non-compliances have been remediated and enhanced processes established. In the UK, we were prosecuted by the Health & Safety Executive for poor record keeping in respect of gas connections to high rise buildings prior to the sale of the Cadent business. We pleaded guilty at the first opportunity in November 2020 to a single charge under section 3 Health & Safety at Work Act 1974 and received a fine of £4 million.

Environment-related incidents are reported internally on the basis of common definitions of severity, with Category 1 incidents having the highest potential for harm. These are reported immediately to the highest level of management and are seen by the Board. During the year, nine Category 1 incidents were reported, none of which have resulted in fines.

17. Significant fines and penalties are those above £4 million for each case.

# Reporting principles

Leo Harry Jamieson | UK | Age group 12-16

The Directors are responsible for reporting the sustainability data as at 31 March 2021 in accordance with the reporting criteria as set out in the **Reporting Methodology** document. In doing so they have:

- designed, implemented and maintained internal controls and processes over information relevant to the measurement and preparation of the sustainability data that is free from material misstatement, whether due to fraud or error;
- established objective reporting criteria for measuring and preparing the sustainability data to meet the needs of National Grid's stakeholders and applied them consistently;
- presented information, including the criteria, in a manner that provides relevant, reliable, comparable and understandable information; and
- measured and reported the sustainability data based on the reporting criteria.

We have also published documents which enable readers to understand how our RBR fulfils the requirements of the GRI Standard: Core option (subject to GRI approval) and our progress in reporting against the relevant SASB reporting standards. These can be accessed **here**.

**Reporting principles** continued

## Introduction

This report has been prepared in accordance with the GRI Standards: Core option (subject to GRI approval). We believe that all the requirements to claim alignment have been met and we will inform the GRI of our use of this wording. Whilst we have used the GRI Standards as our primary resource, we have also developed disclosures in line with the SASB Sustainability Accounting Standards for Electric Utilities and Power Generators (October 2018), and Gas Utilities and Distributors (October 2018).

We have published separate documents which map this report to the requirements of the **GRI Standards** and the **SASB Standards**, and a further document, '**Reporting Methodology**', which sets out definitions, scope and other information relating to key metrics. This document includes details of our application of relevant protocols in relation GHG emission reporting.

This report is aimed at informing, as a minimum, the following stakeholder groups:

- the communities and businesses that we serve and our employees and contractors that enable us to serve them;
- the business partners that enable us to develop and maintain our networks;
- the investors and lenders who provide capital and seek a return;
- the governments of countries and states which host our operations;
- the regulators who monitor our performance; and
- the media and other opinion formers.

The following paragraphs indicate how we have applied the GRI Standards Principles relating to report content and quality.

## Principles for Defining Report Content

### Stakeholder Inclusiveness

The RBR sections on stakeholders and materiality (see pages 9 to 11), together with our section 172 statement on pages 46 to 51 of the Annual Report detail how we have identified and categorised our stakeholders, how we engage with them, how we create value for them, and provides links to the pages covering the key issues that are important to them. In particular, we cover in detail how engagement with stakeholders directly informs the strategy and business plans relating to our regulated businesses (which make up over 90% of our total revenue).

### Sustainability Context

We discuss our understanding of sustainable development as it applies to our business in each of the 'Material Issue' sections of the RBR, but also in our Annual Report (see pages 15 to 17).

### Materiality

The report section on materiality (see page 11) details how we identified the 'universe' of potential, relevant issues and how we prioritised these through the experience and knowledge of our management team, and detailed input from a broad range of external stakeholders and experts.

### Completeness

The report covers all operations over which we have financial control for the 2020/21 financial year, except where noted below in relation to newly-acquired businesses. The report covers all of the issues identified in our materiality diagram (page 11) and places the most emphasis on the most material issues.

Our document, '**Reporting Methodology**', sets out the scope and boundaries of the key metrics. This is also provided in the **GRI Content Index** which also covers other indicators or statements made in the RBR.

For newly acquired businesses and new operations, our policy is to aim to include these within our Responsible Business Report following two complete financial years from the point of acquisition, at the latest.

## Principles for Defining Report Quality

### Balance

We aim for our report to provide a balanced picture of our performance and we have covered challenges, such as the factors impacting our ability to meet our Net Zero GHG reduction commitment (page 24), as well as positive recognition of our progress, such as the various awards listed in the report.

### Comparability

We have used recognised accounting methodologies for our greenhouse gas, health and safety and other reporting to enhance comparability, and provided details on the scope and methodology of developing KPIs for the majority of disclosures in our separate '**Reporting Methodology**' document. As this is our first standalone Responsible Business Report, although we have provided some comparative data, we will gradually build a time series of results to enable effective comparability of performance between years and this will continue to improve as our reporting progresses. There have been no restatements of historic data published in our 2019/20 Annual Report except where stated. Any changes in the boundaries of our reporting between years will be disclosed alongside the relevant data point on a case-by-case basis.

**Reporting principles** continued

For some disclosures, data from our US business is reported on a calendar year basis i.e. 2020. All UK data is reported on a financial year basis unless otherwise indicated. See our '**Reporting Methodology**' document for more information.

### Accuracy

We provide information on whether KPIs are based on measurement or estimates, where applicable, in either the body of the report or in the **GRI Content Index**. To support the accuracy of the data we have reviewed the controls and data reporting relating to certain KPIs, and have commissioned external assurance providers to focus on some of the more important KPIs. KPIs in the RBR which are not included in the data tables (pages 58 - 64) have undergone a lighter touch verification process for this first year of reporting.

### Timeliness

Our RBR has been published alongside our Annual Report, approximately two months after the financial year end. At present, it is our intention to maintain this approach in future years.

### Clarity

We have aimed to make our report sufficiently detailed to meet the requirements of the GRI Standards and our stakeholders, but still accessible for a range of readers. We have structured the sections based on our **Responsible Business Charter** to aid navigation and have provided a glossary to help explain acronyms and technical points.

### Reliability

As noted above under 'accuracy', in this first year of RB reporting, we have deployed both external and internal assurance processes to help ensure the accuracy and reliability of the data. For transparency, our approach to the core KPIs is set out in our **Reporting Methodology** document.

## Assurance

We engaged PricewaterhouseCoopers LLP (PwC) to undertake a limited assurance engagement using the International Standard on Assurance Engagements (ISAE) 3000 (Revised): 'Assurance Engagements Other Than Audits or Reviews of Historical Financial Information' and ISAE 3410: 'Assurance Engagements on Greenhouse Gas Statements'.

PwC have provided an unqualified opinion in relation to the KPIs that are identified with the symbol and feature on pages 58 to 64.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in terms of the risk assessment procedures which include an understanding of internal control, as well as the procedures performed in response to the assessed risks. Non-financial performance and, in particular, greenhouse gas quantification is subject to more inherent limitations than financial information. It is important to read the **responsible business** information in this report in the context of PwC's full limited assurance opinion and National Grid's **Reporting Methodology**, which are available at **link.**

# Data tables

## The environment

| Metric | Target | 2020/21 | 2019/20 | Baseline | Performance baseline |
|---|---|---|---|---|---|
| **Greenhouse gas emissions (kilotonnes $CO_2e$)** | | | | | |
| Scope 1 and 2 greenhouse gas (GHG) emissions (Scope 2 location based) | Achieve Net Zero by 2050. We will reduce Scope 1 and 2 Greenhouse gas (GHG) emissions 80% by 2030, 90% by 2040, and to Net Zero by 2050 from a 1990 baseline. | 6,943 | 6,484 | 21,631 | -68% |
| Scope 1 GHG emissions | | 4,727 | 3,903 | | |
| Scope 2 GHG emissions – market based | | 2,264 | 2,624 | | |
| Scope 2 GHG emissions – location based | | 2,216 | 2,581 | | |
| Scope 3 GHG emissions – total scope 3 emissions | Reduce Scope 3 GHG emissions across our entire value chain 37.5% by FY2034, from a FY2019 baseline (revised to reflect Scope 3 SBT). | 28,948 | 30,849 | 33,291 | -13% |
| Scope 3 GHG emissions – US Cat 3 (Fuel & Energy Related Activities) | | 4,126 | 4,522 | | |
| Scope 3 GHG emissions – US Cat 11 (Use of Sold Products) | | 18,235 | 19,763 | | |
| Scope 3 GHG emissions – UK & US Cat 1 (Purchased Goods and Services) | | 6,570 | 6,482 | | |
| Scope 3 GHG emissions – UK & US Cat 7 (Employee Commuting) | | 5 | 58 | | |
| Scope 3 GHG emissions – UK & US Cat 6 (Business Travel) | | 6 | 20 | | |
| Scope 3 GHG emissions – UK & US Cat 5 (Waste Generated in Operations) | | 6 | 4 | | |
| $SF_6$ emissions | Reduce $SF_6$ emissions from our operations 50% by 2030, from a 2019 baseline. | 321 | 326 | 335 | -4% |
| GHG emissions and total miles from air travel | Achieve zero carbon emissions from business air travel. From this year (2020) onwards, we will reduce our annual air miles travelled by at least 50% from a 2019 baseline on an enduring basis. | | | | |
| GHG emissions from air travel ($ktCO_2e$) | | 0.32 | 10 | 10 | -97% |
| Total miles from air travel | | 657,998 | 23,922,831 | 23,922,831 | -97% |

### Key

Included within the scope of PwC's assurance - see page 57 for further details

Data previously assured by PwC - see **www.nationalgrid.com/careers/understanding-our-uk-gender-pay-gap-2020** for further details

All 2020/21 data in these data tables that has not been assured by PricewaterhouseCoopers has been subject to a reporting process and controls review by National Grid's Finance second line risk and controls team.

## **Data tables** continued

| Metric | Target | 2020/21 | 2019/20 | Baseline | Performance baseline |
|---|---|---|---|---|---|
| **Air quality (Tonnes)** | | | | | |
| Air quality – Emissions from stationary sources (NOx) | We will reduce NOx and SOx emissions by improving the efficiency of our plant and equipment. | 2,214 | 1,850 | | |
| Air quality – Emissions from stationary sources (SOx) | | 129 | 322 | | |
| Air quality – Emissions from stationary sources (PM) | | 231 | 231 | | |
| **Fleet (%)** | | | | | |
| Electric Vehicle Fleet (Light-duty) | Move to a 100% electrical fleet by 2030 for our light-duty vehicles. | 2% | 1% | | |
| **Waste (Tonnes/%)** | | | | | |
| Total office waste (tonnes) | | 1,884 | 2,349 | | |
| % office waste diverted from landfill | We are committed to sending zero waste to landfill, where possible, in our main offices. | 100% | 87.5% | | |
| US | | 100% | 75% | | |
| UK | | 100% | 100% | | |
| **Our energy consumption (GWh/M kBTU/%)** | | | | | |
| Total energy consumption (GWh) | | 2,602 | 3,115 | | |
| Office energy consumption | Reduce energy in our offices 20% by 2030, Commitment from a 2020 baseline. | 222 | 227 | 227 | -2% |
| UK | | 26 | 27 | | |
| US | | 196 | 200 | | |
| % Renewable energy purchased | | | | | |
| UK | | 0% | 0% | | |
| US | | 4.6% | 5% | | |
| **Enabling clean energy (MW)** | | | | | |
| Renewable energy connected to US Distribution grid | We will connect renewables as quickly and efficiently as possible. | 464 | 344 | | |
| Renewable energy connected to US Transmission grid | | 126 | 2,515 | | |
| Renewable energy connected to UK Transmission grid | | 360 | 1,480 | | |
| Interconnector capacity (GW) | We will continue to build interconnectors to bring low carbon energy to the UK | 5 | 4 | | |
| Renewables enabled by direct investment via National Grid Renewables (MW) | We will grow our renewables business in the US. | 634 | 434 | | |
| **Natural Environment** | | | | | |
| Number of hectares of land we have remediated | | 24.8 | 24.8 | | |

## **Data tables** continued

### Our people

| Metric | Target | 2020/21 | 2019/20 |
|---|---|---|---|
| **Inclusiveness & Diversity (%)** | | | |
| Diversity % of Senior leadership Group[18] | Achieve 50% diversity in our Senior Leadership group by 2025. | 44.6% | 42.1% |
| Diversity % of hires in new talent programmes[18] | Maintain 50% diversity in all our new talent programmes.[19] | 54.6% | 50.9% |
| Diversity % of the workforce | Be as transparent as possible internally and externally on gender and ethnicity/race. | 37.9% | 37.4% |
| Gender and ethnicity % of joiners | Be as transparent as possible internally and externally on gender and ethnicity/race. This will include reporting on recruitment, promotion, progression and leaver rates by diverse groups. We will use this to spot trends and react accordingly. | 27.1% | 33.0% |
| Recruitment rates by gender | | | |
| Recruitment rates by ethnicity | | 29.3% | 28.0% |
| Gender and ethnicity % of promotions | | | |
| Promotion rates by gender | | 21.3% | 22.3% |
| Promotion rates by ethnicity | | 17.9% | 16.2% |
| Gender and ethnicity % of leavers | | | |
| Leaver rates by gender | | 29.4% | 31.5% |
| Leaver rates by ethnicity | | 21.8% | 23.4% |
| % of colleagues completed unconscious bias training | Provide unconscious bias training to all our people over the next year. | 39% | 9% |
| **Employee engagement (%)** | | | |
| Employee Engagement Score (from Grid:Voice) | Getting input directly from our people is an important part of tracking progress. The Board hears their views through the employee engagement survey, employee participation in Board events and through internal communication channels. | 81% | 77% |
| **Confidence to speak out (%)** | | | |
| Safe to say 'yes' index in Grid:Voice % (Grid:Voice is the title of our annual employee survey) | Eradicate discrimination of any kind, and create a culture where our people feel confident to speak out safely. | 67% | 64% |
| **Fairness in pay (%)** | | | |
| Living wage paid (UK only) | Maintain fairness across the organisation for pay and make sure our pay practices do not show bias. We will work until pay equality is achieved for our people. | 100% | 100% |

18. A diverse employee is defined as a colleague who identifies as female, as a person with a disability, as gay, bi-sexual or lesbian or from an underrepresented ethnic/racially diverse background
19. Following early delivery of the target published in the Responsible Business Charter we have updated our commitment to 'maintain' performance.

## **Data tables** continued

| Metric | Target | 2019/20 | 2018/19 |
|---|---|---|---|
| UK gender pay gap[20] | Maintain fairness across the organisation for pay and make sure our pay practices do not show bias. We will work until pay equity is achieved for our people. | | |
| – mean 'base' gender pay gap | | 1.5% | 3.7% |
| – mean 'incentive' gender pay gap | | -25.4% | -7.2% |
| UK ethnicity pay gap[20] | | | |
| – mean 'base' ethnicity pay gap | | 2.9% | 3.0% |
| – mean 'incentive' ethnicity pay gap | | 46.5% | 55.6% |
| US gender pay gap[20] | | | |
| – mean 'base' gender pay gap | | 13.5% | -22.8% |
| – mean 'incentive' gender pay gap | | -23.5% | -20.1% |
| US ethnicity pay gap[20] | | | |
| – mean 'base' ethnicity pay gap | | 8.0% | 5.6% |
| – mean 'incentive' ethnicity pay gap | | 9.9% | 9.1% |

20. Pay gap data reported one year in arrears in accordance with timelines for UK statutory reporting requirements.

## **Data tables** continued

### Our communities

| Metric | Target | 2020/21 | 2019/20 |
|---|---|---|---|
| **Safety (number/hours lost per 100,000 hours worked)** | | | |
| Fatalities | | 1 | 1 |
| Lost time injury frequency rate (LTIFR) | We will deliver sustainable energy safely. | 0.10 | 0.12 |
| US | | 0.12 | 0.16 |
| UK | | 0.04 | 0.06 |
| NGV | | 0.15 | 0.05 |
| **Reliability (%)** | | | |
| Network reliability – % Availability | We will deliver sustainable energy reliably. We're committed to making sure our systems are resilient and can play a leading role in disaster recovery. | | |
| UK ET | | 99.99997% | 99.99997% |
| UK GT | | 100.00000% | 99.99960% |
| US ET | | 99.95429% | 99.95511% |
| US ED | | 99.91977% | 99.94242% |
| Interconnector reliability - % Availability | | | |
| IFA Interconnector | | 95.40326% | 91.44629% |
| IFA2 Interconnector | | 96.54764% | n/a |
| BritNed Interconnector | | 75.11293% | 98.54822% |
| NEMO Interconnector | | 99.22374% | 96.12363% |
| **Affordability (£/$)** | | | |
| Contribution of NG UK's transmission costs to consumer bills | Reporting transparently on energy costs throughout the energy transition – on average costs per household for our UK transmission network and for our US electric and gas business. | £29.52 | £32.83 |
| Average energy bill charged to US households | | | |
| Electric: Average Customer Bill (Low Income Customers Excluded) | | $1,563.14 | $1,378.87 |
| Gas: Average Customer Bill (Low Income Customers Excluded) | | $1,156.45 | $1,126.60 |
| Electric: Average Low income (only) Customer Bill | | $1,026.82 | $878.24 |
| Gas: Average Low Income (only) Customer Bill | | $771.56 | $765.93 |
| **Consumer trust (%)** | | | |
| Consumer Trust Survey (US) | We will continue to engage widely with the communities and customers we serve, responding to their needs, minimising disruption from our operations, and providing a service that satisfies them. | 66.2% | 59.8% |

## **Data tables** continued

| Metric | Target | 2020/21 | 2019/20 |
|---|---|---|---|
| **Volunteering (number)** | | | |
| Number of qualifying volunteering hours[21] | Achieve 500,000 employee volunteering hours by 2030 (from 2020). | 18,050 | 10,342 |
| **Skills development (number)** | | | |
| Number of young people provided access to skills development[21] | Develop skills for the future, with a focus on lower income communities, providing access to skills development for 45,000 people by 2030 (from 2020). | 1,261 | n/a |

21. Refer to reporting methodology document for definition of qualifying volunteering hours.

## The economy

| Metric | Target | 2020/21 | 2019/20 |
|---|---|---|---|
| **Supply Chain (%)** | | | |
| % of supplier payments paid to contractual term (UK) | We are fair to our suppliers and committed to paying them promptly. | 91% | 89% |
| % of supplier payments paid to contractual term (US) | | 90% | 88% |
| % of suppliers with carbon reduction target | 75% of National Grid's top 250 suppliers (by category/spend) will have active carbon reduction targets by 2030. | 49% | 49% |
| **Innovation (£m)** | | | |
| Investment by NG Partners | Continue to invest in developing technologies and innovations that benefit our customers and wider society. | £38m | £61m |
| **Investment (£m/$m)** | | | |
| Investment in energy infrastructure (Group) | Continue to reinvest in energy infrastructure at approximately £5 billion each year. | £5,047m | £5,405m |
| Investment in energy infrastructure (UK) | | £1,248m | £1,292m |
| Investment in energy infrastructure (US) | | $4,322m | $4,154m |
| Investment in energy infrastructure (NGV and other) | | £576m | £885m |
| **Employment (number)** | | | |
| Jobs (worldwide) | | 23,537 | 23,060 |

## **Data tables** continued

### Our governance

| Metric | Target | 2020/21 | 2019/20 |
|---|---|---|---|
| **Company culture (%)** | | | |
| % employees that have undertaken ethics training | | 98% | 95%[22] |
| % employees that have undertaken fraud and bribery training | | 98% | 95%[22] |
| **Leadership diversity (%)** | | | |
| Diversity % of the Board[23] | Meet and ultimately exceed the Hampton-Alexander and Parker diversity review standards and achieve 50% diversity in our Board. | 46.2% | 41.7% |

22. The training programme was not refreshed in 2019/20 and performance was not monitored following achievement of 95% completion. We have reported 95% completion as this is the minimum possible completion rate.
23. The Hampton-Alexander and Parker diversity review set five key recommendations aimed at increasing the number of women in leadership positions of FTSE 350 companies including a target of 33% by the end of 2020. **https://ftsewomenleaders.com/wp-content/uploads/2019/11/HA-Review-Report-2019.pdf**

# Definitions and glossary of terms

**Business Management System (BMS)**
Our Business Management System consists of a suite of standards which define the minimum requirements for the high value and risk activities most important to our business and deliver benefit by mitigating risk, enhancing best practice sharing, standardising processes and simplifying our approach to doing business.

**Carbon Capture Usage and Storage (CCUS)**
The process of capturing carbon dioxide ($CO_2$) for the purpose of recycling it for further usage and/or determining safe and permanent storage options for it.

**The Company, the Group, National Grid, we, our or us**
We use these terms to refer to either National Grid plc itself or to National Grid plc and/or all or certain of its subsidiaries, depending on context.

**The Construction Protocol**
This is a joint agreement involving some of the biggest names in UK construction aimed at eradicating slavery and labour exploitation in the building industry. It commits signatories to: work in partnership to protect vulnerable workers; agree to share information, where possible, to help stop or prevent the exploitation of workers; work together to manage information sensitively and confidentially; commit to raising awareness within the supply chain; and maintain momentum by communicating regularly.

**COP26**
The 26th UN Climate Change Conference of the Parties which the UK will host at the Scottish Event Campus in Glasgow on 1–12 November 2021. The climate talks will bring together heads of state, climate experts and campaigners to agree coordinated action to tackle climate change. The Company is a sponsor of COP26.

**COVID-19**
COVID-19 or coronavirus disease is an infectious disease caused by a newly discovered coronavirus which spreads through droplets of saliva or discharge from the nose when an infected person coughs or sneezes.

**Electricity System Operator (ESO)**
The party responsible for the long-term strategy, planning and real-time operation (balancing supply and demand) of the electricity system in Great Britain.

**Electricity Transmission (ET)**
National Grid's UK electricity transmission business.

**Employee resource group (ERG)**
A group of employees who join together in their workplace based on shared characteristics or life experiences.

**Financial year**
For National Grid this is an accounting year ending on 31 March. Also known as a fiscal year.

**Gas Transmission (GT)**
National Grid's UK gas transmission business.

**Global Reporting Initiative (GRI)**
The Global Reporting Initiative uses an independent multi-stakeholder process to develop the world's most widely used sustainability reporting standards.

**GWh**
Gigawatt hours, an amount of energy equivalent to delivering 1 billion watts (109 watts) of power for a period of one hour.

**Injury frequency rate (IFR)**
The number of lost time injuries (LTIs) per 100,000 hours worked in a 12-month period.

**LIPA**
The Long Island Power Authority.

**Lost time injury (LTI)**
An incident arising out of National Grid's operations that leads to an injury where the employee or contractor normally has time off for the following day or shift following the incident. It relates to one specific (acute) identifiable incident which arises as a result of National Grid's premises, plant or activities, and was reported to the supervisor at the time and was subject to appropriate investigation.

**MWh**
Megawatt hours, an amount of energy equivalent to delivering 1 million watts (106) of power for a period of one hour.

**National Grid Partners (NGP)**
The Company's venture investment and innovation business established in November 2018.

**National Grid Renewables**
Formerly known as Geronimo, this subsidiary is a leading developer of wind and solar generation based in Minneapolis in the US, which National Grid acquired in July 2019.

**National Grid Ventures (NGV)**
The Company's division that operates outside its core UK and US regulated businesses, comprising a broad range of activities in the UK and US, including Geronimo, electricity interconnectors, the Grain LNG terminal and energy metering, as well as being tasked with investment in adjacent businesses, distributed energy opportunities and the development of new and evolving technologies.

**National Transmission System (NTS)**
The gas National Transmission System in Great Britain.

## Definitions and glossary of terms continued

### Net Zero
Net Zero means that a person, legal entity (such as a company), country or other body's own emissions of greenhouse gases are either zero or that its remaining greenhouse gas emissions are balanced by schemes to offset, through the removal of an equivalent amount of greenhouse gases from the atmosphere, such as planting trees or using technology like carbon capture and storage.

### Paris Agreement
The agreement, also known as the Paris Climate Accord, within the United Nations Framework Convention on Climate Change dealing with greenhouse gas emissions mitigation, adaptation and finance starting in the year 2020, and adopted by consensus on 12 December 2015.

### The People Matter Charter
The Charter was developed by the UK-based Supply Chain Sustainability School to help organisations in the supply chain to develop better workforce strategies. The Charter has eight commitments and relates to topics from poor diversity practice, to avoiding exploitation, and skills development.

### Rate plan
The term given to the mechanism by which a US utility regulator sets terms and conditions for utility service, including, in particular, tariffs and rate schedules. The term can mean a multi-year plan that is approved for a specified period, or an order approving tariffs and rate schedules that remain in effect until changed as a result of future regulatory proceedings. Such proceedings can be commenced through a filing by the utility or on the regulator's own initiative.

### RIIO
Revenue = Incentives + Innovation + Outputs, the regulatory framework for energy networks issued by Ofgem.

### RIIO-T1
The regulatory framework for transmission networks that was implemented in the eight-year price controls that started on 1 April 2013.

### RIIO-2
The regulatory framework for energy networks expected to be issued by Ofgem to start on 1 April 2021.

### Sustainability Accounting Standards Board (SASB)
SASB develops sustainability reporting standards which are designed for communication by companies to investors about how sustainability issues drive long-term enterprise value.

### Science-based Targets (SBTs)
Science-based targets provide companies with a clearly-defined path to reduce greenhouse gas emissions in line with the Paris Agreement goals. More than a thousand businesses around the world are already working with the Science Based Targets initiative (SBTi).

### Scope 1 greenhouse gas emissions
Scope 1 emissions are direct greenhouse gas emissions that occur from sources that are owned or controlled by the Company. Examples include emissions from combustion in owned or controlled boilers, furnaces, vehicles, etc.

### Scope 2 greenhouse gas emissions
Scope 2 emissions are greenhouse gas emissions from the generation of purchased electricity consumed by the Company. Purchased electricity is defined as electricity, heat, steam or cooling that is purchased or otherwise brought into the organisational boundary of the Company. Scope 2 emissions physically occur at the facility where electricity is generated.

**Location-based** accounting methodology – reflects the average emissions intensity of grids on which energy consumption occurs (using mostly grid-average emission factor data).

**Market-based** accounting methodology – reflects emissions from electricity that companies have purposefully chosen and may reflect emission factors from contractual instruments.

### Scope 3 greenhouse gas emissions
Scope 3 emissions are indirect greenhouse gas emissions as a consequence of the operations of the Company, but are not owned or controlled by the Company, such as emissions from third-party logistics providers, waste management suppliers, travel suppliers, employee commuting, and combustion of sold gas by customers.

### $SF_6$
Sulphur hexafluoride is an inorganic, colourless, odourless and non-flammable greenhouse gas. $SF_6$ is used in the electricity industry as a gaseous dielectric medium for high-voltage circuit breakers, switchgear and other electrical equipment. The Kyoto protocol estimated that the global warming potential over 100 years of $SF_6$ is 23,900 times more potent than that of $CO_2$.

### STEM
Science, technology, engineering and mathematics.

### Tonnes carbon dioxide equivalent ($CO_2e$)
A measure of greenhouse gas emissions in terms of the equivalent amount of carbon dioxide.

### Total Societal Impact (TSI)
TSI is a methodology that attempts to calculate the total benefit to society from a company's products, services, operations, core capabilities, and activities.

# Bringing Net Zero to life children's art competition

For this year's Responsible Business Report we decided to do something different for the front cover. We ran a competition for children to draw or paint a picture or design, in colour, to bring to life what they thought 'Net Zero' means for an energy company like National Grid

Vouchers were awarded to an overall winner as well to winners for each of the age groups; 6 and under, 7 to 11, and 12 to 16.

**Kailyn Brenn**
**US**
Overall Winner

**Zuri De Hazra-Sarkar**
**UK**
Winner
Age group 6 and under

**Rona Khanji**
**US**
Winner
Age group 7 to 11

**Leo Harry Jamieson**
**UK**
Joint winner
Age group 12 to 16

**Eleni Noel LaFord**
**US**
Joint winner
Age group 12 to 16

**Zakariya Patel**
**UK**
Runner up
Age group 6 and up

**Noah Ortega Reyes**
**US**
Runner up
Age group 12 to 16

We were delighted with the quality and variety of entries received from children both in our UK and US operating regions. Scan the QR code to see some of the runner-up entries.

**Special prize**
Cornelia Perry was awarded a special prize for her amazing model and video of the Net Zero office of the future.

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