National Grid Electricity Transmission plc
Annual Report and Accounts 2019/20

Company number 2366977

Contents

Overview – About National Grid Electricity Transmission plc		1
	What we do - Electricity	2
	What we do – Regulation	3
	Principal operations	5
	Our purpose, vision, strategy and values	7
	Our strategic objectives	8
	Progress against objectives - key performance indicators	9
Strategic Report		11
	Our business environment	11
	Our commitment to being a responsible business	13
	Internal control and risk management	18
	Viability statement	26
	Financial review	27
	Our stakeholders	32
	Corporate Governance	33
	Business separation	38
	Directors' Report	39
Introduction to the financial statements		41
	Statement of Directors' responsibilities	42
	Independent Auditor's report	43
	Consolidated income statement	54
	Consolidated statement of comprehensive income	55
	Consolidated statement of changes in equity	56
	Consolidated statement of changes in financial position	57
	Consolidated cash flow statement	58
	Notes to the consolidated financial statements	59
	Basis of preparation and recent accounting developments	59
	Company balance sheet	116
	Company statement of changes in equity	117
	Notes to the company financial statements	118
	Company accounting policies	118
	Glossary and definitions	130

Overview

About National Grid Electricity Transmission plc

National Grid Electricity Transmission plc (National Grid Electricity Transmission, NGET) is a subsidiary of National Grid plc (National Grid), based in the United Kingdom (UK). We own and operate the regulated electricity transmission network in England and Wales. We do not own the Scottish networks. Our networks comprise approximately 7,212 kilometres of overhead line, 2,239 kilometres of underground cable and 347 substations. We play a vital role in connecting millions of people safely, reliably and efficiently to the energy they use. See pages 5 and 6 for further details.

The governance of National Grid Electricity Transmission is the responsibility of its Board of Directors. Strategic direction is determined by our ultimate parent company, National Grid. Our Directors are listed on page 39.

More information on the management structure of National Grid can be found in the National Grid plc Annual Report and Accounts 2019/20 and on National Grid's website at www.nationalgrid.com.

The International Financial Reporting Standard (IFRS) technical requirements make reporting some of the performance measures that we use as a regulated business more complex due to differences in standards used in their generation. We provide additional information, about both our significant assets and liabilities that do not form part of our audited accounts, to help our investors gain a fair, balanced and understandable view of our business.

Financial highlights

	2019/20	2018/19	Percentage change
	£m	£m	
Revenue	**1,988**	3,353	**(40.7)%**
Operating profit before exceptional items	**1,098**	998	**10.0 %**
Exceptional items	**142**	(237)	**(159.9)%**
Total operating profit [1]	**1,240**	761	**62.9 %**
Profit before tax	**1,042**	602	**73.1 %**
Cash generated from operations	**1,440**	1,323	**8.8 %**
Regulated assets [2]	**13,921**	13,537	**2.8 %**

1 See page 28 for further details.

2 See page 31 for further details.

	2019/20	2018/19
	£m	£m
Return on equity	**13.5%**	13.7%

Non-financial highlights

	2019/20	2018/19
Number of employees	**2,719**	3,380[1]
Network reliability[2]	**99.999974%**	99.999984%

1 Includes 675 system operator employees. Please see note 4 on page 66.

2 See page 9 for further details on our KPI's

What we do – Electricity

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

The UK electricity industry has five main sectors.

1. Generation

Generation is the production of electricity from fossil fuel and nuclear power stations, as well as renewable sources such as wind and solar. We do not own or operate any electricity generation facilities.

The UK is moving away from a historical reliance on large thermal power generation and there is now a greater diversity of supply and flexible demand than ever before. Therefore, the electricity transmission network has a pivotal role to play in the future energy mix, with evolving roles enabling a range of possible energy futures for the long-term benefit of consumers.

2. Interconnectors

Transmission grids are often interconnected so that energy can flow from one country or region to another. This helps to provide a safe, secure, reliable and affordable energy supply for citizens and society across the region. Interconnectors also allow power suppliers to sell their energy to customers in other countries.

Great Britain (GB) is linked via interconnectors with Ireland, Northern Ireland, France, Belgium and Netherlands. National Grid plc is continuing to work on developing additional interconnector projects, which we believe will deliver significant benefits to consumers. These include three interconnectors currently in construction to France, Norway and Denmark.

National Grid, through separate companies held outside of National Grid Electricity Transmission, sells capacity on its UK interconnectors (with France, Belgium and the Netherlands) through auctions.

3 Transmission

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

We own and operate the transmission network in England and Wales. We no longer operate the electricity operating system. This role is performed by the electricity system operator, National Grid Electricity System Operator Limited, following the separation and sale of this business at the start of this financial year. National Grid Electricity Transmission worked in a joint venture with Scottish Power Transmission to construct a connection to reinforce the GB transmission system between Scotland and England and Wales The Western Link HVDC became was successfully commissioned during this financial year.

4. Distribution

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

We do not own or operate electricity distribution networks.

5. Supply

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

We do not sell electricity to consumers.

What we do – Regulation

Our business operates as a regulated monopoly. We have one economic regulator for our business, Office of Gas and Electricity Markets (Ofgem). The regulator puts in place an incentive regime that ensures our interests are aligned with those of customers and society

The purpose of the regulatory regime

Ofgem's regulatory regime for the energy industry is titled RIIO, which stands for Revenue = Incentives + Innovation + Outputs. This title reflects the policy purpose of the regime. It is designed to encourage companies to invest in efficiency and innovation, creating value that is shared, through the regulatory mechanisms, between the company (and hence creating the incentive) and the customer. It ensures that companies drive to deliver the outputs their customers want and also creates the opportunity for funding schemes with wider societal benefits.,

How we manage our regulated assets

Our licence, established under the Electricity Act 1989, as amended (the Act) requires us to develop, maintain and operate economic and efficient networks . It also gives us statutory powers. These include the right to bury our wires or cables under public highways and the ability to use compulsory powers to purchase land so we can conduct our business.

Our network is regulated by Ofgem, which has a statutory duty under the Act to protect the interests of consumers. Ofgem also have responsibility to enable competition and innovation to drive down prices and introduce new products and services; and deliver a net zero economy at lowest cost to consumers. As part of our licence, Ofgem established price controls that limit the amount of revenue our regulated business can earn. This gives us a specified level of revenue for the duration of the price control that is sufficient to meet our statutory duties and licence obligations, and make a reasonable return on our investments.

The price control includes a number of mechanisms designed to help achieve its objectives. These include financial incentives that encourage us to:

- efficiently deliver by investment and maintenance the network outputs that customers and stakeholders require, including reliable supplies, new connections and infrastructure capacity;
- innovate in order to continuously improve the services we give our customers, stakeholders and communities; and

On 1 April 2019, we completed the legal separation of the electricity system operator with the sale to a newly formed company which holds the National Grid Electricity System Operator Limited (NGESO) licence. This company NGESO, is a separate legal entity from National Grid Electricity Transmission plc, but is a National Grid Group company. To further ensure appropriate ring-fencing between itself and the rest of the National Grid Group, NGESO is governed by its own Board of Directors including three independent directors.

We retained the electricity transmission owner Licence.

RIIO Price Controls

The building blocks of the RIIO price control are broadly similar to the historical price controls used in the UK. However, there are some significant differences in the mechanics of the calculations.

How is revenue calculated?

Under RIIO, the outputs we deliver are clearly articulated and are integrally linked to the calculation of our allowed revenue. We do not earn allowances if we do not deliver the associated agreed output. These outputs have been determined through an extensive consultation process, which has given stakeholders a greater opportunity to influence the decisions.

There are five output categories for transmission under the current RIIO price controls:

- **Safety** - ensuring the provision of a safe energy network.
- **Reliability (and availability)** - promoting networks capable of delivering long-term reliability, as well as minimising the number and duration of interruptions experienced over the price control period, and ensuring adaptation to climate change.
- **Environmental impact** - encouraging companies to play their role in achieving broader environmental objectives, specifically facilitating the reduction of carbon emissions, as well as minimising their own carbon footprint.
- **Customer and stakeholder satisfaction** - maintaining high levels of customer satisfaction and stakeholder engagement, and improving customer satisfaction.
- **Customer connections** - encouraging networks to connect customers quickly and efficiently.

Within each of these output categories are a number of primary and secondary deliverables, reflecting what our stakeholders want us to deliver over the remaining price control period. The nature and number of these deliverables varies according to the output category, with some being linked directly to our allowed revenue, some linked to legislation, and others having only a reputational impact.

Totex

Using information we have submitted, along with independent assessments, Ofgem determines the efficient level of expected costs necessary for these deliverables to be achieved. Under RIIO this is known as 'totex', which is a component of total allowable expenditure and is broadly the sum of what was defined in previous price controls as operating expenditure (opex) and capital expenditure (capex).

A number of assumptions are necessary in setting the outputs, such as certain prices or the volumes of work that will be needed. Consequently, there are a number of uncertainty mechanisms within the RIIO framework that can result in adjustments to totex allowances if actual volumes differ from the assumptions. These mechanisms protect us and our customers from windfall gains and losses.

Where we under or over-spend against the allowed totex there is a sharing factor. This means the under- or over-spend is shared between us and customers through an adjustment to allowed revenues in future years. This sharing factor provides an incentive for us to provide the outputs efficiently, as we are able to keep a portion of savings we make, with the remainder benefiting our customers.

The extended length of the price control to eight years is one of the ways that RIIO has given innovation more prominence. Innovation refers to all the new ways of working that deliver outputs more efficiently. This broad challenge has an impact on everyone in our business.

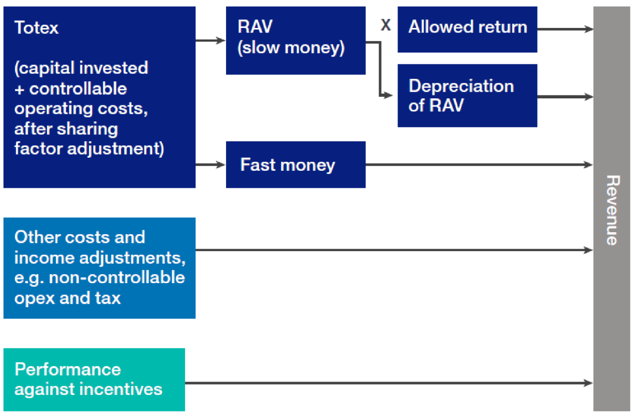
Allowed revenue to fund totex costs is split between RIIO ‘fast’ and ‘slow’ money categories using specified ratios that are fixed for the duration of the price control. Fast money represents the amount of totex we are able to recover in the year of expenditure. Slow money is added to our Regulatory Asset Value (RAV) – effectively the regulatory IOU. (For more details on the sharing factors under RIIO, please see the table below.)

In addition to fast money, in each year we are allowed to recover a portion of the RAV (regulatory depreciation) and a return on the outstanding RAV balance. We are also allowed to collect additional revenues related to non-controllable costs and incentives. In addition to totex sharing, RIIO incentive mechanisms can increase or decrease our allowed revenue to reflect our performance against various other measures related to our outputs. For example, performance against our customer and stakeholder satisfaction targets can have a positive or negative effect of up to 1% of allowed annual revenues. Most of our incentives affect our revenues two years after the year of performance. During the eight-year period of the price control our regulator included a provision for a mid-period review, with scope driven by:

- changes to outputs that can be justified by clear changes in government policy; and
- the introduction of new outputs that are needed to meet the needs of consumers and other network users.

The current price controls are set to run for an eight-year period and will end on 31 March 2021.

Simplified illustration of RIIO regulatory building blocks:



Allowed returns

The cost of capital allowed under RIIO-1 price controls is as follows:

Cost of equity (post-tax real)	7.0%
Cost of debt (pre-tax real)	iBoxx 10 year simple trailing average index (1.58% for 2019/20)
Notional gearing	60.0%
Vanilla WACC[1]	3.75%

1 Vanilla WACC = cost of debt x gearing + cost of equity x (1- gearing).

Sharing factors and fast money

The sharing factor means that any over- and under-spend is shared between the businesses and consumers. The shared figures displayed in the table below are the sharing factors that apply to Electricity Transmission.

	Transmission Operator
Fast[1]	15.00%
Slow[2]	85.00%
Sharing[3]	46.89%

1 Fast money allows network companies to recover a percentage of total expenditure within a one year period.

2 Slow money is where costs are added to RAV and, therefore, revenues are recovered slowly (e.g. over 45 years) from both current and future consumers.

3 Sharing is the proportion retained by NGET. The consumer benefits by 53.11% of the efficiency delivered by NGET.

RIIO-2

Ofgem has started work on the next round of RIIO price controls (RIIO-2) for the energy network sectors it regulates, covering electricity transmission. It has consulted on a wide range of topics, including incentives, outputs, the cost of capital and other financial parameters. Decisions that have already been taken include reducing the default price control duration back to five years from eight years, extending the role of competition where appropriate from electricity transmission to other sectors and moving away from RPI to CPIH for inflation measurement when calculating RAV and allowed returns. In addition, Ofgem has proposed a methodology for the baseline-allowed cost of equity which, based on the evidence available, was used in May 2019 to calculate its working assumption for RIIO-2 that is lower than the value under the current RIIO price controls.

For the development of the RIIO-2 business plans, we have followed Ofgem’s enhanced stakeholder engagement process, which is based on greater engagement with our industry and end consumers to prioritise their needs in our business plans. Two independent groups were established to provide challenges through this process – an independently Chaired User Group and an Ofgem Challenge Group. The independently chaired User Group included representation from the Distribution networks, consumer representatives, environmental groups and wider energy user groups. The Ofgem Challenge Group included representation from regulators, environmental groups, economists and former senior managers from the energy industry. Both Groups were established to challenge and scrutinise the RIIO-2 business plans focussing on affordability and sustainability. The Ofgem Challenge Group will also review and challenge Ofgem on their initial proposals to ensure they remain in accordance with the RIIO-2 objectives.

Following a period of engagement with Ofgem, we submitted our final business plans for RIIO-2 in December 2019. Thereafter, engagement has continued with Ofgem evidencing various aspects of the Company’s business plans such as the formal Q&A process to explore our business plan submission. Ofgem published its draft determinations on 9 July which started the 8-week consultation period. Final price control determination for transmission companies are expected before the end of 2020. To enact the Final Determinations Ofgem needs to conduct a statutory consultation on the required licence changes. After the consultation their decision to implement the changes can be appealed by The Company or other interested parties to the Competition and Markets Authority (CMA) within 20 working days of the Ofgem decision to implement the licence changes giving effect to the price control.

Principal operations

Overview

Our business performed well in 2019/20 as we maintained our focus on safe, customer-led, reliable, innovative and efficient operations.

Optimise Performance

Our safety ambition is to have a culture where we always do the right thing regarding safety. Our strategy is to be proactive in our safety management by engaging our leaders and employees and implementing a consistent and simple risk-based approach. This strategy will enable us to develop the highest level of safety culture maturity. To support this ambition, we are focusing more on leading indicators that measure our positive efforts on safety management to help prevent incidents, while continuing to track more traditional lagging indicators.

As at 31 March 2020, our LTIFR (Lost Time Injury Frequency Rate) was 0.06. This is better than our UK target of <0.08, and is our ***best ever LTIFR performance***. Our Electricity Capital Delivery business has worked more than a year without having any lost time injuries in approaching five million person hours of complex construction activity. This outstanding result was driven by a relentless focus on the work we do and commitment to keeping one another safe.

The energy we transport is intrinsically hazardous; our operations therefore have to comply with laws and regulations set by government agencies responsible for health, safety and environmental standards.

2019/20 delivered another year of good returns. We maintained our 200-300 basis points outperformance that we committed to under RIIO-1, with a return on equity of 13.5%. This has allowed us to reduce prices to customers and improve our returns to shareholders.

We have ***committed to reduce our direct emissions to net zero*** by 2050 and to increase our influence to support the overall industry-wide transition to a low-carbon future. We have developed solutions to enable the rollout of a strategic backbone for electric vehicles throughout the UK. We continue to engage with stakeholders to shape and define the delivery of the £500 million funding commitments to help to grow the UK's rapid charging network made in the Chancellor's March 2020 Budget.

Following the floods of 2007, we instigated an investment programme to protect assets against future flooding. The programme ensures overall resilience of the network to threats, focusing on protection of specific sites against the threat of flooding and reducing the likelihood of consumers being affected by a flooding incident on the system. Following detailed modelling and consultation with the Environment Agency, permanent flood defences were installed at Thorpe Marsh 400kV substation in 2014 and a demountable barrier was procured to protect the 275 kV substation which is located on higher ground. Neither of the substations were jeopardised during the flooding event. Our ***network remained resilient during Storm Ciara*** in February 2020.

Customer First

We work with our customers to meet their needs and deliver successful outcomes for all parties. We were pleased to see continued improvement in our UK customer satisfaction (CSAT) scores achieving a score of 8.2 (2018/19: 7.9).

Our electricity transmission business has continued to provide reliable services. This year the figure of our ***network reliability*** for Electricity Transmission was 99.999974%. See page 9 for further information on our KPIs.

In October 2019, we welcomed Ofgem's 'minded-to' position on Hinkley-Seabank connection to use the existing strategic wider works mechanism for this vital project. In May 2020, we reached agreement on the final cost and the regulatory funding model. The allowance for the project is £656 million and will be funded through the existing Strategic Wider Works (SWW) mechanism rather than the Competition Proxy Model (CPM). This project remains on target to be ready for connection in 2025.

Grow core business

In December we awarded the £400 million tunnelling contract associated with our London Power Tunnels 2 project, a 20.8 mile (33.5 kilometre), £1 billion link from Wimbledon to Crayford which will provide significant resilience across South London when completed in 2028. We have embarked on a partnership with a social enterprise, My Kinda Future, to inspire the next generation of engineers in South London and to help us with local recruitment and upskilling required around our key sites. The team will work on designs and set up across key sites this year, launching four different tunnel-boring machines in 2021. Four other major contracts associated with the cable and substation works will be let this year. These partners will form an enterprise, focused on innovation and collaboration to successfully deliver the project outcome; rewiring London and connecting with the capital.

We took over the Western Link HVDC cable with our Joint Venture partner Scottish Power Transmission on 23 November 2019. The link is a submarine HVDC link between Scotland and England and Wales which delivers up to 2,250 MW. We are working with Ofgem after they opened an investigation into the delivery and operation of the cable in January 2020. As part of the take over of the link we secured liquidated damages for delivery delays from our contractors. The receipt of these damages has been reflected in the carrying value of our assets (see note 11) but it is the intention of the Company not to benefit from them and return these monies to consumers. We will work with Ofgem, as part of their investigation, on a mechanism that bests achieves this outcome.

Evolve for the future

The Board noted the progress we are making on our strategic priorities. Against the background of delivering on our priority of optimising operational performance, discussions continued with Ofgem on the RIIO-2 price control. Business plans were submitted to Ofgem in December 2019 following our largest ever engagement exercise to date, with customers, industry stakeholders, business and households across the country. Our plans include investment to maintain network reliability and provide flexibility and optionality for the UK to achieve net zero greenhouse gas emissions by 2050, while being protected against new threats.

Our plan has a baseline total expenditure spend of £7.1 billion over the five-period. This assumes connection of 15.3 GW of customer capacity, providing the UK with clean power and flexible storage, as well as increased investment to maintain reliability and resilience. The baseline spend, under our proposed financial plan, would see consumer bills reduce slightly in real terms.

These plans will deliver a safer, cleaner, greener and more affordable energy system. We have challenged ourselves to ensure our business plans deliver at the lowest cost and create optionality as we develop the pathway to net zero. On 9 July 2020 Ofgem issued draft determinations of the RIIO-2 price control which, amongst other things, proposes a significant reduction in allowed capital expenditure and returns. The Company is extremely disappointed with the draft determinations and the proposal leaves us concerned as to our ability to deliver resilient and reliable networks, and jeopardises the delivery of the energy transition. The Company has until 4 September 2020 to state its case for changes to be made and fully intends on actively engaging with Ofgem to this effect, pressing the regulator to come forward with a regulatory framework that both incentivises investment and protects consumers.

Our market continues to be affected by external factors. The energy industry faces considerable uncertainty, as we tackle the challenges of delivering the government's commitments on decarbonisation together with a step change in value for the customer. National Grid Electricity Transmission plc is a crucial and influential partner for delivery of these critical policy requirements and we stand ready to play our part in what must be a combined effort across government, regulators, industry and customers. But we will require a strong policy stance from government and regulators, to set out the framework for the energy market so that it delivers the transformation required.

We believe that people are the key to unlocking a clean energy future, and we ran a recruitment campaign to attract talent to ***'the job that can't wait.'*** We were delighted with the response to the campaign, which saw a sevenfold increase in applications to our Advanced Apprenticeship scheme and started a national conversation about the importance of science, technology, engineering and mathematics (STEM) at all stages of education.

The UK cost efficiency programme that we announced in 2018 continues to deliver a more efficient and agile business ahead of RIIO-2. Through this initiative we have simplified ways of working with a leaner organisation and more efficient IT and back office activities. The programme enabled us to deliver efficiency savings of £40 million.

We have made good progress on the £116 million Dorset ***Visual Impact Provision*** (VIP) project, with site establishment and preliminary civil works well underway. We are on track to underground 5.5 miles (8.8 kilometres) of overhead line and remove 22 pylons in the Dorset Area of Outstanding Natural Beauty (AONB) by 2022. Funding and planning applications have been submitted for the Peak East VIP project. This £43 million project will remove six pylons and 1.2 miles (2 kilometres) of overhead line in the Peak District National Park. The planning application for Snowdonia VIP Project has been submitted. This project will replace a section of overhead line which goes through Snowdonia National Park with cables in a 2.1 mile (3.4 kilometre) tunnel. Engineering and consenting activities have also commenced on the first of our RIIO-2 portfolio of VIP projects: the undergrounding of 2.7 miles (4.4 kilometres) of overhead line through the North Wessex Downs AONB.

Our purpose, vision, strategy and values

We work within the purpose, vision, strategy, values and priorities of National Grid to ensure we are well positioned to respond to changes in the operating environment.

We have evolved our strategy in order to better reflect our purpose and in response to our business environment. The evolved strategy reflects a belief that we have a responsibility to ensure that the energy future we help to shape is one where everyone shares its benefits. We will continue to connect people to the energy they need for the lives they lead, safely, reliably and securely.

Our purpose

Having a clear sense of what we stand for as a company and what it is that binds us all together is vitally important. This is what we call our purpose. In simple terms it is what drives our desire to serve our customers and it's that thing that makes us proud about the work we do.

Our purpose is to bring energy to life

Our purpose remains to **Bring Energy to Life**, providing the heat, light and power people and businesses rely on and supporting local communities to prosper.

Our vision

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

National Grid stands for more than profit. The company is committed to making a positive contribution to society, whether that's helping the young people of today to become the energy problem-solvers of tomorrow, supporting customers to use energy more efficiently, or tackling climate change.

That's why the company's vision is to be at the heart of a **clean, fair and affordable** energy future, ensuring everyone benefits from the energy transition, that bills are not a burden for individuals or families, and that no one gets left behind.

Our strategy

National Grid's strategy is to build, own and operate large-scale, long-life energy assets primarily in networks and renewables that deliver fair returns and high societal value. The company's portfolio of high-quality, low-risk assets in stable geographies is underpinned by a strong and efficient balance sheet.

This strategy sets the bounds of NGET's business and will ensure it is set up to play a leading role in the energy future. It will be delivered through four priorities.

Our priorities

We are focussed on four strategic priorities to make our purpose possible and achieve our vision. These are described below:

1) Enable the energy transition for all

Fully decarbonising the electricity grid through modernisation, increased flexibility and by connecting renewables quickly and efficiently. Decarbonising transport by building electricity network flexibility and supporting charging infrastructure.

2) Deliver for customers efficiently

Providing safe, reliable and affordable energy for customers around the clock, ensuring operational excellence and fiscal discipline in everything National Grid does, building productive partnerships with regulators and policymakers, and unlocking real value for customers and the communities they live and work in.

3) Grow organisational capability

Anticipating and adapting to changes in the energy sector in faster and smarter ways, remaining at the cutting edge of engineering and asset management, and innovating more sustainable energy solutions.

4) Empower colleagues for great performance

Building diverse and inclusive teams that reflect the communities the company serves, attracting the best talent, prioritising learning and developing the skills needed now and in the future to accelerate the energy transition.

Our values

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

As a purpose-led, responsible business, how National Grid Electricity Transmission delivers for its customers and communities is as important as what is delivered. Colleagues right across the company are committed to:

Doing the right thing, keeping customers, communities and the wider public safe.

Finding a better way, delivering excellent performance at best value and innovating new energy solutions.

Making it happen, with a strong focus on excellence, efficiency and results.

Our strategic objectives

We are focused on three strategic priorities for our business, which will set the foundations for our future success. These are described below.

	Optimise performance	Grow core business	Evolve for the future
Why it's important	Our customers want us to be more efficient, so we must find ways to improve how we run our business.	Delivering strong operational performance provides a foundation from which we can invest in our core business and pursue other opportunities.	We need to future-proof our business against the effects of a changing energy landscape. Our networks are already managing changes to the generation mix, while the needs and expectations of our customers are evolving.
What this means	We need to enhance the customer experience and our productivity through more efficient and customer-focused processes. Given the scale of our business, even small improvements will have a huge impact on our overall performance. Finding new ways of optimising operations will be an important factor in our ability to compete and grow.	We continue to look for business development opportunities that are close to our core business. In the UK, onshore transmission projects will continue to be our focus over the next decade.	We are looking to develop new capabilities that are essential for long-term success.
Performance in 2019-20	• Continued the transition begun through our programmes to leaner and more efficient operating models throughout the business; • Submitted price controls as part of RIIO-2; and • Continued embedding our Business Management System (BMS) across the Group by publishing BMS standards through the employee handbook, the National Grid Book, in order to increase standardisation across business activities.	• Capital investment of £950m, up 12% in the year; and	• Following legal separation on 1 April 2019, this is the first year the ESO operated as a separate entity from the UK electricity transmission company, evolving for its customers and stakeholders.
	The below metrics underpin all of our strategic priorities: Employee engagement; Workforce diversity		

Progress against objectives – key performance indicators (KPIs)

Strategic objective	KPI and definition	Performance
Find new ways of optimising our operational performance	**Safety – Employee lost time frequency rate (IFR)** Injuries resulting in employees taking time off work per 100,000 hours worked on a 12 month basis.	**2019/20: 0.06 (UK Group target 0.08)** **2018/19: 0.07 (UK Group target 0.1)**
	Network reliability We aim to deliver reliability by planning our capital investments to meet challenging demand and supply patterns, designing and building robust networks, having risk-based maintenance and replacement programmes, and detailed and tested incident response plans.	**2019/20: 99.999974% (Target 99.9999%)** 2018/19: 99.999984% (Target 99.9999%)
	Customer satisfaction scores Our score in customer satisfaction surveys. Ofgem set a baseline Our customer satisfaction KPI comprises Ofgem's UK electricity transmission customer satisfaction scores. The score represents our baseline targets set by Ofgem for reward or penalty under RIIO (maximum score is 10).	**2019/20: 8.2 out of 10 (Target 6.9)** 2018/19: 7.9 out of 10 (Target 6.9)
	Greenhouse gas emissions Percentage reduction in greenhouse gas emissions. National Grid target: 80% reduction by 2030 and 90% reduction by 2050, compared to 1990 emissions of 21.6 million tonnes.	**Tonnes carbon dioxide** **2019/20: 305 KTCO2e** 2018/19: 289 KTCO2e National Grid plc has achieved a 66% reduction against the 1990 baseline to date.
Look for opportunities to grow our core business	**Regulated asset base growth** Maintaining efficient growth in our regulated assets ensures we are well positioned to provide consistently high levels of service to our customers and increases our future revenue allowances.	**2019/20: 4.3% (Group target 3-5%)** 2018/19: 3.8% (Group target 3-5%) (includes ESO)
	Capital investment Our aim is to maintain a high level of investment within Property, Plant and Equipment and Intangible Assets in support of our regulated asset growth targets.	**2019/20: £950 million** 2018/19: £925 million (£847m for TO only)
Underpin all three strategic priorities	**Employee engagement index** Employee engagement index calculated using responses to National Grid's annual employee survey. Target is to increase the level of engagement compared with previous year. See page 14 for more detail.	**2019/20: 60%** 2018/19: 55% (Includes ESO) Index represents performance for National Grid UK entities
	Workforce diversity We measure the percentage of women and ethnic minorities in our workforce. We aim to develop and operate a business that has an inclusive and diverse culture. Page 15 provides an additional management breakdown.	**Workforce diversity %** **2019/20: Women: 17.5%** **Ethnic minority: 14.7%** 2018/19: Women: 19.2% (Includes ESO) Ethnic minority: 16.0% (Includes ESO)

Greenhouse gas emissions

National Grid has remained focused on greenhouse gas emissions reduction programmes and this year achieved a 70% reduction on the 1990 baseline and our interim corporate commitment target is 80% by 2030 from the 1990 baseline. National Grid continues to look for innovations and efficiencies that will help us achieve targets.

Make sure National Grid is better equipped for the future

We are in the midst of an energy revolution with the economic landscape, developments in technology, evolving business models and consumer behaviour all changing at an unprecedented rate. We are focussing our innovation on four value themes;

Managing assets – looking for innovative ways to manage asset life

Efficient build – finding ways to reduce the cost of building infrastructure

Service delivery – we're exploring ways to provide value to our customers and consumers

Corporate responsibility – we're constantly researching and developing safer working practices

Strategic Report

Our business environment

As well as managing through the COVID-19 pandemic, our societal ambition remains to achieve net zero, with emphasis on fairness and affordability, digitalisation and decentralisation during the transition.

Net Zero

Commentary

2019 was a turning point for climate action, from protests on the street to parliamentary debates. Governments around the globe are considering and acting on ambitious carbon reduction targets.

2019/20 developments

The UK became the first major economy to commit to a legally binding target of net zero emissions by 2050. 2019 was the cleanest year on record for the UK as, for the first time, the amount of zero carbon electricity used by the UK's homes and businesses outstripped that from fossil fuels for a full 12 months.

Our response

- For our UK regulated business, towards our 2050 net zero target, we achieved 70% reduction on the 1990 baseline and set interim targets to reduce our emissions by 80% by 2030 (from the 1990 baseline). The single biggest contributor to reduce is Sulphur Hexafluoride (SF6), and we will provide brave leadership here.
- The world's largest offshore windfarm, the 1.2GW Hornsea Project One windfarm, is connected to our electricity transmission network and generated first power in 2019.
- In January 2020, we announced the launch of our first-ever green bond. Raising approximately EUR500 million, the bond's proceeds will finance UK electricity transmission projects with environmental benefits.

Fairness and affordability – Impact on consumer bills

Commentary

National Grid delivers sustainable energy safely, reliably and affordably to the communities we serve. As well as affordability, we will play our role in ensuring that no one is left behind in the short term during the COVID-19 crisis, or in the longer term transition to clean energy.

2019/20 developments

Cost of energy remains a key priority, evidenced by 2019's implementation of the energy price cap, and two of Ofgem's key priorities: to "drive down prices" and "decarbonise to deliver a net zero economy at the lowest cost to consumers".

With the Government's recent commitment to net zero, we and others across the industry, such as the Committee on Climate Change, have stressed the importance that net zero is delivered in a fair way as a 'just transition' across society, with vulnerable workers and consumers protected.

Our response

- We are focused on managing our networks over the long term, maintaining highly reliable systems at great cost efficiency.
- Our business is pushing for greater affordability and innovative ways to minimise the total cost of energy to consumers.
- In response to the COVID-19 crisis, we are working with other network companies and Ofgem to help suppliers address financial challenges caused by COVID-19, without imposing additional burdens on consumers.
- In the UK, we have generated £722 million of savings for consumers in the first seven years of the RIIO-1 arrangements.

Decentralisation – Energy Security

Commentary

The energy system is in transition from high to low carbon. This change coincides with a shift to more decentralised generation, from renewables to emerging battery storage. As the volume of this intermittent and distributed generation increases, a more resilient and flexible system will be required. One that makes best use of available energy resources to meet consumers' needs in a balanced, efficient and economical way.

2019/20 developments

Last year 29% of generation was connected at distribution level or behind-the-meter. The July 2019 Future Energy Scenarios (FES) document suggested that by 2050 this could rise to up to 58%. This is driven by new technology and business models enabling solutions such as solar panels, electric vehicles and battery storage to be more accessible to all consumers.

Our response

Since the start of financial year 19/20, we continue to process or have processed 207 connection applications, of which 20% have been made for transmission connected batteries, and a further 14% have been made up of a new customer type, where the customer mixes their generation make up, for example solar with batteries.

Digitisation

Commentary

Businesses and lives are being transformed by innovations such as artificial intelligence and virtual reality. The energy landscape has seen several changes as companies look to create new business models and reduce energy prices through digital technologies. Technology commercialisation, consumer demand and regulatory stimulus will continue to drive these trends.

2019/20 developments

In 2019/20, the application of digital technologies across the energy industry continued at pace globally. Bloomberg New Energy Finance tracked 379 applications, projects, partnerships and product developments for industrial digitalisation. This is 78% more than in 2018, and they expect a further increase in activity in 2020, as positive results of digitalisation drive its increased use.

Utility networks in all geographies are identifying significant potential for their businesses through digital transformations. Advances in technologies to operate systems, manage assets and engage with customers will be a key facet of our business going forward.

Our response

ConnectNow, our UK network connections portal, aims to increase transparency to our customers from application through to decommissioning, by sharing regular updates on progress and explaining costs and charges. ConnectNow will allow customers self-service to information to enable connection design and create low-carbon business cases.

Our Response to COVID-19

The novel coronavirus disease ("Covid-19") is currently affecting countries, communities, supply chains and markets. Since the World Health Organisation declared the outbreak as a pandemic on 11 March 2020, National Grid has applied UK Government advice and guidance on dealing with the potential and actual spread and impact on our business and our customers.

Impact on our workforce

Throughout the COVID-19 crisis, our priority has been to keep employees safe whilst doing their job, and to ensure the safety and wellbeing of our customers and communities.

The Company has successfully activated its crisis management framework which includes identifying the areas that are deemed critical and the corresponding level of reliability and service continuity needed to deliver normal services during the outbreak. Our plans include continued safe and reliable service during large numbers of people absence due to illness. Under Government guidelines in the UK, utility workers are identified as key/essential workers and have been subject to specific guidance and permissions on family arrangements and movements. We issued new working guidance to our field force that included measures such as limits on team sizes, changes to rotas, revised cleaning arrangements, and single occupancy in vehicles.

We have moved to working from home arrangements, where possible, supported by our digital infrastructure. We have also identified critical areas including controls rooms, call centres, dispatch and key sites including generation, terminals, and substations. For all these activities plans are in place to maintain all critical safety and maintenance activities, which includes sequestering some employees.

Some of our work requires contact with members of the public. To safeguard our employees and the public we are following Government requirements and recommendations for social distancing. This includes our engineering and maintenance operations while continuing to provide a safe and reliable network.

Finally, we are also working with our supply chains so that our systems and networks have the necessary materials and parts. Our regular engagement with Government agencies and our Regulators, as well as following of all advisory services regarding management of the spread of Covid-19, are expected to continue for the foreseeable future.

Supporting our communities

We are acutely aware of the impact COVID-19 has had on the communities where we operate. Our teams have stepped forward with multiple initiatives, including financial donations to help the most vulnerable. Employees have been given time off work to support their local communities. We have made donations to support key charities delivering aid.

Supporting our customers

We have also been working with Ofgem and customers on support mechanisms. We are currently discussing with the ESO the offer to defer receiving payment against our TNUoS charges over the summer months to allow them to facilitate providing schemes to customers. This could be up to £57m, which we would expect to receive later in the financial year.

Financial impact on our business

As lockdown measures began to take hold towards the end of 2019/20, incremental costs due to COVID-19 were limited. There will be more impacts for financial year 2020/21. As our revenues are decoupled from electricity volumes across the network, our full year revenues should be largely unaffected.

Higher levels of operating costs due to COVID-19 relate to areas such as higher IT costs, higher cleaning costs, costs to sequester critical teams to maintain system integrity, and PPE and health screening costs to enable return to work. The lower capitalisation of workforce costs related to an amendment in capital programmes also has an impact.

We also expect some reduction in productivity due to COVID-19 as we adapt to movement restrictions and more limited access to sites.

Our commitment to being a responsible business

In 2019, National Grid conducted a comprehensive review of where we can create the most positive impact on society. The resulting principles of responsibility are being embedded to inform everything we do as a business.

Responsibility at National Grid

Our purpose is to “Bring Energy to Life” and we do this through the delivery of the electricity and gas that powers our customers and communities; safely, reliably, and efficiently. But we also have an important role as a responsible citizen in society as a whole, our communities, and as a responsible employer.

To further this ambition, during 2019/20 we applied the lens of being a purpose-led organisation, including the principles of an ESG (Environmental, Social, and Governance) framework, to review and adapt the way we manage our business responsibly, looking at everything from our strategic investment process, to our role in the community, to our procurement processes and policies. This brings together, and enhances, our focus on the environment, people and communities that have been at the core of our approach to responsible business for many years.

We have committed to embedding the following five key elements of being a responsible business into our strategy and goals. These are areas where the Company can create maximum total societal impact: the environment, our governance, our colleagues, the communities we serve and operate within, and the economy.

This approach has informed and guided our response to the COVID-19 crisis, with a focus on caring for our people, supporting the communities and customers we serve, and helping protect and restore the economies we operate within

Environmental: The path to net zero

We are embracing our role at the heart of the energy system and understand the critical role we play in tackling climate change. The markets in which we operate have announced ambitious carbon reduction targets and further legislative actions are anticipated in all our markets. These targets will be challenging and we embrace the opportunity to support the delivery of these goals. While the biggest impact we can have is supporting the economy-wide clean energy transition, it is important we also reduce our own direct impact on the environment. In 2012, we developed our environmental sustainability strategy, “Our Contribution”, to set a framework for embedding sustainable decision making into our business operations. We focused on three key areas – climate change, responsible use of natural resources and caring for the natural environment – and set targets to deliver progress through the end of 2020. In 2019/20, we have continued to advance our work.

We continue to focus on carbon reduction being factored into both our major investment decisions and our tender process for major construction projects. These actions encourage not only our teams, but also our supply chain to deliver lower-carbon solutions. Supply chain emissions are classified as Scope 3 emissions and, as such, the tender carbon weighting will help us reduce our Scope 3 emissions.

Building on earlier actions to manage office waste, we launched waste reduction campaigns across our offices in the UK. We have eliminated over four million items of single-use plastics, mainly related to food and beverages under our Save Evie’s Whale campaign. In 2019, we also diverted 95% office waste from landfills from our targeted sites and are aiming to complete work at the remaining sites in 2020.

Our further commitments to Reducing our Impact and Achieving Net Zero

As we work to meet our 2020 “Our Contribution” commitments, we will continue to reduce our carbon footprint, maximise the value of our resources and enhance the environment; however, we recognised that we can do more to combat climate change and improve the environment. To accomplish this, as part of our Responsible Business review, we are developing new metrics and targets to further challenge us and allow for monitoring and evaluating our performance. These will be announced later this year.

The cornerstone of our revised targets is our commitment to achieve net zero for our scope 1 and 2 greenhouse gas emissions by 2050 that was announced in November 2019, replacing our previous target of an 80% reduction by 2050 to better align with our ambitions. We also set more ambitious interim targets for our emissions reductions of 80% by 2030 and 90% by 2040.

To achieve these targets, we will also progress our emission reductions by continuing, and accelerating, current emissions reduction programmes, and by looking for new, innovative ways to reduce our emissions.

Energy efficiency is one of our key focus areas. We have ongoing energy reduction targets in our UK core office facilities. As an example of our progress, we have exceeded our target by reducing energy consumption by 11% from a 2015/16 baseline. We are also working to reduce our transport energy use through the purchase of alternative fuel fleet vehicles and employee programs promoting the purchase/lease of electric vehicles.

Our colleagues

Our people are the lifeblood of National Grid. Their safety and wellbeing are our primary concern and a priority for every one of us at National Grid – they underpin everything we do. Any safety incident is one too many and we continually strive to improve safety for our employees. Our ambition is to ensure that all of our employees and contractors are able to go home safely at the end of each and every day.

Our COVID-19 response started with supporting our people to work safely from home or as required in the field for essential activity, and to support their physical and mental health needs wherever they are. We have also facilitated volunteering opportunities during the crisis, and increased paid-time available for volunteerism.

Preparing our colleagues for the clean energy transition

Responsibility towards our people also means training them and reskilling them for the evolving needs of our businesses. The necessary skills and profiles of our employees and those at our partners and competitors are changing. We need forward-thinking, creative minds to help meet the challenges we face in connecting people to the energy they use. We will also need skills to design and implement new energy technologies, such as renewables and heat pumps. Technicians will have skills to install and maintain energy efficiency measures and technologies as well as skills to support the deployment and enablement of new technologies and change management skills to bring society along in the green transition. In 2019 National Grid commissioned a "Net Zero Skills Report" to identify the jobs needed to help society achieve net zero and provide a basis for engagement with stakeholders working on the challenge alongside us.

Investing in our colleagues

Our people and our communities will benefit from the time and financial investments we are making in ensuring that the future skills needed for National Grid, and the broader energy industry, are available. We are developing national and local skills development partnerships and initiatives., Our employees are expected to play a critical role in these programmes.

Keeping our colleagues safe

The safety of all our employees, contractors and the general public is of prime importance to us. We measure the safety of our employees and contractors and this is reflected in our KPIs, shown on page 9. To ensure we maintain our high standards of safety performance, we have effective policies, procedures and training in place so we can continue to perform at the level we and our stakeholders expect. Delivering energy every second of every day is critical to the functioning of the economies and communities we serve. The reliability of our energy networks is one of the highest priorities after safety. Our networks continue to provide reliability running at more than 99.9% availability.

Engaging with our colleagues

Through a third-party partner, we carry out an annual employee engagement survey to measure engagement levels and to help us address areas employees believe we need to improve. Employee engagement forms one of our KPIs – you can read more about this and our performance on page 9.

Living wage

We are accredited by the Living Wage Foundation. Our commitment to our direct employees extends to our contractors and the work they do on behalf of National Grid. We believe that everyone should be appropriately rewarded for their time and effort. 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. We also increase individual salaries as required.

Our culture

The culture we strive for stems from embracing our values: every day we do the right thing, find a better way and make it happen. You can read more about our values on page 7. We also know that building sufficient capability and leadership capacity (including effective succession planning) is an important factor in delivering our vision and strategy.

Health and wellbeing

We take a proactive, risk-based approach to managing health and wellbeing at National Grid. We continue to focus our efforts on creating sustainable wellbeing behaviour change within our workforce. We do this mainly through education and training and by managing our key wellbeing risks.

Our wellbeing programme focuses on musculoskeletal injury prevention and mitigation, chronic disease prevention, support for a healthy lifestyle and mental wellbeing. We engaged in mental health awareness week focusing on tools to support managers and employees dealing with mental health and wellbeing. The training has been well attended. We supported World Mental Health Day to focus on suicide prevention and encouraging employees to talk and help remove stigma. In 2019, we signed up to the Mental Health at Work Commitment focusing on six key commitments which are implemented and monitored through the Thriving at Work standard.

Gender pay gap

We review gender and ethnicity pay gaps annually and although we are broadly comfortable with our performance, we continue to strive to recruit and develop more women and ethnic minorities. For more information about our UK gender pay, visit our website at: www.nationalgrid.com/careers/understanding-our-ukgender- pay-gap.

Promoting an inclusive and diverse workforce

National Grid is dedicated to building a workforce which is representative of the communities we serve, in all aspects of diversity. We also continue to provide an inclusive culture across each stage of our colleague journey.

Our inclusion and diversity policies demonstrate our commitment to providing an inclusive, equal and fair working environment by:

- driving inclusion and promoting equal opportunities for all;
- ensuring the workforce, whether part-time, full-time or temporary, will be treated fairly and with respect;
- eliminating discrimination; and ensuring that selection for employment, promotion, training, development, benefit and reward, is based on merit and in line with relevant legislation.

We are committed to transparency and reporting annually on our progress on BAME and female representation on our Board, at manager level, among new joiners and our workforce as a whole. 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. Our Graduate Programme attracted 25% female applicants and 57% ethnically and racially diverse applicants. Our Industrial Placement and Student Internship programmes attracted 28% female applicants and 45% ethnically and racially diverse applicants.

14.7% of our workforce have declared themselves to be of 'minority' racial or ethnic heritage and we currently have 17.5% females across our total workforce. We are very much aware, however, of the number of "decline to state" responses we have across all diverse characteristics and as a result in 2019/20, we launched our #thisisme campaign, not only to increase our disclosure rates, but also to demonstrate our commitment to a culture of openness and security for colleagues to share who they are. This year also saw a number of our most senior leaders participate in reverse mentoring. This allowed them to get a different perspective on life, not only at National Grid but also more generally. This has provided a mutual knowledge share and dialogue between senior individuals from our organisation and more junior individuals from a diverse range of background with fantastic feedback from all parties.

We continually work to ensure our application, assessment, development and training provisions more broadly, are all inclusive and accessible. We offer our current colleagues training and development programmes which ensure they are aware of acting on bias, while providing specific development programmes for our diverse colleagues. We have 6 Employee Resource Groups (ERG), which are all highly active and visible across the business, with events and awareness-raising campaigns throughout the year. Our ERGs also provide a crucial support network to our diverse colleagues.

We continue to participate in numerous awards and benchmarks to recognise the great work of our colleagues (including Disability Confident, The Times Top 50 Employers for Women and Top 100 Employers for Race and Best Places to Work for LGBT Equality). These also offer us the opportunity to learn, focus our strategy and continually improve our approach to inclusion and diversity. 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.

Our policy is that people with disabilities should be given fair consideration for all vacancies against the requirements for the role. Where possible, we make reasonable adjustments in job design and provide appropriate training for existing employees who become disabled. We are committed to equal opportunity in recruitment, promotion and career development for all employees, including those with disabilities. Our policy recognises the right for all people to work in an environment that is free from discrimination.

The gender and ethnicity demographic tables that follow show the breakdown in numbers of employees at different levels of the organisation within NGET.

Those who have not disclosed their gender are excluded from the baseline.

Gender demographic as at 31 March 2020 - NGET

	Male	Female	Total	Male	Female
Our Board	5	4	9	56%	44%
Senior Management	13	5	18	72%	28%
Whole Company	2,242	477	2,719	82%	18%

Ethnicity demographic as at 31 March 2020 - NGET

'Minority' refers to racial/ethnic heritage declarations as recorded in our system. Those who have not stated their ethnicity are excluded from the baseline.

White	2,173
Minority	375
Total	**2,548**
White (%)	85.3%
Minority (%)	14.7%

The economy

Our economic contribution to society comes primarily through the delivery of safe and reliable energy. Crucially, we make sure energy reaches homes and businesses safely, reliably and efficiently. But our contribution as a responsible, purpose-led business also comes as an employer, a tax contributor, a business partner, and community partner.

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 can be reversed, will also be key in protecting future economic growth, and safety and wellbeing in society.

Our geographic footprint means that our economic contribution is felt in lower-income communities that can truly benefit from the ripple effect of our local presence where most of our economic contributions are made outside London. Our tax contribution helps to fund services and we are committed to a coherent and transparent tax policy and recognise our economic role in society in doing this.

We are fair to our suppliers and committed to paying them promptly. We also influence our supply chain to operate as responsible businesses, requiring all suppliers to share our commitment to respecting, protecting and promoting human rights.

Governance

Our approach to corporate governance plays an important role in helping us develop our culture at National Grid – a culture that embraces diversity and inclusion, and an environment where everyone can fulfil their potential. Our Board will continue to play a vital role in setting the tone right from the top. We apply a robust framework to ensure that stakeholder considerations are suitably captured and enhancements made to strengthen the views of stakeholders in the boardroom.

Human rights

Respect for human rights is incorporated into our employment practices and our values, which are integral to our Code of Ethical Business Conduct – the way in which we conduct ourselves allows us to build trust with the people we work with. We earn this trust by doing things in the right way, building our reputation as an ethical company that our stakeholders want to do business with, and that our employees want to work for. We were recently recognised by Ethisphere as one of 2020's World's Most Ethical Companies. Although we do not have specific policies relating to human rights, slavery or human trafficking, our Global Supplier Code of Conduct (GSCoC) integrates human rights into the way we do business throughout our supply chain alongside other areas of sustainability so that we create value, preserve natural resources and respect the interests of the communities we serve and from which we procure goods and services. Through our GSCoC, we expect our suppliers to comply with all legislation relating to their business, as well as adhering to the principles of the United Nations Global Compact, the International Labour Organisation (ILO) minimum standards, the Ethical Trading Initiative (ETI) Base Code, the UK Modern Slavery Act 2015, the US Trafficking and Violence Protection Act 2000 and, for our UK suppliers, the requirements of the Living Wage Foundation.

Anti-bribery and corruption

We have policies and governance in place that set and monitor our approach to preventing financial crimes, fraud, bribery and corruption, including our Code of Ethical Business Conduct (covering bribery and corruption). We have a Company-wide framework of controls designed to prevent and detect bribery.

We investigate all allegations of ethical misconduct thoroughly and, where appropriate, we take corrective action and share learnings. We also record trends and metrics relating to such allegations – only a small percentage of these relate to bribery or corrupt practices, so we do not consider them to be material for reporting purposes.

Governance and oversight

We review and update our framework regularly so we can make sure our procedures remain proportionate to the principal risks we have identified. Our Ethics and Compliance Committees (ECC) oversee the Code of Ethical Business Conduct and associated awareness programmes. Any cases alleging bribery are required to be 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. The Audit Committee receives an annual report on the procedures currently in place to prevent and detect fraud and bribery. None of the investigations over the last 12 months have identified cases of bribery.

Anti-financial crimes policy

We have launched a new Anti-Financial Crimes policy which applies to all employees and those working on our behalf. It sets out our zero-tolerance approach to bribery, fraud, money laundering, tax evasion and other corrupt business practices. To ensure compliance with the UK Bribery Act 2010 and other relevant legislation, we operate an anti-financial crime risk assessment process across the Company to identify higher-risk areas and make sure adequate procedures are in place to address them. Fraud and bribery risk assessments are conducted annually across the business. As part of our global training strategy, we introduced an e-learning course for all employees so they can adequately understand the Company's zero-tolerance approach to fraud, bribery or corruption of any kind.

Ethical business conduct

Our Code of Ethical Business Conduct sets out the standards and behaviours we expect from all employees to meet our values of Do the Right Thing, Find a Better Way and Make it Happen. The document is issued to all employees and is supported by a global communication and training programme to promote a strong ethical culture. Additionally, we provide briefings for high-risk areas of the business, such as Procurement. Our Code is updated every three years and is currently being updated with a release date some time in 2020. In addition, we have a new Ethics Business Management Standard which provides a framework around our ethics programme and describes what is expected of the business.

Compliance framework

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 is asked to self-assess the effectiveness of its controls and provide 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).

Working with our supply chain

Our GSCoC is issued to our suppliers annually and sets out our expectations and fundamental principles, including preventing and detecting bribery and corruption, which should extend into the supply chain. All our suppliers must comply with all laws relating to their business which includes human rights, business ethics, resilience, supplier diversity, skills development and environmental sustainability including the UK Bribery Act 2010. 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.

Whistleblowing

We have confidential external speak-up helplines available 24/7 in all the regions where we operate. We publicise the contact information to our employees and on our external website so concerns can be reported anonymously. Our policies make it clear that we will support and protect whistleblowers and any form of retaliation will not be tolerated.

Preventing modern slavery

We strive to prevent modern slavery from taking place anywhere in our business or in our supply chain.

We expect all our suppliers to be compliant with the Modern Slavery Act and to publish a Modern Slavery Statement if required. Each year, we update our own Modern Slavery Statement and publish this on our Company website in line with the Act's requirements. In 2019, our Statement was independently assessed by Development International, a new ranking of the nation's largest publicly listed organisations, and we were listed in the top quartile for FTSE100 listed companies. In 2018, we were also assessed by the Business & Human Rights Resource Centre (BHRRC) and were positioned 12th in the FTSE100 ranking and recognised as one of a 'small cluster of leaders standing out' in this space. BHRRC did not publish a ranking in 2019.

We work closely with our suppliers and peers to build on our knowledge and promote best practice in the industry to combat modern slavery. During 2019, we continued to engage with suppliers identified as being within potentially high-risk categories. Through this engagement, we encouraged our suppliers to conduct similar risk assessments with their own supply chain.

We also facilitated an industry masterclass to discuss common issues in the sector and work more closely together to increase awareness and drive positive change.

We are an active member of the United Nations Global Compact Modern Slavery Working Group, signatories to the Construction Protocol, and are working with Achilles to develop a community approach to address the issue. We are also revising our procurement process, so that modern slavery criteria and identifying human rights risks form part of our sourcing process.

In 2019 we signed up to the People Matter Charter which has been created by the Supply Chain Sustainability School, of which we are a partner member, to develop and implement consistent workforce standards throughout our industry.

Our communities

We are committed to delivering sustainable energy safely, reliably and affordably for the communities we serve. In 2019 we recognised the importance of ensuring that our communities enjoy the benefits of the clean energy transition and that no one should be left behind in delivering those benefits.

These shifts in our sector will require investment. We are committed to working with the communities we serve to help them meet, or exceed, their overall climate and carbon ambitions, and we will look to do so in an affordable way. As we develop long-term affordability targets, we will ensure that National Grid's cost to our customers is reported transparently on an annual basis.

As well as affordability, the principle of fairness is also important. We will play our role in ensuring that no-one is left behind in the transition to clean energy, and that the associated benefits are enjoyed by all. A fully decarbonised transportation infrastructure, for example, should be accessible by everyone across the communities we serve.

Finally, we embrace our responsibility to maintaining the delivery of energy to the communities we serve, safely and reliably.

Engaging with our communities

We regularly seek feedback from our customers to find out what they think of us and the services we provide, and take the appropriate action to improve and exceed customer satisfaction. You can read more about our customer satisfaction performance on page 9.

Supporting communities to thrive

Responsibility in our communities means safely maintaining the resilient energy systems society expects and has become accustomed to, as well as ensuring that our economic and social role in the community has the greatest possible positive impact. That's why we partner with charity organisations and encourage and enable our employees to volunteer to work with them. In early 2020 we launched a Company-wide community investment strategy to ensure that our programmes enable skills development with a focus on lower-income communities. These programmes are intended to create employment opportunities in the energy sector, related to the clean energy transition. We are committed to tracking programme participants from initial interaction all the way through to eventual employment either at National Grid, our partners, suppliers or other organisations involved in the challenge of meeting net zero.

Part of our responsibility is to serve society fairly and affordably. In response to COVID-19, National Grid has donated to £0.5 million to various charities to ease the burden on affected communities.

National Grid established a £150 million Warm Homes Fund. This is the largest private sector investment in energy efficiency ever made in the UK, and is designed to support local authorities, registered social landlords and partnerships to help approximately 50,000 households suffering from fuel poverty. Protecting vulnerable customers remains a key priority as we seek to ensure that no one gets left behind in the transition. And by engaging with customers to reduce their energy usage, we can also help them reduce their carbon emissions, contributing to the overall decarbonisation of the economy.

Reliability and resilience are part of our social contract. There isn't a choice between a clean energy system and a reliable one. And due to the effects of climate change, we expect our network will need to be more prepared to recover from extreme weather events, and we are committed to ensuring the reliability of supply, as well as playing a leading role in disaster recovery.

We continue to nurture the talent and capability of our employees and our commitment to inclusion and diversity. Our management population is now comprised of 26.4% women and 15.2% minorities, but we still need to do more. Connecting better with our customers is enabled by diversity of thought and that can only come from diversity of our people.

Giving back to the communities in which we operate is always important to us. Our combined Group-wide contribution was £54 million.

Internal control and risk management

The National Grid Electricity Transmission Board is committed to protecting and enhancing our reputation and assets, while safeguarding the interests of our stakeholders. It has overall responsibility for the Company's system of risk management and internal control.

Managing our risks

National Grid Electricity Transmission is exposed to a variety of uncertainties that could have a material adverse effect on its financial condition, its operational results, its reputation, and its value.

The National Grid Electricity Transmission Board oversees the Company's risk management and internal control systems as it relates to our electric operations. The Board assesses these risks and monitors the risk management process through risk review sessions at least twice a year.

Risk management process

Overall risk strategy, including the risk appetite for the Group, policy and process are set at the Group level by National Grid plc with implementation owned by National Grid Electricity Transmission. Our enterprise risk management process provides a framework through which we can consistently identify, assess and prioritise, manage, monitor and report risks.

Our UK Regional risk profile, which is presented to National Grid Electricity Transmission Board biannually, contains the most important operational, strategic, regulatory, financial and people risks currently facing the Company as we endeavour to achieve our strategic objectives. We agree these top risks through implementation of our top-down/bottom-up risk management process. The risks are reported and debated with the National Grid UK Executive Committee at least every three months.

The UK Regional risk profile informs our Group Principal Risk profile which is tested annually to establish the impact on the Company's ability to continue operating and to meet its liabilities over a specified assessment period. We test the impact of these risks on a reasonable worst-case basis, alone and in clusters, over a five-year assessment period. This work informs our viability statement. The five-year period was carefully considered in light of the current COVID-19 pandemic and other external factors and with appropriate assumptions, this period remained appropriate for our stable regulated business model.

The Board, Group Executive Committee and other leadership teams discuss the results of the annual principal risk testing at the end of the year.

Changes during the year

The UK Regional risk profile continues to be managed by drawing upon the most significant risks across our UK business profiles.

In 2019/20, we reviewed our assessment of the potential threats, opportunities and impacts from climate change including the impact of both our operations on climate change and of climate change on our operations as well as the transitional risk during the evolution to a net zero economy in developing a new climate change risk.

Since the onset of the COVID-19 pandemic we have continually assessed its impact on our people, finances and all aspects of our operations, including the impact on our transmission systems on managing the changes in energy demand across our UK networks. Regular updates on the pandemic management have been provided to the UK management teams and updates to the Board.

A negative outcome from RIIO-2 and the continuing possibility of a hard Brexit remain our most important emerging threats . The Company continues to monitor developments.

With the addition of new risks addressing climate change and our response to the COVID-19 pandemic, the UK Regional risks are reviewed quarterly at the UK Executive Committee level including the Key Risk Indicators (KRIs), developed last year to help embed the risk appetite framework in the business and enhance the monitoring and mitigation of risks.

The UK Regional risk profile as it relates to Electricity Transmission is presented in the table below.

Our most important risks and uncertainties

Accepting that it is not possible to identify, anticipate or eliminate every risk that may arise and that risk is an inherent part of doing business, our risk management process aims to provide reasonable assurance that we understand, monitor and manage the main uncertainties that we face in delivering our objectives. This aim includes consideration of inherent risks, which exist because of the nature of day-to-day operations in our industry, and financial risks, which exist because of our financing activities. Our most important risks and a summary of management and mitigation actions are provided in the table below.

<table>
<tr><td colspan="2">Operational Risks

Operational risks relate to the losses resulting from inadequate or failed internal processes, people and systems, or due to external events. These risks normally fall within our low-risk appetite level as there is no strategic benefit from accepting the risk, as it will not be in line with our vision and values. Our operational principal risks have a low likelihood of occurring. However, should an event occur, without effective prevention or mitigation controls, it would be likely to have a high level of impact. The risk owners, executive leaders, and their teams develop and monitor actions to control the risks.</td></tr>
<tr><td>Risks</td><td>Action taken by management</td></tr>
<tr><td>Failure to prepare and respond to significant disruptive factors caused by the COVID-19 pandemic because of poor development and execution of our response plans resulting in an impact on our ability to maintain our networks, provide service, support our people and meet our liquidity/ financial targets, as well as reputational and regulatory obligations.

Risk trend: New risk</td><td>The COVID-19 pandemic impacts multiple areas of our business, therefore our response plan to this risk involves a comprehensive plan, to support the safety of our workforce and customers, that is frequently revised and adjusted due to the dynamic profile of this risk.

This includes:

• People: monitoring of absence and wellbeing, and monitoring of current working practices; employee 360-degree communications planning.
• Stakeholders: frequent engagement with internal and external stakeholders, including customers, shareholders and regulators.
• Finance: review and monitoring of cash flow levels under various scenarios; access to short- and long-term debt facilities
• Operations: prioritisation of critical processes, redeployment of workforce, assessment of our supply chain resilience and analysis of network availability and reliability.</td></tr>
<tr><td>Catastrophic asset failure on Electricity Transmission System leading to a significant public safety event.

Risk Trend: Neutral</td><td>This year, we continued to focus on risk mitigation actions designed to reduce the risk and help meet our business objectives. We incorporated monitoring action status into various business processes and senior leadership including:

• Putting our Group-wide process safety management system in place to make sure a robust and consistent framework of risk management exists across our higher hazard asset portfolio, with safety critical assets clearly identified on the asset register;
• Implementing asset management and data management standards with supporting guidelines to provide clarity around what is expected, with a strong focus on what we need in place to keep us safe, secure and legally compliant; and
• In support of this, we developed a capability framework to make sure our people have the appropriate skills and expertise to meet the performance requirements in these standards.</td></tr>
</table>

CNI and/or Enterprise IT systems fail with a full scale outage leading to the potential of regulatory fines, loss of licence and loss of customer / regulator trust. **Risk Trend:** Neutral *Abuse of digital systems such that the confidentiality, availability or integrity of systems and/or operational data is compromised.* **Risk Trend:** Increasing	We continue to commit significant resources and financial investment to maintain the integrity and security of our systems and our data by continually investing in strategies that are commensurate with the changing nature of the security landscape. This includes: • Collaborative working with UK Government agencies including the Department for Business, Energy and Industrial Strategy (BEIS), the Centre for Protection of National Infrastructure (CPNI) and the Department for Homeland Security on key cyber risks. • Development of an enhanced critical national infrastructure security strategy. • Our involvement in the development of Cyberspace Security Frameworks • Awareness and training and control self-assessments; and Cyber response incident procedures and contingency planning.
An asset or assets fail on the electricity transmission system leading to a serious loss of supply **Risk Trend:** Neutral	We continue to apply a holistic approach encompassing preventative and mitigating actions including pre-emptive measures to maintain network reliability such as: • Flood contingency plans for substations. • System operator supply and demand forecasting. Should energy flow disruptions occur: • Business continuity and emergency plans are in place and practised, including black start testing; and • Critical spares are maintained to ensure we can quickly and effectively respond to a variety of incidents - storms, physical and cyber-related attacks, environmental incidents and asset failures.
Our workers, contractors or members of the public experiences an occupational safety incident that results in a fatal or life-changing injury. **Risk Trend:** Neutral	This year the risk mitigation included: • Implementation of new Business Management System standard Implementation of 20/21 SHE plan (incl safety culture survey action. • Safety Leadership Visit programme. • UK-level safety good practice sharing process. • Improved incident reporting & follow up processes. • Review of lone working in operational & non-operational areas Rollout/embed SHS back to basics (basic safety competence) for operational and non-operational areas. • Further embedded learning from historic incidents into our projects.
Failure to anticipate and minimise the adverse impact from disruptive forces such as technology and innovation on our business model. **Risk Trend:** Neutral	NGP, the NG Group's central innovation function, is developing our strategy with regards to new technology and monitoring disruptive technology and business model trends, acting as a bridge for emerging technology into the core regulated businesses and business development teams. In addition, NGP is investing in emerging start-up companies and in venture funds.

Failure to adequately identify, collect, utilise and keep private the physical and IT data required to support company operations and future growth. **Risk Trend:** Neutral	Controls for our IT processes have been redefined and are aligned to the Network Information and System Regulations in the UK. • We continue to progress and improve our data management processes including: • Implementation of our data and other related business management standards. • Data governance councils for UK region; and • Increased levels of data leadership and capability with the recruitment of a chief data officer and establishment of the chief data officer function.
Failure to deliver the investment programme **Risk Trend:** Reducing	Risk mitigations that have been targeted: • Ensure we have the sufficient regulatory allowances and defendable needs cases, in place to proceed with projects • Establish our approach to using early Technology Readiness Level (TRL) on projects • Ensure project scope locked down before tendering commencing and reframe from scope changes post contract award • Review project life cycle and gate processes, establish decision making frameworks and ensure sufficient time & resources for the end to end life cycle • Deliver to programme, ensuring we start on time and knowing when to intervene and how we will recover delays • Establish T2 contact and commercial framework, with appropriate contract types and liability regimes • Implement strategy for managing stakeholders, development and consenting to increase scrutiny of needs cases & external drivers
National Grid is not set up to deliver on RIIO -2 outcome. **Risk Trend:** Neutral	This is a recently added risk, mitigations include: • Creation and exercise of transition plan. • Build performance plan and underlying business cases. • Scope and create transformation programme to bridge the gap between the performance plan baseline and required performance.

Strategic and regulatory risks
Strategic risk is the risk of failing to achieve the Company's overall strategic business plans and objectives, as well as failing to have the 'right' strategic plan. We voluntarily accept some risk so we can generate the desired returns from our strategy. Management of strategic risks focuses on reducing the probability that the assumed risk would materialise, while improving the Company's ability to effectively respond to the risk should it occur. The risk owners, executive leaders, and their teams develop and monitor actions to control the risks.The political climate and policy decisions of our regulators in 2019/20 were key considerations in assessing our risks. As referred to above, the new climate change related risk is classed as a strategic and regulatory risk but is also an operational risk, i.e. the impact of rising temperatures and widening temperature ranges on the performance and operation of our networks.

Risks	Action taken by management
Failure to identify and/or deliver actions necessary to ensure our business model, strategy, asset management and operability respond to the physical and transition impacts of climate change, and enable the UK to transition to net zero Risk Trend: New Risk	Putting in place measures to develop: • Evolution of our environmental sustainability metrics to better reflect our strategy, measure our impact and track our progress. • Organisational design changes appropriate to meet this challenge with a single point of contact for all climate change actions and activities. • Approval of a revised environmental sustainability strategy, including our strategy for heating and gas, with granular actions identified to achieve net zero. • Note that a number of the above measures also address the physical impacts of climate change on our operations. • We have committed to full compliance with the Task Force on Climate-related Financial Disclosures (TCFD) requirements including physical and transitional scenario analysis. • Ongoing work to address transition risks and opportunities includes: • Ensuring our electricity network is reliable and able to actively support and contribute to a future where renewables and intermittency of supply are increasing. • Supporting the charging infrastructure required for increased use of electric vehicles. • Facilitating decarbonisation in the UK including zero carbon operation of the GB electricity system through ESO in the UK. • Continuing work to develop programmes to develop skills in our current and future workforce. Working with regulators and industry parties in the UK on the future of heat in the long term.
By the end of RIIO -1 we have failed to defend existing allowances or failed to secure adequate new revenues to fund the efficient cost of providing the outcomes our customers want and a reasonable return for shareholders. Risk Trend: Increasing *We are unable to secure an acceptable RIIO-T2 regulated settlement* Risk Trend: Increasing *Competitively Appointed Transmission Owners not passed into legislation in the next couple of years.* Risk Trend: Neutral	We strive to maintain a good understanding of the regulatory agenda and emerging issues, so that robust, public interest aligned responses can be selected and developed in good time. Our reputation as a competent operator of important national infrastructure is critical to our ability to do this. We have plans and governance structures in place to address specific issues such as RIIO-2. Ongoing work to support our regulatory relationships includes: • Our internal teams focused on messaging around gas capacity, large-scale renewables, utilities of the future and electric vehicles. • Establishment of UK Regulatory Steering Committees; and • Increased focus on understanding the needs and expectations of all our stakeholders through regulatory relationship surveys, investor surveys and review of media sentiment.

We fail to operate our compliance procedures in a way that supports the management of the business in compliance with the terms of the licences and laws we operate under. Risk Trend: Neutral	Risk mitigations include: • Business Management System (BMS) Standards embedded within the business • Risk & Controls reporting and oversight • Risk & Controls Project initiated • Implementation of GRC system • My Finance implementation
Failure to respond to shifts in societal and political expectations and perceptions lead to threats to the Company's license to operate and ability to achieve its objectives. Risk Trend: Neutral	Processes and resources are in place to review, monitor and influence perceptions of our business and our reputation including by: • Enhancing and consolidating our digital roadmap and social channels. • Developed an internal forum to increase management of stakeholder and media reputational issues. • Delivering on our commitment to be a responsible business • Implementing campaigns to recruit for the future - e.g. 'The Job That Can't Wait' • Promoting partnerships and discussions of decarbonisation across the jurisdictions where we operate. These processes, along with twice-yearly Board strategy offsite discussions, are reviewed regularly to ensure they continue to support our short- and long-term strategy. We regularly monitor and analyse market conditions, competitors and their potential.

People
It is through the high-quality work of our employees that we will achieve our vision, respond to the changing needs of our stakeholders and create a competitive advantage. Building and fostering an engaged and talented team that has the knowledge, training, skills and experience to deliver our strategic objectives is vital to our success. We must attract, integrate and retain the talent we need at all levels of the business.

Risks	**Action taken by management**
We cannot attract, recruit, develop or retain people with the right skills, capabilities and engagement to deliver our strategy and UK priorities Risk Trend: Neutral *UK business will not deliver the actions needed quickly enough in order to achieve the UK enablement target, resulting in frustrated employees unable to deliver strategic objectives or respond appropriately to external pressures* Risk Trend: Neutral	We have embedded strategic workforce planning in our UK organisation. This process helps to effectively inform financial and business planning, as well as human resourcing needs. Our entry-level talent development schemes (graduate training and apprenticeships) are a potential source of competitive advantage in the market place. We are involved in a number of initiatives to help secure the future engineering talent we require, including the UK annual residential work experience week. We also continue to develop the rigour of our succession planning and development planning process, particularly at senior levels. It is now being applied deeper into the organisation as well as continued attention in relation to the ethnic diversity of both our management and field force population. There are multiple activities underway to drive this agenda, including 'blind' talent and selection processes, development interventions and a global review of our inclusion and diversity strategy and resources. During the year in the UK a three-year labour agreement was reached with our trade unions, introducing revised terms and conditions.

Finance Risks While all risks have a financial liability, financial risks are those which relate to financial controls and performance. Financial risk management is a critical process used to make investment decisions and aims to maximise investment returns and earnings for a given level of risk. Our key financial risks, which are incorporated within the notes to our consolidated financial statements	
Risks	**Action taken by management**
We are unable to achieve the internal and external financial commitments that the UK business have made for RIIO-T1 Risk Trend: Neutral	Risk mitigation includes: • Collective leadership discipline of delivering to commitments. • Using the benefits tracking tool to ensure we understand business progress. • QRF / QPR Drumbeat process to capture financial threats and opportunities. • Continued focus on forecasting and monitoring cash flow and funding requirements • Initiation of profit challenge group meetings

Our internal control processes

We have a number of processes to support our internal control environment. These processes are managed by dedicated specialist teams, including risk management, ethics and compliance management, corporate audit and internal controls, and safety, environment and health. Oversight of these activities is provided through regular review and reporting to the Board and appropriate Board committees as outlined in the Corporate Governance section on pages 33 to 38.

Monitoring internal control is conducted through established boards and committees at different levels of the National Grid plc organisation. Deficiencies are reported and corrected at the appropriate entity-level. The most significant risk and internal controls issues are monitored at the Group Executive and National Grid plc Board level. The Company's Audit Committee is responsible for keeping under review and reporting to the Board on effectiveness of reporting, internal control policies, Bribery Act legislation, appropriateness of financial disclosures and procedures for risk and compliance management, business conduct and internal audit.

Reviewing the effectiveness of our internal control and risk management

The Board continually monitors and assesses the effectiveness of our internal control systems and risk management processes covering all material systems, including financial, operational and compliance controls, to make sure they remain robust. In this review, the Board considers the effectiveness of areas such as the control environment, risk management and internal control activities, including those described below.

Fostering a culture of integrity is an important element of our risk management and internal controls system. National Grid's values: 'do the right thing', 'finding a better way' and 'make it happen' provide a framework for reporting business conduct issues, educating employees and promoting a culture of integrity at all levels of the business. We have policies and procedures in place to communicate behaviour expected from employees and third parties, and to prevent and investigate fraud and bribery and other business conduct issues. We monitor and address business conduct issues through several means, including a bi-annual review by the Audit Committee.

Overall compliance strategy, policy and frameworks are set at the National Grid plc Group-level with implementation owned by National Grid Electricity Transmission. The business is responsible for identifying compliance issues, continuous monitoring, and developing actions to improve compliance performance. We monitor and address compliance issues, through several means including reviews leadership meetings and a bi-annual review by the Audit Committee.

A feature of our internal controls system is our three lines of defence model. This model is a way of explaining the relationship between functions and how responsibilities for risk and controls are allocated and monitored. Each business function owns and is responsible for managing its own particular risk and controls (the first line of defence). Central management teams (the second line of defence) act as an advisory function on implementing the principal risk assessments and actions taken to mitigate and manage those risks. Our internal audit function then audits selected controls to provide independent assessments of the effectiveness of our risk management and internal control systems (the third line of defence).

The Certificate of Assurance (CoA) from the NGET plc CEO to the Board provides overall assurance around the effectiveness of our risk management and internal controls systems. The CoA process operates via a cascade system and takes place annually in support of the Company's full year results. The Audit Committee considers the CoA and provides a recommendation to the Board in support of its review.

Internal control over financial reporting

Periodic Sarbanes-Oxley (SOX) reports regarding Management's opinion on the effectiveness of internal control over financial reporting are received by the Board in advance of the half and full year results. Reports conclude on NGET's compliance with the requirements of s404 of the Sarbanes-Oxley Act, and are received directly from the Group Controls Team; and through the Executive and Audit Committees. This is to satisfy the reporting requirements for National Grid plc.

We have specific internal mechanisms that govern the financial reporting process and the preparation of the Annual Report and Accounts. Our financial controls guidance sets out the fundamentals of internal control over financial reporting, which are applied across the Company. Our financial processes include a range of system, transactional and management oversight controls. In addition, our businesses prepare detailed monthly management reports that include analysis of their results, along with comparisons to relevant budgets, forecasts and prior year results. These are presented to, and reviewed by, senior management within our Finance function.

These reviews are supplemented by quarterly performance reviews, attended by the CEO and Finance Director. The reviews consider historical results and expected future performance and involve senior management from both operational and financial areas of the business. Each month, the Finance Director presents a consolidated financial report to the Board.

Viability statement

The Board's consideration of the longer-term viability of the Company is an extension of our business planning process. This process includes financial forecasting, a robust risk management assessment and, regular budget reviews. Our business strategy aims to enhance our long-term prospects by making sure our operations and finances are sustainable.

National Grid Electricity Transmission plc (NGET) is a wholly owned subsidiary of National Grid plc which performed a group wide business plan that was reviewed and approved by the National Grid plc Board and which included detail of the NGET operating segment. Details of the National Grid viability statements can be found in the National Grid plc Annual Report and Accounts 2019/20 on page 26, which details the worst case scenarios considered.

The Board have concluded that five years is the most appropriate timeframe over which to assess the long-term viability of the Company given our business model, current regulatory clarity, other factors impacting our operating environment, and the robustness of our business planning process. This is in line with our five-year business plan and one year budget which are reviewed and approved by the NGET Board.

The business plan considers the significant solvency and liquidity risks involved in delivering our business model in light of our strategic priorities. We have set out the details of the principal risks facing our Company on pages 19 to 24, described in relation to our ability to deliver our strategic objectives. We identify our principal risks through a robust assessment that includes a continuous cycle of bottom up reporting and review, and top down feedback.

The business model calls for significant capital investment to maintain and expand our network infrastructure. To deliver this, our business plan highlights that we will need to access capital markets to raise additional funds from time to time. We have a long and successful history in this regard. Although financability is formally assessed at a group level, the board considers key funding from operations / net debt metrics used by lenders in assessing a company's credit worthiness.

The NGET plc Board review and approve the annual certificates in respect of compliance with certain licence conditions (including Financial Ring-fencing, and Availability of Resources). The Electricity Transmission Financial Ring-fencing certificate was approved by the Board in July 2020, and the Availability of Resources certificate was issued in July 2020.

In assessing the impact of the principal risks on the Company, the Board has considered the fact that we operate in stable markets and the robust financial position of the Company, including the ability to raise capital, suspend or reduce the payment of dividends and seek financial support from National Grid plc. It has also considered Ofgem's legal duty to have regard to the need to fund licenced NGET activities.

Based on the assessment described above and on page 39, the Directors have a reasonable expectation that the Company will be able to continue operating and meet its liabilities over the period to July 2024.

The Strategic Report was approved by the Board of Directors on **21 July 2020** and signed on its behalf by:

Alistair Todd

UK CFO

Financial review

Revenue decreased by £1,365 million to £1,988 million and operating profit increased by £479 million to £1,240 million, both of which were in line with expectations, the exceptional items covered below and the impacts of the legal separation of the Electricity System Operator business.

Initial assessment of the potential impact of the COVID-19 pandemic on the Company's position and results

The COVID-19 pandemic has resulted in a pause to some capex work and although some adaptations to the new environment have been required, there has been no significant cost increase in 2019/20.

For 2020/21, we are working with other network companies and Ofgem to help suppliers address financial challenges caused by COVID-19, without imposing additional burdens on consumers, which may reduce the level of collected revenues. We also expect some reduction to our capital programme as we adapt to movement restrictions and more limited access to sites. This may result in increased reported operating costs associated with employee and contractor costs that would otherwise have been capitalised. We also expect some increases in operating costs associated with operations during the pandemic (e.g. IT costs, cleaning, accommodation for operationally critical employees) although these may be partly offset by mitigating actions.

New accounting standards

As of 1 April 2019, we adopted IFRS 16 'Leases'. Further details are provided within Note 33 of the financial statements.

Power outage

On the 9 August 2019, following the near simultaneous tripping of two large power generators, various parts of England and Wales experienced power outages. A technical report was submitted to Ofgem by the UK Electricity System Operator (ESO) in September 2019 and Ofgem published their findings on the power outage in January 2020 which confirmed the Company's infrastructure did not cause the outage nor did the Company breach its Licence. Following the outage, we have worked with NGESO, Ofgem and other sectors involved to learn any lessons from this incident.

Brexit

As described elsewhere in the Strategic report, our Brexit working group considered the issues and consequences of the UK's decision to leave the EU. In the last month of 2018/19, and in anticipation of the original 29 March 2019 deadline for the UK to exit the EU, we executed our plan to bring forward the procurement of key items for capital delivery and operations in case of delays at ports. These actions did not have a material effect on the financial results for the year.

Legal Separation

On 1 April 2019, the UK Electricity System Operator became a legally separate company, with its own Board of Directors, within the National Grid Group. Further details are provided within Note 9 of the financial statements.

Use of adjusted profit measures

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

The first of these components is referred to as an adjusted profit measure, also known as 'Headline' or a' business performance' measure. This is the measure used by management that forms part of the incentive target set annually for remunerating certain Executive Directors. Adjusted results exclude the impact of exceptional items and remeasurements that are treated as discrete transactions under IFRS and can accordingly be classified as such. These items are reported collectively as the second component of the financial measures. Note 5 of the financial statements explains in detail the items which are excluded from our adjusted profit measures.

Adjusted profit measures have limitations in their usefulness compared with the comparable total profit measures as they exclude important elements of our financial performance. However, we believe that by presenting our financial performance in two components it is easier to read and interpret financial performance between periods, as adjusted profit measures are more comparable having removed the distorting effect of the excluded items. Those items are more clearly understood when separately identified and analysed.

The presentation of these two components of financial performance is additional to, and not a substitute for, the comparable total profit measures presented.

Management uses adjusted profit measures as the basis for monitoring financial performance. These measures are also used by National Grid in communicating financial performance to its investors in external presentations and announcements of financial results.

Internal financial reports, budgets and forecasts are primarily prepared on the basis of adjusted profit measures, although planned exceptional items, such as significant restructuring, are also reflected in budgets and forecasts. We separately monitor and disclose the excluded items as a component of our overall financial performance.

Reconciliations of adjusted profit measures

Reconciliation of adjusted operating profit to total operating profit

There was an exceptional item included within operating profit for the year ended 31 March 2020, this related to the disposal of the UK Electricity System Operator. Unadjusted and adjusted profit figures are provided below.

In the year ended 31 March 2019, there were exceptional items for the nuclear development write off and, restructuring programmes.

	Years ended 31 March	
	2020	2019
	£m	£m
Adjusted operating profit	1,098	998
Exceptional items[1]	142	(237)
Total operating profit	1,240	761

[1] Additional detail is provided in Note 5 of the financial statements.

Exceptional items

For the year ended 31 March 2020 there is one significant exceptional item, being the disposal of the Electricity System Operator ('ESO') business on 1 April 2019.

The UK Electricity System Operator became a legally separate company, with its own Board of Directors, within the National Grid Group. The valuation of the ESO business was £450 million.

As a result of required working capital adjustments to that valuation, the net consideration received from NGESO for the assets and liabilities of the ESO business was £302 million. After disposing of £160 million of net assets, this resulted in a gain on disposal of £142 million. This resulting gain of £142 million is presented as an exceptional item in the income statement.

Reconciliation of adjusted operating profit to adjusted earnings and earnings

	Years ended 31 March	
	2020	2019
	£m	£m
Adjusted operating profit	1,098	998
Adjusted net finance costs	(187)	(157)
Adjusted profit before tax	911	841
Adjusted taxation	(181)	(164)
Adjusted earnings	730	677
Exceptional items after tax	29	(187)
Remeasurements after tax	(2)	(7)
Earnings from continuous operations	757	483

Reconciliation of adjusted profit excluding timing differences to total operating profit

Adjusted profit excluding timing differences is presented below. Timing differences relate to the over or under collection of revenue in year, this is explained in detail on page 30.

	Years ended 31 March	
	2020	2019
	£m	£m
Adjusted operating profit excluding timing differences	1,013	1,075
Timing differences[1]	85	(77)
Adjusted operating profit	1,098	998
Exceptional items[2]	142	(237)
Total operating profit	1,240	761

[1] In year over-recovery of £85 million compared with an under-recovery in the prior year of £77 million (including the ESO business).

[2] Details of exceptional items can be found in Note 5 of the financial statements.

Consolidated income statement

	Years ended 31 March	
	2020	2019
	£m	£m
Revenue	1,988	3,353
Operating costs	(890)	(2,355)
Adjusted operating profit	1,098	998
Exceptional items	142	(237)
Total operating profit	1,240	761
Finance income	5	7
Finance costs:		
Before exceptional items and remeasurements	(192)	(164)
Exceptional items and remeasurements	(11)	(2)
Profit before tax	1,042	602
Taxation:		
Before exceptional items and remeasurements	(181)	(164)
Exceptional items and remeasurements	(104)	45
Profit after tax	757	483

UK Electricity Transmission statutory revenue and costs decreased by approximately £1.4 billion following the disposal of the ESO business.

Revenue

Revenue for the year ended 31 March 2020 decreased by £1,365 million to £1,988 million. This is following the disposal of the UK Electricity System Operator (ESO) which contributed £1,406m of revenues in the prior year. The positive movement in timing differences offset the lower underlying revenues.

Operating costs

Operating costs for the year ended 31 March 2020 of £890 million were £1,465 million lower than the prior year. The reduction in operating costs is driven by the disposal of the ESO which in 2019 included the £1.2 billion of Balancing Services Incentive Scheme costs.

Adjusted operating profit decreased by £62 million to £1,013 million of which the removal of the ESO profits accounted for £32 million, being its operating profit reported last year.

Net finance costs

For the year ended 31 March 2020, net finance costs before exceptional items and remeasurements increased by £30 million to £187 million. This reflected lower capitalised interest as major schemes like Western Link HVDC ceased to attract interest.

Exceptional finance costs increased by £9 million to £11 million for the year ended 31 March 2020.

Taxation

The tax charge on profits before exceptional items and remeasurements was £17 million higher than the prior year as a result of higher profits excluding exceptional items.

Taxation after exceptional items was £149 million higher than the prior year as a result of deferred tax arising on the reversal of the reduction in the UK corporation tax rate on the 17 March 2020. The prior year included a tax charge on the exceptional items.

Consolidated statement of financial position

	Year ended 31 March	
	2020	2019
	£m	£m
Non-current assets	**14,377**	13,506
Current assets[1]	**470**	1,054
Total assets	**14,847**	14,560
Current liabilities[1]	**(1,824)**	(3,068)
Non-current liabilities	**(8,963)**	(7,509)
Total liabilities	**(10,787)**	(10,577)
Net assets	**4,060**	3,983

1 The comparison in 2019 includes assets or liabilities held for sale being transferred to ESO operations on 1 April 2019.

Property, plant and equipment

Property, plant and equipment increased by £459 million to £13,403 million as at 31 March 2020. This was principally due to capital expenditure of £904 million, offset by £437 million of depreciation in the year.

Trade and other receivables

Trade and other receivables have increased by £121 million to £222 million at 31 March 2020. This includes social security and other taxes now being a receivable following legal separation as revenues charged to NGESO, which is part of the same VAT group, do not attract VAT, leaving the Company in a VAT recoverable position.

Trade and other payables

Trade and other payables have decreased by £55 million to £530 million. This is largely due to a decrease in social security and other taxes which is now a receivable as noted above.

Deferred tax liabilities

The net deferred tax liability increased by £200 million to £1,114 million. This includes £106 million deferred tax charge impact in the year arising on the reversal of the UK corporation tax rate changes announced in March 2020.

Net debt

Net debt has increased by £538 million as detailed below.

Provisions

Total provisions increased by £16 million, driven by a £31 million decommissioning provision for the Western Link HVDC, offset by utilisation of £16 million on the restructuring provision.

Other non-current liabilities

Other non-current liabilities decreased by £32 million.

Contract Liabilities

Contract liabilities increased by £27 million.

Net pensions (obligations)/surplus

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

Net scheme (liability)/asset	**£m**
As at 1 April 2019	74
Current service cost	(19)
Past service costs:	
Augmentations	—
Redundancies	—
Plan amendments	—
Special termination benefit cost - redundancies	(1)
Net interest cost	3
Administration and other	—
Actuarial gains	
on plan assets	(23)
on plan liabilities	272
Change in longevity swap value	(16)
Employer contributions	89
As at 31 March 2020	379

The principal movements during the year include net actuarial gain of £233 million and employer contributions of £89 million. The overall movement in the asset was an increase of £305 million to show a closing pension asset of £379 million.

Further information on our pensions benefit obligations can be found in note 21 of the consolidated financial statements.

Off balance sheet items

There were no significant off balance sheet items other than the contractual obligations shown in note 28 (b) to the consolidated financial statements, and the commitments and contingencies discussed in note 26.

Cash flow statement

Cash inflows and outflows are presented to allow users to understand how they relate to the day-to-day operations of the business (operating activities); the money that has been spent or earned on assets in the year, including acquisitions of physical assets or other businesses (investing activities); and the cash raised from debt or share issues and other loan borrowings or repayments (financing activities).

Reconciliation of cash flow to net debt

	2020 £m	2019 £m
Cash generated from operations	**1,440**	1,323
Net capital expenditure	**(892)**	(799)
Business net cash flow	**548**	524
Net interest paid	**(138)**	(120)
Tax paid	**(213)**	(109)
Net disposals of short term financial investments	**70**	(43)
Net proceeds/(repayments) from loans	**358**	(308)
Settlement of short term borrowings and derivatives	**(91)**	62
Proceeds from sale of investments in subsidiaries	**302**	-
Dividends paid to shareholders	**(869)**	-
(Decrease)/Increase in cash and cash equivalents	**(33)**	6
(Decrease)/increase in financial investments	**(70)**	43
Decrease/(increase) in borrowings and related derivatives	**(267)**	246
Net interest paid on the components of net debt	**138**	120
Changes in fair value of financial assets and liabilities and exchange movements	**(12)**	(18)
Net interest charge on the components of net debt	**(227)**	(228)
Impact of transition to IFRS 16	**(67)**	-
Net debt (increase) / decrease	**(538)**	169
Opening net debt	**(7,381)**	(7,550)
Closing net debt	**(7,919)**	(7,381)

For the year ended 31 March 2020 cash flow from operations increased by £117 million to £1,440 million. The increase was driven by lower working capital outflows.

Net capital cash expenditure

Net capital investment increased by £93 million to £892 million in the year to date 31 March 2020. This reflects an increase in Property Plant and Equipment additions and higher stage payments on Western Link HVDC following its commissioning.

Net interest paid

The net interest paid is £18 million higher reflecting higher net debt.

Dividends paid

Dividends of £869m were declared and paid in July 2019 in respect of the year ending 31 March 2019. No interim dividends have been paid. It was agreed at the 21 July 2020 board meeting that £434 million will be allocated for the 2019/20 dividend.

Other

Other principally relates to non-cash movements due to changes in fair values of financial assets and liabilities, interest accretions, accruals and foreign exchange movements arising on net debt held in currencies other than sterling.

Regulated financial performance

Timing and Regulated Revenue Adjustments

Our allowed revenues are set in accordance with our regulatory price control. We calculate the tariffs we charge our customers based on the estimated volume of energy we expect will be delivered during the coming period. The actual volumes delivered will differ from this estimate. Therefore, our total actual revenue will be different from our total allowed revenue. These differences are commonly referred to as timing differences.

If we collect more than the allowed level of revenue, the balance must be returned to customers in subsequent periods, and if we collect less than the allowed level of revenue we may recover the balance from customers in subsequent periods.

The amounts calculated as timing differences are estimates and subject to change until the variables that determine allowed revenue are finalised. Our operating profit for the year includes a total estimated in-year over-recovery of £85 million (2018/19: £77 million under-recovery including the ESO business). Our closing balance at 31 March 2020 was £56 million over-recovery which will be repaid to customers in subsequent periods (2018/19: under-recovery of £118 million including the ESO business).

In addition to the timing adjustments described above, as part of the RIIO price controls, outperformance against allowances as a result of the totex incentive mechanism, together with changes in output-related allowances included in the original price control, will almost always be adjusted in future revenue recoveries, typically starting in two years' time. We are also recovering revenues in relation to certain costs incurred (for example pension contributions made) in prior years.

Our current IFRS revenues and earnings will therefore include these amounts that will need to be repaid or recovered in future periods. Such adjustments will form an important part of the continuing difference between reported IFRS results and underlying economic performance based on our regulatory obligations.

Return on Equity

Return on Equity for the year, normalised for a long-run RPI inflation rate of 3%, was 13.5% (2019: 13.7%) compared with a regulatory assumption, used in calculating the original revenue allowance, of 10.2%. The principal components of the differences are shown in the table below:

Year ended 31 March	**2020**	2019
Base return (including avg. 3% long-run inflation)	**10.2%**	10.2%
Totex incentive mechanism	**2.5%**	2.3%
Other revenue incentives	**0.1%**	0.5%
Return including in year incentive performance	**12.8%**	13.0%
Pre-determined additional allowances	**0.7%**	0.7%
Return on Equity	**13.5%**	13.7%

RoE reduced 20 basis points year on year. Totex performance increased with improved operating cost performance, driven by a continued focus on efficiency. Other revenue incentives fell 40 basis points largely by the removal of ESO incentive revenues. Additional allowances contributed 70 basis points of performance, in line with last year.

We aim to deliver the outputs and essential maintenance required by the RIIO framework in a sustainable and efficient way to deliver best value for consumers and shareholders.

We continued to deliver good performance under the stakeholder engagements and customer satisfaction incentives and we continue to work to identify opportunities for future outperformance across these areas.

Regulated Financial Position

In the year, Regulated Asset Value (RAV) grew by 4.3% an increase on last year's growth rate driven by increased investment and inflation linked growth in the RAV. Net other regulatory liabilities increased by £129 million, primarily driven by the £85m in-year over-recovery of revenues.

£m	**2020**	2019[1]
Opening Regulated Asset Value (RAV)	**13,342**	13,045
Asset additions (aka slow money) (actual)	**986**	967
Performance RAV or assets created	**122**	90
Inflation adjustment (actual RPI)	**350**	321
Depreciation and amortisation	**(879)**	(886)
Closing RAV	**13,921**	13,537
Opening balance of other regulated assets and (liabilities)	**(309)**	(410)
Movement	**(129)**	175
Closing balance	**(438)**	(235)
Closing Regulated Financial Position	**13,483**	13,302

[1] March 2019 opening balances adjusted to correspond with 2018/19 regulatory filings and calculations and to remove ESO related balances.

Our stakeholders

As the Board of Directors, we prioritise our responsibilities to our different but mainly interrelated stakeholder groups and wider society. We seek to find out the interests of our stakeholders and reflect them in the decisions that we make. We recognise that in balancing those different perspectives, it isn't always possible to achieve each stakeholder's preferred outcome.

Section 172 Statement

The long-term success of our business is critically dependent on the way we work with a large number of important stakeholders. We aim to create value for our stakeholders every day by maintaining levels of business conduct that are governed by our values.

How our Board keeps up to date with stakeholder interests

- **Reporting and monitoring:** Our Company-wide engagement collates information on stakeholder interests that informs business-level decisions, with an overview of developments being reported on a regular basis to the Board or its Committees.
- **Direct engagement:** In other instances, one or more members of the Board may be involved directly in the engagement. In each case, it is important for all members of the Board to gain sufficient understanding of the issues relating to every stakeholder, so their views are taken into account in Board discussions.

The Board ensures that the Directors have acted both individually and collectively in a way that they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole with regard to all its stakeholders and to the matters set out in paragraphs (a) to (f) of section 172. Details on this are set out below:

Section 172	**Overview**
The likely consequence of any decision in the long term	The Board receives an annual update on the Company's forward business plan and how this aligns to the National Grid Group's purpose, vision, strategy and values. During the reporting period, the Board has held a Strategy Day outside of the regular Board meeting calendar to focus on the longer-term risks and opportunities facing the Company.
The interests of the Company's employees	The Directors understand the importance of the Company's employees and the wider National Grid Group workforce providing support to the Company's business and operations to the long-term success of the business. The health, safety and wellbeing of employees remains a main priority. Details on our commitment to creating a Generative Safety Culture can be found on page 14. During the year, the Board has received briefings in relation to effective workforce engagement and has an action plan in place to map out its current workforce engagement activities. This in turn will inform the future development of the Board's consideration of the interests of the Company's employees. Further details can be found under 'Workforce Engagement' within the Corporate Governance Statement on page 37.
The need to foster the Company's business relationships with suppliers, customers and others	The Board regularly reviews the relationships the business maintains with all of its stakeholders, including suppliers, customers and others. The Board receives regular updates on our Customer Satisfaction scores and the interactions between our Directors and key stakeholders, including Government, Ofgem, the HSE, customers and suppliers. During the year, we also established an Independent User Group to enhance our stakeholder engagement - further details of this important activity can be found on page 37.
The impact of the Company's operations on the community and the environment	The Board is focused on the wider social context within which the business operates, including those issues related to climate change. The Board is committed to reducing the Company's environmental impact and achieving net zero. To support this work, the Board receives regular updates on environmental performance. Further details on our commitment to being a responsible business can be found on page 13.
The desirability of the Company maintaining a reputation for high standards of business conduct	The Board is committed to the National Grid values of 'do the right thing', 'find a better way' and 'make it happen', providing a framework for reporting business conduct matters, educating employees and promoting a culture of integrity at all levels of the business. Further details of our policies and procedures in this area can be found on page 7. Through its Audit Committee, the Board monitors and addresses the Company's business conduct and has oversight of the compliance strategy, policy and frameworks set out at National Grid Group level and implemented by the Company's Electricity Transmission business. The Board has also established a Business Separation Compliance Committee which is responsible for overseeing the duties and task of the Compliance Officer and compliance with our licence conditions for business separation. Further details can be found on page 35.
The need to act fairly as between members of the Company	The Company's ultimate shareholder is National Grid plc. The Board has developed a robust corporate governance framework which allows the Directors to understand the views of the shareholder and to report constructively to it. Further details can be found in the Corporate Governance Statement where we explain the role of our Chair, Nicola Shaw CBE, and the annual activities of our SIDs.

Further details on how the Board has given this consideration to the issues, factors and stakeholders relevant in complying with section 172 can be found within the Corporate Governance Statement, and in particular, on page 37 where we explain our approach to 'Stakeholder Relationships and Engagement'.

Corporate Governance

Corporate Governance Statement

National Grid Electricity Transmission plc (the Company) aims to achieve high standards of leadership and governance. At National Grid plc level, the Company's ultimate shareholder, its board considers that it complied in full with the provisions of the UK Corporate Governance Code 2018 (the Code) during the year being reported on. Historically, the Company has been mindful of the principles of the Code and has developed its governance and oversight of the Company considering not only National Grid plc, but the wider range of stakeholders in its business. During the year, the Board reviewed its corporate governance arrangements. The Company's Board has chosen to apply the Wates Corporate Governance Principles for Large Private Companies (the Wates Principles) for the year ended 31 March 2020. The Wates Principles provide a code of corporate governance for large private companies to raise awareness of good practice and over time to continue to improve the standards of corporate governance. They also support directors to meet the requirements of section 172 Companies Act 2006.

The Corporate Governance Statement sets out the principal areas of the Company's governance together with an explanation of areas where it considers it has operated consistently with the Wates Principles. For ease of reference, the governance is explained under the Wates Principles headings.

1. Purpose and Leadership

An effective board develops and promotes the purpose of a company, and ensure that its values, strategy and culture align with that purpose.

Our purpose is to Bring Energy to Life. As described on page 7, we work within the purpose, vision, strategy and values of the National Grid Group to ensure we are well positioned to respond to changes in the operating environment. The Board is responsible for oversight of the Company's strategy and has considered its development during the reporting period. In December 2019, the Board took part in a Strategy Day outside of the usual Board meeting calendar. This allowed for focus on key strategic matters and to consider views of both internal and external stakeholders.

The Board is collectively responsible for its governance and its effective oversight of the Company and its business and compliance with its obligations under the Electricity Transmission Licence. To facilitate this, a comprehensive governance framework has been established. This governance framework forms part of the wider National Grid plc governance framework and is aligned, as required and is applicable, to the Company. The framework is described in further detail below.

2. Board Composition

Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company.

Balance and Diversity

Reinforcing its commitment to sound corporate governance the Board has continued to strengthen and develop both its composition and governance framework, implementing, as applicable, many of the best practice governance principles in operation at the National Grid plc level. During the year, the Board consisted of six executive directors and two Sufficiently Independent Directors (SIDs) who between them provide a broad and diverse range of experience and technical skills from both within and external to the organisation, from the energy sector, other regulated industries and external bodies. Full details of the Directors who were in office during the year and up to the date of signing the financial statements can be found in the Directors' Report on page 39.

This depth and breadth of experience, and the independence brought by the SIDs, enables the Board to engage in constructive and challenging discussions, considering the perspectives and interests not only of the Company's shareholder but the wider range of stakeholders in the business.

The National Grid Group promotes diversity – further details of the Group policy can be found publicly in the group accounts, details are available in Note 30. Whilst there is no requirement for an individual policy on Board diversity for the Company, the Board is pleased to report that as at 31 March 2020 the gender balance on the Board was close to 50:50.

Chair

The Board's Chair, Nicola Shaw CBE, continues to sit as an Executive Director of the National Grid plc Board. Through her participation at the Boards of both companies, the Board of the Company is well placed to identify and facilitate understanding of the views of its ultimate shareholder. The Board believes this is a valuable part of the overall corporate governance framework, is appropriate for a subsidiary company part of a larger group and provides greater benefits than separating the roles of the chair and chief executive, as per the Wates Principles guidance.

Sufficiently Independent Directors

The appointment of two SIDs in April 2014 has provided the Board with independent challenge and input to the decision-making process. The SIDs bring to the Board a wealth of experience and knowledge in the utility sector, government and regulatory organisations and other business and organisations outside of the energy sector.

Dr Clive Elphick has remained in his role as SID since April 2014. During the year, Dr Catherine Bell stepped down from the Board on 21 June 2019. The Board would like to record their thanks for Catherine's service to the Board since 2014. Cathryn Ross was appointed to the Board as a SID with effect from 21 June 2019. Cathryn is Director of Regulatory Affairs of BT Group plc and was formerly Chief Executive of Ofwat.

The SIDs' input and involvement in developing the governance framework is demonstrated through their leadership of two committees of the Board: the Audit Committee and Business

Separation Compliance Committee. Within the boardroom, the constructive independent challenge and input brought by the SIDs support the Board in considering the wider range of stakeholders in the business. Outside of the boardroom, the SIDs hold an annual meeting with the Chief Executive Officer of National Grid plc, enabling them to strengthen their, and the Board's, engagement and understanding of the views of the shareholder. Additionally, in their roles as members of the Company's Audit Committee, the SIDs hold an annual meeting with the Chair of the National Grid plc Audit Committee creating a formal information flow between the independent directors of the two committees.

The SIDs attend site and operational visits and briefing sessions on key strategic matters outside of the Board meeting calendar, enabling them to strengthen their knowledge and understanding of the business. These activities also provide the opportunity to create further links between the business and the boardroom.

Executive Directors

For the reporting period, the executive director membership of the Board consisted of the senior managers of the electricity transmission business, regulatory, finance, treasury and change functions. Dawn Childs, UK Change Director, was appointed to the Board on 10 December 2019. Following the year end, Alistair Todd, the newly appointed UK Chief Financial Officer, was appointed to the Board with effect from 30 April 2020. Alan Foster will step down following the signing of these accounts as he moves to a new role within the National Grid Group.

All Board appointments are made in consultation with its shareholder and in accordance with National Grid's Procedure for the Appointment of Directors to Subsidiary Companies.

Director induction and development

Director briefings on the statutory duties and responsibilities of directors have been presented during the reporting period; training has been made available to new directors and reference material has been placed in the online document library.

Continuing director training and development is delivered both within and outside of the boardroom. On appointment, Cathryn Ross, Dawn Childs and Alistair Todd have received a director induction programme.

Within the boardroom, the Board receive updates and presentations on current operational matters and specific initiatives within the business and wider National Grid Group. These presentations also provide an opportunity to benefit from the input of other Board members on matters within their area of the business.

3. Director Responsibilities

The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision-making and independent challenge.

The Board maintains a schedule of matters specifically reserved for its consideration and decision. This is aligned, as appropriate, to that of the National Grid plc board with additional responsibilities as required by licence obligations. The matters reserved cover matters categorised as: Strategy, Management and Finance, Director and Employee Issues, Corporate Governance, Financial and Regulatory Reporting and Shareholders and includes oversight of the relationship with the regulatory bodies, including Ofgem, Department of Business, Energy and Industrial Strategy and the Health and Safety Executive.

To support the Board, there is an established framework of Committees, to which the Board delegates defined duties under Terms of Reference and within a framework of DoA. Further detail on the work of the Committees can be found below.

The Board's accountability for financial business reporting and risk management and internal control is undertaken within the wider Group governance framework and processes. As a regulated entity, the Board has responsibility for annual regulatory financial reporting requirements which it applies the same rigorous governance processes as that of the statutory accounts, and it involves the work of the Audit Committee. Reporting on the regulatory regime is overseen by the Board, and further detail can be found on pages 3 and 4.

Board meetings are generally scheduled and communicated approximately a year in advance providing all directors with sufficient notice to attend meetings. The matters to be considered throughout the annual board meeting schedule fulfil the Board's responsibilities in line with its statutory duties, licence obligations, its matters reserved for the Board and its authority under the Group Delegations of Authority (DoA) from National Grid plc. The Board's supervision of the Company's operations is fulfilled through standing agenda items on safety matters, business overviews from the transmission owner and financial performance. The Board's consideration of health and safety matters covers all parts of the operational business and takes into account the health and safety of the workforce and members of the public. In addition to this the Board receives a suite of management reports, in line with Group reporting, providing updates on different aspects of the business.

To enable the Board to be effective and efficient within the boardroom a number of procedures have been established: papers supporting each agenda item are distributed in advance, typically a week before the meeting; training and briefings on specific matters are scheduled outside of Board meetings; and the Chair holds a short meeting with the SIDs and Company Secretary before each meeting to share feedback and discuss the dynamics of the meeting, enabling a process of continuous improvement for the operation of future Board meetings.

Six regular Board meetings were scheduled during the year and additional meetings were scheduled to ensure appropriate focus on key strategic matters impacting the Company. The Board held two additional Board meetings to focus solely on the RIIO-2 business plan. The Board has been fully involved in developing the business plan and has provided review and challenge to ensure the evidence and assurance demonstrate that the plan is of high quality. The Board has been actively involved in defining the nature and approach of the assurance carried out on the plan in reviewing the findings of the assurance programme. Further details of the Board's engagement with stakeholders as part of the development of the business plan can be found below – see RIIO-2 Stakeholder Engagement. The Board also convened a full Board meeting to consider Covid-19 and the impact on the Company. This will continue to be a standing agenda item and area of focus for the Board.

In December 2019, the Board held a Strategy Day covering a range of key strategic topics, allowing Directors to focus on internal and external factors which influence the strategy.

Committees

The Board has established a number of committees and sub-committees which assist in its activities and operate within agreed Terms of Reference and a framework of DoA. The Committees of the Board are listed below:

- Electricity Transmission Executive Committee
- Business Separation Compliance Committee
- Finance Committee
- Sanction Committee
- Audit Committee

The Company does not have a Nominations Committee or Remuneration Committee as these functions are provided by National Grid plc – see the Annual Report and Accounts of National Grid plc for further information about these committees – page 84 for the work of the Nominations Committee and pages 88 to 109 for the work of the Remuneration Committee.

Safety, environmental and health (SEH) matters are a priority for the Board. The Board does not have a specific Board sub-committee for SEH matters. Instead, it delegates the day-to-day management of safety matters to the safety committee with the Electricity Transmission business. The work of this committee is supported, and forms part of, the Group wide safety governance framework, which ensures there is strong interaction with the UK SEH Committee and Group SEH Committee. In turn, the UK SEH Committee provides regular reports to the Board, whilst ensuring a consistent delivery of safety through its interactions with the Group Executive Committee.

Electricity Transmission Executive Committee

This Committee directs the affairs of the Electricity Transmission business on behalf of the Board, to perform an assurance role within the context of the overall RIIO networks governance framework and oversees the performance of a sub-committees reporting to it. The Committee's remit extends to approving the ET strategies and business objectives for managing the RIIO contract and for approving opportunities to deliver value within that contract in accordance with DoA limits.

The Committee comprises the senior management of the ET business and is chaired by David Wright, a Director of the Board.

Business Separation Compliance Committee

The Business Separation Compliance Committee of the Board is responsible for overseeing the duties and tasks of the Business Separation Compliance Officer and for overseeing compliance with the business separation licence conditions.

Membership of the Committee is by appointment of the Board and comprises all directors of the licensee. For the reporting period, the Committee was chaired by Dr Catherine Bell, SID, and subsequently by Cathryn Ross, SID, with effect from her appointment to the Board, providing independent leadership of the Committee.

The Business Separation Compliance Officer/Compliance Officer are in attendance and present reports on their duties, activities and compliance with the licence obligations.

Two Committee meetings were held during the year, with additional meetings taking place between the Chair of the Committee and the Business Separation Compliance Officer/ Compliance Officer. Following the meetings, the Chair provided updates to the Board on matters considered at the meetings. Please refer to the separate sections on Business separation and the Company's Compliance Statement for further information.

Finance Committee

The Finance Committee of the Board is responsible for setting policy and grants authority for financing decisions, credit exposure, hedging and foreign exchange transactions, guarantees and indemnities, all subject to the risk appetite of the Board. It also approves other treasury, taxation and pension funding matters, as well as having responsibility for the governance of the Company's pension schemes and the Company's insurance strategies, and if appropriate, recommends these to the Board.

Membership of the Committee comprises the Chief Financial Officer of National Grid plc and the Group Treasurer, a director of the Board. The Committee interfaces with the Finance Committee of National Grid plc and the Board. During the year, the Finance Committee met 4 times.

Each Board meeting considers a separate agenda item on the work of the Finance Committee. Financial reporting on the financing activities, taxation and financial costs and liabilities of the pension schemes is provided through the regular financial management reports discussed at each Board meeting.

Sanction Committee

During the year, the Sanction Committee was established to improve enablement and drive efficiencies in the decision-making process across National Grid's UK business. The Committee receives delegated authority from the Board to consider and sanction investments impacting multiple business units.

Membership of the Committee comprises representatives from across the UK business and is chaired by the Head of UK Finance. During the year, the Sanction Committee met 5 times.

Audit Committee

The Audit Committee's role is to keep under review the Company's financial reporting and internal controls and their effectiveness, together with reviewing the Company's risk management processes. It also reviews the external audit plan and reviews the external auditors' findings.

Membership of this Committee is comprised of three Board directors: the two SIDs and an executive director, the Group Treasurer. The Committee is chaired by Dr Clive Elphick, SID, providing independent leadership. Financial experience is provided by all Committee members.

In addition to the members of the Committee, individuals such as representatives of the external auditors, Head of UK Audit, representatives of the Assurance function, UK Chief Financial Officer and other representatives of the finance function and the UK General Counsel and Company Secretary may be invited to attend by the Committee and normally attend each meeting. Other Directors, representatives of the business and external advisers may be invited to attend as and when considered appropriate by the Committee and in respect of items that are relevant to them.

The Audit Committee provides the assurance required by the Board on matters within its authority. The Chairman provides a report on the meeting to the following Board meeting, and where applicable makes recommendations to the Board. The Board considers these recommendations and, where required, seeks further assurance and details to be brought to the Board.

As noted above, to strengthen the governance links to National Grid, the SIDs hold an annual meeting with the Chairman of the National Grid plc Audit Committee.

The preparation and management of the Audit Committee's annual meeting schedule follows the same governance processes as those for the Board. Technical briefings and meetings with the UK Chief Financial Officer and members of the financial function are held before meetings, as required, to provide further details on matters to be discussed during the meetings.

Areas of focus

The Audit Committee meetings considered a programme of matters comprising those which were aligned to that of the National Grid plc Audit Committee and specific matters as they related to the Company, as a listed and regulated entity and as defined in the Terms of Reference for the Committee. Examples of key areas of focus included:

- Statutory and regulatory accounting statements;
- Going concern statements;
- Fair, balanced and understandable statements;
- Financial reporting;
- Internal controls and processes;
- Regulatory accounting;
- Risk management processes;
- Compliance matters, including compliance with licence obligations;
- Internal (corporate) audit plan; and
- Business conduct, including whistleblowing.

Significant issues

The most significant issues the Committee considered during the year were matters relating to internal controls and processes, compliance and judgements made in the preparation of the year-end financial statements.

Looking forward, the Committee will continue to focus on the effectiveness of the internal control environment, providing input to the Group wide process.

External audit

The Committee is responsible for overseeing relations with the external auditors, as part of the Group wide external audit arrangements. Each Committee meeting is preceded by a meeting between the SIDs and the external auditor, without management present, to allow independent discussions on any matters the auditors would like to bring to the attention of the Committee.

The Committee reviews the audit plan and audit findings in respect of the audit of the statutory accounts. The Committee also engages on auditor recommendations for improvements around internal controls. Through regular management reporting on internal controls, the Committee is able to monitor progress of the actions being taken.

Internal (corporate) audit

The Company does not have a separate internal audit function. This function is provided by National Grid's Corporate Audit function, which provides independent, objective, assurance to the Company's Audit Committee, Group SEH Committee and Executive Committees on whether the existing control and governance frameworks are operating effectively in order to meet National Grid's strategic objectives. Assurance work is conducted and managed in accordance with the IIA international standards for the Professional Practice of Internal Auditing and Code of Ethics.

Inputs to the audit plan include principal risks, risk registers, corporate priorities, and external research of emerging risks and trends, and discussions with senior management to make sure the plan aligns with the Committee and Company's view of risk. The audit plan is considered and approved by the Committee annually and progress against the plan is monitored throughout the year.

The Committee received regular controls updates from the Corporate Audit team. Management actions on audit findings have continued to be a focus at Executive meetings resulting in greater visibility of audit findings, increased ownership of actions and greater engagement by senior management.

Auditor's independence and objectivity

The independence of the external auditor is essential to the provision of an objective opinion on the true and fair view presented in the financial statements. We remain satisfied that Deloitte remain sufficiently independent of National Grid Electricity Transmission plc; the audit report presents the results of Deloitte's own independence assessment on page 44.

Following consideration of the auditor's independence from NGET, their objectivity, the audit quality and the auditor's performance, the Committee was satisfied with the effectiveness, independence and objectivity of Deloitte and recommended to the Board their reappointment for the year ended 31 March 2021. A resolution to re-appoint Deloitte and giving authority to the Directors to determine their remuneration will be submitted to shareholders at the 2020 AGM.

4. Opportunity and Risk.

A board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks.

Risk Management is fundamental to delivering the long-term success of the Company and for that reason a separate section of the Annual Report and Accounts has been dedicated to describing our internal controls and risk management on pages 18 to 25.

5. Remuneration

A board should promote executive remuneration structures aligned to the long-term sustainable success of a company, taking into account pay and conditions elsewhere in the company.

Executive remuneration is controlled by the ultimate parent company, National Grid plc. Further information on this is available within the Remuneration Report of National Grid plc's Annual Report and Accounts on pages 88 to 109.

6. Stakeholder Relationships and Engagement.

Directors should foster effective stakeholder relationships aligned to the company's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.

In the previous reporting period, the Board reported that they had taken the opportunity to review stakeholder engagement, including that of workforce engagement and had discussed its duty under section 172 of the Companies Act 2006. This focus has continued during the reporting period, with a significant focus on reviewing and mapping out key stakeholder groups and discussing the Board's currently level of engagement and incorporation of its views into decision-making. The Board believes it is important that the Company builds on the extensive range of workforce engagement activities that are already in place and continues to consider workforce views in relevant decision-making processes. The Board will continue to review and adapt its approach during the 2020/21 financial year, considering new ways to engage with the workforce effectively.

Engaging with stakeholders to deliver long-term success is a key area of focus for the Board. Senior Executives within the business have regular interactions with Ofgem and the Health and Safety Executive. The Company also organises stakeholder fora and consultations with stakeholders, including members of the public, our suppliers and customer around specific projects and proposed business plan submissions for RIIO-2. We work with other networks and organisations outside of the energy industry to identify good practice.

RIIO-2 Stakeholder Engagement

For the development of the Company's RIIO-2 business plan, we have followed Ofgem's enhanced stakeholder engagement process, which is based on deep engagement with customers, stakeholders and end consumers to ensure our business plans balance and deliver on their needs. This was our largest ever engagement exercise to date. Two independent groups were established to provide challenge through this process – a Company-specific User Group and an Ofgem Challenge Group looking across all networks. Regular discussions were held at Board level on progress with stakeholder engagement, the development of the business plans and on interactions with the independent challenge groups. On invitation, the Chair of the Independent User Group met with the Board throughout 2019 to better understand the Group's views and to allow for effective two-way engagement. Directors also attended meetings of the Independent User Group to strengthen the overall stakeholder engagement, with an emphasis on two-way feedback.

Following a period of engagement with Ofgem, we submitted our final business plan for RIIO-2 in December 2019. Thereafter, engagement has continued with Ofgem evidencing various aspects of the Company's business plan such as the formal Q&A process to explore our business plan submission ahead of its draft and final determinations later in 2020.

Workforce Engagement

Engagement with our people takes many forms, including employee engagement sessions, reviewing and implementing actions from the employee survey results, meetings with Trade Union representatives, leadership off-sites and site visits by Directors. The results of the annual employee survey are reported to the Board, providing insight into how our employees are feeling about the business and its direction. Action plans are developed to progress any areas of improvements that are identified. During the year, Directors have mapped out their workforce engagement activities and an action plan is being developed to further enhance this engagement to allow for effective two-way engagement with the workforce.

Business separation

Business Separation Compliance Committee

The Board's Business Separation Compliance Committee is responsible for overseeing the duties and tasks of the Compliance Officer and for overseeing compliance with the licence conditions for business separation between the Company and National Grid's competitive businesses operating or bidding for activities in carbon capture and storage, interconnectors or offshore transmission. Membership of the Committee is by Board appointment and comprises all Directors of the Company. The Compliance Officer attends this Committee and Cathryn Ross (Independent Director) chairs it. Two meetings took place during the last financial year.

Special Condition 2O (Business separation requirements and compliance obligations) of our electricity transmission licence requires the Company to maintain business separation sufficient to ensure that no commercial advantage is given to any of the National Grid competitive businesses operating or bidding for activities in carbon capture and storage, interconnectors or offshore transmission. This Condition also requires NGET, in carrying out its licensed activities, to have in place and maintain systems of control and governance arrangements to ensure the Company complies with several licence conditions covering the prohibition of cross subsidies, Financial Ringfencing, prohibited activities and business conduct.

Our policy in respect of compliance with Special Condition 2O is set out in the Company's Compliance Statement. We have taken the following specific actions to comply with the requirements of special Condition 2O: We have taken the following specific actions to comply with the requirements of Special Condition 2B:

- Appointed a Compliance Officer and a Single Appointed Director who report on compliance to the Compliance Committee and the Company's Board of Directors.
- Put in place specific legal, managerial and functional architectures to ensure separation.
- Put in place specific policies and procedures to ensure that the Company does not give any unfair commercial advantage to any of its affiliates and that confidential information is kept confidential and secure.
- Put in place specific restrictions on premises, use of systems and transfer of employees between the Company and the competitive businesses.
- Established and maintained a Code of Ethical Business Conduct to ensure employees are aware of their obligations to protect confidential information relating to the Company.

Directors' Report

The Directors present their report and the audited consolidated financial statements of the Company for the year ended 31 March 2020. In accordance with the requirements of the Companies Act 2006 the following sections describe the matters that are required for inclusion in the Directors' Report and were approved by the Board. Further details of matters required to be included in the Directors' Report are incorporated by reference into this report, as detailed below.

Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were:

Catherine Bell CB (SID*)	Resigned 21 June 2019
Chris Bennett	
Dawn Childs	Appointed 10 December 2019
Clive Elphick (SID*)	
Alan Foster	
Alexandra Lewis	
Cathryn Ross (SID*)	Appointed 21 June 2019
Nicola Shaw CBE	
Alistair Todd	Appointed 30 April 2020
David Wright	

*Sufficiently Independent Director

The Company has arranged, in accordance with the Companies Act 2006 and the Articles, qualifying third party indemnities against financial exposure that Directors may incur in the course of their professional duties. Equivalent qualifying third party indemnities were, and remain, in force for the benefit of those Directors who stood down from the Board during the year ended 31 March 2020. Alongside these indemnities, the Company places Directors' and Officers' liability insurance cover for each Director.

Principal activities and business review

A full description of the Company's principal activities, business, key performance indicators and principal risks and uncertainties is contained in the Strategic Report on pages 11 to 31 which is incorporated by reference into this report.

Parent company transition to FRS 101

During the current financial year, the parent company of the Group chose to transition from FRS 102 to FRS 101, so as to ensure all companies within the National Grid UK group of companies will report using the same basis of accounting. The last financial statements prepared under the previous UK accounting framework were for the year ending 31 March 2019, thus, the date of transition to FRS 101 was 1 April 2018.

The transitional adjustments made are a reversal of previous adjustments needed in order to align the accounts to FRS 102 from IFRS (since the underlying general ledger is based on the IFRS framework). The adjustment made to Creditors (amounts falling due after more than one year) relates to capital contributions and this was made previously due to FRS 102 being based off of a different set of accounting standards relating to revenue recognition (whereas IFRS applies IFRS 15 *Revenue from Contracts with Customers* as of 1 January 2018).

The other adjustments are reversals of current and deferred tax amounts totalling £20 million due to the differing accounting policies on capital contributions. These have now been reversed upon transition to FRS 101 since this framework adopts all requirements of EU-adopted IFRS. This results in a net increase to shareholders' equity of £31 million. Further detail of this transition can be found in note 21 to the parent company financial statements.

Material interests in shares

National Grid Electricity Transmission plc is a wholly owned subsidiary undertaking of National Grid Holdings Limited. The ultimate parent company of National Grid Electricity Transmission plc is National Grid plc.

Dividends

A final dividend of £434 million was declared after the year end on 21 July 2020 (2018/19: £869 million final dividend).

Share capital

Share capital remains unchanged. See note 23 to the consolidated financial statement for further details.

Research and development

Expenditure on research and development was £8 million during the year (2018/19: £11 million).

Financial instruments

Details on the use of financial instruments and financial risk management are included in note 13 to the consolidated financial statements.

Future developments

Details of future developments are contained in the Strategic Report.

Employee involvement

Details of how the Company involves its employees are contained in the Strategic Report on pages 13 to 15 which is incorporated by reference into this report.

Diversity

Details of how the Company approaches diversity can be found on pages 13 to 15 which is incorporated by reference to this report.

Audit information

Having made the requisite enquiries, so far as the Directors in office at the date of the signing of this report are aware, there is no relevant audit information of which the auditors are unaware and each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Annual General Meeting

Notice of the Company's Annual General Meeting for 2020 will be issued separately to the shareholder.

Going concern

Having made enquiries and reviewed management's assessment of the going concern assumption, the Directors consider it appropriate to prepare the financial statements on a going concern basis. The going concern basis presumes that the Company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements are signed. More detail on our financial risks, including liquidity and solvency, is provided in note 28 to the consolidated financial statements. There have been no major changes to the liquidity and solvency risks in the year. Although not assessed over the same period, the viability of National Grid Electricity Transmission plc has been assessed on page 26.

By order of the Board

Alistair Todd

UK CFO

21 July 2020

National Grid Electricity Transmission plc

1-3 Strand, London WC2N 5EH

Registered in England and Wales Number 2366977

Introduction to the financial statements

Throughout these financial statements, we have provided explanations of the disclosures and why they are important to the understanding of our financial performance and position.

Notes

Notes to the financial statements provide additional information required by statute, accounting standards or other regulations to assist in a more detailed understanding of the primary financial statements. In many notes, we have included an accounting policy that describes how the transactions or balance in that note have been measured, recognised and disclosed. The basis of preparation section provides details of accounting policies that apply to transactions and balances in general.

Statement of Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the company financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In preparing the financial statements, International Accounting Standard 1 requires that directors:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the National Grid website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

Alistair Todd

DIRECTOR

21 July 2020

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF NATIONAL GRID ELECTRICITY TRANSMISSION PLC

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of National Grid Electricity Transmission plc (the ‘parent company’) and its subsidiaries (the ‘Group’) give a true and fair view of the state of the Group’s and of the parent company’s affairs as at 31 March 2020 and of the Group’s profit for the year then ended;

- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);

- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 “Reduced Disclosure Framework”; and

- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, which comprise:

Group:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated statement of changes in equity;
- the consolidated statement of financial position;
- the consolidated cash flow statement; and
- the related notes 1 to 33 to the consolidated financial statements.

Parent Company:

- the company balance sheet;
- the company statement of changes in equity; and
- the related notes 1 to 21 to the company financial statements.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 “Reduced Disclosure Framework” (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • *Impact of COVID-19;* • *Net pension obligations; and* • *Treasury derivative transactions*. Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the Group financial statements was £45 million, which represents 5% of adjusted profit before tax (profit before tax excluding the impact of reported exceptional items and remeasurements) and considered in the context of statutory profit before tax.
Scoping	We focused our group audit scope on the Parent Company which accounts for 99% of the Group's revenue, profit before tax and net assets.
Changes in our key audit matters since the prior year	The key audit matters are consistent with those we identified in the prior year except that: • As a consequence of the COVID-19 outbreak, which has severely affected the UK economy, there are financial reporting impacts particularly with respect to key judgments, estimates and disclosures within the financial statements. In addition, there are potential financial control impacts as a consequence of remote working. This caused us to perform an updated audit risk assessment. Accordingly we have identified this as a key audit matter. These key audit matters identified in the previous year and described in our report for the year ended 31 March 2019 are not included in our report for the year ended 31 March 2020: • classification of exceptional items – our current year audit procedures identified that exceptional items involved no judgment in terms of classification; and • IT user access controls – The 'access deficiencies' were remediated in prior year and there were no significant recurring access deficiencies identified in the current year. Accordingly, we have not identified this as a key audit matter in the current year.

4. Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where: • the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or • the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.	We have nothing to report in respect of these matters.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Impact of COVID-19

Key audit matter description	**The COVID-19 pandemic has had a significant impact on the UK economy with consequences to the judgements and estimates made by the Group. Refer to note 1a.** In March 2020 the COVID-19 pandemic resulted in the UK government in which the Group operates imposing lockdowns of their populations in order to stop the spread of the disease. This had a direct and severe impact on those economies as consumer spending decreased and unemployment rose at unprecedented rates, in turn severely impacting global demand and world financial markets. This has impacted the results of the Group for the 2020 financial year and is expected to continue to impact the Group for the remainder of FY21. Management reassessed their controls framework, which encompassed a review of the ability to operate existing controls remotely and consideration of whether existing controls were suitable for addressing areas of new or increased risk. A risk was identified in relation to the impact of the pandemic on the Group's cash flows and liquidity and accordingly its going concern analysis. Management performed a detailed analysis of the potential impact of the COVID-19 pandemic on revenue, profit and cash flows. Possible cost mitigations were also considered. This detailed analysis also included consideration of a number of downside scenarios as to the duration of the lockdown measures, and concluded that no reasonably possible downside scenario existed wherein the Group would be unable to continue as a going concern. Related disclosure of management's and the Board's assessment of the ability to continue as a going concern, inclusive of the impact of the pandemic as a principal risk has been made in the Annual Report on page 19.

How the scope of our audit responded to the key audit matter	At year end, we assessed the controls on areas of heightened risk and whether management appropriately considered the related impact on existing controls. Further, we held discussions with management, with our internal treasury, pensions and tax specialists and within the wider Deloitte network to identify the areas of risk to the financial statements as a result of the wider impacts of the pandemic. We used the outcome of these discussions to update our audit risk assessment and challenge management's impact assessment. Our responses in respect of specific areas identified as risks related to COVID-19 are outlined below. For these areas we also reviewed management's disclosures in relation to the key judgements and estimates made in assessing the impact of COVID-19, inclusive of sensitivity disclosures related to the areas of estimation uncertainty. Valuation of unquoted pension assets: We have described the procedures performed on the valuation of these pension assets in our 'net pension obligation' key audit matter. Liquidity and ability to continue as a going concern: We have assessed the going concern model prepared by management, which considered the impact of COVID-19. We assessed andchallenged the underlying assumptions, inclusive of mitigating cost actions being taken based on our understanding of the business and knowledge of the industry in which the Group operates. Where impacts were significant such as lower revenue and delayed capital spending, we were also involved in a more granular challenge of management's forecasts. Further, we assessed management's evaluation of liquidity and loan covenant compliance over the period of assessment to that no breaches are anticipated over this timeframe.
Key observations	We concluded that management's assessment included in note 1a to the financial statements in respect of going concern is appropriate.

5.2. Net pension obligations

Key audit matter description	**Account balance: Pensions and other post-retirement benefit obligations. Refer to note 1d and 21 to the financial statements.** Substantially all of the Group's employees are members of one of a number of pension schemes. These pension schemes include both defined benefit and defined contribution schemes. There are significant assumptions used in the valuations of the defined benefit obligations, which as at 31 March 2020 represent a liability of £2.7 billion (2019: £3.1 billion), and valuations of unquoted pension assets ('unquoted assets'), which as at 31 March 2020 make up £717 million (2019: £667 million) out of scheme assets of £3.2 billion (2019: £3.2 billion). The critical judgements relating to the pension obligations include inflation assumptions, discount rates, mortality assumptions and future salary changes applied to active members. The setting of these assumptions is complex and changes to them can have a material impact on the value of pension obligations. Management uses external actuaries to assist in determining these assumptions. Accordingly, we have identified certain of these assumptions to be a risk. Unlike the fair value of other assets that are readily observable and therefore more easily independently corroborated, the valuation of unquoted pension assets classified is inherently subjective. As such there is significant judgement in determining the fair value of these assets including the selection of the valuation methodology and other critical assumptions. Accordingly, we have identified this as an area of risk.

How the scope of our audit responded to the key audit matter	We tested the controls over the valuation of unquoted pension assets and over the critical assumptions used in determining the valuation of the pension obligations. We engaged internal actuarial experts to assist in testing the discount rates used in calculating the pension obligations. We independently calculated appropriate discount rates and compared these to management's rates. Our actuarial experts also assisted us in benchmarking and challenging the other assumptions used by management in determining the value of pension obligations particularly focusing on inflation, salary growth and mortality rates; this included comparing the inputs and assumptions used in determining the valuation of the Group's schemes to those used in comparable pension plans and/or our internal benchmarks. Additionally, we considered the competence, capability and objectivity of the independent actuary engaged by the Group to perform valuations of the relevant schemes and where applicable, of unquoted assets. We engaged internal specialists to challenge management's valuation of certain unquoted scheme assets. Our work included assessing the reasonableness of the valuation methodologies applied, reviewing publically available information on these assets, comparing the valuations to internal benchmarks and confirmation of inputs used by management to determine the asset values.
Key observations	We judge the discount rates and other key actuarial assumptions used by management to be within our internally developed reasonable range or consistent with our internally developed assumptions. We consider management's valuations of the unquoted investments to be reasonable and the disclosures in note 1d and 29 to the financial statements to be appropriate.

5.3. Treasury derivative transactions

Key audit matter description	**Account balances: Derivative financial assets and derivative financial liabilities. Refer to note 13 and 28 to the financial statements.** The Group mitigates the exposure to interest rate and foreign exchange rate risks with risk management activities including the use of derivatives such as cross-currency and interest rate swaps. The Group designates derivatives in hedge relationships where they judge this to meet the requirements of IFRS 9. Due to the technical nature of this assessment, we have identified it as a key audit matter. At 31 March 2020 the Group had derivative financial assets of £421 million (31 March 2019: £321 million) and derivative financial liabilities of £478 million (31 March 2019: £482 million). The valuation of the derivative portfolio requires management to make certain assumptions and judgements in particular around the valuation methodologies adopted and the discount rate to be applied to forecast cash flows. The portfolio also includes 'level 3' derivative financial liabilities for which unobservable inputs that are significant to the fair value measurement must be used in the valuation models. This results in management having to make estimates in relation to unobservable inputs, which increase the complexity and'' level of estimation uncertainty, and there is judgement involved in determining the methodology used to fair value these derivatives. Accordingly, we have identified this as an area of risk.

How the scope of our audit responded to the key audit matter	We have tested the controls over the recording and valuation of derivative financial instruments. This has included testing of the review controls performed by management over the valuations and its challenge of the estimates made. In conjunction with our treasury specialists we have tested a sample of the valuation models used by management, including a challenge of the assumptions therein, to confirm the appropriateness of the valuation methodology adopted and the assumptions applied. We have obtained third party confirmations to test the completeness and accuracy of the information held within the Group's treasury management system. We have assessed the appropriateness of the hedge documentation, eligibility of designations and hedge effectiveness testing performed by management and tested the disclosures within the financial statements. We assessed whether the representation of items in the cash flow statement to reflect the change in accounting policy have been appropriately disclosed.
Key observations	We conclude that the valuation of derivatives and the Group's use of hedge accounting is appropriate.

6. Our application of materiality

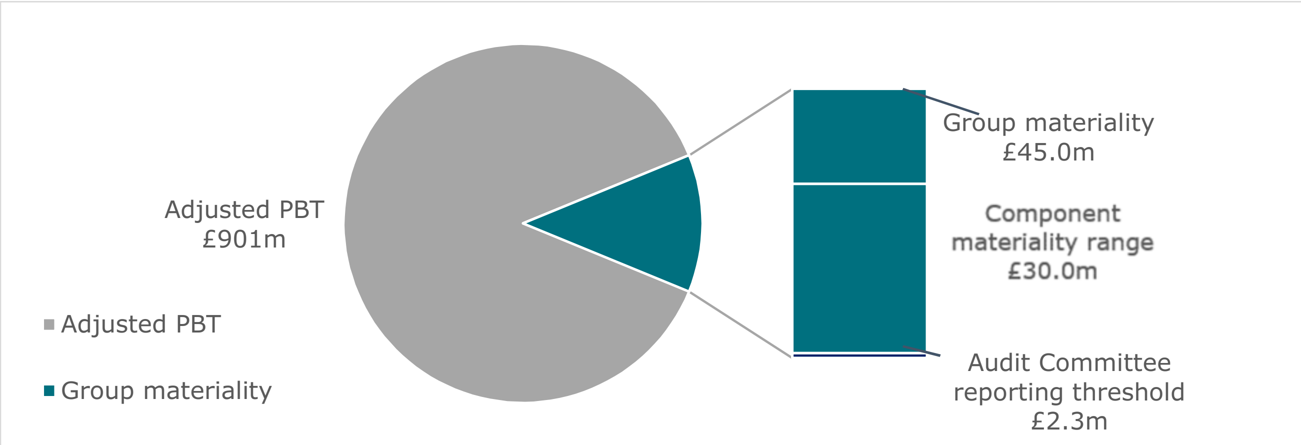
6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£45.0 million (2019: £41.9 million).	£30.0 million (2019: £41.5 million).
Basis for determining materiality	Our determined materiality represents 5% of adjusted profit before tax and considered in the context of statutory profit before tax. Adjusted profit before tax is profit before tax, certain exceptional items and remeasurements as disclosed in the consolidated income statement. Prior year materiality was determined on a similar basis.	Our determined materiality represents 3.3% (2019: 5%) of adjusted profit before tax and considered in the context of statutory profit before tax. Adjusted profit before tax is profit before tax, certain exceptional items and remeasurements as disclosed in the income statement.
Rationale for the benchmark applied	We consider adjusted profit before tax to be an important benchmark of the performance of the Group. We consider it appropriate to adjust for certain exceptional items and remeasurements as these items are volatile and not reflective of the underlying performance of the Group. We conducted an assessment of which line items we understand to be the most important to investors and analysts by reviewing analyst reports and National Grid's communications to shareholders and lenders, as well as the communications of peer companies. This assessment resulted in us considering the financial statement line items above.	We consider adjusted profit before tax to be an important benchmark of the performance of the parent company. We consider it appropriate to adjust for certain exceptional items and remeasurements as these items are volatile and not reflective of the underlying performance of the parent company. We conducted an assessment of which line items we understand to be the most important to investors and analysts by reviewing analyst reports and National Grid's communications to shareholders and lenders, as well as the communications of peer companies. This assessment resulted in us considering the financial statement line items above.

	Profit before tax is the benchmark ordinarily considered by us when auditing listed entities. It provides comparability against other companies across all sectors, but has limitations when auditing companies whose earnings are impacted by items which can be volatile from one period to the next, and therefore may not be representative of the volume of transactions and the overall size of the business in a given year, or where the impact of volatility may result in the recognition of material income or charges in a particular year. Whilst not an IFRS measure, adjusted profit is one of the key metrics communicated by management in National Grid's results announcements. It excludes some of the volatility arising from changes in fair values of financial assets and liabilities as well as “exceptional items” and this was the key measure applied in the prior year.	Profit before tax is the benchmark ordinarily considered by us when auditing listed entities. It provides comparability against other companies across all sectors, but has limitations when auditing companies whose earnings are impacted by items which can be volatile from one period to the next, and therefore may not be representative of the volume of transactions and the overall size of the business in a given year, or where the impact of volatility may result in the recognition of material income or charges in a particular year. Whilst not an IFRS measure, adjusted profit is one of the key metrics communicated by management in National Grid's results announcements. It excludes some of the volatility arising from changes in fair values of financial assets and liabilities as well as “exceptional items” and this was the key measure applied in the prior year



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at £31.5 million for the 2020 audit (2019: £29.4 million), or 70% of Group materiality (2019: 70%). In determining performance materiality, we considered the following factors:

- our cumulative experience from prior year audits;
- the level of corrected and uncorrected misstatements identified;
- our risk assessment, including our understanding of the entity and its environment; and
- our assessment of the Group’s overall control environment.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £2.3 million (2019: £2.1 million), as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

The group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. We focused our group audit scope on the parent company which was subject to a full scope audit and was executed at a component materiality of £30.0 million. This accounts for 99% of the group's revenue, profit before tax and net assets.

Audit work to address the identified risks of material misstatement was performed directly by the audit engagement team and no component auditors were engaged.

8. Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- results of our enquiries of management, internal audit and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and involving relevant internal specialists, including tax, pensions, IT, and treasury specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

In common with all audits under ISAs (UK), we are also required to identify management override as a significant risk and to perform specific procedures to respond to that risk.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act 2006, pensions and tax legislation, as well as laws and regulations prevailing in the UK.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the Group's operating licences and environmental regulations.

11.2. Audit response to risks identified

As a result of performing the above, we did not identify any key audit matters related to the potential risk of fraud or non-compliance with laws and regulations.

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with relevant regulatory authorities;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

14. Other matters

14.1. Auditor tenure

We became independent and commenced our audit transition on 1 January 2017. Following the recommendation of the audit committee, we were appointed by the Shareholders at the Annual General Meeting on 31 July 2017 to audit the financial statements for the year ending 31 March 2018 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments of the firm is three years, covering the years ending 31 March 2018 to 31 March 2020.

14.2. Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

15. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Jane Whitlock ACA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Birmingham, United Kingdom

21 July 2020

Consolidated income statement

for the years ended 31 March

	Notes	2020 £m	2020 £m	2019 £m	2019 £m
Revenue	2 (a) / 3		**1,988**		3,353
Operating costs	4		**(890)**		(2,355)
Operating profit					
Before exceptional items	2 (b)	**1,098**		998	
Exceptional items	5	**142**		(237)	
Total Operating Profit	2 (b)		**1,240**		761
Finance income	6		**5**		7
Finance costs					
Before exceptional items and remeasurements	6	**(192)**		(164)	
Remeasurements	5	**(11)**		(2)	
Total finance costs	6		**(203)**		(166)
Profit before tax					
Before exceptional items and remeasurements		**911**		841	
Exceptional items and remeasurements	5	**131**		(239)	
Total profit before tax			**1,042**		602
Tax					
Before exceptional items and remeasurements	7	**(181)**		(164)	
Exceptional items and remeasurements	5	**(104)**		45	
Total tax	7		**(285)**		(119)
Profit after tax					
Before exceptional items and remeasurements		**730**		677	
Exceptional items and remeasurements	5	**27**		(194)	
Profit for the year attributable to owners of the parent			**757**		483

Consolidated statement of comprehensive income

for the years ended 31 March

	Notes	**2020** **£m**	2019 £m
Profit for the year		**757**	483
Other comprehensive income/(loss):			
Items that will never be reclassified to profit or loss			
Remeasurements of net retirement benefit obligations	21	**233**	3
Net gains/(losses) in respect of cash flow hedging of capital expenditure	24	**5**	(4)
Tax on items that will never be reclassified to profit or loss	7	**(46)**	—
Total items that will never be reclassified to profit or loss		**192**	(1)
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Net losses in respect of cash flow hedges and cost of hedging	24	**(8)**	(10)
Tax on items that may be reclassified subsequently to profit or loss	7, 24	**1**	2
Total items that may be reclassified subsequently to profit or loss		**(7)**	(8)
Other comprehensive income/(loss) for the year, net of tax		**185**	(9)
Total comprehensive income for the year		**942**	474

Consolidated statement of changes in equity

	Note	Called up share capital £m	Retained earnings £m	Other equity reserves[1] £m	Total equity £m
At 1 April 2018		44	3,458	4	3,506
Profit for the year		—	483	—	483
Total other comprehensive income for the year		—	3	(12)	(9)
Total comprehensive income for the year		—	486	(12)	474
Share-based payments		—	3	—	3
At 31 March 2019		44	3,947	(8)	3,983
Profit for the year		—	757	—	757
Total other comprehensive income for the year		—	187	(2)	185
Total comprehensive income for the year		—	944	(2)	942
Equity dividends	8	—	(869)	—	(869)
Share-based payments		—	2	—	2
Tax on share based payments		—	2	—	2
At 31 March 2020		**44**	**4,026**	**(10)**	**4,060**

1 Analysis of other equity reserves is provided within note 24.

Consolidated statement of financial position

as at 31 March

	Notes	2020 £m	2019 £m
Non-current assets			
Intangible assets	10	**125**	107
Property, plant and equipment	11	**13,403**	12,944
Prepayments	15	**5**	11
Pensions asset	21	**424**	123
Derivative financial assets	13	**420**	321
Total non-current assets		**14,377**	13,506
Current assets			
Inventories	14	**48**	43
Trade and other receivables	15	**222**	101
Financial and other investments	12	**199**	267
Derivative financial assets	13	**1**	—
Cash and cash equivalents	16	**—**	4
Assets held for sale	9	**—**	639
Total current assets		**470**	1,054
Total assets		**14,847**	14,560
Current liabilities			
Borrowings	17	**(1,233)**	(1,830)
Derivative financial liabilities	13	**(22)**	(112)
Trade and other payables	18	**(530)**	(585)
Contract liabilities	19	**(24)**	(10)
Provisions	22	**(15)**	(36)
Liabilities held for sale		**—**	(495)
Total current liabilities		**(1,824)**	(3,068)
Non-current liabilities			
Borrowings	17	**(6,828)**	(5,674)
Derivative financial liabilities	13	**(456)**	(370)
Other non-current liabilities	20	**(54)**	(86)
Deferred tax liabilities	7	**(1,114)**	(914)
Pensions benefit obligations	21	**(45)**	(49)
Provisions	22	**(88)**	(51)
Contract liabilities	19	**(378)**	(365)
Total non-current liabilities		**(8,963)**	(7,509)
Total liabilities		**(10,787)**	(10,577)
Net assets		**4,060**	3,983
Equity			
Share capital	23	**44**	44
Retained earnings		**4,026**	3,947
Other reserves	24	**(10)**	(8)
Total equity		**4,060**	3,983

The consolidated financial statements set out on pages 54 to 115 were approved by the Board of Directors and authorised for issue on 21 July 2020. They were signed on its behalf by:

Nicola Shaw Chair

Alistair Todd Director

National Grid Electricity Transmission plc

Registered number: 2366977

Consolidated cash flow statement

for the years ended 31 March

	Notes	2020 £m	2019 £m
Cash flows from operating activities			
Operating profit	2 (b)	**1,240**	761
Adjustments for:			
Exceptional items	5	**(142)**	237
Cash flow from exceptional items		**(30)**	(34)
Depreciation, amortisation & impairment		**438**	490
Share-based payment charge		**2**	3
Changes in working capital		**(22)**	(101)
Changes in pension obligations		**(54)**	(46)
Changes in provisions		**(1)**	(5)
Loss on disposal of property, plant and equipment		**9**	18
Cash generated from operations		**1,440**	1,323
Tax paid		**(213)**	(109)
Net cash inflow from operating activities		**1,227**	1,214
Cash flows from investing activities			
Purchases of intangible assets		**(17)**	(72)
Purchases of property, plant and equipment		**(881)**	(735)
Disposals of property, plant and equipment		**6**	8
Net disposals of short-term financial investments		**70**	(43)
Proceeds from sale of investments in subsidiaries		**302**	—
Net cash flow used in investing activities		**(520)**	(842)
Cash flows from financing activities			
Proceeds from loans received		**2,068**	499
Repayment of loans		**(1,710)**	(807)
Settlement of short-term borrowings and derivatives		**(91)**	62
Interest paid		**(138)**	(120)
Dividends paid to shareholders		**(869)**	—
Net cash flow used in financing activities		**(740)**	(366)
Net (decrease)/increase in cash and cash equivalents	25 (a)	**(33)**	6
Cash and cash equivalents at the start of the year		**17**	11
Net cash and cash equivalents at the end of the year	16	**(16)**	17

Notes to the consolidated financial statements - analysis of items in the primary statements

1. Basis of preparation and recent accounting developments

Accounting policies describe our approach to recognising and measuring transactions and balances in the year. The accounting policies applicable across the financial statements are shown below, whereas accounting policies that are specific to a component of the financial statements have been incorporated into the relevant note.

This section also shows areas of judgement and key sources of estimation uncertainty in these financial statements. In addition, we have summarised new International Accounting Standards Board (IASB) and EU endorsed accounting standards, amendments and interpretations and whether these are effective for this year end or in later years, explaining how significant changes are expected to affect our reported results.

National Grid Electricity Transmission’s principal activities involve the transmission of electricity in Great Britain. The Company is a public limited liability company incorporated and domiciled in England and Wales , with its registered office at 1-3 Strand, London WC2N 5EH.

These consolidated financial statements were approved for issue by the Board of Directors on 21 July 2020.

These consolidated financial statements have been prepared in accordance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and related interpretations as issued by the IASB and IFRS as adopted by the EU. They are prepared on the basis of all IFRS accounting standards and interpretations that are mandatory for periods ended 31 March 2020 and in accordance with the Companies Act 2006 applicable to companies reporting under IFRS and Article 4 of the EU IAS Regulation. The comparative financial information has also been prepared on this basis.

The consolidated financial statements have been prepared on a historical cost basis, except for the recording of pension assets and liabilities, the revaluation of derivative financial instruments and certain commodity contracts and certain financial assets and liabilities measured at fair value.

These consolidated financial statements are presented in pounds sterling, which is also the functional currency of the Company.

The notes to the financial statements have been prepared on a continuing basis unless otherwise stated.

Our income statement and segmental analysis separately identify financial results before and after exceptional items and remeasurements. The Directors believe that presentation of the results in this way is relevant to an understanding of the Group’s financial performance. Presenting financial results before exceptional items and remeasurements is consistent with the way that financial performance is measured by management and reported to the Board and Executive Committee and aids the comparability of reported financial performance from year to year in this context. The inclusion of total profit for the period before exceptional items and remeasurements forms part of the incentive target set annually for remunerating certain Executive Directors and accordingly we believe it is important for users of the financial statements to understand how this compares to our results on a statutory basis and period on period.

a) Going concern

As at the date of approving these financial statements, the impact of COVID-19 on the Company's operations is continually being assessed and subject to rapid change. The Directors have assessed the principal risks including by modelling a reasonable worst case scenario. This scenario covers the cash flow impact associated with an extended lockdown for a period of twelve months across the UK. The main cash flow impacts identified in the reasonable worst-case scenario are:

• additional working capital required of up to £57m to support NGESO, intended to help customers and end-user consumers;

• a reduction in capital expenditure driven by increased absenteeism, supply chain issues and difficulty in accessing sites;

• a reduction in discretionary spend across all areas (e.g. recruitment, travel and consultancy spend); and

• one-off increases in other costs such as cleaning and IT.

As part of their analysis the Board also considered the following potential levers at their discretion to improve the position identified by the reasonable worst-case scenario in the event that the debt capital markets are not accessible:

• further changes in the phasing of the capital programme with elements of non-essential works and programmes delayed beyond June 2021; and

• a number of further reductions in operating expenditure across the Group primarily related to workforce cost options; and

• the payment of dividends to the shareholder

Having considered the reasonable worst-scenario and further levers at the Board's discretion, NGET continues to have headroom against its committed external facilities identified in note 17 to the financial statements.

1. Basis of preparation and recent accounting developments (continued)

In addition to the above, the ability to raise new financing was separately included in the analysis and the Directors noted the £1.4 billion debt issuances completed in April and July (disclosed in note 17 to the financial statements) as evidence of the Company's ability to continue to have access to the debt capital markets if needed. Other factors considered by the Board as part of their Going Concern assessment included the on-going price control determinations, inherent uncertainties in cash flow forecasts and the potential impact of Brexit trade talks.

Having considered the reasonable worst-scenario and further levers at the Board's discretion, the Group continues to have headroom against the Group's committed facilities identified in note 16 to the financial statements.

Based on the above, the Directors have concluded the Company is well placed to manage its financing and other business risks satisfactorily, and have a reasonable expectation that the Company will have adequate resources to continue in operation for at least twelve months from the signing date of these consolidated financial statements. They therefore consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. A subsidiary is defined as an entity controlled by the Company. Control is achieved where the Company has the power to affect the returns of an entity to which it is exposed or to which it has rights.

Where necessary, adjustments are made to bring the accounting policies used in the individual financial statements of the Company and its subsidiaries into line with those used by the Company in its consolidated financial statements under IFRS. Inter-company transactions are eliminated.

Both the Group and Company financial statements have been prepared in accordance with the accounting policies set out in the below section of this note 1.

c) Foreign currencies

Transactions in currencies other than the functional currency of the Company or subsidiary concerned are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at closing exchange rates. Non-monetary assets are not retranslated unless they are carried at fair value.

Gains and losses arising on the retranslation of monetary assets and liabilities are included in the income statement, except where the application of hedge accounting requires inclusion in other comprehensive income - note 24.

d) Areas of judgement and key sources of estimation uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Information about such judgements and estimations is contained in the notes to the financial statements, and the key areas are summarised below.

Key sources of estimation uncertainty that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

- review of residual lives, carrying values and impairment charges for other intangible assets and property, plant and equipment – notes 10 and 11.
- estimation of liabilities for pensions and other post-retirement benefits – note 21;
- valuation of financial instruments - note 29; and

environmental and other provisions – note 22.

In order to illustrate the impact that changes in assumptions for the valuation of pension assets and liabilities, financial instruments and cash flows for environmental provisions could have on our results and financial position, we have included sensitivity analysis in note 29.

1. Basis of preparation and recent accounting developments (continued)

e) Accounting policy choices

IFRS provides certain options available within accounting standards. Choices we have made, and continue to make, include the following:

- Presentational formats: we use the nature of expense method for our income statement and aggregate our statement of financial position to net assets and total equity. In the income statement, we present subtotals of total operating profit, finance income and costs profit before tax, total tax and profit after tax, together with additional subtotals excluding exceptional items and remeasurements. Exceptional items and remeasurements are presented separately on the face of the income statement.
- Financial instruments: we normally opt to apply hedge accounting in most circumstances where this is permitted.

f) New IFRS accounting standards effective for the year ended 31 March 2020

The Company adopted IFRS 16 'Leases' with effect from 1 April 2019. We have applied the modified retrospective approach permitted in the standard whereby prior year comparatives have not been restated on adoption. Instead, any cumulative transition adjustments are reflected through reserves. Refer to note 33 for full details of the impact and transition adjustments arising on adoption.

The UK's Financial Conduct Authority announced that LIBOR will cease to exist by the end of 2021, and will be replaced by alternative reference rates. In September 2019, the IASB amended IFRS 9 and IFRS 7 by issuing Interest Rate Benchmark Reform, which provides exceptions to specific hedge accounting requirements to ensure that hedging relationships are not considered to be modified as a result of the change in the reference rate. The amendments were endorsed in January 2020 for adoption in the EU. The Company early-adopted these changes to IFRS 7 and IFRS 9 with effect from 1 April 2019. There were no transition adjustments on adoption. Refer to note 28 (e) for further details of the impact in the current period.

The Group has also adopted the following amendments to standards, which have had no material impact on the Group's results or financial statement disclosure:

- IFRIC 23 'Uncertainty over Income Tax Treatments';
- Amendments to IAS 28 'Investments in Associates – Long-term Interests in Associates and Joint Ventures';
- Annual Improvements to IFRS Standards 2015–2017 Cycle; and
- Amendments to IAS 19 'Employee Benefits'.

g) New IFRS accounting standards and interpretations not yet adopted

The following new accounting standards and amendments to existing standards have been issued but are not yet effective or have not yet been endorsed by the EU:

- IFRS 17 'Insurance Contracts';
- Amendments to IFRS 3 'Business Combinations';
- Amendments to the References to the Conceptual Framework;
- Amendments to IAS 1 and IAS 8: Definition of material; and
- Amendments to IAS 1 'Presentation of Financial Statements'.

Effective dates remain subject to the EU endorsement process. The Group is currently assessing the impact of the above standards, but they are not expected to have a material impact. The Group has not adopted any other standard, amendment or interpretation that has been issued but is not yet effective.

2. Segmental analysis

This note sets out the financial performance for the year split into the different parts of the business (operating segments). The performance of these operating segments is monitored and managed on a day-to-day basis.

Revenue and the results of the business are analysed by operating segment, based on the information the Board of Directors uses internally for the purposes of evaluating the performance of each operating segment and determining resource allocation between them. The Board of Directors is National Grid Electricity Transmission plc's chief operating decision-making body (as defined by IFRS 8 'Operating Segments') and assesses the profitability of operations principally on the basis of operating profit before exceptional items and remeasurements (see note 4). The following table describes the main activities for the operating segment:

Electricity Transmission	High voltage electricity transmission networks in Great Britain.

Other activities not included within the above segment relate to other commercial operations and corporate activities. There have been no changes to our reporting structure for the year ended 31 March 2020.

On 1 April 2019, the Electricity System Operator (ESO) business was sold to NGESO Ltd, a separate independent subsidiary within the National Grid Group of companies. In 2019 the Directors did not consider this business met the definition of a discontinued operation due to its relative level of operating profit, property, plant & equipment, and share of net debt when compared to the Electricity Transmission Owner operation. However, additional disclosures are included in the footnotes below for 2019.

All of the Group's sales and operations take place within the UK.

(a) Revenue

	2020			2019		
	Total sales	**Sales between segments**	**Sales to third parties**	Total sales	Sales between segments	Sales to third parties
	£m	**£m**	**£m**	£m	£m	£m
Operating segment:						
Electricity Transmission[1]	**1,986**	**—**	**1,986**	3,351	—	3,351
Other activities	**3**	**(1)**	**2**	4	(2)	2
Total revenue from operations	**1,989**	**(1)**	**1,988**	3,355	(2)	3,353

Analysis of revenue by major customer, greater than 10% revenue contribution:

Post legal separation, the principle revenues for NGET, being TNUoS and post vesting connnection charges, are all invoiced to and collected from NGESO Ltd. Amounts are invoiced and settled equally each month over the 12 month period. The ESO acts as agent for the collection of such charges for all GB Transmission Owners.

	2020	2019[1 2]
	£m	£m
Customer A	**—**	379
Customer B	**—**	355
Customer C	**—**	—

1 Included within Electricity Transmission in 2019 is £1,406 million of revenues relating to the ESO operation.

2 In 2019 Sales excluded £13 million that have been included in exceptional items relating to nuclear connections.

No other single customer contributed 10% or more to the Group's revenue in either 2020 or 2019. The 2019 disclosure relates to amounts invoiced by the ESO.

2. Segmental analysis (continued)

(b) Operating profit

A reconciliation of the operating segment's measure of profit to profit before tax is provided below. Further details of the exceptional items and remeasurements are provided in note 5.

	Before exceptional items and remeasurements		After exceptional items and remeasurements	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Operating segment:				
Electricity Transmission[1]	**1,105**	1,015	**1,105**	778
Other activities	**(7)**	(17)	**135**	(17)
Total operating profit	**1,098**	998	**1,240**	761
Reconciliation to profit before tax:				
Operating profit	**1,098**	998	**1,240**	761
Finance income	**5**	7	**5**	7
Finance costs	**(192)**	(164)	**(203)**	(166)
Profit before tax	**911**	841	**1,042**	602

1 Included within Electricity Transmission is £Nil million (2019: £32 million) of operating profit before exceptional items & remeasurements and £Nil million (2019: £2 million) operating profit after exceptional items & remeasurements relating to the ESO operation.

(c) Capital expenditure and depreciation

	Net book value of property, plant and equipment and intangible assets		Capital expenditure[1]		Depreciation, impairment and amortisation[1]	
	2020	2019[2]	**2020**	2019	**2020**	2019
	£m	£m	**£m**	£m	**£m**	£m
Operating segment:						
Electricity Transmission	**13,508**	13,030	**951**	925	**437**	492
Other activities	**20**	21	**—**	—	**1**	—
Total operating profit	**13,528**	13,051	**951**	925	**438**	492
By asset type						
Property, plant and equipment	**13,403**	12,944	**904**	853	**415**	435
Intangible assets	**125**	107	**47**	72	**23**	57
Total	**13,528**	13,051	**951**	925	**438**	492

1 Represents additions to property, plant and equipment and non-current intangibles.

2 2019 Electricity Transmission numbers reported in the table above do not include assets transferred to ESO operations on 1 April 2019.

3. Revenue

Revenue arises in the course of the ordinary activities and principally comprises transmission services.

Transmission services fall within the scope of IFRS 15, 'Revenue from Contracts with Customers'. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties and valued added tax. The Group recognises revenue when it transfers control over a product or service to a customer. It excludes value added (sales) tax & intragroup sales.

IFRS 15 was adopted in the prior year and applied prospectively from 1 April 2018. Therefore, the analysis below is only provided for the current period and the immediate comparative period.

UK Electricity Transmission segment principally generates revenue by providing electricity transmission services. For the year ended 31 March 2020 this was solely as owner of the electricity transmission network in England and Wales. For the year ended 31 March 2019 we were both transmission owner (of the transmission network in England and Wales) as well as system operator for Great Britain. On 1 April 2019 the Electricity System Operator business was sold to National Grid Electricity System Operator Limited; see note 9 for further detail.

Our business operates as a monopoly regulated by Ofgem, which has established price control mechanisms that set the amount of annual allowed returns our business can earn. We work with our regulators to obtain robust regulatory agreements that balance the risks we face with the opportunity to deliver reasonable returns for our investors. Our regulated business earns revenue for the transmission services it has provided during the year. .

The IFRS revenues we record are principally a function of price. Price is determined prior to our financial year end with reference to the regulated allowed returns. As part of our regulatory agreements we are entitled to recover certain costs directly from customers (pass-through costs). These amounts are included in the overall calculation of allowed revenue as stipulated by regulatory agreements.

The transmission of high-voltage electricity encompasses the following principal services:

– the supply of high-voltage electricity; and

– construction work (principally for connections).

For the supply of high-voltage electricity our performance obligation is satisfied over time as our customers make use of our network. We bill monthly in arrears and our payment terms are up to 14 days.

For construction work relating to connections, customers can either pay over the useful life of the connection or upfront. Revenue is recognised over time, as we provide access to our network, and where the customer pays upfront, revenues are deferred and released over the life of the connection.

For other construction where there is no consideration for any future services, for example diversions (being the re-routing of network assets at our customers' request), revenues are recognised as the construction work is completed.

The following table reconciles disaggregated revenue with the Group's reportable segments (see note 2).

Revenue for the year ended 31 March 2020	UK Electricity Transmission £m	Other £m	Total £m
Revenue under IFRS 15:			
Electricity Transmission	1,986	—	1,986
Other revenue:			
Other	—	2	2
Total revenue	1,986	2	1,988

Revenue for the year ended 31 March 2019	UK Electricity Transmission £m	Other £m	Total £m
Revenue under IFRS 15:			
Electricity Transmission	3,345	—	3,345
Other revenue:			
Other	6	2	8
Total revenue	3,351	2	3,353

3. Revenue (continued)

Revenue to be recognised in future periods, presented as contract liabilities of £402 million (see note 19). £388m, relates to contributions in aid of construction for which revenue will be recognised over the weighted average remaining life of the assets, being 40 years.

Future revenues in relation to unfulfilled performance obligations not yet received in cash amount to £1.5 billion (2019: £1.6 billion) relating to connection contracts which will be recognised as revenue over 29 years.

The amount of revenue recognised for the year ended 31 March 2020 from performance obligations satisfied (or partially satisfied) in previous periods, mainly due to the changes in the estimate of the stage of completion, is £nil (2019: £nil).

Total revenue is generated from operations based in the UK.

4. Operating costs

Below we have presented separately certain items included in our operating costs. These include a breakdown of payroll costs (including disclosure of amounts paid to key management personnel) and fees paid to our auditors.

	Before exceptional items and remeasurements		Exceptional items and remeasurements		After exceptional items and remeasurements	
	2020	2019	**2020**	2019	**2020**	2019
	£m	£m	**£m**	£m	**£m**	£m
Depreciation, impairment and amortisation	**438**	493	**—**	150	**438**	643
Payroll costs	**106**	182	**—**	80	**106**	262
Rates and property taxes	**123**	121	**—**	—	**123**	121
Balancing Service Incentive Scheme	**—**	1,196	**—**	—	**—**	1,196
Research and development expenditure	**8**	11	**—**	—	**8**	11
Operating leases	**—**	14	**—**	—	**—**	14
Inventory consumed	**10**	13	**—**	—	**10**	13
Other	**205**	325	**(142)**	20	**63**	345
	890	2,355	**(142)**	250	**748**	2,605

(a) Payroll costs

	2020	2019
	£m	£m
Wages and salaries	**145**	196
Social security costs	**20**	26
Defined contribution scheme costs	**15**	19
Defined benefit pension costs	**14**	51
Charges to other group defined benefit schemes	**2**	3
Share-based payments	**2**	3
Severance costs (excluding pension costs)	**—**	53
	198	351
Less: payroll costs capitalised	**(92)**	(89)
Total payroll costs	**106**	262

(b) Number of employees, including Directors

	31 March 2020 Number	31 March 2019 Number	**Monthly average 2020 Number**	Monthly average 2019 Number
Electricity Transmission	**2,719**	3,380	**2,659**	3,487

The vast majority of employees are either directly or indirectly employed in the transmission of electricity. The reduction in number of employees reflects the 675 employees who transferred to the legally separated ESO business on 1 April 2019.

(c) Key management compensation

	2020	2019
	£m	£m
Salaries and short-term employee benefits	**2**	1
Post-retirement benefits	**—**	—
Share-based payments	**1**	1
Termination benefits (note 4(d))	**—**	—
	3	2

Key management comprises the Board of Directors of the Company together with the Executive Directors of National Grid plc who have managerial responsibility for National Grid Electricity Transmission plc.

4. Operating costs (continued)

(d) Directors' emoluments

The aggregate amount of emoluments paid (excluding social security, pensions and share-based payments) to Directors of the Company in respect of qualifying services for 2020 was £1,646,787 (2019: £1,461,963).

During 2020 five Directors excluding the highest paid Director exercised share options (2019: five Directors).

A number of the current Directors are also Directors and employees of National Grid plc or a subsidiary undertaking of that company and are paid by these companies.

As at 31 March 2020, retirement benefits were accruing to two Directors (2019: two Directors), under a defined benefit scheme.

The aggregate emoluments for the highest paid Director were £505,841 for 2020 (2019: £479,326); and total accrued annual pension at 31 March 2020 for the highest paid Director was £nil (2019: nil).

The aggregate amount of loss of office payments to Directors for 2020 was £nil (2019: £nil).

The Sufficiently Independent Directors each receive a director fee of £20,000 (2019: £20,000) per annum.

(e) Auditor's remuneration

	2020	2019
	£m	£m
Audit services		
Audit of the parent Company’s individual and consolidated financial statements	**0.3**	0.4
Other services supplied		
Fees payable to the Company's auditors for audit related assurance services[1]	**0.5**	0.4

1 Other services supplied represent fees payables for audit services which are required to be carried out by auditors in relation to the Group’s reporting requirements to NG plc. In particular, this includes fees for reports under section 404 of the US Public Company Accounting Reform and Investor Protection Act of 2002 (Sarbanes-Oxley), and assurance fees in relation to regulatory returns.

5. Exceptional items and remeasurements

To monitor our financial performance, we use a profit measure that excludes certain income and expenses. We call that measure 'business performance' or 'adjusted profit'. Business performance (which excludes exceptional items and remeasurements as defined below) is used by management to monitor financial performance as it is considered that it aids the comparability of our reported financial performance from year to year. We exclude items from business performance because, if included, these items could distort understanding of our performance for the year and the comparability between periods. This note analyses these items, which are included in our results for the year but are excluded from business performance.

Exceptional items and remeasurements

	2020 £m	2019 £m
Included within operating profit:		
Exceptional items:		
Profit on disposal of ESO business	**(142)**	—
Cost efficiency and restructuring programmes	**—**	100
Write off of nuclear connection development costs	**—**	150
Exceptional income relating to nuclear connections	**—**	(13)
	(142)	237
Included within finance income and costs:		
Remeasurements:		
Net losses/(gains) on derivative financial instruments	**11**	2
	11	2
Total included within profit before tax	**(131)**	239
Included within tax		
Tax credit on exceptional items	**—**	(45)
Deferred tax arising on the reversal of the reduction in UK corporation tax rate	**106**	
Tax charge on remeasurements	**(2)**	—
	104	(45)
Total exceptional items and remeasurements after tax	**(27)**	194
Analysis of total exceptional items and remeasurements after tax:		
Total exceptional items after tax	**(36)**	192
Total remeasurements after tax	**9**	2
Total exceptional items and remeasurements after tax	**(27)**	194

Exceptional items

Management uses an exceptional items framework that has been discussed and approved by the National Grid Electricity Transmission Audit Committee. This follows a three-step process which considers the nature of the event, the financial materiality involved and any particular facts and circumstances. In considering the nature of the event, management focuses on whether the event is within the Group's control and how frequently such an event typically occurs. In determining the facts and circumstances, management considers factors such as ensuring consistent treatment between favourable and unfavourable transactions, the precedent for similar items, the number of periods over which costs will be spread or gains earned, and the commercial context for the particular transaction.

Items of income or expense that are considered by management for designation as exceptional items include such items as significant restructurings, write- downs or impairments of non-current assets, significant changes in environmental provisions, integration of acquired businesses, gains or losses on disposals of businesses or investments and significant debt redemption costs as a consequence of transactions such as significant disposals or issues of equity, and the related tax as well as deferred tax arising on changes to corporation tax rates.

Costs arising from restructuring programmes include redundancy costs. Redundancy costs are charged to the income statement in the year in which a commitment is made to incur the costs and the main features of the restructuring plan have been announced to affected employees.

5. Exceptional items and remeasurements (continued)

Further detail of exceptional items specific to 2020:

Profit on disposal of ESO business:

The group disposed of the electricity system operator ('ESO') business on 1 April 2019 to National Grid Electricity System Operator Ltd ('NGESO'). The agreed valuation of the ESO business was £450 million. As a result of required working capital adjustments to that valuation, the net consideration received from NGESO for the assets and liabilities of the ESO business was £302 million. After disposing of £160m of net assets, this resulted in a gain on disposal of £142m which is presented in the income statement as an exceptional item.

Remeasurements

Remeasurements comprise unrealised gains or losses recorded in the income statement arising from changes in the fair value of certain of our financial assets and liabilities accounted for at fair value through profit and loss (FVTPL). Consistent with prior periods, these assets and liabilities comprise derivative financial instruments. These fair values increase or decrease because of changes in foreign exchange or other financial indices over which we have no control.

Net gains/(losses) arising on derivative financial instruments are reported in the consolidated income statement in relation to our debt financing. These exclude gains and losses for which hedge accounting has been effective, and have been recognised directly in other comprehensive income or are offset by adjustments to the carrying value of debt (see notes 13 and 28).

Items included within tax

2020
The Finance Act 2016 which was enacted on 15 September 2016 reduced the main UK corporation tax rate to 17% with effect from 1 April 2020. Deferred tax balances were calculated at this rate for the years ended 31 March 2017 to 2019. On 17 March 2020, the UK government utilised the Provisional Collection of Taxes Act 1968 to substantively enact that the main corporation tax rate will remain at 19%. Deferred taxes at reporting date have been measured using enacted tax rates and reflected in these financial statements, resulting in a £106 million deferred tax charge, principally due to the remeasurement of deferred tax liabilities. The treatment of this charge as exceptional is consistent with the treatment for the year ended 31 March 2017 when the original reduction in the tax rate was substantively enacted, resulting in the recognition of an exceptional tax credit of £56 million.

6. Finance income and costs

This note details the interest income generated by our financial assets and interest expense incurred on our financial liabilities, primarily our financing portfolio (including our derivative financial instruments). It also includes the net interest on our pensions and other post-retirement assets. In reporting business performance, we adjust net financing costs to exclude any net gains or losses on financial instruments included in remeasurements (see note 5).

Finance income and costs remeasurements include certain unrealised gains and losses on derivative financial instruments. The interest income and interest expense on these items are included in finance income and finance costs before remeasurements, respectively.

	2020 £m	2019 £m
Finance income		
Interest income on financial instruments:		
Bank deposits and other financial assets	**2**	5
Net interest on pension asset	**3**	2
	5	7
Finance costs		
Interest expense on financial liabilities held at amortised cost:		
Bank loans and overdrafts	**(40)**	(45)
Other borrowings	**(194)**	(204)
Lease liability interest	**(1)**	—
Derivatives	**13**	15
Unwinding of discount on provisions	**(2)**	(1)
Other interest	**(1)**	(1)
Less: interest capitalised [1]	**33**	72
	(192)	(164)
Remeasurements - Finance costs		
Net gains/(losses) on derivative financial instruments [2]		
Derivatives designated as hedges	**5**	4
Derivatives not designated as hedges or ineligible for hedge accounting	**(16)**	(6)
	(11)	(2)
Total remeasurements - Finance income and costs	**(198)**	(159)
Finance income	**5**	7
Finance costs	**(203)**	(166)
Net finance costs	**(198)**	(159)

1 Interest on funding attributable to assets in the course of construction in the current year was capitalised at a rate of 3.1% (2019: 3.9%). Capitalised interest qualifies for a current year tax deduction with tax relief claimed of £7 million (2019: £14 million).

2 Includes a net foreign exchange gain on financing activities of £49 million (2019: £3 million loss) offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.

7. Tax

This note gives further details of the total tax charge and tax liabilities, including current and deferred tax. The current tax charge is the tax payable on this year's taxable profits. Deferred tax is an accounting adjustment to provide for tax that is expected to arise in the future due to differences in accounting and tax bases of profit.

The tax charge for the period is recognised in the income statement, the statement of comprehensive income or directly in equity, according to the accounting treatment of the related transaction. The tax charge comprises both current and deferred tax.

Current tax assets and liabilities are measured at the amounts expected to be recovered from, or paid to, the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted by the reporting date.

The calculation of the Group's total tax charge involves a degree of estimation and judgement. Management periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Judgement is made for each position having regard to particular circumstances and advice obtained.

Deferred tax is provided for using the balance sheet liability method and is recognised on temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases.

Deferred tax liabilities are generally recognised on all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences arise from the initial recognition of goodwill or from the initial recognition of other assets and liabilities in a transaction (other than a business combination) that affects neither the accounting nor taxable profit or loss.

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries and jointly controlled entities except where the

Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on the tax rates and tax laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be recovered. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group and its subsidiaries intend to settle their current tax assets and liabilities on a net basis

Tax charged to the income statement.

	2020	2019
	£m	£m
Tax before exceptional items and remeasurements	**(181)**	(164)
Tax on total exceptional items and remeasurements (note 5)	**(104)**	45
Total tax charge	**(285)**	(119)

Tax as a percentage of profit before tax

	2020	2019
Before exceptional items and remeasurements	**19.9%**	19.5%
After exceptional items and remeasurements	**27.4%**	19.8%

7. Tax (continued)

The tax charge for the year can be analysed as follows:

	2020 £m	2019 £m
Current tax		
Corporation tax at 19% (2019: 19%)	**125**	110
Corporation tax adjustment in respect of prior years	**6**	(2)
Total current tax	**131**	108
Deferred tax		
Deferred tax	**158**	8
Deferred tax adjustment in respect of prior years	**(4)**	3
Total deferred tax	**154**	11
Total tax charge	**285**	119

Tax charged/(credited) to equity and other comprehensive income

	2020 £m	2019 £m
Deferred tax		
Cash flow hedges	**(1)**	(2)
Share-based payments	**(2)**	—
Remeasurements of net retirement benefit obligations	**46**	—
	43	(2)
Analysed as:		
Total tax recognised in the statement of other comprehensive income	**45**	(2)
Total tax relating to share-based payments recognised directly in equity	**(2)**	—
	43	(2)

The tax charge for the year after exceptional items and remeasurements is higher than (2019: higher than) the standard rate of corporation tax in the UK of 19% (2019: 19%):

	Before exceptional items and remeasurements 2020 £m	**After exceptional items and remeasurements 2020 £m**	Before exceptional items and remeasurements 2019 £m	After exceptional items and remeasurements 2019 £m
Profit before tax				
Before exceptional items and remeasurements	**911**	**911**	841	841
Exceptional items and remeasurements (note 5)	**—**	**131**	—	(239)
Profit before tax after exceptional items and remeasurements	**911**	**1,042**	841	602
Profit before tax multiplied by UK corporation				
Tax rate of 19% (2019: 19%)	**173**	**198**	159	113
Effect of:				
Adjustments in respect of prior years	**2**	**2**	1	1
Expenses not deductible for tax purposes	**7**	**7**	7	8
Non taxable income	**—**	**(27)**	(1)	(1)
Impact of share-based payments	**(1)**	**(1)**	(1)	(1)
Deferred tax impact of change in UK tax rate	**—**	**106**	(1)	(1)
Total tax charge	**181**	**285**	164	119
Effective tax rate	**19.9%**	**27.4%**	19.5%	19.8%

7. Tax (continued)

Factors that may affect future tax charges

The Provisional Collection of Taxes Act 1968, substantively enacted on 17 March 2020, reversed the reduction in the main UK corporation tax rate to 17% with effect from 1 April 2020. The main UK corporation tax rate therefore remains at 19%. Deferred tax balances have been calculated at this rate.

The Directors will continue to monitor the developments driven by Brexit, the OECD's Base Erosion and Profit Shifting (BEPS) project and European Commission initiatives including fiscal aid investigations. At this time the Directors do not expect this to cause any material impact on future tax charges.

Governments across the world including the UK have introduced various stimulus / reliefs for businesses to cope with the impact of COVID 19 pandemic. The Directors will monitor as the details become available for any that may materially impact our future tax charges.

Tax included within the statement of financial position

The following are the major deferred tax assets and liabilities recognised, and the movements thereon, during the current and prior reporting periods:

Deferred tax liabilities/(assets)

	Accelerated tax depreciation	Share- based payments	Pensions	Financial instruments	Other net temporary differences	Total
	£m	£m	£m	£m	£m	£m
Deferred tax assets at 01 April 2018	—	(2)	—	—	(1)	(3)
Deferred tax liabilities at 01 April 2018	914	—	4	1	—	919
At 1 April 2018	914	(2)	4	1	(1)	916
Charged/(credited) to income statement	13	(1)	8	—	(9)	11
Charged/(credited) to other comprehensive income	—	—	—	(2)	—	(2)
Transfer to held for sale[1]	(14)	—	—	—	3	(11)
At 31 March 2019	913	(3)	12	(1)	(7)	914
Deferred tax assets at 31 March 2019	—	(3)	—	(1)	(7)	(11)
Deferred tax liabilities at 31 March 2019	913	—	12	—	—	925
At 1 April 2019	913	(3)	12	(1)	(7)	914
Transfer to held for sale[1]	2	—	—	—	—	2
Charged/(credited) to income statement	143	—	14	—	(2)	155
Charged to other comprehensive income and equity	—	(2)	46	(1)	—	43
At 31 March 2020	1,058	(5)	72	(2)	(9)	1,114
Deferred tax assets at 31 March 2020	—	(5)	—	(2)	(9)	(16)
Deferred tax liabilities at 31 March 2020	1,058	—	72	—	—	1,130
At 31 March 2020	1,058	(5)	72	(2)	(9)	1,114

1 Transfer to held for sale represents deferred tax liabilities being transferred to ESO operations on 1 April 2019.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is intention to settle the balances net. The deferred tax balances (after offset) for statement of financial position purposes consist solely of deferred tax liabilities of £1,114 million (2019: £914 million).

8. Dividends

Dividends represents the return of profits to shareholders. Dividends are paid as an amount per ordinary share held. We retain part of the profits generated in the year to meet future growth plans and meet our gearing target, and pay out the remainder in accordance with our dividend policy.

Interim dividends are recognised when they become payable to the Company's shareholders. Final dividends are recognised when they are approved by shareholders.

The following table shows the dividends paid to the equity shareholder:

	2020		2019	
	pence (per ordinary share)	**£m**	pence (per ordinary share)	£m
Ordinary dividends				
Final dividend in respect of the prior year	—	—	198.90	869

The Directors are proposing a final dividend for the year ended 31 March 2020 of 99.31p per share that will absorb approximately £434 million of shareholders' equity (assuming all amounts are settled in cash). This was declared after the year end during the 21 July 2020 board meeting, as a result this was not included within the financial statements.

9. Disposal of the Electricity System Operator ('ESO') business

The group disposed of the electricity system operator ('ESO') business on 1 April 2019 to National Grid Electricity System Operator Ltd ('NGESO'). The agreed arm's length enterprise valuation of the ESO business was £450 million on a normal working capital basis. As a result of required working capital adjustments to that valuation, the net consideration received from NGESO for the assets and liabilities of the ESO business was £302 million. After disposing of £160m of net assets, this resulted in a gain on disposal of £142m.

The resulting gain on disposal is presented in the income statement as an exceptional item. The disposal is not separately disclosed as a discontinued operation as it did not represent a separate major line of business.

The final value of the net assets disposed of were as follows:

	£m
Intangible computer software	187
Property, Plant and Equipment	95
Cash and cash equivalents	13
Trade and other receivables	344
Trade and other payables	(429)
Provisions	(18)
Deferred tax liabilities	(9)
Other non-current liabilities	(23)
Net assets disposed	**160**

10. Intangible assets

Intangible assets relate to software, which is written down (amortised) over the period we expect to receive a benefit from the asset.

Identifiable intangible assets are recorded at cost less accumulated amortisation and any provision for impairment. Intangible assets are tested for impairment only if there is some indication that the carrying value of the assets may have been impaired.

Impairments of assets are calculated as the difference between the carrying value of the asset and the recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash generating unit to which that asset belongs is estimated. Impairments are recognised in the income statement and are disclosed separately. Any assets which suffered impairment in a previous period are reviewed for possible reversal of the impairment at each reporting date.

Internally generated intangible assets, such as software, are recognised only if: an asset is created that can be identified; it is probable that the asset created will generate future economic benefits; and that the development cost of the asset can be measured reliably. Where no internally generated intangible asset can be recognised, development expenditure is recorded as an expense in the period in which it is incurred.

Intangible assets under development are not amortised. Other non-current intangible assets are amortised on a straight-line basis over their estimated useful economic lives. The amortisation period for software is up to eight years.

	Software £m
Cost at 1 April 2018	520
Additions	72
Reclassifications[1]	4
Disposals	(3)
Transfer to held for sale[2]	(333)
Cost at 31 March 2019	260
Additions	50
Reclassifications[1]	(6)
Cost at 31 March 2020	304
Accumulated amortisation at 1 April 2018	(247)
Amortisation charge for the year	(57)
Disposals	5
Transfer to held for sale[2]	146
Accumulated amortisation at 31 March 2019	(153)
Amortisation charge for the year	(26)
Accumulated amortisation at 31 March 2020	(179)
Net book value at 31 March 2020	**125**
Net book value at 31 March 2019	107

1 Reclassification represents amounts transferred from property, plant and equipment (see note 11).

2 Transfer to held for sale represents assets being transferred to ESO operations on 1 April 2019.

11. Property, plant and equipment

The following note shows the physical assets controlled by us. The cost of these assets primarily represents the amount initially paid for them. This includes both their purchase price and the construction and other costs associated with getting them ready for operation. A depreciation expense is charged to the income statement to reflect annual wear and tear and the reduced value of the asset over time. Depreciation is calculated by estimating the number of years we expect the asset to be used (useful economic life) and charging the cost of the asset to the income statement equally over this period.

We operate an energy networks business and therefore have a significant physical asset base. We continue to invest in our networks to maintain reliability, create new customer connections and ensure our networks are flexible and resilient. Our business plan envisages these additional investments will be funded through a mixture of cash generated from operations and the issue of new debt.

Property, plant and equipment is recorded at cost, less accumulated depreciation and any impairment losses. Cost includes the purchase price of the asset, any payroll and finance costs incurred which are directly attributable to the construction of property, plant and equipment as well as the cost of any associated asset retirement obligations.

Property, plant and equipment includes assets in which the Group's interest comprises legally protected statutory or contractual rights of use. Additions represent the purchase or construction of new assets, including capital expenditure for safety and environmental assets, and extensions to, enhancements to, or replacement of existing assets. All costs associated with projects or activities which have not been fully commissioned at the period end are classified within assets in the course of construction.

No depreciation is provided on freehold land or assets in the course of construction. Other items of property, plant and equipment are depreciated, on a straight-line basis, at rates estimated to write off their book values over their estimated useful economic lives. In assessing estimated useful economic lives, consideration is given to any contractual arrangements and operational requirements relating to particular assets. The assessments of estimated useful economic lives and residual values of assets are performed annually. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of property, plant and equipment are, in general, as shown in the table below:

	Years
Freehold and Leasehold buildings	5 to 50
Plant and Machinery	
- Electricity Transmission plant	15 to 100
Motor vehicles and office equipment	Up to 7

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within operating profit in the income statement.

Items within property, plant and equipment are tested for impairment only if there is some indication that the carrying value of the assets may have been impaired.

Impairments of assets are calculated as the difference between the carrying value of the asset and the recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash-generating unit to which that asset belongs is estimated.

Impairments are recognised in the income statement and if immaterial are included within depreciation charge for the year.

Any assets which suffered impairment in a previous period are reviewed for possible reversal of the impairment at each reporting date.

11. Property, plant and equipment (continued)

	Land and buildings	Plant and machinery	Assets in the course of construction	Motor vehicles and office equipments	Total
	£m	£m	£m	£m	£m
Cost at 1 April 2018	874	14,121	2,764	120	17,879
Additions	22	190	641	—	853
Disposals[1]	(1)	(92)	(173)	(11)	(277)
Reclassifications	124	946	(1,079)	5	(4)
Transfer to held for sale[3]	(76)	(1)	(55)	(50)	(182)
Cost at 31 March 2019	943	15,164	2,098	64	18,269
Right-of-use assets recognised on transition to IFRS 16[4]	62	—	—	5	67
Additions	115	144	635	10	904
Disposals[1]	(2)	(36)	(8)	(1)	(47)
Reclassifications[2]	(65)	1,269	(1,230)	5	(21)
Cost at 31 March 2020	1,053	16,541	1,495	83	19,172
Accumulated depreciation at 1 April 2018	(127)	(4,860)	—	(92)	(5,079)
Depreciation charge for the year	(15)	(412)	—	(8)	(435)
Disposals[1]	—	92	—	10	102
Transfer to held for sale[3]	47	—	—	40	87
Accumulated depreciation at 31 March 2019	(95)	(5,180)	—	(50)	(5,325)
Depreciation charge for the year	(21)	(407)	—	(9)	(437)
Disposals[1]	2	29	—	—	31
Reclassifications[2]	—	—	(60)	—	(60)
Impairment	—	—	23	(1)	22
Accumulated depreciation at 31 March 2020	**(114)**	**(5,558)**	**(37)**	**(60)**	**(5,769)**
Net book value at 31 March 2020	939	10,983	1,458	23	13,403
Net book value at 31 March 2019	848	9,984	2,098	14	12,944

1 Disposals include £2m of nil net book value assets written off (2019: £102m).

2 Reclassifications represents transfers between asset categories and £6m to intangible assets (see note 10). Reclassifications include a £60m for an impairment provision between cost and depreciation and an additional £87 million reduction in gross cost of assets for costs previously capitalised as these are no longer payable to the supplier building the Western Link HVDC.

3 Transfer to held for sale represents assets being transferred to ESO operations on 1 April 2019.

4 £67 million of additional right-of-use assets were recognised on transition to IFRS 16 on 1 April 2019. See note 33 for details.

Right-of-use assets

The Group leases various properties, equipment and cars. With effect from 1 April 2019, new lease arrangements entered into are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use (see note 33). The right-of-use asset and associated lease liability arising from a lease are initially measured at the present value of the lease payments expected over the lease term, plus any other costs. The discount rate applied is the rate implicit in the lease or if that is not available, then the incremental rate of borrowing for a similar term and similar security. The lease term takes account of exercising any extension options that are at our option if we are reasonably certain to exercise the option and any lease termination options unless we are reasonably certain not to exercise the option. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period using the effective interest rate method. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as computers), The Group continues to recognise a lease expense on a straight-line basis.

Included within the net book value of property, plant and equipment at 31 March 2020 are right-of-use assets, split as follows:

11. Property, plant and equipment (continued)

	Land and Buildings £m	Motor vehicles and office equipment £m	Total £m
Net book value at 31 March 2020	55	4	59
Additions	1	—	1
Disposals	(2)	(1)	(3)
Depreciation charge for the year ended 31 March 2020	(8)	(3)	(11)

The following balances have been included in the income statement for the year ended 31 March 2020 in respect of right-of-use assets:

	Total £m
Included within net finance income and costs:	
Interest expense on lease liabilities	(1)

The associated lease liabilities are disclosed in note 17.

	2020 £m	2019 £m
Contributions to cost of property, plant and equipment included within:		
Non-current liabilties		
Contract liabilities - current (2019: Trade and other payables)	10	10
Contract liabilities - non-current (2019: Non-current liabilities)	378	365

12. Financial and other investments

The Financial and other investments balance of £199 million primarily comprises collateral receivable, representing cash pledged against derivative holdings and other borrowings; it also includes current loans to fellow group undertakings.

The classification for each investment is dependent on its contractual cash flows and the business model it is held under.

Debt instruments that have contractual cash flows that are solely payments of principal and interest, and which are held within a business model whose objective is to collect contractual cash flows, are held at amortised cost. This category includes all investments held in the current and prior year.

Financial investments at amortised cost are initially recognised on trade date at fair value less transaction costs and expected losses. Interest income is recognised using the effective interest method. Interest income, together with gains and losses when the loans and receivables are derecognised or impaired, is recognised in the income statement. In the current year, the transaction value equals fair value.

	2020	2019
	£m	£m
Current		
Financial assets at amortised cost	**199**	267
	199	**267**
Financial assets at amortised cost comprise the following:		
Loans and receivables - amounts due from fellow subsidiaries	**1**	1
Restricted balances:		
Collateral[1]	**198**	266
	199	**267**

1 Refers to collateral placed with counterparties with whom we have entered into a credit support annex to the ISDA (International Swaps and Derivatives Association) Master Agreement.

The carrying value of current financial assets at amortised cost approximates their fair values, primarily due to short-dated maturities. The exposure to credit risk at the reporting date is the fair value of the financial investments. For further information on our credit risk, refer to note 28(a).

For the purposes of impairment assessment, all financial assets at amortised cost are investment grade and have no known issues such as write-offs, modifications or late payments giving rise to expected losses. They are therefore considered to have low credit risk and have a loss allowance equal to the shorter of lifetime or 12-month expected credit losses.

In determining the expected credit losses for these assets some or all of the following information has been considered: credit ratings, the financial position of counterparties, the future prospects of the relevant industries and general economic forecasts.

13. Derivative financial instruments

Derivatives are financial instruments that derive their value from the price of an underlying item such as interest rates, foreign exchange rates, credit spreads, equity or other indices. In accordance with the National Grid plc Board approved policies, these policies have been deemed applicable at NGET by their respective board of directors. Derivatives are transacted by NGET generally to manage our exposure to fluctuations in interest rates and foreign exchange rates. Specifically we use these derivatives to manage our financing portfolio, and contractual operational cash flows.

Derivatives are initially recognised at fair value and subsequently remeasured at fair value at each reporting date. Changes in fair values are recorded in the period they arise, in either the income statement or other comprehensive income as required by IFRS 9. Where the gains or losses recorded in the income statement arise from changes in the fair value of derivatives to the extent that hedge accounting is not applied or is not fully effective, these are recorded as remeasurements, detailed in note 5 and 6. Where the fair value of a derivative is positive it is carried as a derivative asset, and where negative as a derivative liability.

We calculate the fair value of derivative financial instruments by taking the present value of future cash flows, primarily incorporating market observable inputs. The various inputs include foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies, interest rate and inflation curves, and for those positions that are not fully cash collateralised the credit quality of the counterparties.

Further information on how derivatives are valued and used for risk management purposes is presented in note 28.

The fair values of derivative financial instruments by type are as follows:

	2020			2019		
	Asset	**Liabilities**	**Total**	Asset	Liabilities	Total
	£m	**£m**	**£m**	£m	£m	£m
Interest rate swaps	**282**	**(268)**	**14**	254	(289)	(35)
Cross-currency interest rate swaps	**135**	**(56)**	**79**	66	(48)	18
Foreign exchange forward contracts[1]	**4**	**(4)**	**—**	1	(8)	(7)
Inflation linked swaps	**—**	**(150)**	**(150)**	—	(137)	(137)
	421	**(478)**	**(57)**	321	(482)	(161)

1 Included within the foreign exchange forward contracts balance is net £Nil million (2019: £7 million) of derivatives in relation to capital expenditure.

The maturity profile of derivative financial instruments is as follows:

	2020			**2019**		
	Assets	Liabilities	**Total**	Assets	Liabilities	Total
	£m	**£m**	**£m**	£m	£m	£m
Current						
Less than 1 year	**1**	**(22)**	**(21)**	—	(112)	(112)
	1	**(22)**	**(21)**	—	(112)	(112)
Non-current						
In 1 - 2 years	**—**	**—**	**—**	—	(3)	(3)
In 2 - 3 years	**—**	**—**	—	—	—	—
In 3 - 4 years	**20**	**(6)**	14	—	—	—
In 4 - 5 years	**10**	**(39)**	(29)	20	—	20
More than 5 years	**390**	**(411)**	**(21)**	301	(367)	(66)
	420	**(456)**	**(36)**	321	(370)	(49)
	421	**(478)**	**(57)**	321	(482)	(161)

The notional contract[1] amounts of derivative financial instruments by type are as follows:

	2020	2019
	£m	£m
Interest rate swaps	**(2,065)**	(2,844)
Cross-currency interest rate swaps	**(1,294)**	(809)
Foreign exchange forward contracts	**(244)**	(319)
Inflation linked swaps	**(300)**	(300)
	(3,903)	(4,272)

1 The notional contract amounts of derivatives indicate the gross nominal value of transactions outstanding at the reporting date.

14. Inventories

Inventories represent assets that we intend to use in order to generate revenue in the short-term by using it to fulfil a service to a customer or to maintain our network (spares & consumables).

Inventories are stated at the lower of weighted average cost and net realisable value.

Where applicable, cost comprises direct materials and direct labour costs as well as those overheads that have been incurred in bringing the inventories to their present location and condition.

	2020	2019
	£m	£m
Raw materials, spares and consumables	**47**	43
Work in progress	**1**	—
	48	43

The closing balance includes a £12 million provision for obsolescence against raw materials, spares and consumables at 31 March 2020 (2019: £12 million).

15. Trade and other receivables

Trade and other receivables are amounts which are due from our customers for services we have provided.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost, less any appropriate allowances for estimated irrecoverable amounts.

Trade receivables are non-interest-bearing and generally have a 30 to 90 days term. Due to their short maturities, the fair value of trade and other receivables approximates their book value. All other receivables are recorded at amortised cost. The provision as at 31 March 2020 was £1m (2019: £2m).

	2020	2019
	£m	£m
Current		
Trade receivables	**16**	15
Amounts owed by fellow subsidiary undertakings	**65**	18
Social security and other taxes	**32**	—
Accrued income	**39**	24
Prepayments	**31**	22
Other receivables	**39**	22
	222	101

	2020	2019
	£m	£m
Non-current		
Prepayments	**5**	11
	5	11

Provision for impairment of receivables

A provision for credit losses is recognised at an amount equal to the expected credit losses that will arise over the lifetime of the trade receivables and accrued income.

A provision matrix is not used to assess expected loss rates as an assessment is performed on individual debtors and the provision is not material. There are no retail customers (see note 2 explaining that most revenues are invoiced and cash received monthly from NGESO Ltd).

In determining the provision for bad and doubtful debts as at 31 March 2020, we have had to consider the evolving financial impact of the restrictions put in place as a result of COVID-19 on our ability to collect amounts. After consideration, there were no adjustments made.

	2020	2019
	£m	£m
At 1 April	**2**	4
Charge for the year	**—**	32
Amounts recovered in the year	**(1)**	—
Transfers[1]	**—**	(34)
At 31 March	**1**	2

1 2019 transfer relates to held for sale transfers and represents the provision transferred to ESO operations on 1 April 2019.

For further information on our wholesales and retail credit risk, refer to note 28(a).

16. Cash and cash equivalents

Cash and cash equivalents include cash balances, together with short-term investments with an original maturity of less than three months that are readily convertible to cash.

Net cash and cash equivalents reflected in the cash flow statement are net of bank overdrafts, which are reported in borrowings. The carrying amounts of cash and cash equivalents and bank overdrafts approximate their fair values.

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for periods varying between one day and three months, depending on the immediate cash requirements, and earn interest at the respective short-term deposit rates.

Net cash and cash equivalents held in currencies other than sterling have been converted into sterling at year-end exchange rates. For further information on currency exposures, refer to note 28(c).

	2020 **£m**	2019 £m
Cash at bank and short-term deposits	**—**	17
Cash and cash equivalents excluding bank overdrafts	—	17
Bank overdrafts	(16)	—
Bank overdrafts included in borrowings	**(16)**	**17**
Analysed as:		
Bank overdraft for transmission operations	**(16)**	—
Cash and cash equivalent for transmission operations	**—**	4
Cash and cash equivalent reclassified to held for sale at 31 March 2019	**—**	13
Bank overdrafts	**(16)**	17

17. Borrowings

We borrow money primarily in the form of bonds, borrowings from fellow subsidiaries and bank loans. These are for a fixed term and may have fixed or floating interest rates or are linked to the retail price index (RPI). We use derivatives to manage risks associated with interest rates and foreign exchange.

As we continue to invest in our networks, the value of debt is expected to increase over time. To maintain a strong balance sheet and to allow us to access capital markets at commercially acceptable interest rates, we balance the amount of debt we issue with the value of our assets, and take account of certain other metrics such as retained cash flow/net debt (RCF), regulatory gearing and interest cover.

Borrowings, which include interest-bearing and inflation-linked debt, overdrafts and collateral payable, are initially recorded at fair value which normally reflect the proceeds received, net of direct issue costs less any repayments. Subsequently these are stated at amortised cost; any difference between the proceeds after direct issue costs and the redemption value is recognised over the term of the borrowing in the income statement using the effective interest method.

Further information on how we manage the rates and currency risk of our borrowings portfolio is presented in note 28. Information on our net debt is presented in note 25.

17. Borrowings (continued)

	2020 £m	2019 £m
Current		
Bank loans and overdrafts	**558**	102
Bonds	**379**	265
Commercial Paper	**—**	73
Borrowings from fellow subsidiaries of National Grid plc	**1**	1
Lease liabilities	**9**	—
Borrowings from the ultimate parent company	**286**	1,389
	1,233	1,830
Non-current		
Bank loans	**1,537**	1,700
Bonds	**4,878**	3,616
Lease liabilities	**51**	—
Borrowings from the ultimate parent company	**362**	358
	6,828	5,674
Total borrowings	**8,061**	7,504

Total borrowings are repayable as follows:

	2020 £m	2019 £m
Less than 1 year	**1,233**	1,830
In 1 - 2 years	**362**	447
In 2 - 3 years	**119**	358
In 3 - 4 years	**165**	116
In 4 - 5 years	**537**	167
More than 5 years:		
by instalments	**819**	865
other than by instalments	**4,826**	3,721
	8,061	7,504

The fair value of borrowings at 31 March 2020 was £9,303 million (2019: £8,880 million). Where market values were available, fair value of borrowings (Level1) was £2,359 million (2019: £1,593 million). Where market values are not available, fair value of borrowings (Level 2) was £6,944 million (2019: £7,287 million), calculated by discounting cash flows at prevailing interest rates. The notional amount outstanding of the debt portfolio as at 31 March 2020 was £7,903 million (2019: £7,369 million).

In April 2020, National Grid Electricity Transmission plc issued a £400 million fixed interest rate bond from the NGET EMTN programme with a 20-year tenor and in July 2020, National Grid Electricity Transmission plc issued a further £350 million fixed interest rate bond with a 8-year tenor and a €750 million fixed rate bond with a 12-year tenor both from the NGET EMTN programme as part of the Company's ongoing funding.

Collateral is placed with or received from any counterparty where we have entered into a credit support annex to the ISDA Master Agreement once the current mark-to-market valuation of the trades between the parties exceeds an agreed threshold. Included in current bank loans is £101m (2019: £36m) in respect of cash received under collateral agreements.

At 31 March 2020, we had committed credit facilities of £1,645m (2019: £1,645m) of which £1,645m was undrawn (2019: £1,645m undrawn). All of the facilities at 31 March 2020 and at 31 March 2019 are available for liquidity purposes.

Of the £1,645m of undrawn committed borrowings facilities £85m was renegotiated before 31 March 2020, with the expiry extended by a further year, with effect from 1 June 2020 and £750m was renegotiated since 31 March 2020, with the expiry extended by a further four years.

None of the Group's borrowings are secured by charges over assets of the Group.

17. Borrowings (continued)

Lease liabilities

The Group adopted IFRS 16 on 1 April 2019, which resulted in the recognition of £67 million of additional lease liabilities. As we applied the modified retrospective approach to transition, comparatives were not restated. Refer to note 33 for details.

Lease liabilities are initially measured at the present value of the lease payments expected over the lease term. The discount rate applied is the rate implicit in the lease or if that is not available, then the incremental rate of borrowing for a similar term and similar security. The lease term takes account of exercising any extension options that are at our option if we are reasonably certain to exercise the option and any lease termination options unless we are reasonably certain not to exercise the option. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period using the effective interest rate method.

	2020	2019
	£m	£m
Gross lease liabilities are repayable as follows:		
Less than 1 year	**10**	—
1 to 5 years	**27**	—
More than 5 years	**52**	—
	89	—
Less: finance charges allocated to future periods	**(29)**	—
	60	—
The present value of lease liabilities are as follows:		
Less than 1 year	**9**	—
1 to 5 years	**24**	—
More than 5 years	**27**	—
	60	—

18. Trade and other payables

Trade and other payables include amounts owed to suppliers, tax authorities and other parties which are due to be settled within 12 months. The total also includes deferred amounts, some of which represents monies received from customers but for which we have not yet delivered the associated service. These amounts are recognised as revenue when the service is provided.

Trade payables are initially recognised at fair value and subsequently measured at amortised cost.

	2020	2019
	£m	£m
Trade payables	**423**	436
Amounts owed to fellow subsidiaries of National Grid plc	**61**	72
Deferred income	**19**	17
Social security and other taxes	**—**	44
Other payables	**27**	16
	530	585

Due to their short maturities, the fair value of trade payables approximates their book value.

19. Contract liabilities

Contract liabilities primarily relate to the advance consideration received from customers for construction contracts, mainly in relation to connections, for which revenue is recognised over the life of the asset.

	2020	2019
	£m	£m
Current	**24**	10
Non-current	**378**	365
	402	375

Significant changes in the contract liabilities balances during the year are as follows:

	2020	2019
	£m	£m
As at 1 April 2019	**375**	362
Revenue recognised that was included in the contract liability balance at the beginning of the period	**(10)**	(9)
Increase due to cash received, excluding amounts recognised as revenue during the period	**24**	22
Other	**13**	—
At 31 March 2020	**402**	**375**

20. Other non-current liabilities

Other non-current liabilities include deferred income which will not be recognised as income until after 31 March 2020. It also includes payables that are not due until after that date.

Non-current liabilities are initially recognised at fair value and subsequently measured at amortised cost. There is no material difference between the fair value and the carrying value of other payables.

	2020	2019
	£m	£m
Other payables	**54**	86
	54	86

21. Pensions and other post-retirement benefits

All of our employees are eligible to participate in a pension scheme. National Grid has defined benefit (DB) and defined contribution (DC) pension schemes in the UK. The fair value of associated scheme assets and present value of DB obligations are updated annually in accordance with IAS 19 (revised). Below we provide a more detailed analysis of the amounts recorded in the primary financial statements and the actuarial assumptions used to value the DB obligations.

National Grid's UK pension arrangements are held in separate Trustee administered funds. The arrangements are managed by Trustee companies with boards consisting of company- and member-appointed directors.

YouPlan

YouPlan is the qualifying DC plan that is used for automatic enrolment of new hires. The scheme is designed to provide members with a pension pot for their retirement. The risks associated with the scheme are assumed by the members.

National Grid Electricity Transmission plc pays contributions into YouPlan to provide DC benefits on behalf of employees. National Grid Electricity provides a double match of member contributions, up to a maximum of 12% of member salary as well as the relevant associated cost of administration and insured benefits.

Payments to the DC plan are charged as an expense as they fall due. There is no legal or constructive obligation on National Grid Electricity to pay additional contributions into YouPlan if the scheme has insufficient assets to pay all employees' benefits relating to employee service in the current and prior periods.

Defined benefit ('DB') schemes

On retirement, members of DB schemes receive benefits whose value is dependent on factors such as salary and length of pensionable service. The Company's obligation in respect of DB pension schemes is calculated by projecting the estimated amount of future benefit payments that employees have earned for their pensionable service in the current and prior periods. These future benefit payments are discounted to determine the present value of the liabilities. Current service cost and any unrecognised past service cost are recognised immediately. The discount rate used is the yield at the valuation date on high-quality corporate bonds.

Advice is taken from independent actuaries relating to the appropriateness of the key assumptions applied, including life expectancy, expected salary and pension increases, and inflation. Comparatively small changes in the assumptions used may have a significant effect on the amounts recognised in the Consolidated Income Statement, the Consolidated Statement of Other Comprehensive Income and the net liability recognised in the Consolidated Statement of Financial Position.

Remeasurements of pension assets and post-retirement benefit obligations are recognised in full in the period in which they occur in the consolidated statement of other comprehensive income.

National Grid Electricity Transmission is a participating employer in the National Grid Electricity Group of the Electricity Supply Pension Scheme (NGEG of ESPS). The plan closed to new hires from 1 April 2006.

The scheme is subject to an independent actuarial funding valuations at least every three years and following consultation and agreement with us, the qualified actuary certifies the employers' contributions, which, together with the specified contributions payable by the employees and proceeds from the scheme assets, are expected to be sufficient to fund the benefits payable.

The results of the most recent actuarial valuation are shown below. See page 88 for the assumptions used for IAS 19 (revised) purposes. The next actuarial valuation will be performed as at 31 March 2022.

21. Pensions and other post-retirement benefits (continued)

	NGEG to ESPS
Latest full actuarial valuation	31 March 2019
Actuary	Aon Hewitt
Market value of scheme assets at latest valuation	£3,144 million
Actuarial value of benefits due to members	£3,381 million
Market value as percentage of benefits	84%
Funding deficit	£237 million
Funding deficit net of tax	£192 million

The last full actuarial valuation for NGEG of the ESPS determined that the scheme was in deficit. The Company and the Trustees agreed on a schedule of contributions, whereby deficit funding of £52 million is payable each year from 2019 to 2022, with a final payment of £26 million in 2023, which should lead to the elimination of the funding shortfall by September 2023. All deficit funding amounts due will be adjusted for changes in the RPI. In addition, the employer contributes 50.8% of pensionable salary, less member contributions, in respect of the ongoing service cost. NGET is also responsible for the costs of scheme administration and the Pension Protection Fund (PPF) Levy.

The COVID-19 pandemic

The COVID-19 pandemic has had a global impact on economies, equity and bond markets. Market volatility during March has had an impact on the value of assets held by National Grid's DB and DC pension schemes. National Grid's UK DB schemes have low-risk investment strategies with limited exposure to equities and other return seeking assets.

Security arrangements

The Company has also established security arrangements with charges in favour of the Trustees:

Value of security arrangements at 31 March 2020	£239 million
Additional amounts payable at 31 March 2020[1]	A maximum of £500 million

1 These amounts are payable if certain trigger events occur which have been individually agreed between the Trustee and the Company.

The majority of the security is provided in the form of letters of credit with the remainder in surety bonds. The assets held in security will be paid to the scheme in the event that the Company is subject to an insolvency event or fails to make the required contributions. The assets will also be paid to the relevant scheme where the Company loses its licence to operate under relevant legislation. Counter indemnities have also been taken out to ensure the obligations will be fulfilled.

Actuarial assumptions

The following financial assumptions have been applied in assessing defined benefit liabilities.

	2020	2019
	%	%
Discount rate - past service	**2.35**	2.40
Discount rate - future service	**2.35**	2.45
Rate of increase in salaries	**2.90**	3.50
Rate of increase in RPI - past service	**2.65**	3.25
Rate of increase in RPI - future service	**2.45**	3.20

At 31 March 2020, single equivalent financial assumptions are shown above for presentational purposes, although full yield curves have been used in our calculations. In 2018 and 2019, single equivalent financial assumptions were set which reflected the average duration for the aggregate past and future service obligations.

The discount rate is determined by reference to high quality UK corporate bonds at the reporting date. The rate of increase in salaries has been set using a promotional scale where appropriate. The rates of increases stated are not indicative of historical increases awarded or a guarantee of future increase, but merely an appropriate assumption used in assessing DB liabilities. Retail Price Index (RPI) is the key assumption that determines assumed increases in pensions in payment and deferment.

21. Pensions and other post-retirement benefits (continued)

Assumed life expectations for a retiree age 65.

	2020 Years	2019 Years
As at 31 March		
Males	**23.2**	23.1
Females	**24.5**	24.4
In 20 years:		
Males	**24.2**	24.3
Females	**25.9**	26.1

The weighted average duration of the DB obligation for each category of the scheme is 14 years

As at the reporting date, the present value of the funded obligations split according to member status, was approximately 20% active members (2019: 26%); 9% deferred members (2019: 9%) and 71% pensioner members (2019: 65%).

For sensitivity analysis see note 29.

Amounts recognised in the consolidated statement of financial position

	2020 £m	2019 £m
Present value of funded obligations	**(2,737)**	(3,066)
Fair value of scheme assets	**3,161**	3,189
	424	123
Present value of unfunded obligations	**(45)**	(49)
Net defined benefit asset	**379**	74
Represented by:		
Asset	**424**	123
Liability	**(45)**	(49)
	379	74

21. Pensions and other post-retirement benefits (continued)

Amounts recognised in the consolidated income statement and the consolidated statement of other comprehensive income

	2020 £m	2019 £m
Included within operating costs		
Administration costs	**1**	—
Included within payroll costs		
Defined benefit scheme costs:		
Current service cost	**19**	24
Past service cost - augmentations	**—**	4
Past service cost - redundancies	**—**	(9)
Past service cost - plan amendments	**—**	5
Special termination benefit cost - redundancies	**1**	35
	20	59
Amounts paid by other fellow group undertakings	**(6)**	(8)
Total amount included within payroll costs	**14**	51
Included within finance income and costs		
Net Interest credit	**(3)**	(2)
Total included in the consolidated income statement	**12**	49
Actuarial (loss)/gain on defined benefit obligation in the period	**(272)**	121
Return on assets less/(greater) than discount rate	**23**	(159)
Change in longevity swap value	**16**	35
Total included in the consolidated statement of other comprehensive income	**(233)**	(3)

Reconciliation of the net defined benefit asset

	2020 £m	2019 £m
Opening defined benefit asset	**74**	27
Net cost recognised in the income statement	**(12)**	(49)
Amounts paid by other fellow group undertakings	**(6)**	(8)
Remeasurement effects recognised in the statement of other comprehensive income	**233**	3
Employer contributions	**89**	101
Other movements	**1**	—
Closing net defined benefit asset	**379**	74

21. Pensions and other post-retirement benefits (continued)

Changes in the present value of defined benefit obligations (including unfunded obligations)

	2020 £m	2019 £m
Opening defined benefit obligations	**(3,115)**	(3,025)
Current service cost	**(19)**	(24)
Interest cost	**(73)**	(76)
Actuarial gains/(losses) - experience	**38**	(34)
Actuarial gains - demographic assumptions	**19**	45
Actuarial gains/(losses) - financial assumptions	**215**	(132)
Past service credit - redundancies	**—**	9
Special termination benefit cost - redundancies	**(1)**	(35)
Past service cost - augmentations	**—**	(4)
Past service cost - plan amendments	**—**	(5)
Employee contributions	**(1)**	(1)
Benefits paid	**155**	167
Closing defined benefit obligations	**(2,782)**	(3,115)
Changes in the fair value of scheme assets		
Opening fair value of scheme assets	**3,189**	3,052
Interest income	**76**	78
Return on assets (less)/greater than assumed	**(23)**	159
Administration costs	**(1)**	—
Employer contributions	**89**	101
Employee contributions	**1**	1
Change in longevity swap value	**(16)**	(35)
Benefits paid	**(154)**	(167)
Closing fair value of scheme assets	**3,161**	3,189
Actual return on scheme assets	**37**	202
Expected contributions to defined benefit scheme in the following year	**82**	82

The markets for unquoted investments are illiquid and the valuations that have been provided by fund managers as at 31 March 2020 may be based on valuation models that have unobservable inputs. Given the current market volatility that has arisen as a result of COVID-19, this means that the prices provided are subject to additional estimation uncertainty.

Asset allocation strategy

The scheme's investment strategy is formulated specifically in order to target specific asset allocations, asset returns and to manage risk. The asset allocation of the scheme is as follows:

	2020 %	2019 %
Equities	18.0	19.4
Corporate bonds	10.9	10.9
Property	6.5	6.7
Liability matching assets	53.9	54.9
Diversified alternatives	2.9	2.8
Longevity swap	(1.6)	(1.1)
Cash & cash equivalents	1.3	1.4
Other	8.1	5.0
Total	**100.0**	**100.0**

21. Pensions and other post-retirement benefits (continued)

Defined benefit investment strategies and risks

A DB pension scheme can pose a significant risk to future cash flows, as the Company underwrites the financial and demographic risks associated with the scheme. Although the Trustee of NGEG of ESPS has sole responsibility for setting investment strategies and managing risks, the Company closely works with and supports the Trustee, to assist the Trusteein mitigating the risks associated with the scheme and to ensure that the scheme is funded to meet its obligations.

The Trustee is the governing body of the scheme and its responsibilities are set out in the Trust Deed and Rules.

The Trustee after taking advice from professional investment advisers and in consultation with the company, sets the key principles, including expected returns, risk and liquidity requirements. In setting these the Trustee takes into account expected contributions, maturity of the pension liabilities and the strength of the covenant. The Trustee formulates an investment strategy to manage risk through diversification, including the use of liability matching assets (which move in line with the long-term liabilities of the scheme) and return seeking assets (some of which are designed to mitigate downside risk). Where appropriate, the strategies may include interest rate and inflation hedging instruments, and currency hedging to hedge overseas holdings.

Investments are usually grouped into:

- Return-seeking assets: equities, property and diversified funds where the objective is to achieve growth within the constraints of the scheme’s risk profiles. These assets should produce returns greater than the liability increase, so improving the funding position and are assessed by reference to benchmarks and performance targets agreed with the investment managers.
- Liability matching assets: liability driven investments (LDI) funds and swaps, where the objective is to secure fixed or inflation adjusted cash flows in future.

These investments are generally expected to match the change in liability valuation, so protecting the funding position. Bonds and securities are also measured against certain market benchmarks.

Investments are predominantly made in assets considered to be of investment grade. Where investments are made in non-investment grade assets, the higher volatility involved is carefully judged and balanced against the expected higher returns. Similarly, investments are made predominantly in regulated markets. Where investments are made either in non-investment grade assets or outside of regulated markets, investment levels are kept to prudent levels and subject to agreed control ranges, to control the risk. Should these investments fall outside the pre-agreed ranges, corrective actions and timescales are agreed with the investment manager to remedy the position.

The Trustee ensures that the performance of investment managers are regularly reviewed against measurable objectives, consistent with each schemes long-term objectives and accepted risk levels. Where required, the portfolios are amended, or investment managers changed.

The Trustee can generally delegate responsibility for the selection of specific bonds, securities and other investments to appointed investment managers. Investment managers are selected based on the required skills, expertise of those markets, process and financial security to manage the investments. The investment managers use their skill and expertise to manage the investments competently. In some cases they may further delegate this responsibility, through appointing sub-managers.

The scheme holds sufficient cash to meet benefit requirements, with other investments being held in liquid or realisable assets to meet unexpected cash flow requirements. The scheme does not borrow money, or act as guarantor, to provide liquidity (unless it is temporary).

The Trustee believes that long-term shareholder value and financial success, can be protected and enhanced by a responsible environmental, social and corporate governance (ESG) policy. As such, the NGEG’s appointed investment managers are expected to be mindful of ESG issues when managing the plan’s assets. Day-to-day stewardship (voting and engagement) is delegated to the investment managers and they are encouraged to adhere to the UK Stewardship Code.

21. Pensions and other post-retirement benefits (continued)

The most significant risks associated with the DB scheme are:

- Asset volatility - the scheme invests in a variety of asset classes, but principally in liability matching assets (longevity swap), equities, government securities, corporate bonds and property. Consequently actual returns will differ from the underlying discount rate adopted, impacting on the funding position of the scheme through the net balance sheet asset or liability. The scheme seeks to balance the level of investment return required with the risk that it can afford to take, to design the most appropriate investment portfolio. Volatility will be controlled through using liability matching asset strategies, interest rate hedging and management of foreign exchange exposure, as well as diversification of the return seeking assets.
- Changes in bond yields - liabilities are calculated using discount rates set with reference to the yields in high quality corporate bonds prevailing in the UK debt markets and will fluctuate as yields change.
- Member longevity - longevity is a key driver of liabilities and changes in expected mortality has a direct impact on liabilities. In aggregate, the liabilities are relatively mature which mitigates the risk to a certain extent. The Trustee holds a longevity insurance contract (swap) which covers exposure to improvement in longevity, providing long-term protection to the scheme in the event that members live longer than expected at the time the swap was entered into.
- Deficit risk - the risk that the increase in the liability will outpace the growth in assets, is managed through assessing the progress of the actual growth of the liabilities relative to the selected investment policy and adjusting the policy as required.
- Manager risk - expected deviation of the return, relative to the benchmark, is carefully monitored, as is the process, team and expertise of the manager. Where appropriate, the Trustee, will move assets under management to a more robust manager, whom they consider will have a better expectation of performing well in the future.
- Currency risk - fluctuations in the value of foreign denominated assets due to exposure to currency exchange rates, is managed through a combination of segregated currency hedging overlay and currency hedging carried out by some of the investment managers.
- Interest rate and inflation risk - changes in inflation will affect the current and future pensions, but are partially mitigated through investing in inflation matching assets and hedging instruments.
- Investment funds - the credit risk arising from investing in investment funds, is mitigated by the underlying assets of the investment funds being ring- fenced from the fund managers, the regulatory environments in which the fund managers operate and diversification of investments amongst investment fund arrangements.
- Political risk - an adverse influence on asset values arising from political intervention in a specific country or region is managed through regular review of the asset distribution and through ensuring geographical diversification of investments within the managers.
- Counterparty risk - is managed by having a diverse range of counterparties and through having a strong collateralisation process. Measurement and management of counterparty risk is delegated to the relevant investment managers.
- Custodian risk - the creditworthiness and ability of the custodians to settle trades on time and provide secure safekeeping of the assets under custody is managed by ongoing monitoring of the custodial arrangements against pre-agreed service levels and credit ratings.

Asset allocations:

Within the asset allocations below there is significant diversification across regions, asset managers, currencies and bond categories.

	2020 Quoted £m	**2020 Unquoted £m**	**2020 Total £m**	2019 Quoted £m	2019 Unquoted £m	2019 Total £m
Equities	**264**	**305**	**569**	275	343	618
Corporate bonds	**345**	**—**	**345**	348	—	348
Property	**103**	**102**	**205**	108	107	215
Liability matching assets	**1,704**	**—**	**1,704**	1,751	—	1,751
Diversified alternatives[1]	**—**	**93**	**93**	—	91	91
Longevity swap	**—**	**(51)**	**(51)**	—	(35)	(35)
Cash & cash equivalents	**29**	**12**	**41**	40	5	45
Other	**—**	**255**	**255**	—	156	156
	2,445	**716**	**3,161**	2,522	667	3,189

1 Includes return seeking non-conventional asset classes.

The markets for unquoted investments are illiquid and the valuations that have been provided by fund managers as at 31 March 2020 may be based on valuation models that have unobservable inputs. Given the current market volatility that has arisen as a result of COVID-19, this means that the prices provided are subject to additional estimation uncertainty.

22. Provisions

We make provisions when an obligation exists, resulting from a past event and it is probable that cash will be paid to settle it, but the exact amount of cash required can only be estimated.

The main estimates relate to environmental remediation for various sites we own, decommissioning costs relating to certain transmission assets and other provisions including restructuring plans. The evaluation of the likelihood of the contingent events has required best judgement by management regarding the probability of exposure to potential loss. Should circumstances change following unforeseeable developments, the likelihood could alter.

Provisions are recognised where a legal or constructive obligation exists at the reporting date, as a result of a past event, where the amount of the obligation can be reliably estimated and where the outflow of economic benefit is probable.

Provision is made for decommissioning and environmental costs, based on future estimated expenditures, discounted to present values. An initial estimate of decommissioning and environmental costs attributable to property, plant and equipment is recorded as part of the original cost of the related property, plant and equipment.

Where a decommissioning provision relates to an asset measured using the cost model (which applies to all our assets), any subsequent change in the provision (arising from revised estimates,discount rates or changes in the expected timing of expenditures) is recognised as an adjustment to the cost of the asset. Where the decrease in the liability exceeds the carrying amount of the asset, the excess is recognised in the income statement. Where the adjustment results in an addition to the cost of the asset, we consider whether this is an indication of whether the carrying amount of the asset is fully recoverable.

Changes in the environmental provision arising from revised estimates, discount rates or changes in the expected timing of expenditure are recognised in the income statement.

The unwinding of the discount is included within the income statement as finance costs.

	Decommissioning	Environmental	Restructuring	Other	Total
	£m	£m	£m	£m	£m
At 1 April 2018	—	49	2	10	61
Additions	—	—	71	1	72
Unused amounts reversed	—	(1)	(1)	—	(2)
Unwinding of discount	—	1	—	—	1
Utilised	—	(3)	(24)	—	(27)
Transfer to held for sale[1]	—	—	(18)	—	(18)
At 31 March 2019	—	46	30	11	87
Additions	31	4	—	1	36
Unused amounts reversed	—	—	—	(2)	(2)
Unwinding of discount	—	2	—	—	2
Utilised	—	(3)	(16)	(1)	(20)
At 31 March 2020	**31**	**49**	**14**	**9**	**103**

	2020	2019
	£m	£m
Current	**15**	36
Non-current	**88**	51
	103	87

1 Transfer to held for sale represents restructuring provision being transferred to ESO operations on 1 April 2019, of which £16 million is current and £2 million non-current.

Restructuring provision

During 2019, a cost efficiency and restructuring programme was undertaken. During the year, £16 million has been utilised resulting in a closing provision of £14 million . We expect the majority of the provision to be utilised within the next year.

Environmental provision

The environmental provision represents the estimated restoration and remediation costs relating to a number of sites owned and managed by the Group.

The remediation expenditure relates to electricity transmission sites. Cash flows are expected to be incurred until 2070, with £23 million expected to be incurred in the next 10 years. A number of estimation uncertainties affect the calculation of the provision, including the impact of

22. Provisions (continued)

regulation, the accuracy of site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and changes in the real discount rate. This provision incorporates our best estimate of the financial effect of these uncertainties, but future changes in any of the assumptions could materially impact the calculation of the provision. The undiscounted amount is the undiscounted best estimate of the liability having regard to these uncertainties. The undiscounted provision based on 0.5% real discount rate was £54 million (2019: 55 million based on 1% real discount rate).

Decommissioning provision

The decommissioning provision represents a present value of £31 million (2019: £Nil) of expenditure relating to asset retirement obligations estimated to be incurred in 2059 (discounted at a real rate of 0.5%). This relates to our share of the decommissioning of the Western Link HVDC cable laid on the seabed owned by the Crown estate.

Other provisions

The most significant other provision is for employer liability claims of £4 million (2019: £4 million). In accordance with insurance industry practice, the estimate of employer liability claims is based on experience from previous years and there is therefore no identifiable payment date.

23. Share capital

Ordinary share capital represents the total number of shares issued.

Share capital is accounted for as an equity instrument. An equity instrument is any contract that includes a residual interest in the consolidated assets of the Company after deducting all its liabilities and is recorded at the proceeds received, net of direct issue costs, with an amount equal to the nominal amount of the shares issued included in the share capital account and the balance recorded in the share premium account.

	Number of shares 2020 millions	Number of shares 2019 millions	**2020 £m**	2019 £m
At 31 March 2019 and 2020 - ordinary shares of 10p each				
Allotted, called-up and fully paid	**437**	437	**44**	44

In line with the provisions of the Companies Act 2006, the Company has amended its Articles of Association and ceased to have authorised share capital.

24. Other equity reserves

Other equity reserves are different categories of equity as required by accounting standards and represent the impact of a number of our historical transactions.

Other equity reserves comprise the cash flow hedge reserve and the cost of hedging reserve. The cash flow hedge represents the Group's cash flow hedging activities (see note 28).

As the amounts included in other equity reserves are not attributable to any of the other classes of equity presented, they have been disclosed as a separate classification of equity.

	Cost of hedging £m	Cash flow hedge £m	Total £m
At 1 April 2019	1	(9)	(8)
Net gains/(losses) taken to equity	(3)	1	(2)
Net gains in respect of cash flow hedging of capital expenditure	—	5	5
Transferred to profit or loss	—	(6)	(6)
Tax	1	—	1
At 31 March 2020	**(1)**	**(9)**	**(10)**

25. Net debt

Net debt represents the amount of borrowings and overdrafts less cash, current financial investments and related derivative financial instruments.

Funding and liquidity risk management is carried out by the National Grid plc treasury function under policies and guidelines approved by the Finance Committee of the National Grid plc Board. These policies have been deemed applicable at NGET companies by their respective boards of directors. The Finance Committee is responsible for the regular review and monitoring of treasury activity and for the approval of specific transactions, the authority for which fall outside the delegation of authority to management.

The primary objective of the treasury function is to manage our funding and liquidity requirements. A further important objective is to manage the associated financial risks, in the form of interest rate risk and foreign exchange risk, to within pre-authorised parameters. Details of the main risks arising from our activities can be found in the risk factors discussion in note 28 to the consolidated financial statements.

Investment of surplus funds, usually in short-term fixed deposits is subject to our counterparty risk management policy.

(a) Reconciliation of net cash flow to movement in net debt

	2020 **£m**	2019 £m
(Decrease)/Increase in cash and cash equivalents	**(33)**	6
(Decrease)/increase in financial investments	**(70)**	43
(Increase)/decrease in borrowings and related derivatives	**(267)**	246
Net interest paid on the components of net debt	**138**	120
Change in net debt resulting from cash flows	**(232)**	415
Changes in fair value of financial assets and liabilities and exchange movements	**(12)**	(18)
Net interest charge on the components of net debt	**(227)**	(228)
Movement in net debt (net of related derivative financial instruments) in the year	**(471)**	169
Net debt (net of related derivative financial instruments) at the start of the year	**(7,381)**	(7,550)
Impact of transition to IFRS 16 (2019: IFRS 9)	**(67)**	—
Net debt (net of related derivative financial instruments) at the end of the year	**(7,919)**	(7,381)

Composition of net debt

Net debt as follows:

	2020 **£m**	2019 £m
Cash, cash equivalents and financial investments	**199**	284
Borrowings and bank overdrafts	**(8,061)**	(7,504)
Derivatives	**(57)**	(161)
	(7,919)	(7,381)

25. Net debt (continued)

(b) Analysis of changes in net debt

	Cash and cash equivalents £m	Financial investments £m	Borrowings £m	Derivative financial instruments £m	Total [1] debt £m
At 1 April 2018	11	224	(7,684)	(101)	(7,550)
Cash flow	6	43	430	(64)	415
Fair value gains and losses and exchange movements	—	—	(7)	(11)	(18)
Interest income/(charges)[1]	—	—	(243)	15	(228)
At 31 March 2019	17	267	(7,504)	(161)	(7,381)
Impact of IFRS 16	—	—	(67)	—	(67)
Cash flow	(33)	(68)	(267)	136	(232)
Fair value gains and losses and exchange movements	—	—	35	(47)	(12)
Interest income/(charges)[1]	—	—	(234)	15	(219)
Other non-cash	—	—	(8)	—	(8)
At 31 March 2020	**(16)**	**199**	**(8,045)**	**(57)**	**(7,919)**
Balances at 31 March 2020 comprise:					
Non-current assets	—	—	—	420	420
Current assets	—	199	—	1	200
Current liabilities	(16)	—	(1,217)	(22)	(1,255)
Non-current liabilities	—	—	(6,828)	(456)	(7,284)
	(16)	**199**	**(8,045)**	**(57)**	**(7,919)**

1 An exceptional income of £nil (2019: £nil) is included in net interest charge on the components of net debt.

26. Commitments and contingencies

Commitments are those amounts that we are contractually required to pay in the future as long as the other party meets its obligations. These commitments primarily relate to operating lease rentals, energy purchase agreements and contracts for the purchase of assets which, in many cases, extend over a long period of time. We also disclose any contingencies, which include guarantees that companies have given, where we pledge assets against current obligations that will remain for a specific period.

Commitments previously included operating lease commitments but on transition to IFRS 16, which was effective from 1 April 2019, substantially all lease commitments are included on the balance sheet as right-of-use assets (see note 11) and lease liabilities (see note 17). Therefore, only low-value leases and short-term leases are off-balance sheet commitments, both of which are immaterial.

	2020	2019
Future capital expenditure	**£m**	£m
Contracted for but not provided	**1,958**	1,169
Operating lease commitments		
Amounts due: Less than 1 year	—	11
In 1 - 2 years	—	7
In 2 - 3 years	—	4
In 3 - 4 years	—	1
	—	23

Other commitments, contingencies and guarantees

Guarantees in respect of a former associate amounting to £13 million (2019: £13 million). These are open ended.

Other commitments, contingencies and guarantees in the normal course of business and entered into on normal commercial terms amounted to £146 million (2019: £159 million). These include guarantees of certain obligations for construction of the Western Link HVDC amounting to £53 million (2019: £53 million), expected to expire in 2020. There is an additional £17m contingency for the portion of decommissioning costs of Western Link HVDC not recognised in the provision (See note 22).

Security arrangements in favour of NGEG Trustees are disclosed separately in note 21.

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

27. Related party transactions

A related party is a company or individual who also has an interest in us, for example a company that provides a service to us with a director who holds a controlling stake in that company and who is also a Director of National Grid Electricity Transmission plc. The related parties identified include fellow subsidiaries, joint ventures, associated undertakings, investments and key management personnel.

The following significant transactions with related parties were in the normal course of business. Amounts receivable from and payable to related parties are due on normal commercial terms:

	2020 £m	2019 £m
Income:		
Goods and services supplied[1]	**1,910**	28
	1,910	28
Expenditure:		
Services received[2]	**14**	37
Corporate services received	**19**	18
Interest paid on borrowings from fellow subsidiary undertakings	**17**	26
	50	81
Outstanding balances at 31 March in respect of income, expenditure and settlement of corporation tax:		
Amounts receivable[3]	**4**	1
Amounts payable[4]	**—**	—
Borrowings from fellow subsidiary undertakings (amounts due within one year)	**(2)**	(1)
Borrowings from fellow subsidiary undertakings (amounts due after more than one year)	**(286)**	(1,389)
At 31 March	**(288)**	(1,390)
Borrowings from ultimate parent (amounts due after more than one year)		
At 31 March	**(363)**	(358)

1 Includes £4 million in respect of joint ventures (2019: £7 million).

2 Includes £Nil in respect of joint ventures (2019: £27 million).

3 Includes £1 million in respect of joint ventures (2019: £0.3 million).

4 Includes £0.17 million in respect of joint ventures (2019: £Nil).

On 1 April 2019, the Group disposed of the electricity system operator business to a separate company within the National Grid Group, National Grid Electricity System Operator Limited ('ESO'). The ESO acts as agent for the Group in collecting revenues from customers (see note 3 for further detail). Current year related party transactions and closing balances therefore include items where the counter-party is the ESO. There were no equivalent transactions or balances in the prior year relating to ESO as it formed part of the Group as at 31 March 2019.

Amounts receivable from or payable to related parties in respect of income and expenditure are ordinarily settled one month in arrears. Advances to and borrowings from fellow subsidiary undertakings are repayable on demand and bear interest at commercial rates.

Details of key management compensation are provided in note 4(c) and information relating to pension fund arrangements is disclosed in note 21.

28. Financial risk management

Our activities expose us to a variety of financial risks including credit risk, liquidity risk, capital risk, currency risk, interest rate risk and inflation risk. Our risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential volatility of financial performance from these risks. We use financial instruments, including derivative financial instruments, to manage these risks.

Risk management related to financing activities is carried out by the National Grid plc central treasury department under policies approved by the Finance Committee of the National Grid plc Board. These policies have been deemed applicable at NGET companies by their respective board of directors. The objective of the treasury department is to manage funding and liquidity requirements, including managing associated financial risks, to within acceptable boundaries. The Finance Committee provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, liquidity risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. Details of key activities in the current year are set out in the Finance Committee report on page 82 of National Grid plc Annual Report and Accounts.

We have exposure to the following risks, which are described in more detail below:

- credit risk;
- liquidity risk;
- currency risk;
- interest rate risk; and
- capital risk.

Where appropriate, derivatives and other financial instruments used for hedging currency and interest rate risk exposures are formally designated as fair value or cash flow hedges as defined in IFRS 9. Hedge accounting allows the timing of the profit or loss impact of qualifying hedging instruments to be recognised in the same reporting period as the corresponding impact of hedged exposures. To qualify for hedge accounting, documentation is prepared specifying the risk management objective and strategy, the component transactions and methodology used for effectiveness measurement.

Hedge accounting relationships are designated in line with risk management activities further described below. Categories designated at NGET are:

- currency risk arising from our forecasted foreign currency transactions (capital expenditure) is designated in cash flow hedges;
- currency and interest rate risk arising from borrowings are designated in cash flow or fair value hedges.

Critical terms of hedging instruments and hedged items are transacted to match on a 1:1 ratio by notional values. Hedge ineffectiveness can nonetheless arise from inherent differences between derivatives and non-derivative instruments and other market factors including credit, correlations, supply and demand, and market volatilities. Ineffectiveness is recognised in the remeasurements component of finance income and costs (see note 6). Hedge accounting is discontinued when a hedging relationship no longer qualifies for hedge accounting.

Certain hedging instrument components are treated separately as costs of hedging with the gains and losses deferred in a component of other equity reserves, and released systematically into profit or loss to correspond with the timing and impact of of hedged exposures, or released in full to finance costs upon an early discontinuation of a hedging relationship.

Refer to sections (c) currency risk and (d) interest rate risk below for further details about hedge accounting.

(a) Credit risk

We are exposed to the risk of loss resulting from counterparties' default on their commitments including failure to pay or make a delivery on a contract. This risk is inherent in our commercial business activities. Exposure arises from derivative financial instruments, deposits with banks and financial institutions, trade receivables and committed transactions with customers.

Treasury credit risk

Counterparty risk arises from the investment of surplus funds and from the use of derivative financial instruments.

The maximum limit applies to all transactions, including long-term transactions. The long-term limit applies to transactions which mature in more than 12 months' time.

28. Financial risk management (continued)

As at 31 March 2020 and 2019, we had a number of exposures to individual counterparties. In accordance with our treasury policies, counterparty credit exposure utilisations are monitored daily against the counterparty credit limits. Counterparty credit ratings and market conditions are reviewed continually with limits being revised and utilisation adjusted, if appropriate. Management does not expect any significant losses from non-performance by these counterparties. Further information on financial investments subject to impairment provisioning is included in note 12.

Offsetting financial assets and liabilities

The following tables set out financial assets and liabilities which are subject to offset and to enforceable master netting arrangements or similar agreements. The tables show the amounts which are offset and reported net in the statement of financial position. Amounts which cannot be offset under IFRS, but which could be settled net under terms of master netting agreements if certain conditions arise, and with collateral received or pledged, are shown to present NGET's net exposure.

Financial assets and liabilities on different transactions are only reported net if the transactions are with the same counterparty, a currently enforceable legal right of offset exists and the cash flows are intended to be settled on a net basis.

Amounts which do not meet the criteria for offsetting on the statement of financial position, but could be settled net in certain circumstances, principally relate to derivative transactions under ISDA agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

For bank account balances and bank overdrafts, the 'Gross amounts offset' under cash pooling arrangements is £20 million as at March 2020 (£17 million as at March 2019). Our UK bank accounts participate in GBP, EUR and USD Composite Accounting System overdraft facilities subject to offsetting gross and net overdraft limits.

The gross amounts offset for trade payables and receivables, which are subject to general terms and conditions, are insignificant.

Related amounts available to be offset but not offset in statement of financial position

			Related amounts available to be offset but not offset in statement of financial position			
	Gross carrying amounts	Gross amounts offset	Net amount presented in statement of financial position	Financial instruments	Cash collateral received/ pledged	Net amount
As at 31 March 2020	£m	£m	£m	£m	£m	£m
Assets						
Derivative financial instruments	**421**	**—**	**421**	**(260)**	**(82)**	**79**
	421	**—**	**421**	**(260)**	**(82)**	**79**
Liabilities						
Derivative financial instruments	**(478)**	**—**	**(478)**	**260**	**193**	**(25)**
	(478)	**—**	**(478)**	**260**	**193**	**(25)**
Total	**(57)**	**—**	**(57)**	**—**	**111**	**54**

28. Financial risk management (continued)

			Related amounts available to be offset but not offset in statement of financial position			
As at 31 March 2019	Gross carrying amounts £m	Gross amounts offset £m	Net amount presented in statement of financial position £m	Financial instruments £m	Cash collateral received/ pledged £m	Net amount £m
Assets						
Derivative financial instruments	321	—	321	(209)	(36)	76
	321	—	321	(209)	(36)	76
Liabilities						
Derivative financial instruments	(482)	—	(482)	209	254	(19)
	(482)	—	(482)	209	254	(19)
Total	(161)	—	(161)	—	218	57

(b) Liquidity risk

Our policy is to determine our liquidity requirements by the use of both short-term and long-term cash flow forecasts. These forecasts are supplemented by a financial headroom analysis which is used to assess funding requirements for at least a 24-month period and maintain adequate liquidity for a continuous 12-month period.

We believe our contractual obligations, including those shown in commitments and contingencies in note 26, can be met from existing cash and investments, operating cash flows and other financings that we reasonably expect to be able to secure in the future, together with the use of committed facilities if required.

Our debt agreements and banking facilities contain covenants, including those relating to the periodic and timely provision of financial information by the issuing entity and financial covenants such as restrictions on the level of subsidiary indebtedness. Failure to comply with these covenants, or to obtain waivers of those requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of our debt and may restrict our ability to draw upon our facilities or access the capital markets.

At 31 March 2020	**Due within 1 year £m**	**Due between 1 and 2 years £m**	**Due between 2 and 3 years £m**	**Due 3 years and beyond £m**	**Total £m**
Non-derivative financial liabilities					
Borrowings, excluding finance lease liabilities	**(1,172)**	**(362)**	**(119)**	**(6,189)**	**(7,842)**
Interest payments on borrowings	**(137)**	**(127)**	**(126)**	**(1,649)**	**(2,039)**
Lease liabilities	**(10)**	**(8)**	**(7)**	**(64)**	**(89)**
Other non-interest bearing liabilities	**(414)**	**(54)**	**—**	**—**	**(468)**
Derivative financial liabilities					
Derivative contracts - receipts	**119**	**52**	**176**	**406**	**753**
Derivative contracts - payments	**(164)**	**(91)**	**(304)**	**(693)**	**(1,252)**
Derivative financial assets					
Derivative contracts - receipts[2]	**128**	**101**	**461**	**961**	**1,651**
Derivative contracts - payments[2]	**(86)**	**(61)**	**(313)**	**(799)**	**(1,259)**
Total at 31 March 2020	**(1,736)**	**(550)**	**(232)**	**(8,027)**	**(10,545)**

28. Financial risk management (continued)

At 31 March 2019	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due 3 years and beyond £m	Total £m
Non-derivative financial liabilities					
Borrowings, excluding finance lease liabilities	(1,787)	(447)	(358)	(4,777)	(7,369)
Interest payments on borrowings	(132)	(120)	(111)	(1,620)	(1,983)
Other non-interest bearing liabilities	(708)	(86)	—	—	(794)
Derivative financial liabilities					
Derivative contracts - receipts[2]	477	97	30	495	1,099
Derivative contracts - payments[2]	(610)	(136)	(56)	(872)	(1,674)
Derivative financial assets					
Derivative contracts - receipts[2]	187	115	68	562	932
Derivative contracts - payments[2]	(82)	(83)	(42)	(391)	(598)
Total at 31 March 2019	(2,655)	(660)	(469)	(6,603)	(10,387)

1 The interest on borrowings is calculated based on borrowings held at 31 March without taking account of future issues. Floating rate interest is estimated using a forward interest rate curve as at 31 March. Payments are included on the basis of the earliest date on which the Company can be required to settle.

2 The receipts and payments line items for derivatives comprise gross undiscounted future cash flows, after considering any contractual netting that applies within individual contracts. Where cash receipts and payments within a derivative contract are settled net, and the amount to be received (paid) exceeds the amount to be paid (received), the net amount is presented within derivative receipts (payments).

(c) Currency risk

We are exposed to foreign exchange risk arising from non-sterling future commercial transactions and non-sterling recognised assets and liabilities. Currency risk arises from funding activities and capital investment. This risk is managed using financial instruments including derivatives as approved by policy, typically cross-currency interest rate swaps, foreign exchange swaps and forwards.

Funding activities - Our policy is to borrow in the most advantageous market available. Foreign currency funding gives rise to risk of volatility in the amount of functional currency cash to be repaid. This risk is reduced by swapping principal and interest back into the functional currency of the issuer. All foreign currency debt and transactions are hedged except where they provide a natural offset to assets elsewhere in the Group.

Capital investment - Capital projects often incur costs in a foreign currency, most often Euro transactions done by the UK business. Our policy for managing foreign exchange transaction risk is to hedge contractually committed foreign currency cash flows over a prescribed minimum size, typically by buying Euro forwards to hedge future expenditure. For hedges of forecast cash flows our policy is to hedge a proportion of highly probable cash flows.

As at 31 March 2020 and 2019, derivative financial instruments were used to manage foreign currency risk as follows:

	2020				
	Sterling £m	**Euro £m**	**Dollar £m**	**Other £m**	**Total £m**
Cash and cash equivalents	—	—	—	—	—
Financial investments	**199**	—	—	—	**199**
Borrowings	**(6,726)**	**(838)**	**(69)**	**(428)**	**(8,061)**
Pre-derivative position	**(6,527)**	**(838)**	**(69)**	**(428)**	**(7,862)**
Derivative effect	**(1,577)**	**977**	**95**	**448**	**(57)**
Net debt position	**(8,104)**	**139**	**26**	**20**	**(7,919)**

28. Financial risk management (continued)

	2019				
	Sterling £m	Euro £m	Dollar £m	Other £m	Total £m
Cash and cash equivalents	17	—	—	—	17
Financial investments	267	—	—	—	267
Borrowings	(6,620)	(364)	—	(520)	(7,504)
Pre-derivative position	(6,336)	(364)	—	(520)	(7,220)
Derivative effect	(1,245)	538	17	529	(161)
Net debt position	(7,581)	174	17	9	(7,381)

The exposure to euros largely relates to hedges for our future non-sterling capital expenditure.

Hedge accounting for currency risk

Where available, derivatives transacted for hedging are designated for hedge accounting. Economic offset is qualitatively determined because the critical terms (currency and volume) of the hedging instrument match the hedged exposure. If a forecast transaction was no longer expected to occur, the cumulative gain or loss previously reported in equity would be transferred to the income statement. This has not occurred in the current or comparative years.

Cash flow hedging of currency risk of capital expenditure is designated as hedging the exposure to movements in the spot translation rates only; the timing of forecasted transactions is not designated as a hedged risk. Gains and losses on hedging instruments arising from forward points and foreign currency basis spreads are excluded from designation and are recognised immediately in profit or loss, along with any hedge ineffectiveness. Where a non-financial asset or a non-financial liability results from a forecast transaction or firm commitment being hedged, the amounts deferred in reserves are released directly to the initial measurement of that asset or liability.

Hedges of foreign currency funding are designated as cash flow hedges or fair value hedges of forward exchange risk (hedging both currency and interest rate risk together, where applicable). Hedge accounting for funding is described further in the interest rate risk section below.

(d) Interest rate risk

National Grid Electricity Transmission plc's interest rate risk arises from our long-term borrowings. Our interest rate risk management policy is to seek to minimise total financing costs (being interest costs and changes in the market value of debt). Hedging instruments principally consist of interest rate and cross-currency swaps that are used to translate foreign currency debt into functional currency and to adjust the proportion of fixed-rate and floating-rate in the borrowings portfolio to within a range set by the Finance Committee of the National Grid plc Board. The benchmark interest rates hedged are currently based on LIBOR.

Libor is being replaced as an interest rate benchmark by alternative reference rates in certain currencies including GBP, USD and other foreign currencies in which we operate. This impacts contracts including financial liabilities that pay Libor-based cash flows, and derivatives that receive or pay Libor-based cash flows. The change in benchmark also affects discount rates which can impact valuations. We are managing the risk by planning to replace Libor cash flows with alternative reference rates on our affected contracts.

We also consider inflation risk and hold some inflation-linked borrowings. We believe that these provide a partial economic offset to the inflation risk associated with our UK inflation linked revenues.

The table in note 17 (Borrowings) sets out the carrying amount, by contractual maturity, of borrowings that are exposed to interest rate risk before taking into account interest rate swaps.

As at 31 March 2020 and 2019, net debt was managed using derivative instruments to hedge interest rate risk as follows:

	2020			
	Fixed rate £m	**Floating rate £m**	**RPI £m**	**Total £m**
Cash and cash equivalents	—	—	—	—
Financial investments	—	**199**	—	**199**
Borrowings	**(3,444)**	**(952)**	**(3,665)**	**(8,061)**
Pre-derivative position	**(3,444)**	**(753)**	**(3,665)**	**(7,862)**
Derivative effect	**674**	**(582)**	**(149)**	**(57)**
Net debt position	**(2,770)**	**(1,335)**	**(3,814)**	**(7,919)**

28. Financial risk management (continued)

	2019			
	Fixed rate £m	Floating rate £m	RPI £m	Total £m
Cash and cash equivalents	—	17	—	17
Financial investments	—	267	—	267
Borrowings	(2,061)	(1,797)	(3,646)	(7,504)
Pre-derivative position	(2,061)	(1,513)	(3,646)	(7,220)
Derivative effect	220	(243)	(138)	(161)
Net debt	(1,841)	(1,756)	(3,784)	(7,381)

[1] Represents financial instruments which are not directly affected by interest rate risk, including investments in equity or other non-interest bearing instruments

Hedge accounting for interest rate risk

Borrowings paying variable or floating rates expose National Grid Electricity Transmission to cash flow interest rate risk, partially offset by cash held at variable rates. Where a hedging instrument results in paying a fixed rate, it is designated as a cash flow hedge because it has reduced the cash flow volatility of the hedged borrowing. Changes in the fair value of the derivative are initially recognised in other comprehensive income as gains or losses in the cash flow hedge reserve, with any ineffective portion recognised immediately in the income statement.

Borrowings paying fixed rates expose National Grid Electricity Transmission to fair value interest rate risk. Where the hedging instrument pays a floating rate, it is designated as a fair value hedge because it has reduced the fair value volatility of the borrowing. Changes in the fair value of the derivative and changes in the fair value of the hedged item in relation to the risk being hedged are both adjusted on the balance sheet and offset in the income statement to the extent the fair value hedge is effective, with the residual difference remaining as ineffectiveness.

Both types of hedges are designated as hedging the currency and interest rate risk arising from changes in forward points. Amounts accumulated in the cash flow hedge reserve (cash flow hedges only) and the deferred cost of hedging reserve (both cash flow and fair value hedges) are reclassified from reserves to the income statement on a systematic basis as hedged interest expense is recognised. Adjustments made to the carrying value of hedged items in fair value hedges are similarly released to the income statement to match the timing of the hedged interest expense.

When hedge accounting is discontinued, any remaining cumulative hedge accounting balances continue to be released to the income statement to match the impact of outstanding hedged items. Any remaining amounts deferred in the cost of hedging reserve are released immediately to the income statement as finance costs.

The Group early-adopted IFRS Interest Rate Benchmark Reform amendments related to hedge accounting, with effect from 1 April 2019. The amendments allow existing hedge designations to continue unchanged during the period of uncertainty relating to the timing and method of benchmark migrations.

The amendments will be applied until the earlier point in time where affected cash flows are amended, the relationship is formally discontinued, and any cash flow hedge reserve balance has been released, or formal market conventions ending uncertainty are published and widely adopted. If amended cash flows do not cause a hedging relationship to be discontinued, then the amendments will cease to be applied only when that relationship is discontinued under IFRS 9.

The IFRS amendments impact fair value and cash flow hedges of interest rate risk and related hedging instruments. The notional values of hedging instruments, for each type of hedging relationship impacted, are shown in the hedge accounting tables in note 28(e). These amounts also correspond to the exposures designated as hedged.

(e) Hedge accounting

In accordance with the requirements of IFRS 9, certain additional information about hedge accounting is disaggregated by risk type and hedge designation type in the tables below:

28. Financial risk management (continued)

Year ended 31 March 2020	Fair value hedges of foreign currency and interest rate risk £m	Cash flow hedges of foreign currency and interest rate risk £m	Cash flow hedges of foreign currency risk £m
Consolidated statement of comprehensive income			
Net gains/(losses) in respect of:			
Cash flow hedges	—	1	5
Cost of hedging	—	(3)	—
Transferred to profit or loss in respect of:			
Cash flow hedges	—	(6)	—
Cost of hedging	—	—	—
Consolidated statement of changes in equity			
Other equity reserves - cost of hedging balances	(1)	(1)	—
Consolidated statement of financial position			
Derivatives - carrying value of hedging instruments[1]			
Assets - current	—	—	1
Assets - non-current	123	67	3
Liabilities - current	—	—	(2)
Liabilities - non-current	(16)	(80)	(1)
Profiles of the significant timing, price and rate information of hedging instruments			
Maturity range	Feb 2024 - Feb 2040	Jan 2025 - Dec 2039	Apr 2020 - Dec 2024
Spot FX range			
GBP USD	n/a	n/a	1.24 - 1.39
GBP EUR	1.19 - 1.24	1.14 - 1.24	1.07 - 1.16
Interest rate range			
GBP	Libor +83bps/+340bps	1.331% - 4.016%	n/a

1 The use of derivatives may entail a derivative transaction qualifying for more than one hedge type designation under IFRS 9. Therefore, the derivative amounts in the table above are grossed up by hedge type, whereas they are presented net at an instrument level in the statement of financial position.

28. Financial risk management (continued)

Year ended 31 March 2019	Fair value hedges of foreign currency and interest rate risk £m	Cash flow hedges of foreign currency and interest rate risk £m	Cash flow hedges of foreign currency risk £m
Consolidated statement of comprehensive income			
Net gains/(losses) in respect of:			
Cash flow hedges	—	(7)	(4)
Cost of hedging	(2)	(4)	
Transferred to profit or loss in respect of:			
Cash flow hedges[1]	—	3	—
Cost of hedging	1	—	—
Consolidated statement of changes in equity			
Other equity reserves - cost of hedging balances	2	(1)	
Consolidated statement of financial position			
Derivatives - carrying value of hedging instruments[2]			
Assets - current	—	—	—
Assets - non-current	63	28	—
Liabilities - current	(9)	(12)	(2)
Liabilities - non-current	8	(49)	(3)
Profiles of the significant timing, price and rate information of hedging instruments			
Maturity range	Nov 2019 - Mar 2035	Nov 2019 - Feb 2039	Apr 2019 - Dec 2023
Spot FX range			
GBP USD	n/a	n/a	1.29 - 1.39
GBP EUR	1.19 - 1.24	1.14 - 1.24	1.07 - 1.17
Interest rate range			
GBP	Libor +79bps/+561bps	2.027% - 4.016%	n/a

1 Following a review in the year, we have changed our presentation of spot foreign exchange movements on derivatives designated in cash flow hedges of foreign currency risk and interest rates. This has no net impact on the consolidated statement of comprehensive income. It has resulted in a prior year gross up £3 million to 'Net losses taken to equity' with an equal and offsetting gross up to 'Transferred to profit or loss'.

2 The use of derivatives may entail a derivative transaction qualifying for more than one hedge type designation under IFRS 9. Therefore, the derivative amounts in the table above are grossed up by hedge type, whereas they are presented net at an instrument level in the statement of financial position.

The following tables show the effects of hedge accounting on financial position and year-to-date performance for each type of hedge. These tables also present notional values of hedging instruments (and equal hedged exposures) impacted by IFRS 9 Interest Rate Benchmark Reform amendments.

(i) Fair value hedges of foreign currency and interest rate risk on recognised borrowings:

As at 31 March 2020		Balance of fair value hedge adjustments in borrowings		Change in value used for calculating ineffectiveness		
Hedge type	Hedging instrument nominal[2] £m	Continuing hedges £m	Discontinued hedges £m	Hedged item £m	Hedging instrument £m	Hedge ineffectiveness £m
Foreign currency and interest rate risk on borrowings	(631)	(38)	(33)	(28)	32	4

1 The carrying vale of the hedged borrowings is £712 million, all of which is non-current.

2 Included within the hedging instrument notional balance is £631 million impacted by Interest Rate Benchmark Reform amendments.

28. Financial risk management (continued)

As at 31 March 2019

Hedge type	Hedging instrument nominal [1]	Balance of fair value hedge adjustments in borrowings: Continuing hedges	Discontinued hedges	Change in value used for calculating ineffectiveness: Hedged item	Hedging instrument	Hedge ineffectiveness
	£m	£m	£m	£m	£m	£m
Foreign currency and interest rate risk on borrowings	(558)	(15)	(34)	(15)	18	3

[1] The carrying value of the hedged borrowings was £649 million, of which £98 million was current and £551 million was non-current.

(ii) Cash flow hedges of foreign currency and interest rate risk:

As at 31 March 2020

Hedge type	Hedging instrument nominal	Balance in cash flow hedge reserve: Continuing hedges	Discontinued hedges	Change in value used for calculating ineffectiveness: Hedged item	Hedging instrument	Hedge ineffectiveness
	£m	£m	£m	£m	£m	£m
Foreign currency and interest rate risk on borrowings[1]	(1,245)	4	(17)	(3)	3	—
Foreign currency risk on forecasted cash flows	(185)	2	—	(5)	5	—

[1] Included within the hedging instrument notional balance is £100 million impacted by Interest Rate Benchmark Reform amendments.

As at 31 March 2019

Hedge type	Hedging instrument nominal	Balance in cash flow hedge reserve: Continuing hedges	Discontinued hedges	Change in value used for calculating ineffectiveness: Hedged item	Hedging instrument	Hedge ineffectiveness
	£m	£m	£m	£m	£m	£m
Foreign currency and interest rate risk on borrowings[1]	(974)	(5)	—	6	(6)	—
Foreign currency risk on forecasted cash flows [1]	(201)	(2)	—	3	(3)	—

[1] Following a review in the year, we have changed our presentation of spot foreign exchange movements on derivatives designated in cash flow hedges of foreign currency risk and interest rates. This has no net impact on the consolidated statement of comprehensive income. It has resulted in a prior year equal and offsetting impact of £3 million to the balances used for the 'Change in value used for calculating ineffectiveness'.

(f) Fair value analysis

Included in the statement of financial position are financial instruments which have been measured at fair value. These fair values can be categorised into hierarchy levels that are representative of the inputs used in measuring the fair value. The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for financial instrument is not active, a valuation technique is used.

	2020				2019			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Assets								
Derivative financial instruments		**421**		**421**	—	321	—	321
	—	**421**	**—**	**421**	—	321	—	321
Liabilities								
Derivative financial instruments		**(328)**	**(150)**	**(478)**	—	(345)	(137)	(482)
	—	**(328)**	**(150)**	**(478)**	—	(345)	(137)	(482)
	—	**93**	**(150)**	**(57)**	—	(24)	(137)	(161)

Level 1: Financial instruments with quoted prices for identical instruments in active markets.

28. Financial risk management (continued)

Level 2: Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are based directly or indirectly on observable market data.

Level 3: Financial instruments valued using valuation techniques where one or more significant inputs are based on unobservable market data.

Our Level 2 derivative financial instruments include cross-currency, interest rate and foreign exchange derivatives. We value these derivatives by discounting all future cash flows by externally sourced market yield curves at the reporting date, taking into account the credit quality of both parties. These derivatives can be priced using liquidly traded interest rate curves and foreign exchange rates, therefore we classify our vanilla trades as Level 2 under the IFRS 13 framework.

Our level 3 derivative financial instruments include cross-currency swaps, inflation linked swaps where the inflation curve is illiquid. In valuing these instruments we use in-house valuation models and obtain external valuations to support each reported fair value.

In light of the current ongoing impact of the COVID-19 pandemic, the valuations of certain assets and liabilities can be more subjective. While there have been significant movements in market indices, all of our financial instruments are traded in markets that continue to be active and therefore, we are satisfied that there has been no significant impact on the fair values of our financial instruments measured at fair value, and that any impact is reflected in the fair values in the table above.

The changes in value of our level 3 derivative financial instruments are as follows:

	Derivative financial instruments	
	2020	**2019**
	£m	£m
At 1 April	**(137)**	(138)
Net gain/(loss) for the year	**(13)**	1
Settlements	**—**	—
At 31 March	**(150)**	**(137)**

1 Loss of £13 million (2019: £1 million gain) is attributable to derivative financial instruments held at the end of the reporting period and has been recognised in finance costs in the income statement.

The impacts on a post-tax basis of reasonably possible changes in significant level 3 assumptions are as follows:

	Derivative financial instruments	
	2020	2019
	£m	£m
+20 basis points change in LPI (Limited Price Inflation) market curve[1]	**(59)**	(55)
-20 basis points change in LPI market curve[1]	**56**	52

1 A reasonably possible change in assumption of other level 3 derivative financial instruments is unlikely to result in a material change in fair values.

The impacts disclosed above were considered on a contract by contract basis with the most significant unobservable inputs identified.

(g) Capital Risk Management

The capital structure of the Group consists of shareholders' equity, as disclosed in the consolidated statement of changes in equity, and net debt (note 25). National Grid's objectives when managing capital are: to safeguard our ability to continue as a going concern; to remain within regulatory constraints of our regulated operating companies; and to maintain an efficient mix of debt and equity funding thus achieving an optimal capital structure and cost of capital. We regularly review and manage the capital structure as appropriate in order to achieve these objectives.

Maintaining appropriate credit ratings for our regulated company is an important aspect of our capital risk management strategy and balance sheet efficiency. We monitor our balance sheet efficiency by regulatory asset value (RAV) gearing calculated as net debt expressed as a percentage of RAV, which indicates the level of debt employed to fund our regulated business. It is compared with the level of RAV gearing indicated by Ofgem as being appropriate for our business, at around 60% to 62.5%. The RAV gearing ratio at 31 March 2020 was 57% (2019: 55%).

The Company is subject to certain restrictions on the payment of dividends by administrative order, contract and/or licence. The types of restrictions that a company may have that would prevent a dividend being declared or paid unless they are met include:

- liquidity risk;

28. Financial risk management (continued)

- the subsidiary must have at least two recognised rating agency credit ratings of at least investment grade;
- dividends must be limited to cumulative retained earnings, including pre-acquisition retained earnings;
- the securities of National Grid Electricity Transmission plc must maintain an investment grade credit rating and if that rating is the lowest investment grade bond rating it cannot have a negative watch/review for downgrade notice by a credit rating agency;
- the subsidiary must not carry on any activities other than those permitted by the licences;
- the subsidiary must not create any cross-default obligations or give or receive any intra-group cross-subsidies; and
- the percentage of equity compared with total capital of the subsidiary must remain above certain levels.

These restrictions are subject to the normal licence review process.

As most of our business is regulated, at 31 March 2020 the majority of our net assets are subject to some of the restrictions noted above. These restrictions are not considered to be significantly onerous, nor do we currently expect they will prevent the planned payment of dividends in future in line with our dividend policy.

All the above requirements are monitored on a regular basis in order to ensure compliance. The Company has complied with all externally imposed capital requirements to which it is subject.

29. Sensitivities

In order to give a clearer picture of the impact on our results or financial position of potential changes in significant estimates and assumptions, the following sensitivities are presented. These sensitivities are based on assumptions and conditions prevailing at the year-end, and should be used with caution. The effects provided are not necessarily indicative of the actual effects that would be experienced because our actual exposures are constantly changing.

The sensitivities in the tables below show the potential impact in the income statement (and consequential impact on net assets) for a reasonably possible range of different variables each of which have been considered in isolation (i.e. with all other variables remaining constant). There are a number of these sensitivities which are mutually exclusive and therefore if one were to happen, another would not, meaning a total showing how sensitive our results are to these external factors is not meaningful.

The sensitivities included in the tables below broadly have an equal and opposite effect if the sensitivity increases or decreases by the same amount unless otherwise stated.

(a) Sensitivities on areas of judgement and key sources of estimation uncertainty

The table below sets out the sensitivity analysis for each of the areas of estimation uncertainty. These estimates are those that have a significant risk of resulting in a material adjustment to the carrying values of assets and liabilities in the next year.

	2020		2019	
	Income statement £m	**Net assets £m**	Income statement £m	Net assets £m
Pensions obligations benefit (pre-tax)[1]				
Discount rate increase of 0.5%[2]	**2**	**206**	3	249
RPI rate increase of 0.5%[3]	**2**	**172**	3	262
Long-term rate of increase in salaries change of 0.5%[4]	**—**	**23**	1	34
Increase of one year to life expectancy at age 65	**—**	**112**	1	126
Environmental provision:				
10% change in estimated future cash flows	**5**	**5**	4	4

1 The changes shown are a change in the annual pension or other post-retirement benefit service charge and change in the defined benefit obligations.

2 A change in the discount rate is likely to occur as a result of changes in bond yields and as such would be expected to be offset to a significant degree by a change in the value of the bond assets held by the plans.

3 The projected impact resulting from a change in RPI reflects the underlying effect on pensions in payment, pensions in deferment and resultant increases in salary assumptions.

4 This change has been applied to both the pre 1 April 2014 and post 1 April 2014 rate of increase in salary assumption.

Pensions and post retirement benefits assumptions

Sensitivities have been prepared to show how the defined benefit obligations and annual service costs could potentially be impacted by changes in the relevant actuarial assumption that were reasonably possible as at 31 March 2020. In preparing sensitivities the potential impact has been calculated by applying the change to each assumption in isolation and assuming all other assumptions remain unchanged. This is with the exception of RPI in the UK where the corresponding change to increases to pensions in payment, increases to pensions in deferment and increases in salary is recognised.

29. Sensitivities (continued)

(b) Sensitivities on financial instruments

We are further required to show additional sensitivity analysis under IFRS 7 and these are shown separately in the subsequent table due to the additional assumptions that are made in order to produce meaningful sensitivity disclosures.

Our net debt as presented in note 25 financial instruments is sensitive to changes in market variables, being UK interest rates and the UK RPI. These impact the valuation of our borrowings, deposits and derivative financial instruments. The analysis illustrates the sensitivity of our financial instruments to reasonably possible changes in these market variables.

The following main assumptions were made in calculating the sensitivity analysis:

- the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio, and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 March 2020 and 2019 respectively;
- the statement of financial position sensitivity to interest rates relates to items presented at their fair values namely derivative financial instruments. Further debt and other deposits are carried at amortised cost and so their carrying value does not change as interest rates move;
- the sensitivity of interest to movements in interest rates is calculated on net floating rate exposures on debt, deposits and derivative instruments; and
- changes in the carrying value of derivatives from movements in interest rates of designated cash flow hedges are assumed to be recorded fully within equity.

	2020		2019	
	Income statement £m	**Other equity reserves £m**	Income statement £m	Other equity reserves £m
Financial risk (post-tax)				
UK RPI rate change of 0.5%[1]	**15**	**—**	15	—
UK Interest rate changes of 0.5%	**5**	**38**	7	28

1 Excludes sensitivities to LPI curve. Further details on sensitivities are provided in note 28.

Additional sensitivities in respect to our derivative fair values are as follows:

	2020		2019	
	Income statement	**Net assets**	**Income statement 2**	**Net assets 2**
Assets and liabilities carried at fair value (post-tax):	**£m**	**£m**	£m	£m
10% fair value change in derivative financial instruments[1]	**(5)**	**(5)**	(13)	(13)

1 The effect of a 10% change in fair value assumes no hedge accounting.

2 March 2019 comparative figures have been restated to show post-tax figures.

30. Ultimate parent company

This note shows the immediate and ultimate parent companies for these consolidated financial statements.

National Grid Electricity Transmission plc's immediate parent company is National Grid Holdings Limited. The ultimate parent company, and controlling party, is National Grid plc. Both companies are incorporated in Great Britain and are registered in England and Wales. National Grid plc consolidates the financial statements of National Grid Electricity Transmission plc. Copies of the consolidated financial statements of National Grid plc may be obtained from the Company Secretary, 1-3 Strand, London WC2N 5EH, or on our company website, http://investors.nationalgrid.com.

31. Subsidiary undertakings, joint ventures and associates

While we present consolidated results in these financial statements as if we were one company, our structure is such that there are a number of subsidiaries and joint ventures that contribute to the overall result.

Subsidiary undertakings

The list below contains all subsidiaries included within the National Grid Electricity Transmission plc Group.

	Principal activity	Holding
NGC Employee Shares Trustee Limited 1 - 3 Strand, London, WC2N 5EH	Trustee of the NGC profit sharing scheme and NGC Employee Trust	100 %
National Grid Electricity Group Trustee Limited 1 - 3 Strand, London, WC2N 5EH	Pension nominee company	100 %

All subsidiaries are incorporated in England and Wales.

Investment in the subsidiary undertaking Elexon Limited with 100% ownership was disposed of as part of the sale of the ESO business on the 3 May 2019.

Joint ventures

The list below contains all joint ventures included within the National Grid Electricity Transmission plc Group.

	Principal activity	**Holding**
NGET/SPT Upgrades Limited 1 - 3 Strand, London, WC2N 5EH	Construction services for the England-Scotland interconnector	50%

Associates

Investment in the associates Coreso SA with 16% ownership was disposed of as part of the sale of the ESO business on the 3 May 2019.

32. Events After The Reporting Period

In the period since year end to the date of signing of these financial statements there have continued to be substantial economic and social changes in the UK as a result of the ongoing pandemic of coronavirus disease (COVID-19). These changes and risks are being actively managed by the Directors of the Company and other than the presumption of the going concern basis of preparation (see note 1) none of these developments have impacted or caused adjustment to these financial statements.

33. Transition to IFRS 16

The Group has adopted IFRS 16 'Leases', with effect from 1 April 2019. IFRS 16 introduces a single lease accounting model for lessees (rather than the current distinction between operating and finance leases). A contract is, or contains, a lease, if it provides the right to control the use of an identified asset for a specific period of time in exchange for consideration. The new standard results in our operating leases being accounted for in the consolidated statement of financial position as 'right-of-use' assets with corresponding lease liabilities also recognised. It therefore increases both our assets and liabilities (including net debt). It also changes the timing and presentation in the consolidated income statement as it results in an increase in finance costs and depreciation largely offset by a reduction in the previously straight-line operating costs.

Transition options

We have applied IFRS 16 using the modified retrospective approach. Comparatives have not been restated on adoption. Instead, on the opening balance sheet date, right-of-use assets (net of accrued rent or rent-free periods, and reported within property, plant and equipment), additional lease liabilities (reported within borrowings) and any associated deferred tax have been recognised, with no cumulative transition adjustment to reflect through retained earnings. For short term leases (lease term of 12 months or less) and leases of low-value assets (such as computers), the Group continues to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

We elected to apply the practical expedient to grandfather our previous assessments of whether contracts were previously accounted for as a lease, as permitted by the standard, instead of reassessing all significant contracts as at the date of initial application to determine whether they met the IFRS 16 definition of a lease.

We have elected to apply the practical expedient on transition, which permits right-of-use assets to be measured at an amount equal to the lease liability on adoption of the standard (adjusted for any prepaid or accrued lease expenses).

Impact of transition

At 31 March 2019, the Group disclosed non-cancellable operating lease commitments of £23 million. A further £51 million of lease liabilities were recognised due to the requirement in IFRS 16 to recognise lease liabilities for the term that we are reasonably certain to exercise lease extension or lease termination options for, rather than only for the period of the minimum contractual term that was used in determining our lease liability commitments. This was partially offset by the £7 million impact of discounting our lease liabilities at the incremental borrowing rate for each lease. The weighted average discount rate applied to lease liabilities recognised on the transition date was 2.22%.There were some immaterial short term and low value leases, which will be recognised on a straight-line basis as an expense in the consolidated income statement over the remaining lease term.

As a result, the National Grid Electricity Transmission plc has recognised additional right-of-use assets of £67 million and lease liabilities (which are included within net debt) of £67 million at 1 April 2019. No additional net deferred tax has arisen. There has been no impact on net assets as shown in the table below, which shows the impacted balances from the consolidated statement of financial position.

	31 March 2019 As previously reported	IFRS 16 Transition adjustments	1 April 2019 As restated
	£m	£m	£m
Property, plant and equipment			
Land and buildings	876	62	938
Plant and machinery	9,985	—	9,985
Assets in the course of construction	2,153	—	2,153
Motor vehicles and office equipment	24	5	29
Total property, plant and equipment	13,038	67	13,105
Borrowings - Lease liabilities			
Current	—	(8)	(8)
Non-current	—	(59)	(59)
Total lease liabilities	—	(67)	(67)
Net assets	3,983	—	3,983
Equity			
Total equity	3,983	—	3,983

The impact of IFRS 16 on profit after tax as a result of adopting the new standard is not material. However, it has resulted in an increase in operating profit due to the operating costs now being replaced with depreciation and interest charges.

33. Transition to IFRS 16 (continued)

The impact on the cash flow statement has also not been material, although there has been an increase in operating cash flows and decrease in financing cash flows, because repayment of the principal portion of the lease liabilities is now classified as cash flows from financing activities rather than operating cash flows.

Ongoing accounting policy

With effect from 1 April 2019, new lease arrangements entered into are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. The right of use asset and associated lease liability arising from a lease are initially measured at the present value of the lease payments expected over the lease term, plus any other costs. The discount rate applied is the rate implicit in the lease or if that is not available, then the incremental rate of borrowing for a similar term and similar security.

The lease term takes account of exercising any extension options that are at our option if we are reasonably certain to exercise the option and any lease termination options unless we are reasonably certain not to exercise the option.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period using the effective interest rate method. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as computers), the Group continues to recognise a lease expense on a straight-line basis.

Company balance sheet

as at 31 March

	Notes	2020 £m	2019 £m
Fixed assets			
Intangible assets	5	**125**	107
Tangible assets	6	**13,403**	12,944
		13,528	13,051
Current assets			
Cash and cash equivalents		**—**	4
Stocks and other current assets	7	**48**	43
Debtors	8	**227**	112
Derivative financial instruments (amounts falling due within one year)	9	**1**	—
Derivative financial instruments (amounts falling due after more than one year)	9	**420**	321
Investments	10	**199**	267
Net pension asset	15	**379**	74
Assets held for sale		**—**	639
Total current assets		**1,274**	1,460
Borrowing	13	**(1,233)**	(1,830)
Derivative financial instruments	9	**(22)**	(112)
Other creditors	11	**(554)**	(595)
Liabilities held for sale		**—**	(495)
Creditors (amounts falling due within one year)	11	**(1,809)**	(3,032)
Net current assets		**(535)**	(1,572)
Total assets less current liabilities		**12,993**	11,479
Creditors (amounts falling due after more than one year)	12	**(7,716)**	(6,495)
Provisions for liabilities	14	**(1,217)**	(1,001)
Net assets		**4,060**	3,983
Capital and reserves			
Share capital	16	**44**	44
Share premium account		**—**	—
Other equity reserve	17	**(10)**	(8)
Profit and loss account		**4,026**	3,947
Total shareholders' equity		**4,060**	3,983

The notes on pages 116 to 130 form part of the individual financial statements of the Company, which were approved by the Board of Directors and authorised for issue on 21 July 2020 and were signed on its behalf by:

Nicola Shaw Chair

Alistair Todd Director

National Grid Electricity Transmission plc

Registered number: 2366977

Company statement of changes in equity

for the years ended 31 March

	Called up share capital	Other equity reserves	Profit and loss account	Total equity
	£m	£m	£m	£m
At As at 1 April 2018	44	4	3,440	3,488
Profit for the year	—	—	470	470
Total other comprehensive loss for the year	—	(12)	3	(9)
Total comprehensive income/(loss) for the year	—	(12)	473	461
Equity dividends	—	—	—	—
Share-based payments	—	—	3	3
Tax on share-based payments	—	—	—	—
At 31 March 2019 (as previously reported)	44	(8)	3,916	3,952
Impact of transition to FRS 101	—	—	31	31
At 31 March 2019 (as restated)	44	(8)	3,947	3,983
Profit for the year	—	—	757	757
Total other comprehensive income for the year	—	(2)	187	185
Total comprehensive income for the year	—	(2)	944	942
Equity dividends	—	—	(869)	(869)
Share-based payments	—	—	2	2
Tax on share-based payments	—	—	2	2
At At 31 March 2020	**44**	**(10)**	**4,026**	**4,060**

The Company has not presented its own profit and loss account as permitted by section 408 of the Companies Act 2006.

For further details of dividends paid and payable to shareholders, refer to note 8 in the consolidated financial statements.

There was no impact of the IFRS 16 adjustments on the statements of changes in equity.

Notes to the Company financial statements

1. Company accounting policies

We are required to include the stand-alone balance sheet of our parent Company, National Grid Electricity Transmission plc, under the Companies Act 2006. The following disclosures provide additional information to users of these financial statements.

A. Basis of preparation of individual financial statements under FRS 101

National Grid Electricity Transmission plc's principal activities involve the transmission of electricity in Great Britain. The Company is a public limited company incorporated and domiciled in England, with its registered office at 1-3 Strand, London, WC2N 5EH.

The company meets the definition of a qualifying entity under FRS 100 Application of Financial Reporting Requirements. Accordingly, the company has elected to apply FRS 101 Reduced Disclosure Framework. The recognition and measurements requirements of EU-adopted IFRS have therefore been applied within these financial statements, with amendments where necessary in order to comply with the Companies Act 2006.

In accordance with the exemption permitted by section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account or statement of comprehensive income.

As permitted by FRS 101, the company has taken advantage of exemptions from the requirements of IFRS in relation to the following elements:

- presentation of a cashflow statement and related notes;
- disclosures in respect of share based payment;
- disclosures in respect of capital management;
- disclosures required by IFRS 13 '*Fair Value Measurement';*
- disclosures required by IFRS 7 '*Financial Instruments: Disclosures';*
- presentation of comparative information in respect of certain assets;
- the effect of standards not yet effective; and
- related party transactions.

Where required, equivalent disclosures are given in the Group financial statements of National Grid Plc, which are available to the public and can be obtained as set out in note 30 of the consolidated financial statements.

The individual financial statements of the Company have been prepared on a historical cost basis, except for the revaluation of financial instruments, and are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates. The comparative financial information has also been prepared on this basis.

The individual financial statements have been prepared on a going concern basis following the assessment made by the Directors as set on page 39.

The Company has adopted IFRS 16 with effect from 1 April 2019. Refer to note 20 for full details of the impact and transition adjustments arising on adoption.

B. First time adoption of FRS 101

During the current financial year, management chose to transition from FRS 102 to FRS 101 so as to ensure all companies within the National Grid UK group of companies will report using the same basis of accounting.

The last financial statements prepared under the previous UK accounting framework were for the year ending 31 March 2019, thus, the date of transition to FRS 101 was 1 April 2018. All comparative information in the financial statements has been restated to reflect the company's adoption of FRS 101, except where otherwise required or permitted by paragraphs 6 to 33 of IFRS 1 'First-time Adoption of International Financial Reporting Standards'. Details of this transition can be found in note 21.

The company is included within the consolidated financial statements of its ultimate parent company, National Grid Electricity Transmission plc. In accordance with IFRS 1, the company has measured its assets and liabilities at the carrying amounts that would be included in the National Grid Electricity Transmission plc consolidated financial statements.

2. Auditor's remuneration

Auditor's remuneration in respect of the Company is set out below:

	2020 **£m**	2019 £m
Audit services		
Audit of the parent Company's individual and consolidated financial statements	**0.3**	0.4
Other services supplied		
Fees payable to the Company's auditors for audit related assurance services[1]	**0.5**	0.4

1 Other services supplied represent fees payables for audit services which are required to be carried out by auditors in relation to the Group's reporting requirements to NG plc. In particular, this includes fees for reports under section 404 of the US Public Company Accounting Reform and Investor Protection Act of 2002 (Sarbanes-Oxley), and assurance fees in relation to regulatory returns.

3. Number of employees, including Directors

	2020 **Monthly Average** **number**	2019 Monthly average number
Electricity Transmission	**2,659**	3,487

4. Directors' emoluments

Details of Directors' emoluments are provided in note 4(d) to the consolidated financial statements.

5. Intangible assets

	Software £m
Cost at 1 April 2019	260
Additions	50
Reclassifications between categories[1]	(6)
Cost at 31 March 2020	304
Accumulated amortisation at 1 April 2019	(153)
Amortisation charge for the year	(26)
Accumulated amortisation at 31 March 2020	(179)
Net book value at 31 March 2020	**125**
Net book value at 31 March 2019	107

1 Reclassifications include amounts transferred between categories and from tangible assets (see note 6).

6. Property, plant and equipment

	Land and buildings	Plant and machinery	Assets in the course of construction	Motor vehicles and office equipment	Total
	£m	£m	£m	£m	£m
Cost at 1 April 2019	943	15,164	2,098	64	18,269
Additions	115	144	635	10	904
Disposals	(2)	(36)	(8)	(1)	(47)
Reclassifications between categories[2]	(65)	1,269	(1,230)	5	(21)
Right-of-use assets recognised on transition to IFRS 16[3]	62	—	—	5	67
Cost at 31 March 2020	1,053	16,541	1,495	83	19,172
Accumulated depreciation at 1 April 2019	(95)	(5,180)	—	(50)	(5,325)
Depreciation charge for the year	(21)	(407)	—	(9)	(437)
Disposals[1]	2	29	—	—	31
Reclassifications between categories[2]	—	—	(60)	—	(60)
Impairment	—	—	23	(1)	22
Accumulated depreciation at 31 March 2020	(114)	(5,558)	(37)	(60)	(5,769)
Net book value at 31 March 2020	**939**	**10,983**	**1,458**	**23**	**13,403**
Net book value at 31 March 2019	848	9,984	2,098	14	12,944

1 Disposals include £2m of nil net book value assets written off (2019: £102m).

2 Reclassifications represents transfers between asset categories and £6m to intangible assets (see note 5), a £60m reclassification for impairment provision between cost and depreciation and an additional £87 million reduction in gross cost of assets for costs previously capitalised as these are no longer payable to the supplier building the Western Link HVDC.

3 £67 million of additional right-of-use assets were recognised on transition to IFRS 16 on 1 April 2019. See note 20 for details.

Included within creditors (amounts falling due within one year) and creditors (amounts falling due after more than one year) are contributions to the cost of tangible fixed assets amounting to £24m (2019: £10m) and £378m (2019: £416m) respectively.

Right-of-use assets

National Grid Electricity Transmission leases various properties, equipment and cars. With effect from 1 April 2019, new lease arrangements entered into are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use (see note 20). The right-of-use asset and associated lease liability arising from a lease are initially measured at the present value of the lease payments expected over the lease term, plus any other costs. The discount rate applied is the rate implicit in the lease or if that is not available, then the incremental rate of borrowing for a similar term and similar security. The lease term takes account of exercising any extension options that are at our option if we are reasonably certain to exercise the option and any lease termination options unless we are reasonably certain not to exercise the option. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period using the effective interest rate method. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as computers), National Grid Electricity Transmission continues to recognise a lease expense on a straight-line basis.

Included within the net book value of property, plant and equipment at 31 March 2020 are right-of-use assets, split as follows:

	Land and Buildings	Motor vehicles and office equipment	Total
	£m	£m	£m
Net book value at 31 March 2020	55	4	59
Additions	1	—	1
Disposals	(2)	(1)	(3)
Depreciation charge for the year ended 31 March 2020	(8)	(3)	(11)

6. Property, plant and equipment (continued)

The following balances have been included in the income statement for the year ended 31 March 2020 in respect of right-of-use assets:

	Total £m
Included within net finance income and costs:	
Interest expense on lease liabilities	(1)

The associated lease liabilities are disclosed in note 13.

7. Stocks

	2020 £m	2019 £m
Raw materials, spares and consumables	**47**	43
Work in progress	**1**	—
	48	43

Raw materials are stated after provisions for obsolescence of £12m (2019: £12m).

8. Debtors

	2020 £m	2019 £m
Amounts falling due within one year:		
Trade debtors	**16**	15
Amounts owed by fellow subsidiary undertakings	**65**	18
Other taxation and social security	**32**	—
Other debtors	**39**	22
Accrued income	**39**	23
Prepayments	**31**	23
	222	101
Amounts falling due after one year:		
Prepayments	**5**	11
	5	11
Total debtors	**227**	112

Debtors are stated after provisions for impairment of £1m (2019: £36m).

9. Derivative financial instruments

The fair values of derivative financial instruments are:

	2020			2019		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Amounts falling due within one year	**1**	**(22)**	**(21)**	—	(112)	(112)
Amounts falling due after more than one year	**420**	**(456)**	**(36)**	321	(370)	(49)
	421	**(478)**	**(57)**	321	(482)	(161)

Further information relating to the recognition and measurement of derivative financial instruments is included in note 13 of the consolidated financial statements.

9. Derivative financial instruments (continued)

For each class of derivative the notional contract amounts[1] are as follows:

	2020 £m	2019 £m
Interest rate swaps	**(2,065)**	(2,844)
Cross-currency interest rate swaps	**(1,294)**	(809)
Foreign exchange forward currency	**(244)**	(319)
Inflation linked swaps	**(300)**	(300)
	(3,903)	(4,272)

1 The notional contract amounts of derivatives indicate the gross nominal value of transactions outstanding at the balance sheet date.

10. Investments

	2020 £m	2019 £m
Loans and receivables - amounts due from fellow subsidiaries	**1**	1
Loans and receivables - restricted cash balances[1]	**198**	266
	199	267

Investment in subsidiaries of £0.05m (2019: £0.2m) are included within current assets. The names of the subsidiary undertakings are included in note 31 to the consolidated financial statements.

1 Refers to collateral placed with counterparties with whom we have entered into a credit support annex to the ISDA Master Agreement £198m (2019: £266m).

11. Creditors (amounts falling due within one year)

	2020 £m	2019 £m
Derivative financial instruments (note 9)	**22**	112
Borrowings (note 13)	**1,233**	1,830
Trade creditors	**399**	406
Amounts owed to fellow subsidiary undertakings	**61**	72
Other taxation and social security	**—**	42
Other creditors	**34**	12
Accruals and deferred income	**60**	63
Liabilities held for sale	**—**	495
	1,809	3,032

12. Creditors (amounts falling due after more than one year)

	2020 £m	2019 £m
Derivative financial instruments (note 9)	**456**	370
Borrowings (note 13)	**6,828**	5,674
Other creditors	**54**	86
Accruals and deferred income	**378**	365
	7,716	6,495

13. Borrowings

The following table analyses the company's total borrowings:

	2020	2019
	£m	£m
Bank loans and overdrafts	558	102
Bonds	379	265
Commercial paper	—	73
Borrowings from fellow subsidiary undertakings	1	1
Lease liabilities	9	—
Borrowings from ultimate parent company	286	1,389
	1,233	1,830
Bank loans	1,537	1,700
Bonds	4,878	3,616
Lease liabilities	51	—
Borrowings from ultimate parent company	362	358
	6,828	5,674
Total borrowings	8,061	7,504
Less than 1 year	1,233	1,830
In 1 - 2 years	362	447
In 2 - 3 years	119	358
In 3 - 4 years	165	116
In 4 - 5 years	537	167
More than 5 years by instalments	819	865
More than 5 years, other than by instalments	4,826	3,721
	8,061	7,504

The notional amount outstanding of the Company's debt portfolio at 31 March 2020 was £7,903 (2019: £7,369m).

None of the Company's borrowings are secured by charges over assets of the Company.

Lease liabilities

The Group adopted IFRS 16 on 1 April 2019, which resulted in the recognition of £60 million of additional lease liabilities. As we applied the modified retrospective approach to transition, comparatives were not restated.

Lease liabilities are initially measured at the present value of the lease payments expected over the lease term. The discount rate applied is the rate implicit in the lease or if that is not available, then the incremental rate of borrowing for a similar term and similar security. The lease term takes account of exercising any extension options that are at our option if we are reasonably certain to exercise the option and any lease termination options unless we are reasonably certain not to exercise the option. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period using the effective interest rate method.

	2020	2019
	£m	£m
Gross lease liabilities are repayable as follows:		
Less than 1 year	10	—
1 to 5 years	27	—
More than 5 years	52	—
	89	—
Less: finance charges allocated to future periods	(29)	—
	60	—
The present value of lease liabilities are as follows:		
Less than 1 year	9	—
1 to 5 years	24	—
More than 5 years	27	—
	60	—

14. Provisions for liabilities

	Decommissioning £m	Environmental £m	Restructuring £m	Deferred taxation £m	Other £m	Total £m
At 1 April 2019	—	46	30	896	11	983
Transition to FRS101	—	—	—	18	—	18
At 1 April 2019 (as restated)	—	46	30	914	11	1,001
Charged to profit and loss	31	4	—	156	1	192
Transferred to reserves	—	—	—	44	—	44
Released	—	—	—	—	(2)	(2)
Utilised	—	(3)	(16)	—	(1)	(20)
Unwinding of discount	—	2	—	—	—	2
At 31 March 2020	**31**	**49**	**14**	**1,114**	**9**	**1,217**

Details of the environmental provision and other provisions are shown in note 22 to the consolidated financial statements. Further details on deferred tax are shown in note 7 to the consolidated financial statements.

Deferred tax

Deferred tax provided in the financial statements comprises:

	2020 £m	2019 £m
Accelerated capital allowances	**1,052**	895
Other timing differences	**(10)**	(11)
Included within provisions for liabilities and charges	**1,042**	884
Pensions liability (note 15)	**72**	12
	1,114	896

15. Pensions

National Grid Electricity Transmission plc's employees are members of either the National Grid Electricity Group of the Electricity Supply Pension Scheme (the Scheme) which is a defined benefit pension scheme or The National Grid YouPlan which is a defined contribution trust. Further details of the Scheme and the actuarial assumptions used to value the associated assets and pension obligations are provided in note 21 to the consolidated financial statements.

	2020	2019
	£m	£m
Present value of funded obligations	**(2,737)**	(3,066)
Fair value of scheme assets	**3,161**	3,189
	424	123
Present value of unfunded obligations	**(45)**	(49)
Net asset in the balance sheet	**379**	74
Related deferred tax liability	**(72)**	(12)
Net pension asset	**307**	62
Changes in the present value of defined benefit obligations (including unfunded obligations)		
Opening defined benefit obligations	**(3,115)**	(3,025)
Current service cost	**(19)**	(24)
Interest cost	**(73)**	(76)
Actuarial gains/(losses) - experience	**38**	(34)
Actuarial gains - demographic assumptions	**19**	45
Actuarial gains/(losses) - financial assumptions	**215**	(132)
Past service credit - redundancies	**—**	9
Special termination benefit cost - redundancies	**(1)**	(35)
Past service cost - augmentations	**—**	(4)
Past service cost - plan amendments	**—**	(5)
Employee Contributions	**(1)**	(1)
Benefits paid	**155**	167
Closing defined benefit obligations	**(2,782)**	(3,115)
Changes in the fair value of scheme assets		
Opening fair value of scheme assets	**3,189**	3,052
Interest income	**76**	78
Return on assets (less)/greater than assumed	**(23)**	159
Employer contributions	**89**	101
Employee contributions	**1**	1
Change in longevity swap value	**(16)**	(35)
Administration costs	**(1)**	—
Benefits paid	**(154)**	(167)
Closing fair value of scheme assets	**3,161**	3,189

16. Share capital

	Number of shares 2020 millions	Number of shares 2019 millions	**2020 £m**	2019 £m
At 31 March 2019 and 2020 - ordinary shares of 10p each				
Allotted, called-up and fully paid	**437**	437	**44**	44

National Grid Electricity Transmission plc's immediate parent company is National Grid Holdings Limited. See note 30 of the consolidated accounts for further details.

17. Other equity reserves

	Cost of hedging £m	Cash flow hedge £m	Total £m
At 31 March 2019	1	(9)	(8)
Net gains/(losses) taken to equity	(3)	1	(2)
Net gains in respect of cash flow hedging of capital expenditure	—	5	5
Transferred to profit or loss	—	(6)	(6)
Tax	1	—	1
At 31 March 2020	**(1)**	**(9)**	**(10)**

18. Commitments and contingencies

(a) Future capital expenditure

	2020 £m	2019 £m
Contracted for but not provided	**1,958**	1,169

(b) Operating lease commitments

Commitments previously included operating lease commitments but on transition to IFRS 16, which was effective from 1 April 2019, substantially all lease commitments are included on the balance sheet as right-of-use assets (see note 6) and lease liabilities (see note 13). Therefore, only low-value leases and short-term leases are off-balance sheet commitments, both of which are immaterial.

	2020 £m	2019 £m
Amounts due:		
Less than 1 year	—	11
In 1 - 2 years	—	7
In 2 - 3 years	—	4
In 3 - 4 years	—	1
	—	23

(c) Other commitments, contingencies and guarantees

Guarantees in respect of a former associate amounting to £13m (2019: £13m). These are open ended.

Other commitments, contingencies and guarantees in the normal course of business and entered into on normal commercial terms amounted to £146 million (2019: £1,263 million). These include guarantees of certain obligations for construction of the Western Link HVDC amounting to £53 million (2019: £53 million), expected to expire in 2020. There is an additional £17m contingency for the portion of decommissioning costs of Western Link HVDC not recognised in the provision (See note 22).

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

The company had no other off balance sheet commitments.

19. Related party transactions

The following material transactions are with joint ventures and associates of ultimate parent company, and are in the normal course of business. Other related party transactions are not disclosed in accordance with the exemptions available under FRS 101.

	2020	2019
	£m	£m
Goods and services supplied	**1,910**	8
Services received	**—**	27
Amounts receivable at 31 March	**4**	1
Amounts payable at 31 March	**—**	—

On 1 April 2019, the Group disposed of the electricity system operator business to a separate company within the National Grid Group, National Grid Electricity System Operator Limited ('ESO'). The ESO acts as agent for the Group in collecting revenues from customers (see note 3 for further detail). Current year related party transactions and closing balances therefore include items where the counter-party is the ESO. There were no equivalent transactions or balances in the prior year relating to ESO as it formed part of the Group as at 31 March 2019.

Amounts payable or receivable are ordinarily settled one month in arrears. £nil (2019: £nil) amounts have been provided at 31 March 2020 and £nil (2019: £nil) expense has been recognised during the year in respect of bad or doubtful debts from the above related party transactions.

20. Transition to IFRS 16

The Company has adopted IFRS 16 'Leases', with effect from 1 April 2019. IFRS 16 introduces a single lease accounting model for lessees (rather than the current distinction between operating and finance leases). A contract is, or contains, a lease, if it provides the right to control the use of an identified asset for a specific period of time in exchange for consideration. The new standard results in our operating leases being accounted for in the consolidated statement of financial position as 'right-of-use' assets with corresponding lease liabilities also recognised. It therefore increases both our assets and liabilities (including net debt). It also changes the timing and presentation in the consolidated income statement as it results in an increase in finance costs and depreciation largely offset by a reduction in the previously straight-line operating costs.

Transition options

We have applied IFRS 16 using the modified retrospective approach. Comparatives have not been restated on adoption. Instead, on the opening balance sheet date, right-of-use assets (net of accrued rent or rent-free periods, and reported within property, plant and equipment), additional lease liabilities (reported within borrowings) and any associated deferred tax have been recognised, with no cumulative transition adjustment to reflect through retained earnings. For short term leases (lease term of 12 months or less) and leases of low-value assets (such as computers), the Company continues to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

We elected to apply the practical expedient to grandfather our previous assessments of whether contracts were previously accounted for as a lease, as permitted by the standard, instead of reassessing all significant contracts as at the date of initial application to determine whether they met the IFRS 16 definition of a lease.

We have elected to apply the practical expedient on transition, which permits right-of-use assets to be measured at an amount equal to the lease liability on adoption of the standard (adjusted for any prepaid or accrued lease expenses).

Impact of transition

At 31 March 2019, the Company disclosed non-cancellable operating lease commitments of £23 million. A further £74 million of lease liabilities were recognised due to the requirement in IFRS 16 to recognise lease liabilities for the term that we are reasonably certain to exercise lease extension or lease termination options for, rather than only for the period of the minimum contractual term that was used in determining our lease liability commitments. This was partially offset by the £30 million impact of discounting our lease liabilities at the incremental borrowing rate for each lease. The weighted average discount rate applied to lease liabilities recognised on the transition date was 2.22%.There were some immaterial short term and low value leases, which will be recognised on a straight-line basis as an expense in the consolidated income statement over the remaining lease term.

As a result, the Company has recognised additional right-of-use assets of £67 million and lease liabilities (which are included within net debt) of £67 million at 1 April 2019. No additional net deferred tax has arisen. There has been no impact on net assets as shown in the table below, which shows the impacted balances from the Company's balance sheet.

	31 March 2019 As previously reported £m	IFRS 16 Transition adjustments £m	1 April 2019 As restated £m
Property, plant and equipment			
Land and buildings	876	62	938
Plant and machinery	9,985	—	9,985
Assets in the course of construction	2,153	—	2,153
Motor vehicles and office equipment	24	5	29
Total property, plant and equipment	13,038	67	13,105
Borrowings - Lease liabilities			
Current	—	(8)	(8)
Non-current	—	(59)	(59)
Total lease liabilities	—	(67)	(67)
Net assets	3,983	—	3,983
Equity			
Total equity	3,983	—	3,983

21. Transition to FRS101

The company meets the definition of a qualifying entity under FRS 100 Application of Financial Reporting Requirements. Accordingly, the company has elected to apply FRS 101 Reduced Disclosure Framework. The recognition and measurements requirements of EU-adopted IFRS have therefore been applied within these financial statements, with amendments where necessary in order to comply with the Companies Act 2006.

In accordance with the exemption permitted by section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account or statement of comprehensive income. For the year ended 31 March 2020, profit for the year under FRS 102 would have been £748 million. Total comprehensive income for the same period, under FRS 101, is £944 million. Of this £196 million variance, £9 million relates to a difference in revenue recognition between FRS 102 and FRS 101 concerning income in respect of diversions and connections. £187 million of the variance relates to items that go through comprehensive income rather than profit or loss and are noted below:

- £233 million - remeasurement of retirement benefit obligations; and
- £(46) million - tax on items that will never be reclassified to profit or loss

The last financial statements prepared under the previous UK accounting framework (being FRS 102) were for the year ending 31 March 2019, thus, the date of transition to FRS 101 was 1 April 2018. All comparative information in the financial statements has been restated to reflect the company's adoption of FRS 101 and those adjustments are shown below.

The transitional adjustments made below are a reversal of previous adjustments needed in order to align the accounts to FRS 102 from IFRS (since the underlying general ledger is based on the IFRS framework). The adjustment made to Creditors (amounts falling due after more than one year) relates to capital contributions and this was made previously due to FRS 102 being based off of a different set of accounting standards relating to revenue recognition (whereas IFRS applies IFRS 15 *Revenue from Contracts with Customers* as of 1 January 2018). The other adjustments are reversals of current and deferred tax amounts totalling £20 million due to the differing accounting policies on capital contributions. These have now been reversed upon transition to FRS 101 since this framework adopts all requirements of EU-adopted IFRS. This results in a net increase to shareholders' equity of £31 million.

	31 March 2019 as previously reported £m	FRS101 Transition adjustments £m	1 April 2019 as restated £m
Fixed assets			
Intangible assets	107	—	107
Tangible assets	12,944	—	12,944
	13,051	—	13,051
Current assets			
Stocks	43	—	43
Debtors	112	—	112
Derivative financial instruments (amounts falling due within one year)	—	—	—
Derivative financial instruments (amounts falling due after more than one year)	321	—	321
Investments	267	—	267
Net pension asset	74	—	74
Cash at bank and in hand	4	—	4
Assets held for sale	639	—	639
Total current assets	1,460	—	1,460
Borrowings	(1,830)	—	(1,830)
Derivative financial instruments	(112)	—	(112)
Other creditors	(593)	(2)	(595)
Liabilities held for sale	(495)	—	(495)
Creditors (amounts falling due within on year)	(3,030)	(2)	(3,032)
Net current liabilities	(1,570)	(2)	(1,572)
Total assets less current liabilities	11,481	(2)	11,479
Creditors (amounts falling due after more than one year)	(6,546)	51	(6,495)
Provisions for liabilities	(983)	(18)	(1,001)
Net assets	3,952	31	3,983
Capital and reserves			
Share capital	44	—	44
Share premium account	(8)	—	(8)
Profit and loss account	3,916	31	3,947
Total shareholders' equity	3,952	31	3,983

Glossary and definitions

References to the 'Company', 'we', 'our' and 'us' IFRS refer to National Grid Electricity Transmission plc International Financial Reporting Standard. itself or to National Grid Electricity Transmission plc and its subsidiaries collectively, depending KPI on context.

BSIS

The Balancing Services Incentive Scheme, an incentive arrangement applicable to the Company's electricity transmission arrangements.

Delivery Body

Under the Energy Act 2013, and secondary legislation which came into force in August 2014, National Grid Electricity Transmission's system operator function became the EMR Delivery Body. In this role National Grid Electricity Transmission provides independent evidence and analysis to the UK Government to inform its decisions on the key rules and parameters to achieve the Government's policy objectives under EMR. National Grid Electricity Transmission also administers the capacity mechanism, including running the annual capacity auctions, manages the allocation of contracts for difference to low carbon generators and reports to the Government annually on performance against the Government's delivery plan.

Electricity Market Reform (EMR)

An energy policy initiative, introduced by the Energy Act 2013, designed to provide greater financial certainty to investors in both low carbon and conventional generation in order to meet environmental targets and maintain security of supply, and to do so at the lowest cost to consumers

EU

European Union.

FRS

Financial Reporting Standard

GAAP

Generally accepted accounting principles.

GHG

Greenhouse gas

GW

Gigawatt, 109 watts.

GWh

Gigawatt hours.

HSE

Health and Safety Executive.

IAS

International Accounting Standard.

IASB

International Accounting Standards Board.

IFRIC

The International Financial Reporting Interpretations Committee, which provides guidance on how to apply accounting standards.

IFRS

International Financial Reporting Standard.

KPI

Key Performance Indicator

Lost time injury

A work-related injury which causes a person to be away from work for at least one normal shift after the shift on which the injury occurs, because the person is unfit to perform his or her duties.

National Grid

National Grid plc, the ultimate parent company of National Grid Electricity Transmission plc and its controlling party.

Ofgem

The Office of Gas and Electricity Markets.

Regulatory asset value (RAV)

The value ascribed by Ofgem to the capital employed in the licensed business. It is an estimate of the initial market value of the regulated asset base at privatisation, plus subsequent allowed additions at historic costs, less the deduction of annual regulatory depreciation. Deductions are also made to reflect the value realised from the disposal of certain assets that formed part of the regulatory asset base. It is also indexed to the RPI to allow for effects to inflation.

Regulated controllable operating costs

Total operating costs under IFRS less depreciation and certain regulatory costs where, under our regulatory agreements, mechanisms are in place to recover such costs in current or future periods

RIIO

The revised regulatory framework issued by Ofgem which was implemented in the eight year price controls which started on 1 April 2013

RoE

A performance metric measuring returns from the investment of shareholders' funds.

UK regulated return on equity is a measure of how a business is performing operationally against the assumptions used by Ofgem. These returns are calculated using the assumption that the businesses are financed in line with the regulatory adjudicated capital structure, at the assumed cost of debt and that UK taxation paid is at the level assumed by Ofgem.

RPI

UK Retail Price Index

tonnes CO2 equivalent

Measure of greenhouse gas emissions in relation to the impact of carbon dioxide

TW

Terawatt, 10^{12} watts

TWh

Terawatt hours