

Ref: TJP/CMG

13th May 2009

Chris Hodge
Corporate Governance Unit
Financial Reporting Council
Fifth Floor
Aldwych House
71-91 Aldwych
London
WC2B 4HN

Sir John Parker FEng
Chairman

D: +44 (0) 20 7004 3010
F: +44 (0) 20 7004 3012
M: +44 (0) 7831 496201
john.parker@ngrid.com

Dear Chris,

COMBINED CODE REVIEW

I am pleased to be given the opportunity to respond to the Review of Effectiveness of the Combined Code.

You will no doubt receive many inputs and responses to your specific questions. Our Company Secretary & General Counsel will be providing a full response from National Grid plc to the consultation. However I am going to confine this response to the key issues I believe should be addressed in the interests of continuous improvement.

1. I believe that the Combined Code and the 'Comply or Explain' approach provides a healthy framework for good Governance in UK Boardrooms. In my view there is no compelling reason for a 'revolution' in our Governance approach in the UK, as I believe that the Code itself has not "failed" but rather that it has not been applied by all listed companies in an effective way.
2. It is therefore, to be hoped, that the Walker Review will not lead to a 'knee jerk' major revision, driven by the banking crisis, that adversely impacts all other listed companies – particularly as it is these companies who will need to be at the forefront in restoring growth to the economy. However whilst the fundamental structure of remuneration rewards in Banking need to be examined, there may well be other potential lessons that emerge, which well managed Boards would have little problem adopting via an appropriate updating of the Code.
3. In order to encourage Boards to apply good Governance more effectively, I would suggest that we include in the Code an obligation to provide in the Annual Report a new 'Assurance Statement' on the effectiveness and fitness of the Board to fulfil its role. Such assurance will easily be provided where a high quality Board is

assembled, containing good leadership. Quality Non-executive Directors will neither individually nor collectively put up with a system of weak Governance or weak (or conversely dominant) leadership from the Chair. Equally, quality Chairmen will see to it that good Governance is embedded within the company and ensure that the right blend of skills and experience are present on the Board. We should therefore seek to have the Chairman of the Board and/or Nominations Committee Chair confirm to shareholders via the Assurance Statement in the Annual Report 'that the board has the breadth of skills and experience to address and challenge adequately the key decisions and risks that confront it'.

The Assurance Statement should be structured around the response to a series of questions:


E.g.:

- Are the appropriate range of skills, experience and competences present to deal with the range of issues that the Board confronts?
- Is there sufficient professional knowledge and relevant experience within the Non-executive Directors to permit them to authoritatively drill down into the heartland of the business?
- Do the Non-executive Directors attend sufficient meetings and spend sufficient time overall on company issues to fully understand the business and the risks it faces?
- Would each Non-executive Director be regarded as capable of challenging management and influencing outturns, either in the Board or in its Committees?
- Would the Non -executive Directors as a body be capable of overturning proposals from the management, which they did not consider were in the interests of shareholders or where they consider that the inherent risks were in excess of those assessed by management?

On the publication of the statement, shareholders should be encouraged to interrogate the Chairman or the Chairman of the Nominations Committee on the statement, and perhaps on other issues such as Board processes, Non-executive Director selection, induction, succession planning and any plans to strengthen the quality of the Board where required.

Boards of well governed companies should not find such assurances to be unduly onerous but should view this as refocusing attention on the Code and the principles of good Governance and ensuring that the Board is fit for the tasks it is expected to perform.

I hope you find this of assistance. I would be very glad to discuss this further with you should you feel it helpful.

Yours sincerely,

John