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National Grid Gas plc
Annual Report and Accounts 2021/22

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Contents

National Grid Gas plc Annual Report and Accounts 2021/22

Overview – About National Grid Gas plc 1
What we do - Gas 2
What we do – Regulation 3
Principal operations - Gas Transmission 7
Principal operations - Metering 9
Our purpose, vision, values and strategy 10
Our strategic objectives 11
Progress against objectives - key performance indicators 13
Strategic Report 14
Operating environment 14
Our commitment to being a responsible business 17
Internal control and risk management 22
Viability statement 30
Financial review 31
Our stakeholders 37
Corporate Governance 39
Directors’ Report 44
Introduction to the financial statements 45
Statement of Directors’ responsibilities 46
Independent Auditor's report 47
Consolidated income statement 58
Consolidated statement of comprehensive income 61
Consolidated statement of changes in financial position 60
Consolidated statement of changes in equity 61
Consolidated cash flow statement 62
Notes to the consolidated financial statements 63
Basis of preparation and recent accounting developments 63
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 129

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Overview

About National Grid Gas plc

National Grid Gas plc (National Grid Gas) is a subsidiary of National Grid plc (National Grid), based in the UK. We own and operate the regulated gas National Transmission System (NTS) in Great Britain, with day-to-day responsibility for balancing supply and demand in real time, and provide gas metering services. Our transmission network comprises approximately 7,630 kilometres of high pressure pipe and 23 compressor stations connected to 8 distribution networks and other third-party independent systems. We play a vital role in connecting millions of people safely, reliably and efficiently to the energy they use.

The overall management and governance of National Grid Gas is the responsibility of its Board of Directors. Strategic direction is determined by our ultimate parent company, National Grid plc. Our Directors are listed on page 44.

More information on the management structure of National Grid plc can be found in the National Grid plc Annual Report and Accounts 2021/22 and on National Grid's website at www.nationalgrid.com.

On 27 March 2022 National Grid announced the agreement for sale of a 60% stake in National Grid Gas. The sale is subject to certain conditions.

On 6 April 2022 the UK government announced its intention to create a Future System Operator (FSO), that will, inter alia, take on the longer-term elements of the Gas System Operator (GSO) currently forming part of NGG. NGG work closely with all relevant parties to ensure a smooth transition, subject to parliamentary approval and conclusion of the transaction process, expected by or in 2024.

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

	2021/22 £m	2020/21 £m	Percentage change
Revenue	**1,374**	1,122	22%
Operating profit before exceptional items	**512**	484	6%
Exceptional items	**(13)**	(5)	163%
Total operating profit[1]	**499**	479	4%
Profit before tax	**320**	454	(30%)
Cash generated from operations	**864**	616	40%
Regulated assets[2]	**6,561**	6,307	4%

1 See page 33 for further details.

2 See page 36 for further details.

	2021/22 £m	2020/21 £m
Return on equity:[1]		
Gas Transmission	**7.8%**	9.6%

1 See page 36 for further details

Non-financial highlights

	2021/22	2020/21
Number of employees	**2,118**	2,189
Network reliability:		
Gas Transmission	100 %	100 %

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What we do – Gas

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

The UK gas industry has four main sectors.

1. Production and importation

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

We do not produce gas. Gas used is mainly sourced from gas fields in the North and Irish seas, piped from Europe and imported as LNG.

2. Transmission

The transmission system includes pipes and compressor stations. They connect production and storage through terminals to the distribution systems. We own and operate the transmission system in Great Britain.

Gas enters the transmission system through importation and reception terminals and interconnectors and may include gas previously held in storage. Compressor stations located along the network play a vital role in keeping large quantities of gas flowing through the system, particularly at times of high demand.

3. Distribution

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

There are eight regional gas distribution networks in the UK, none of which we own.

4. Supply

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

We do not supply gas, however we own National Grid Metering Ltd, which provides meters and metering services to supply companies, under contract.

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

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What we do – Regulation

Gas Transmission

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 gas transmission system must be kept constantly in balance, which is achieved by buying, selling and using stored gas. This means that, under normal circumstances, demand can be met. We are the sole owner and operator of high pressure gas transmission infrastructure in Great Britain.

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 Gas Act 1986, as amended (the Act) requires us to develop, maintain and operate economic and efficient networks and to facilitate competition in the supply of gas in Great Britain. It also gives us 'statutory powers'. They also give us statutory powers, including the right to bury our pipes under public highways and the ability to use compulsory powers to purchase land so we can conduct our business.

Our licensed activities are regulated by Ofgem, which has a statutory duty under the Act to protect the interests of consumers. Ofgem also has 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. To protect consumers from the ability of companies to set unduly high prices, Ofgem has established price controls that limit the amount of revenue such regulated businesses can earn. In setting price controls, Ofgem needs to ensure that licence holders can finance their obligations under the Act. Licensees and other affected parties can appeal licence modifications which have errors, including in respect of financeability. This should give us a level of revenue for the duration of the price control that is sufficient to meet our statutory duties and licence obligations with 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 investing and maintaining 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
- efficiently balance the transmission networks to support the wholesale markets.

The current price control period, called RIIO-T2 came into effect on 1st April 2021 and continues for 5 years to 2026. The price control follows the RIIO (revenue = incentives + innovation + outputs) framework established by Ofgem.

The Gas Transmission (GT) business operates under two separate price controls; one as transmission owner (TO) and one as system operator (SO).

RIIO Price Controls

The building blocks of the RIIO price control are broadly similar to the price controls historically used in the UK. There are, however, some significant differences in the mechanics of the calculations.

How is revenue calculated?

Under RIIO, the outputs we deliver are explicitly articulated and our allowed revenues are linked to their delivery, although some outputs and deliverables have only a reputational impact or are linked to legislation. We do not earn allowances if we do not deliver the associated agreed output. These outputs were determined through an extensive consultation process, which gave stakeholders a greater opportunity to influence the decisions.

There are three main output categories for transmission under the current RIIO-T2 price controls:

- **Meeting the needs of consumers and network users -** using outputs and a range of incentives to improve service quality and to encourage the efficient operation of the transmission network. This includes incentives aimed at encouraging us to provide fast access to high quality connections and high network reliability
- **Maintaining a safe and resilient network -** by funding given to replace ageing assets while ensuring costs to consumers are kept as low as possible. We will allow funding for cyber resilience projects, as well as IT investments where the scope of work is well understood. We will use uncertainty mechanisms to fund further upgrades during RIIO-T2 when there is more certainty around the scope of work required
- **Supporting the delivery of an environmentally sustainable network -** by providing funding or uncertainty mechanisms which will facilitate the connection of low carbon generation and by setting outputs and incentives to further reduce the harmful impact that the transmission network and related business activities can have on the environment. We are confident that the up-front funding we are providing, combined with our range of fast and flexible uncertainty mechanisms and incentives, will enable proactive work to deliver Net Zero.

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.

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Totex

Ofgem, using information we have submitted, along with independent assessments, 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 allowances for these outputs, including the volumes of work that will be needed and the price of the various external inputs to achieve them. Consequently, there are a number of uncertainty mechanisms within the RIIO framework that can result in adjustments to totex allowances if actual input prices or work volumes differ from the assumptions. These mechanisms protect us and our customers from windfall gains and losses.

Where we under- or over-spend the allowed totex there is a 'sharing' factor. This means we share the under- or over-spend with 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.

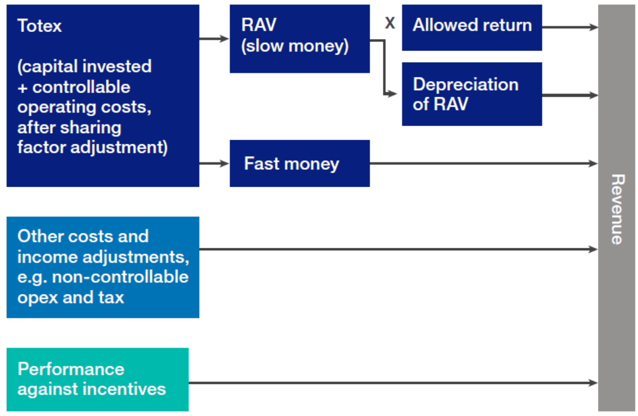
Allowed revenue to fund totex costs is split between 'fast' and 'slow' money categories using specified ratios that are fixed for the duration of the price control. Fast money represents the amount of totex we are able to recover in the year of expenditure. Slow money is added to our Regulated Asset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

In addition to fast money, we are allowed to recover a portion of the RAV (regulatory depreciation) and a return on the outstanding RAV balance each year. The RAV is also indexed to a measure of inflation, using CPIH in RIIO-T2. Regulatory depreciation permits recovery of RAV consistent with each addition bringing equal real benefit to consumers for a period of up to 45 years. In RIIO-T2 this is based on sum-of-digit depreciation (so that depreciation is front loaded but then lower in the later years of the life of the asset). 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. Most of our incentives affect our revenues two years after the year of performance.

In respect of innovation and environment impact, RIIO-T2 builds on the framework established for RIIO-T1. For example, it introduces a range of new mechanisms to facilitate the transition to Net Zero and It increases support for innovation via allocation of direct additional funding for hydrogen innovation (in recognition of the uncertainty around the extent networks may have a role in transporting hydrogen).

The RIIO-T2 price controls for transmission also included a 're-opener mechanism'. This covered specific cost categories where there was uncertainty about expenditure requirements at the time of setting allowances. The mechanism specifies windows during which networks could propose adjustments to allowances which may lead to some changes to the allowed revenues.

Simplified illustration of regulatory building blocks for RIIO-T2:



Key parameters from RIIO-T2

	Gas Transmission
Allowed return on equity[1]	4.55% (real, relative to CPIH)
Allowed debt funding	Calculated and updated each year using an extending 'trombone-like' trailing average of iBoxx Utilities 10+ year index (increases from 10 years for 2021/2 to 14 years for 2025/6), plus 25 bps additional borrowing costs.
Depreciation of RAV	TO 45-year sum of digits and SO 7-year straight line regulatory depreciation applied to RIIO-T2 additions.
Notional gearing	60%
Split between fast/ slow money	Fast: TO baseline 35%, SO baseline 66%, TO uncertainty mechanisms 25% Slow: TO baseline 65%, SO baseline 34%, TO uncertainty mechanisms 75%
Sharing factor	39%
Core baseline totex in 2018/19 prices (cumulative for the 5 years of RIIO-T2)	£2.1 billion

[1] The cost of equity in RIIO-T2 is subject to annual adjustments that are calculated using the Capital Asset Pricing Model, through indexation of the 'risk-free rate' parameter. The 4.3% figure shown is Ofgem's estimate of the average allowed return on equity over the five years of RIIO-T2, as given in the RIIO-T2 Final Proposals Adjusted for the result of our technical appeal to the Competition and Markets Authority, which resulted in the removal of a "performance wedge".

Sharing factors and fast:slow money ratios

The sharing factor means that any over- and under-spend is shared between the businesses and consumers.

Sharing factors applicable under RIIO-T2 are as follows:

Gas Transmission	Transmission Owner	System Operator
Fast[1]	Baseline 35%, Uncertainty 25%[3]	66%
Slow[2]	Baseline 65%, Uncertainty 75%[3]	34%
Sharing[4]	39%	39%

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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 The Baseline is the expenditure funded through ex ante allowances, whereas the uncertainty adjusts the allowed expenditure where the level outputs delivered differ from the baseline level, or if triggered by an event.

4 The sharing factor is the proportion of over and under spend retained by National Grid Gas.

The RIIO-T2 price control will provide a high degree of cash flow certainty for the GT business for the five-year period to March 2026. Detailed plans are in place to deliver against our targets, through continued strong incentive performance, as well as preparing for the energy transition. GT made a strong start to RIIO-T2, with strong financial results, customer metrics, and continued high levels of safety and operational performance. We continued to support our colleagues through the COVID-19 pandemic, ensuring alignment to government guidelines at all times.

Looking ahead

Following the announcement on 18 March 2021 of National Grid's intention to sell a majority stake in the GT business, preparations have been ongoing throughout the year for the design of a standalone business. The sale of a 60% equity interest in the GT business to a consortium of Macquarie Asset Management and British Columbia Investment Management Corporation was announced on 27 March 2022. We are committed to supporting our people through the remaining stages of the sales process, providing access to all necessary information as well as increased engagement across the business. We are working closely with BEIS, Ofgem and all other industry stakeholders to provide assurance of our unrelenting focus on delivery of RIIO-T2 performance and ensuring security of supply throughout the transitional period and beyond.

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Metering

Regulation and Contracts

Metering has an obligation licence (part of the Licence of National Grid Gas) to offer certain metering services to all gas suppliers. The primary contracts Metering currently offer are:

- New and replacement metering service agreement (N&R MSA) contracts covering meters that have been installed since 2004 in properties provided by a supplier who is party to a New & Replacement metering contract and to new assets installed from 2014 under the Backstop Meter Provider of Last Resort (BMPoLR) obligation;

- Legacy MSA contracts covering meters that were installed prior to 2004 in properties provided by a supplier who is party to the legacy MSA contract and;

- Regulated contracts covering meters in properties provided by suppliers who are not signatories to either of the MSA contracts.

As at March 2022, Metering's 7.2m domestic meters were aligned to the contracts as follows (note: Metering also had 0.4m commercial meters at March 2022).

Contract	N&R MSA	Legacy MSA	Regulated
Number of domestic meters (in millions)	1.3	2.9	3.0
Early termination charge on removal	Yes	Yes	No

The prices for some of these services, including domestic meter rentals, are capped by Ofgem. Ofgem's Review of Metering Arrangements applied new domestic tariff caps, effective from April 2014 to December 2024, which:

a. included a modest reduction to domestic rental tariff caps coupled with new obligations for National Grid to facilitate an effective rundown of traditional metering;

b. considered the anticipated early replacement of domestic meters and recognises the accelerated depreciation; and,

c. provided domestic rental tariff caps, £17.70 and £44.27 for the provision, installation and maintenance of domestic sized credit and prepayment meters respectively in 2021/22. These prices increase each year with RPI inflation.

Charges for other services including commercial meter rental are uncapped but regulated through a non-discrimination clause.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

Principal operations - Gas Transmission

What we do

As both the transmission owner (TO) and system operator (SO), we own, build and operate the high-pressure gas national transmission system, with day-to-day responsibility for balancing supply and demand in real time and we facilitate the connection of assets to the transmission system.

We have also developed a well-respected and trusted reputation for engineering excellence. We couple our extensive skills, knowledge and capabilities with innovation to ensure our core competencies create value for shareholders and wider stakeholders alike.

We play a pivotal role in connecting millions of people safely, reliably and efficiently to the energy they use. Our network comprises approximately 7,630 kilometres of high-pressure pipe, 23 compressor stations connecting to 8 distribution networks and also other third-party independent systems.

Market Context

The UK's gas market and sources of gas are changing. The UK now obtains less than half of its gas from the North Sea (or UK Continental Shelf - UKCS). The UK receives gas from Norway, continental Europe and further afield via LNG shipments into three import terminals around the country.

Flexible sources of supply, such as LNG importation terminals, interconnectors and storage sites, can respond to demand more quickly than traditional UKCS supplies. Therefore, our network needs to be able to respond in real time to changing day-to-day and within-day supply and demand patterns.

We also need to prepare for an uncertain energy landscape in the long term. UK reliance on imported gas supplies will vary depending on the level of gas supply from the UKCS and the development of indigenous gas sources.

We are working closely with our customers and stakeholders to meet these operational challenges. We are focused on continuing to develop our network and services to meet their needs safely, reliably and efficiently.

Highlights

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. 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 2022, our LTIFR (lost time injury frequency rate) was 0.10, approximately in line with our UK target of <0.10*.* Our Gas Capital Delivery business worked nearly two years without having an LTI (Lost Time Injury). 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.

Supply and demand mismatches due to factors such as COVID-19 and the conflict in Ukraine have driven surges in energy prices that have challenged many customers; 2021 saw a 330% rise in European gas prices. We continue to work with the government, our regulator and others in the industry to ensure the network can respond to changes in demand and supply patterns, particularly supporting increased flows to Europe as states manage the results of the conflict in Ukraine.

Our operations during the year have taken place against a backdrop of responding to the global COVID-19 pandemic, ensuring that the business, at all levels, had the necessary information and safeguards in place. We have enabled our non-operational employees who can work from home to do so and ensured our operational teams are able to work in COVID-19 secure environments. Working with the government, Public Health England, our health care provider and trade unions, we protected the welfare and health of our workers while maintaining a safe network.

Our adjusted operating profit was higher in 2021/22 primarily due to higher revenues.

Enabling the energy transition for all

National Grid 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.

Our original RIIO-T2 business plans were developed following our largest ever engagement exercise to date, with customers, industry stakeholders, businesses and household bill payers across the country.

Deliver for our customers efficiently

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 CSAT scores achieving a score of 8.6 (2020/21: 8.2).

We have continued to provide reliable services. This year our network reliability score for Gas Transmission was 100%.

Grow our organisational capability

We invest in and maintain our assets across their life as cost effectively as possible. Our focus ensures efficient management of our assets across their lifetime. We continue to progress our asset health data collection efforts and we will prioritise spend over the remainder of this regulatory control period.

We add value to our stakeholders by ensuring safe and effective delivery of large and complex infrastructure projects, ranging from large portfolios of smaller works to stand-alone mega projects.

The skills of our engineers are vital to the delivery of safe, efficient, reliable and sustainable performance for our business.

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Looking ahead

Our RIIO-T2 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 £2.0 billion over the five-period. Our plan includes an increase in asset health and cyber resilience investment, as well as a programme of work to test and prove hydrogen conversion options. The baseline spend will see consumer bills reduce slightly in real terms.

We continue to work with industry peers to support the transition to a hydrogen network and have now commenced construction of FutureGrid – a £9 million full-scale hydrogen test facility, funded through the Network Innovation Competition.

The programme aims to build a hydrogen test facility, carry out initial hydrogen testing, explore ways to separate hydrogen from natural gas and demonstrate the impact of hydrogen on compressors. We will continue to develop proposals to support the transition to hydrogen through our dedicated Hydrogen team.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

Principal Operations - Metering

What we do

National Grid Gas Metering is the largest owner of traditional domestic gas meters in the UK providing installation and maintenance services to energy suppliers within the regulated market. National Grid Metering (NGM) is the asset manager assigned to manage the meters on behalf of NGG and the two entities together are referred to here as Metering.

The asset base that Metering manages is 7.6 million domestic and commercial meters at March 2022, down from 8.4 million in March 2021.

Metering's activities broadly cover: asset procurement and logistics management; meter installation, maintenance, exchange and removal; and customer service provision. Metering's activities broadly cover: asset procurement and logistics management; meter installation, maintenance, exchange and removal; and, customer service provision.

Market Context

During the financial year ending March 2022 impacts of the COVID-19 pandemic continued to be felt by gas suppliers who continued the rollout of smart gas meters while faced with the challenge of customers and staff self-isolating. Suppliers continued to work towards Ofgem's 'all reasonable steps' obligation of installing a smart meter where reasonably possible up to the deadline of 31 December 2021. At that time 47% of domestic gas meters were smart meters, though a number of these continued to operate in traditional model.

In January 2022 a new four year regulatory framework came into effect, following several delays due to the disruption caused by the pandemic. Binding annual installation targets have been set, and a failure to achieve the targets will be a breach of a supplier's licence. The overall framework was confirmed by BEIS in June 2020 and the targets and tolerances for the first two years of the obligation were confirmed in June 2021. Ofgem have once again highlighted the importance to suppliers of consumer engagement, opening up eligibility and maximising installations in trying to hit these targets.

There has been significant market volatility during the year, with a significant number of energy suppliers exiting the market and their portfolios transferred through the Supplier of Last Resort (SoLR) process where an alternative supplier is appointed by Ofgem. Suppliers gaining new customers through this process are facing increases to their overall smart meter rollout targets which will have impacted on their plans for their rollout delivery, however Ofgem considers that they have sufficient time to adjust their plans and hit their new targets in the coming year.

National Grid's domestic gas meters are not suitable for conversion to the proposed smart functionality and as a result Metering's domestic meter population will continue to reduce as traditional meters are replaced with smart meters.

Operational and Financial Performance

Whilst integrated into the key performance indicators of National Grid, management also specifically use the following key performance indicators in measuring the development and performance of the Company:

a. Standards of Service - In the year to 31 March 2022, 20 out of 20 standards of service targets were achieved (2021 19 out of 20). The target measure varied from 80 to 98%. These covered complaints, domestic meter work and industrial and commercial meter works. Significant resources. were invested in managing service partner relationships throughout the year with regular reviews and close monitoring of exception reports. This resulted in improved performance despite the challenging conditions.

- Efficiency - Efficiency is driven by continuous review of installation, running and overhead costs, whilst maintaining the required level of operational and safety performance. Cost efficiency is ensured through robust tendering of meter work services and products in line with National Grid Procurement's Category Management process. Operational efficiency is monitored and driven through proactive contract management, whereby key performance indicators are tracked and supported by both incentive and liability payments.

- Safety, Health and Environment - The Company continues to measure its safety performance in line with National Grid leading and lagging measures. The safety performance measures look at visual safety leadership, hazards and near misses that have occurred, behaviours, process safety, and driver safety. The Company continues to focus on behavioural safety and human factors encouraging staff and contractors alike to recognise hazards, reporting and sharing lessons learnt. The Company has had a huge focus and drive on mental health and wellbeing and continues with its approach to support the mental health and resilience of its people. In 2022/23 the Company will continue to drive best in class safety performance.

Looking ahead

National Grid Metering continues to safely and reliably deliver high standards of service to its customers whilst improving ways of working to maintain efficiency in line with the portfolio.

The business is aligned to National Grids Purpose, Vision and Values and aims 'to be the customer's first choice for traditional gas metering and their transition to hydrogen, through a purposeful, trusting culture where people thrive, are adaptable, encouraged to try new things and learn'.

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Our purpose, vision, values and strategy

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's 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 values

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

Areas of improvement identified in the 2021 Grid:voice survey included enablement and the challenges around change and decision-making. An important first step towards overcoming these limitations was the introduction of our new value 'make it happen', which together with our values 'do the right thing' and 'find a better way' is shaping the behaviours that will underpin our long-term success in the future.

Taken together, these values guide our actions and behaviours as a responsible business and help us create a culture where colleagues become less cautious and take greater ownership. At National Grid Gas, we expect our leaders to be a role model and engage all colleagues to demonstrate our values.

Doing the right thing, means we act safely, inclusively and with integrity, We support and care for each other, and ensure it is safe for colleagues to speak up.

Finding a better way, is all about working as on team to find solutions, embracing learning and new ideas.

Making it happen, means being bold and acting with passion and purpose, taking ownership to deliver for customers and focusing on progress over perfection.

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 NGG'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 have four strategic priorities to make our purpose possible and achieve our vision.

1) Enable the energy transition for all

Leading the way in the decarbonisation of gas, investing in a range of solutions like renewable natural gas, blending hydrogen in networks and carbon offsetting.

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.

The UK cost efficiency programme that we announced in 2018 continues to deliver a more efficient and agile business ahead of RIIO-T2. Through this initiative we have simplified ways of working with a leaner organisation and more efficient IT and back office activities. In 2021/22, the programme enabled us to deliver efficiency savings of £15 million.

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.

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Our strategic objectives

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

	Enable the energy transition for all	Deliver for customers efficiently	Grow our organisational capability
What this means	We will **increase the positive impact we make on society**, environmentally and socially, primarily through enabling a transition to a clean energy future. By innovating to decarbonise our network, investing for a changing climate, and influencing policy and regulation, we will enable clean heat and **champion better outcomes for all**; outcomes where skills are developed and no one is left behind. Gas Transmission continue to act as an industry leader in respect of the hydrogen transition. Project Union and FutureGrid were positively highlighted in the UK Government Hydrogen Strategy. In addition, internal preparations and engagement with Ofgem ahead of RIIO-T3 are underway, with a focus on hydrogen, are within our plans going forward. In terms of measuring success, we continue to deliver a reduction in scope 1 and 2 emissions and aim to shape UK Government Policy on hydrogen to show thought leadership on business model plans.	Delivering **safe, reliable, resilient and affordable energy for customers in our communities** has always been at the heart of what we do. As we invest to decarbonise the network, driving **operational excellence** and **financial discipline** to **keep bills affordable** for customers is more important than ever. Our ambition is to continue ensuring security of supply, whilst safely and reliably suppling gas to our customers. We shall also continue to build trust in our business with broader stakeholders to enable influencing of policy and delivery of re-openers and RIIO-T2 obligations. National Grid Gas have delivered 100% reliability of the National Transmission System and our Customer Satisfaction metrics are above target. Linked to this, NGG ensured maximum winter asset resilience to ensure gas continued to flow to where it was needed most.	In the context of a rapidly changing energy sector, we will need to build on and evolve our organisational capabilities. We will **digitally transform** our processes, strengthen our **customer focus**, and sharpen our **commercial edge.** To successfully make this transformation and deliver results, our **ability to implement change effectively** will be paramount.
2021/22 achievements	Reduced our scope 1 and 2 emissions below our internal targets. Commenced Phase 1 of our FutureGrid programme. We continue to work with industry peers to deliver FutureGrid, a hydrogen transmission test facility. We also secured funding via the Strategic Innovation Fund for a further ten projects that aim to support the transition to hydrogen. We published our Launch Report Project Union, an ambitious plan to develop a UK hydrogen backbone, in May 2022. We invested **£269m** in our network.	Our network reliability was **100%** in 2021/22, ensuring security of supply at a critical point. **Increased customer satisfaction** (8.6/10 in 2021/22 vs 8.2 in 2020/21)	Maintained a world class safety record. National Grid Gas successfully delivered the annual Network Gas Supply Emergency (NGSE) Network Emergency Coordinator (NEC) assurance exercise with industry. Through NGs internal survey, a strong inclusivity score (safe to say) was generated across Gas Transmission and Metering (GT&M) employees of 72% (against a 68% target).

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Looking ahead	We will lead on the hydrogen transition with a tailored programme of activities focused on policy development, stakeholder engagement, innovation and pioneered engineering.	We will continue to deliver safe, reliable and affordable energy for our customers We will do this by driving operational excellence and financial discipline through every part of our business and continuing to build relationships with regulators and policy-makers that strengthen partnerships and unlock added value.	We will build strong leadership and teaming capabilities to create a generation of leaders who empower, take accountability and act decisively. Throughout FY23, GT&M will ensure that we have the right capabilities in place through appraising the future needs of the business and deploying tailored plans to enhance the capabilities of our organisation. Enablement through appropriate systems, governance and ways of working shall also grow our culture as a standalone organisation.
	The below metrics underpin all of our strategic priorities: Empower colleagues for great performance		

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Progress against objectives – key performance indicators (KPIs)

Strategic objective	KPI and definition	Performance
Enable the energy transition for all	**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.	**2021/22: 4.0% (target 3-5%)** 2020/21: 0.1% (target 3-5%)
	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.	**2021/22: £269million** 2020/21: £176 million
	Greenhouse gas emissions Percentage reduction in greenhouse gas emissions. National Grid target: 80% by 2030, 90% by 2040, net zero by 2050, compared to 1990 emissions of 21.6 million tonnes.	**Tonnes carbon dioxide** **2021/22: 296 KTCO2e** 2020/21: 312 KTCO2e National Grid plc has achieved 65.49% reduction on 1990 baseline; new interim target to achieve 80% by 2030
Deliver for customers efficiently	**Network reliability** Reliability of gas network as a percentage against the target set by Ofgem **Customer satisfaction scores** Our score in customer satisfaction surveys. Ofgem set a baseline.	**2021/22: 100% (target 100%)** 2020/21: 100% (target 100%) **2021/22: 8.6 out of 10 (Target 6.9)** 2020/21: 8.2 out of 10 (Target 6.9)
Empower colleagues for great 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.	**2021/22: 0.10 (target 0.10)** 2020/21: 0.03 (target 0.10)
	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.	**2021/22: 74%** 2020/21: 67% 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 19 provides an additional management breakdown. The National Grid plc Responsible Business Charter sets out a target of 50% diversity in their Senior Leadership Group and new talent programmes by 2025. Further details can be found on page 65 of the 2022 NG plc statutory accounts.	**Workforce diversity %** **2021/22: Women: 30.8%** **Ethnic minority: 15.3%** 2020/21: Women: 33.0% Ethnic minority: 14.9%

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

Strategic Report

Operating environment

As well as managing the business through the COVID-19 pandemic, rising living costs and the conflict in Ukraine, National Grid's societal ambition remains to achieve Net Zero.

Net Zero

Commentary

We are focused on delivering the energy transition while balancing key societal issues for the regions in which we operate. We are continuing to progress towards our own net zero commitment to reduce our greenhouse gas emissions to net zero by 2050. In this 'critical decade' (2020 – 2030) for climate action, we are committed to working with the government, the regulators, our customer and other stakeholders to help them meet their carbon reduction targets.

2021/22 developments

Along with hosting COP26, the UK has made a binding commitment to net zero emissions by 2050. Additionally, it committed to phasing out inefficient fossil-fuel subsidies in hopes of limiting global temperature rise to 1.5°C.

In response to the war in Ukraine, in April 2022 the UK increased its ambition further by publishing the British Energy Security Strategy, which recognised both the volume available and the lower carbon intensity of UK gas, as well the energy security benefits. In addition, the strategy included a doubling of the hydrogen production target to 10GW by 2030. In recognition of this, the government also committed to new business models for hydrogen transport and storage, as well as a hydrogen certification scheme, by 2025.

Our response

- National Grid sponsored COP26 as a principal partner, leading the conversation and working closely with the UK government and other sponsors to create a successful and ambitious climate change conference in November 2021.
- The UK government hydrogen strategy outlined how two National Grid Gas projects, FutureGrid and Project Union, are critical enablers to the hydrogen transition in the UK. FutureGrid, in collaboration with numerous industry stakeholders and funded via the Network Innovation Competition, is using decommissioned assets to test and prove the feasibility of using hydrogen on the NTS and in homes and industry. Project Union, for which the Launch Report was published in May 2022, aims to repurpose around 25% of the current gas transmission pipelines to unlock the potential of connecting industrial clusters to hydrogen supply.
- National Grid Gas also secured funding from the Strategic Innovation Fund to carry out a series of projects which aim to assess and ultimately prove the feasibility of several applications of new engineering or technology to facilitate the use of hydrogen on the gas network.

Fairness and Affordability - Impact on consumer bills

Commentary

National Grid are committed to delivering energy safely, reliably and affordably to the communities we serve. As well as affordability, we will play our role in ensuring no one is left behind in the short term due to increased energy prices, or in the longer-term transition to clean energy.

2021/22 developments

Supply and demand mismatches due to factors such as COVID-19 and the conflict in Ukraine have driven surges in energy prices that have challenged many customers; 2021 saw a 330% rise in European gas prices.

In February 2022, Ofgem announced a 54% increase in the energy price cap, caused by the record rise in wholesale energy prices. National Energy Action has anticipated that the number of households in fuel poverty will rise from 4.5 million to 6 million because of the increased cap.

As a result, the Treasury announced that households will receive up to £350 of government support to help protect them from the rising energy costs. This includes a £200 discount on electricity bills for all consumers from October 2021, and a £150 council tax rebate in April for 80% of council taxpayers in England based on their tax bands.

Our response

- National Grid continues to work with the government, our regulator and others in the industry to ensure the network can respond to changes in demand and supply patterns, particularly supporting increased flows to Europe as states manage the results of the conflict in Ukraine whilst balancing the need to ensure our network continues to operate safely, reliably and efficiently.
- National Grid donated £1 million to support the relief effort in Ukraine, split equally between the British Red Cross, the United Nation refugee agency, and UNICEF.
- National Grid published its first Responsible Business Report in June 2021, providing an update on commitments in our Responsible Business Charter across five key areas: the environment, our communities, our people, the economy and our governance.
- In the UK, the Grid for Good Programme is in its second year of having a positive impact on socio-economically disadvantaged young people during this economic downturn. To date we have helped over 2,750 young people and have over 1,000 National Grid employees registered as volunteers.

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Decentralisation

Commentary

The energy system continues its transition from high to net zero carbon, in which hydrogen plays a significant role. This change coincides with a shift to more decentralised resources. 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.

2021/22 developments

The UK government hydrogen strategy recognised that power generation will become more decentralised, variable and intermittent as we become increasingly dependent on wind and solar. The UK will need a more flexible, low carbon generation and flexible technologies to manage demand peaks and balance electricity supply and demand.

Our response

As electricity generation becomes more weather dependent, we anticipate that gas-fired generation demand will become more variable both day to day and within a given day. To support this transition, FutureGrid and Project Union and other ongoing innovation projects will help enable the UK network manage the intermittency of decentralised, renewable power generation by developing a hydrogen transmission system.

Through the publication of our Summer and Winter outlook reports, we collaborate with industry to ensure that our system can continue to operate safely and provide gas-fired power stations with the optionality they need to run effectively for the whole energy system.

As Europe is projected to decentralise faster and further than any other region between now and 2050, we are also part of the European Hydrogen Backbone Initiative, which consists of 31 energy infrastructure operators and aims to foster market competition, security of supply and demand through cross border collaboration.

Digitisation

Commentary

Our digital aspiration is to be an intelligent connected enterprise bringing customers, employees and assets together to create the most resilient and secure utility. Our vision is to create insights from a single source of consumable and consistent data.

2021/22 developments

Ofgem has a stated aim to increase transparency about plans for improving the use and availability of energy data to support people and businesses who want to use energy data to deliver and innovate improved services for consumers.

Our response

In March 2022, we published our Digitalisation Strategy outlining how the use of data about the condition of our assets and what people need from our network can ensure we maintain a safe and reliable network, whilst planning for a clean energy future enabled by hydrogen. Through our role as the System Operator, we will use smart tooling to understand drivers and behaviours of our customers, as well as the impact of our actions and decisions. Our operations fieldforce will be empowered to make the right decisions through the use of mobile technology. We will also collate more data on our assets to better understand condition and risk and make informed decisions, whilst developing clearer processes to better understand our customers and their needs.

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Our resources and relationships

Internal resources

Physical assets

We own gas networks that transmit energy over long distances from where it is produced, together with low voltage local networks that distribute energy to the consumers who rely on it. These networks are built to last for many decades and account for the vast majority of our asset base.

Funding

We fund our business through a combination of shareholder equity and long and short-term debt. We maintain an appropriate mix of the two and manage financial risks prudently.

Colleagues

Our highly skilled, dedicated colleagues have a strong public-service ethos. They manage and maintain the physical energy infrastructure and assist and develop the many stakeholder relationships crucial to the Company's success.

Strong stakeholder relationships

Our business relies on strong relationships with all our stakeholders. These include:

• **Our customers**, who depend on us to connect them to the energy they use and who (through a small portion of their energy bills) pay to use our networks. This also includes (in the case of our transmission businesses) the electricity generators and gas suppliers who own the electricity that flows through our cables and gas pipes.

• **Our suppliers,** who have complementary experience, skills and resources and with whom we agree mutually beneficial contractual arrangements and, wherever possible, take advantage of economies of scale and use sustainable and global sourcing opportunities.

• **National and regional governments**, local communities, and business and domestic consumers of the energy we transport.

• **The economic regulators** who set the prices we can charge for providing an economic, efficient and non-discriminatory service as well as the government agencies responsible for health, safety and environmental standards.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

Our commitment to being a responsible business

National Grid has conducted a comprehensive review of its approach to being a responsible business, focusing on where it 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 gas that powers our customers and communities; safely, reliably, and efficiently, fairly and affordably, and this is the core of our role as a responsible citizen. It is also vital to focus on *how* we fulfil our purpose, minimising negative impacts and enhancing our overall contribution to society.

National Grid published the RBC in October 2020 and the commitments made then remain the foundation of National Grid's activities. The RBC (National Grid Responsible Business Charter) contains a series of commitments under five headings: the environment, our communities, our colleagues, the economy and our governance. These commitments are now built into business plans and performance against each commitment is regularly reviewed. During 2021/22, we received external validation from the Science Based Targets initiative (SBTI) for our National Grid Group interim GHG reduction targets, aligned to a ‘Well below 2°C’ pathway. Alongside this, we have undertaken a programme to release value from unclaimed shares over 12 years old and will explore ways to use this value to enhance our community investment programmes.

Our approach to reporting

We have published our second separate RBR for 2021/22, which has been guided by internationally recognised reporting standards. The RBR contains information relating to our material focus areas and provides detail on our management approach, performance and the new commitments set out in the RBC. Certain metrics are subject to independent external assurance.

Environmental: The path to net zero

We recognise that, as a result of our activities, we create negative impacts on the environment and understand that a damaged environment has broader consequences for the health and wellbeing of society. Climate change is the defining challenge of this generation and in our role at the heart of the energy system we understand the critical role we need to play.

The biggest contribution we can make is through enabling economy-wide clean energy transition, but we must also reduce our own impact on the environment.

Supporting the clean energy transition

The National Grid RBC sets out how we aim to play a leading role in enabling and accelerating the transition to a clean energy system; balancing decarbonisation, affordability and reliability of supply. Working closely with government and other stakeholders and partners around the world, we focus on the technical and commercial solutions that will help achieve Net Zero for the energy sector. Initiatives include:

• Transport – supporting development of low-carbon alternatives such as hydrogen;

• Heat – working with our customers and regulators on this challenging issue to enable a range of potential solutions, including renewable natural gas and hydrogen in our networks;

• Natural gas – continuing to help develop and deploy new technologies to decarbonise at scale in the years ahead – such as hydrogen networks and carbon capture, utilisation and storage (CCUS).

Reducing our own environmental impacts

In 2012, National Grid developed an environmental sustainability strategy, “Our Contribution”, to set a framework for embedding sustainable decision-making into business operations. It 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 to the end of 2020. This programme has now been superseded by new, more ambitious, commitments in the RBC.

Climate change

We generate GHG emissions across Scope 1 (direct emissions from our operational activities), Scope 2 (indirect emissions from our purchase and use of gas) and Scope 3 (other indirect emissions from activities and sources outside of our ownership or control). The RBC sets out a number of ambitious climate-related commitments, the most significant of which is to achieve Net Zero by 2050. Through this commitment National Grid will reduce Scope 1 and 2 emissions 80% by 2030, 90% by 2040, and to Net Zero by 2050, from a 1990 baseline. A key GHG target from “Our Contribution” was for a 45% reduction in GHG emissions by 2020, from a 1990 baseline. At the end of 2020/21, National Grid has achieved a 68% reduction.

In recent months, National Grid has worked closely with the Science Based Targets initiative (SBTi) to increase the ambition of the Scope 3 target and this now covers emissions across the entire value chain, with a commitment to reduce the carbon emissions 37.5% by financial year 2034 (from a financial year 2019 baseline). National Grid's interim Scope 1, 2 and 3 emission reduction targets are verified by the SBTi, demonstrating a clear, credible commitment to deliver the longer-term Net Zero strategy in line with a well below 2°C pathway.

Responsible Use of Natural Resources

Waste is generated from a range of activities and sources, including office and warehouse waste, waste from transmission gas pipe laying, repair and maintenance and some capital project delivery. Our reporting currently excludes certain predominantly non-hazardous civil wastes managed by contractors as part of large-scale capital projects e.g. tunnelling, where the data cannot yet be captured reliably. We now redirect all office waste from landfill, and almost 80% of the waste we can record is either reused or recycled.

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Caring for the Natural Environment

We must also address the challenge of restoring the natural environment. Using our own land and working with partners, we have an opportunity to cut carbon and restore nature at the same time. We are improving the natural environment on our own land by protecting habitats and increasing biodiversity using best practice methods, such as natural capital evaluation, so we can make sure we create the most benefit. National Grid's RBC includes a commitment to improve the natural environment by 10% on the land we own, by 2030.

Greenhouse gas emissions

National Grid has remained focused on greenhouse gas emissions reduction programmes and this year achieved a 65.49% reduction on the 1990 baseline and our interim corporate commitment targets.

Our communities

Engaging with our communities

We seek regular feedback from our customers and communities and take action to improve performance. Our approach to responsibility in our communities has been to go beyond providing the safe, resilient energy systems society expects, and work to ensure our economic and social role has the greatest possible impact. This involves developing infrastructure and helping consumers use energy more efficiently but also includes partnering with charity organisations and encouraging employees to volunteer in the community.

Core Service Delivery

The technological and environmental benefits of the clean energy transition should benefit everyone, and we will play our role in ensuring that no-one is left behind. A fully decarbonised transportation infrastructure, for example, should be accessible to everyone across the communities we serve.

National Grid established a £150 million Warm Homes Fund (‘WHF’) designed to support local authorities and others to help approximately 50,000 households suffering from fuel poverty. At the beginning of the year, approximately £26m of the WHF remained unallocated, but this has now been earmarked across a range of projects, including programmes with National Energy Action, Connect for Help and the Fuel Bank Foundation.

We continued to maintain excellent reliability, as shown on page 13.

Supporting communities to thrive

We partner with community organisations to enhance our programmes. We have engaged with a series of societal issues and support a broad range of causes, relating mainly to educational and environmental programmes in the communities we serve through our core business, or those impacted by our capital projects. In 2020 we sharpened our focus.

Unemployment and social exclusion amongst young people existed before the COVID-19 pandemic, but the economic downturn in the UK has seen youth unemployment rise steeply. At the same time our research indicates a potential skills gap of 400,000 people to complete the clean energy system transition. We have linked these two factors and committed to supporting disadvantaged young people to build careers in the energy sector. We are showing this support for communities through our flagship programme “Grid for Good".

We also support communities affected by our infrastructure projects, where grants are available for local projects, which deliver social, economic or environmental benefits. In addition, as part of capital delivery projects, we partner with third-party organisations to deliver community benefits at scale. During the year, National Grid recorded over 18,200 hours volunteered by our colleagues in support of a variety of causes, including Grid for Good.

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Our colleagues

We are reliant on our colleagues to deliver success for the business. We aim to attract and retain the best people by striving to be recognised as an employer of choice. People are attracted to work for businesses which can demonstrate a clear purpose that benefits society. It is important for us to match their aspirations, and we work towards going beyond delivery on the core aspects of the employer/employee relationship, to create a culture focused on the value we can add to society.

Engaging with our colleagues

We engage extensively with our colleagues and conduct an annual independently managed survey, the Grid:voice survey, to help us identify areas that employees believe we need to improve.

Health, Safety and Wellbeing

We have a fundamental duty of care to ensure our employees are kept safe at work, and that their health is not impacted as a result of their employment. The health, safety and wellbeing of employees and contractors is our primary concern. Any safety incident is one too many, and we work to improve our performance through effective policies, standards, procedures and training.

We measure safety performance through a combination of leading and lagging indicators and Lost Time Injury Frequency Rate is one of the core KPIs of the business (see page 13). We take a proactive, risk-based approach to managing health and wellbeing and have documented standards relating to Occupational Health and Safety, Process Safety and Wellbeing and Health. Incidents are reported to the highest level, and the SEH Committee of the Board undertakes regular deep dives on safety-related topics.

Investing in our colleagues

Responsibility towards our people also means training and reskilling them for the evolving needs of our businesses. We have identified the need to enhance skills relating to the clean energy transition, for example, implementing new energy technologies. This need for new skills will be partly met through our community initiatives such as Grid for Good. We operate training centres providing specialist technical, safety, refresher and new starter development programmes, and a leadership academy. All training programmes have been affected by the COVID-19 situation, and we have adapted our training approach accordingly.

Living wage and gender pay gap

We believe that everyone should be appropriately rewarded for their time and effort. We are accredited by the Living Wage Foundation, a commitment which extends to our contractors and the work they do on our behalf. We also go above the Living Wage requirements and voluntarily pay our trainees the Living Wage. We undertake a Living Wage review each year to ensure continued alignment and increase individual salaries as required and also promote the commitment to our suppliers.

Promoting an inclusive and diverse workforce

The RBC commits us to be as transparent as possible internally and externally on gender and ethnicity. We have a commitment to achieve 50% diversity, in our Senior Leadership Group and in all our new talent programmes, by 2025. For these purposes a diverse employee is defined as a colleague who identifies as female, as a person with a disability, as gay, bi-sexual or lesbian or from an under-represented ethnic or racially diverse background. We aim for our workforce to reflect the diversity of the communities we serve and are committed to providing an inclusive, equal and fair working environment.

National Grid has appointed a Chief Diversity Officer, who will partner with senior executives across the business to develop a new inclusion and diversity strategy and drive progress. We have 5 Employee Resource Groups (ERGs) in the UK, which are all highly active and visible across the business.

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

The gender demographic table below shows the breakdown in numbers of employees by gender at different levels of the organisation. We have included information relating to subsidiary directors, in accordance with the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. 'Senior management' is defined as those managers who are at the same level, or one level below, the Executive Committee. Our definition also includes those who are directors of subsidiaries, or who have responsibility for planning, directing or controlling the activities of the Group, or a strategically significant part of the Group, and are employees of the Group.

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

Gender demographic as at 31 March 2022 - NGG

	Male	Female	Total	% Male	% Female
Our Board	4	2	6	67	33
Senior Management	28	9	37	76	24
Whole Company	1,419	644	2,063	69	31

Ethnicity demographic as at 31 March 2022 - NGG

'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	1,652
Minority	299
Total	**1,951**
White (%)	85%
Minority (%)	15%

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The economy

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 which will be key in protecting future economic growth, safety and wellbeing in society.

Our economic contribution to society comes primarily through the delivery of safe and reliable energy but also through our role as an employer, a tax contributor, a business partner, and community partner.

During the year, we invested £269 million in our energy infrastructure.

Our approach to tax is part of our commitment to being a responsible business, and is guided by our values. We are committed to a coherent and transparent tax strategy.

We aim to build partnerships with small and local businesses, and all suppliers who set clear ambitions related to the environment, diversity, economic wellbeing and governance. 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. Through National Grid's Global Supplier Code of Conduct we expect our suppliers to comply with all applicable local, state, federal, national and international laws or regulations including the UK Bribery Act 2010. We also require them to adhere to the Principles of the United Nations Global Compact, the International Labour Organisation minimum standards, the Ethical Trading Initiative Base Code and the requirements of the Living Wage Foundation.

We provide specific guidance and briefings for high-risk areas, to reduce the risk that contractors, agents and others who are acting on behalf of National Grid, engage in any illegal or improper conduct. We expect all our suppliers to be compliant with the UK Modern Slavery Act and to publish a Statement. Each year, we update our own Statement and publish this on our Company website in line with the Modern Slavery Act's requirements and this provides details on our relevant policies and processes, such as pre-qualification screening. We continue to actively support the United Nations Global Compact Modern Slavery Working Group, Gangmasters Labour Abuse Authority Construction Protocol, the Supply Chain Sustainability School and the Slave Free Alliance, where we helped to establish the Utilities Sector Modern Slavery Working Group.

Governance

Adopting the right approach to governance is critical to the success of our business. This encompasses everything from adopting the correct structures for Board oversight, to how we listen to the voices of our stakeholders, manage risk and ensure we maintain an appropriate culture and the highest ethical standards. The RBC commits us to applying a corporate governance model that supports all our responsible business commitments and ambitions and applies our responsible business framework to everything we do.

Stakeholder engagement

We prioritise our responsibilities to our different but interrelated stakeholder groups and wider society. We have extensive and detailed processes to ensure we understand the interests of our stakeholders and reflect them in the decisions we make. Stakeholder engagement plays an important role in how our Board ensures responsibility in governance. This includes listening to our stakeholders' views, inviting external guests to meetings, and using independent research to bring the voice of the customer and other stakeholders into the boardroom.

Highest ethical standards – ethical business conduct

We regard the potential for bribery and corruption as a significant risk to the business and have established policies and governance that set and monitor our approach to preventing financial crimes, fraud, bribery and corruption, including our Code of Ethics (covering anti-bribery and anti-corruption). We have a Company-wide framework of controls designed to prevent and detect bribery.

Our Code 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. National Grid's Ethics and Compliance Committee (ECC) oversees the Code of Ethics and associated awareness programmes. We operate 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.

We also have an 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.

Any cases alleging bribery are referred immediately to the relevant ECC so the members can satisfy themselves that cases are managed effectively, including ensuring any lessons learnt are communicated across the business. We investigate all allegations of ethical misconduct thoroughly and take corrective action and share learnings. We also record trends and metrics relating to such allegations.

Additionally, we provide briefings for high-risk areas of the business, such as procurement. National Grid's Code is reviewed every three years and was last updated in November 2020, and this is supported by our Ethics Business Management Standard which provides a framework around our ethics programme and describes what is expected of the business.

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. Business areas self-assess the effectiveness of controls and provide evidence that supports reported compliance. Each year, all function heads are asked to certify the compliance in their area, and to provide details of any exceptions. None of our investigations over the last 12 months have identified cases of bribery.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

Highest ethical standards – human rights

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

Although we do not have specific policies relating to human rights, slavery or human trafficking, we do cover these issues through related policies and procedures such as our approach to diversity, anti-discrimination, privacy, equal opportunity and our Global Supplier Code of Conduct integrates human rights into the way we screen and interact with our supply chain.

Whistleblowing

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

National Grid has again been recognised by Ethisphere as one of 2020’s World’s Most Ethical Companies.

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Internal control and risk management

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

Managing our risks

National Grid Gas 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 Gas Board oversees the Company's risk management and internal control systems. As part of the role, the Board sets and monitors the amount of risk the Company is prepared to seek or accept in pursuing our strategic objective - our risk appetite. The Board assesses these risks and monitors the risk management process through risk review sessions twice a year.

Risk management process

Risk strategy, policy and processes are set at Group level with the business responsible for implementation. Our Enterprise Risk Management (ERM) process provides a framework to identify, assess, prioritise, manage, monitor and report risks. This year we established a new risk governance structure with the creation of the Group Executive Ethics, Risk and Compliance Committee (Group ERC), along with equivalent committees in the business units, providing enhanced oversight and governance of risk top-down and bottom-up across the Group.

Our risk profile, which is presented to the National Grid Gas Board biannually, contains the principal risks that the Board considers to be the main uncertainties currently facing the Company as we endeavour to achieve our strategic objectives. These top risks are agreed through implementation of our top-down/bottom-up risk management process. The risks are currently reported and debated with the National Grid UK Risk Committee at least every three months.

The National Grid Gas 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 nature of our businesses, our business planning cycles, and risk profile. The Board considered that this period remained appropriate for our stable regulated business model.

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

Emerging risks

We have an established process to identify and monitor emerging risks. The process is designed to ensure adequate steps are taken to prevent the occurrence or manage the impact of unexpected issues.

The ERM process monitors management information from a wide variety of internal and external sources when considering emerging risks.

Changes during the year

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

When the conflict in Ukraine began we immediately established a crisis assessment team, of multi-disciplined leaders, to oversee and coordinate our response. We evaluated the immediate threat, analysed the risk profile across time horizons including scenario planning, and completed a strategic impact assessment.

Although the immediate impact to National Grid was minimal, we increased our focus on risks and strengthened controls associated with cyber and physical security, security of energy supply, political and societal expectations, our supply chains, and sanction compliance.

We supported the UK government with advice on stabilising energy markets, reducing UK (and EU) dependence on Russian energy and developing the British Energy Security Strategy. We made charity donations and provided electrical equipment to support the Ukrainian people (including 500 diesel generator units).

The war, heightened energy bills, and changes to UK and EU energy policy have increased uncertainty across the energy sector. We are continually evaluating how we manage our risks and deliver for our customers.

The National Grid Gas risks are currently reviewed quarterly at the UK Risk Committee level including the Key Risk Indicators (KRIs), developed to help alignment to the risk appetite framework in the business and enhance the monitoring and mitigation of risks.

The National Grid Gas risk profile as it relates to Gas Transmission and Gas System Operator is presented in table below on the next page.

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Our principal 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, including financial risks. Our most important risks and a summary of management and mitigation actions are provided in the table below;

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 inherent 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. Operational risks are managed through policy, standards, procedure-based controls, active prevention and monitoring. The operational risks link to our strategic priority to ‘Deliver for customers efficiently’. Principal risk assessment includes reasonable worst-case scenario testing i.e. gas transmission pipeline failure, loss of license to operate, cyber security attack – and the financial and reputational impact should a single risk or multiple risks materialize.

Risks	**Actions taken by management**
Failure to prepare and respond to significant disruptive factors caused by the COVID-19 pandemic. Risk Trend: Decreasing	The COVID-19 pandemic impacted multiple areas of our business, and we responded with a comprehensive plan, supporting the safety of our workforce and customers. • Mitigating procedures are now part of business as usual, with further improvements to crisis management frameworks planned. • As COVID-19 rates reduce and the UK begins to move to an endemic status, we will assess whether this risk can be retired.
There is a risk that there is a significant Gas containment breach event on the Transmission Network because of asset failure due to poor asset state or a third-party infringement leading to a significant safety / reliability event. Risk Trend: Neutral	This year, we continued to focus on risk mitigation actions designed to reduce the risk and help meet our business objectives: • 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 • Completing our first year of asset interventions within the RIIO2 framework. All key pipeline marker posts have been inspected and missing marker posts replaced.

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<table>
<tr>
<td>Cyber and physical security controls on GT operational sites may not be operationally effective and provide the required levels of protection against either a Cyber or Physical Security breach.

Risk Trend: Neutral</td>
<td rowspan="2">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) and the Centre for Protection of National Infrastructure (CPNI) 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.
• Cyber response incident procedures and contingency planning.
• Investment in our physical assets (both IT and operational technology systems such as control systems) as part of our RIIO-T2 plans as agreed with our regulator.</td>
</tr>
<tr>
<td>There is a risk that we fail to anticipate and respond to IT performance issues that have a disruptive impact on GT performance. Due to a lack of visibility of upcoming technological change, poor IT asset performance and a lack of investment.

Risk Trend: Neutral</td>
</tr>
<tr>
<td>There is a risk that National Grid’s CNI and/or Enterprise IT systems(s) fail because of a full-scale outage leading to the potential of regulatory fines, loss of license and loss of customer and regulator trust.

Risk Trend: Neutral</td>
<td>Mitigations include:

• Ongoing testing of the Gas Transmission network and the ability for operational sites to run in “island mode” if we lost functionality of systems.
• Island mode procedures developed for critical sites.
• Ongoing work with BEIS regarding planning scenarios in an event such as a national power outage.</td>
</tr>
</table>

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There is a risk that we fail to appropriately mitigate, predict and respond to a significant disruption of energy that adversely impacts our customers and/or the public. Risk Trend: Neutral	We continue to apply a holistic approach to predicting, mitigating and, if necessary, responding to events which may cause disruption to energy supplies by; **Predicting and Mitigating** • Working in collaboration with BEIS and Ofgem to develop a range of supply and demand scenarios for this Winter and to develop appropriate mitigations, where considered necessary and appropriate by HMG, to reduce credible risks to security of supply. There is increased focus on the preparations this year given the risks and uncertainty arising from the war in Ukraine. **Responding** Should an energy disruption event occur, this would manifest as a National Gas Supply Emergency (NGSE) in the UK. • NGG has well developed and well-rehearsed arrangements to manage an NGSE, which would necessitate an application to the Network Emergency Coordinator (NEC) to declare an NGSE and enable NGG to access the emergency tools required to preserve the safety and integrity of the NTS. This would involve maximizing supplies to the UK and, if insufficient to balance the system, would necessitate demand reduction actions being taken. • These arrangements are rigorously tested annually via the NEC Industry Emergency Exercise, which is observed by the HSE. • Alongside this, NGG is currently reviewing and where required enhancing its incident management and business continuity arrangements, including putting in place stand-alone Gold (Crisis Management Team) arrangements for the NGG Executive in advance of the NGG sale completing.
There is a risk that we fail to predict and respond to a significant disruption of energy that adversely impacts our customers and/or the public. Due to the unavailability of an asset or a combination of assets. Risk Trend: Neutral	We have increased our focus on asset reliability given the additional demands on the Network associated with increased demand through the two Interconnectors into mainland Europe including: • Formation of a Compressor Resilience Action Group (CRAG) to steer and govern all aspects of compressor resilience for the winter ahead including spares, capabilities, support contracts, individual compressor unit risk assessments and proactive technical improvements. • Assurance checks of return to service plans for compressors and pipelines on outage during summer months for maintenance and Construction work. • Winter preparedness to ensure we can respond to all faults and incidents 24/7/365 in all conditions.

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There is a risk that extreme weather events caused by the accelerating effects of climate change may lead to physical impacts on our assets, safety risks to colleagues and detrimental effects on operations. Risk Trend: Neutral	Risk mitigations include; • Evolution of our environmental sustainability metrics to better reflect our strategy, measure our impact and track our progress, including commitments made as part of our RIIO-T2 regulatory arrangements. • National Grid remains committed to full compliance with the Task Force on Climate-related Financial Disclosures (TCFD) requirements including physical and transitional scenario analysis. • Review standards and specifications for construction of new assets/plant to ensure resilient operation from the impacts of climate change throughout their life cycle.
Our workers, contractors or members of the public experience an occupational safety incident that results in a fatal or life-changing injury. Risk Trend: Neutral	Continued focus on all aspects of safety including: • Rapid sharing of safety events within 24 hours to raise awareness and avoid repeat occurrences. • Safety stand-down events following all injuries/ incidents. • Delivery of a process safety management plan to ensure a robust and consistent framework of risk management exists across our higher hazard asset portfolio. • Continued delivery of the functional and business unit safety improvement plans. • Focus on re-visiting and re-sharing learning from historical incidents.
There is a risk that GT fails to have complete and accurate asset data required in managing its end-to-end business. Risk Trend: Neutral Business is exposed to potential supply chain threats due to disruptions in economic cycles, supplier performance, consumer demands, natural and man-made disasters. Risk Trend: Increasing	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. • Additional data quality rules have been established with a focus data quality and consistency, these rules are being monitored and issues resolved as required. • Privacy impact assessments carried out across business areas affected by General Data Protection Regulation (GDPR). • Data lineage between core systems is in the process of being mapped to support enhanced integration and reporting. • Data Management roles are being reviewed with a focus on Data Owners and Data Stewards. • Asset data communications and working groups continue to provide a forum to share progress on asset data quality and process maturity. Mitigations in place: • Diversification of supplier base through agreement of new frameworks for delivery of work and supply of goods. • Strategic Spares Strategy. • Contractor Engagement. • Regulatory and Government Engagement. • Financial Hedging to mitigate impact, and financial coverage of exposure to real price effects through regulatory deal.

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People risks

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. These risks link to our strategic priority to 'Empower colleagues for great performance'.

Risks	Actions taken by management
There is a risk that we fail to have the appropriate leadership, business capability and engineering succession which we will require to deliver our strategy and priorities. Risk Trend: Neutral	• 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. • 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 diversity of both our management and field force population. • There are multiple activities underway to drive this agenda, including a holistic review of our DEI strategy, quarterly talent sessions with the GT&M Executive Committee and a review of the critical capabilities needed to ensure delivery against our strategic objectives.

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.

Risks	Actions taken by management
We are unable to achieve the internal and external financial commitments that the GT business have made for RIIO-T2 regarding underlying operating profit, asset growth, controllable cost reductions and outperformance. Risk Trend: Neutral	Risk mitigation includes: • Collective leadership discipline of delivering to commitments as evidenced in Year 1 RIIO-T2. • Establishment of a performance steering group to track business plan commitments.

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 intentionally accept some risk so we can generate the desired returns from our strategy. Management of strategic risk focuses on reducing the probability that the inherent 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 risk. These risks link to our strategic priorities of 'Enable the energy transition for all' and 'Deliver for customers efficiently'. The political climate and policy decisions of our regulators were key considerations in assessing our risks.

The climate change related risk is classed as a strategic and regulatory risk but is also an operational risk, in particular as regards the impact of rising temperatures and widening temperature ranges on the performance and operation of our networks.

Risks	Actions taken by management

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There is a risk that NGG will fail to deliver the actions necessary to ensure our business model, strategy, asset management and operability respond to the physical and positive transformation to a Hydrogen network because of the scale of investment required combined with the complexity of change. Risk Trend: Neutral	Activities to address transition to hydrogen include: • Working with regulators and industry parties in the UK on the future of heat and the role of gas in the long term. • Trialing GT assets with H2 – FutureGrid Phase 1 • Development of H2 compression and deblending proposals – FutureGrid Phase 2. • Getting ready to deliver the feasibility study for Project Union in FY23 – UK H2 backbone. • Developed policy and political support for FOG – Gas Goes Green/Project Union.
We fail to influence future energy policies and secure satisfactory regulatory agreements Risk Trend: Neutral	Focus of our customers/stakeholders' work includes: • Implementing a new Account Management function to address the strategic changes in our market and the need to work closely with senior customer personnel. • Use our Independent User Group (set up during RIIO-T2) to continue to test our customer and stakeholder processes, influence policy through a range of avenues including inputting and responding to government consultations and other outputs, direct engagement with government departments and engagement with wider stakeholders such as parliamentarians, trade associations and third parties. • Undertake a customer culture analysis within the business to understand our baseline capability and target improvements in customer services.
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 media/social channels. • 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. Considerations on emerging risks such as the economic downturn due to COVID-19 impacts and Mergers & Acquisitions (M&A) strategies have also been addressed as part of financial and reputational impact assessments. These processes, along with twice-yearly Board strategy 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.

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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 39 to 43.

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' and 'find a better way' 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 Gas. 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 National Grid 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 the Group'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 CFO. The reviews consider historical results and expected future performance and involve senior management from both operational and financial areas of the business. Each quarter, the Finance Director presents a consolidated financial report to the Board.

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Viability statement

The Board's consideration of the longer-term viability of the Company is an extension of our business planning process. The process includes financial forecasting, a strict risk management assessment and regular budget reviews and scenario planning incorporating industry trends, considering any emerging issues and economic conditions. Our business strategy aims to enhance our long-term prospects by making sure our operations and finances are sustainable.

National Grid Gas plc (NGG) is a wholly owned subsidiary of National Grid plc which produced a group wide business plan that was reviewed and approved by the National Grid plc Board and which included detail of the NGG operating segment. Details of the National Grid viability statements can be found in the National Grid plc Annual Report and Accounts 2021/22 on pages 33-35 which details the worst case scenarios considered.

The assessment of the potential impact of our principal risks on the longer-term viability of the Company tests the significant solvency and liquidity risks involved in delivering our business objectives and priorities. After careful consideration of the risk landscape and other considerations including: our long-term business model, high-quality, long-term assets and stable regulatory arrangements; the Board's stewardship responsibilities; and the Company's ability to model a range of severe but plausible reasonable worst-case scenarios, the Board concluded that it remains appropriate to consider a five-year timeframe over which we should assess the long-term viability of the Company.

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 22 to 30, 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 financeability 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 NGG 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 Gas Transmission Financial Ring-fencing certificate was approved by the Board in July 2022, and the Availability of Resources certificate was issued in July 2022.

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 and suspend or reduce the payment of dividends. It has also considered Ofgem's legal duty to have regard to the need to fund the licensed activities of NGG.

Each Director was satisfied that they had sufficient information to judge the viability of the Company. Based on the assessment described above and on page 44 the Directors have a reasonable expectation that the Company will be able to continue operating and meet its liabilities over the period to July 2027.

The Strategic Report was approved by the Board of Directors on **19 July 2022** and signed on its behalf by:

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Nick Hooper
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Nick Hooper

Director

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Financial review

The full-year results (for 1 April 2021 to 31 March 2022) show we continued to deliver good levels of performance. Operating profit was £499 million after operating expenses, and before interest and taxes have been deducted. This was a 4% per cent increase on 2020/21 full-year figure of £479 miliion.

Revenue increased by £252 million to £1,374 million primarily due to the phasing of the RIIO-T2 AR for GTO and GSO in the first half of the year and accentuated by the under-collection in 2020/21 as a result of the issues surrounding the new charging regime implemented from 1st October 2020. This was offset by lower metering income as a result of the lower volumes of meters.

Operating Costs increased by £224 million to £862 million primarily driven by higher shrinkage costs (driven by higher gas prices) and higher amortisation and depreciation.

There's been a huge amount of change in the last year, and not just as a result of the separation and sale of our business. Energy costs, and the general cost of living for us all, have hit record highs and the war in Ukraine continues to impact global markets. This cost inflation started to impact our results in the latter half of 2021/22 and we expect it to continue to do so through 2022/23, making a focus on clarity of purpose and delivering our outputs in as an efficient a way as possible more important than ever. We're working hard to support gas supplies in Europe, as well as to help Ukraine receive vital equipment for its transmission systems. Closer to home, COVID-19 is still with us but we're seeing life return to greater normality and it's really good to have people in our workplaces again to collaborate and enjoy that personal connection.

New accounting standards

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

- Amendments to IFRS 16 'Leases – COVID-19 Related Rent Concessions';
- Amendments to IFRS 3 'Business Combinations'; and
- Amendments to IAS 1 and IAS 8 'Definition of Material'.

Peterborough and Huntingdon contract

In 2016, the Company entered into a contract with Costain Oil, Process & Gas Limited ('the contractor') to upgrade its gas compressor stations at sites in Peterborough and Huntingdon. These works were required for emissions legislation compliance. On 27 June 2020 both parties mutually agreed to exit the contract. The termination agreement entered into by the parties included an agreed scope of work to be completed after termination (which was subsequently finished in August 2020) and it defined certain commercial matters that could be resolved through a commercial resolution process.

This resolution process was completed during the year, the result being an immaterial increase in the project.

The Company appointed a replacement contractor in February 2021 and remains committed to completing the project and reduce emissions by the deadline of 2023.

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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. 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 restructurings, 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 were exceptional items included within operating profit for the year ended 31 March 2022 and 31 March 2021. These related to establishing our new operating model, further details can be found in Note 5.

Unadjusted and adjusted profit figures are provided below;

	Years ended 31 March	
	2022	2021
	£m	£m
Adjusted operating profit	**512**	484
Exceptional items[1]	**(13)**	(5)
Total operating profit	**499**	479

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

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Reconciliation of adjusted operating profit to adjusted earnings

	Years ended 31 March	
	2022	2021
	£m	£m
Adjusted operating profit	**512**	484
Adjusted net finance costs	**(188)**	(27)
Adjusted profit before tax	**324**	457
Adjusted taxation	**(66)**	(86)
Adjusted profit after tax	**258**	371
Adjusted earnings	**258**	371
Exceptional items after tax	**(13)**	(5)
Remeasurements after tax	**(135)**	2
Earnings	**110**	368

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 recovery of revenue in year, this is explained in detail on page 36.

	Years ended 31 March	
	2022	2021
	£m	£m
Adjusted operating profit excluding timing differences	**592**	580
Timing differences[1]	**(80)**	(96)
Adjusted operating profit	**512**	484
Exceptional items[2]	**(13)**	(5)
Total operating profit	**499**	479

1 In year under-recovery of £80 million compared with an under-recovery in the prior year of £96 million.

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

Consolidated income statement

The commentary below describes the continuing business results for the year ending 31 March 2022.

	Years ended 31 March	
	2022	2021
	£m	£m
Revenue	**1,374**	1,122
Operating costs	**(862)**	(638)
Adjusted operating profit	**512**	484
Exceptional items	**(13)**	(5)
Finance income	**51**	58
Finance costs:		
Before exceptional items and remeasurements	**(239)**	(85)
Exceptional items and remeasurements	**9**	2
Profit before tax	**320**	454
Taxation:		
Before exceptional items and remeasurements	**(66)**	(86)
Exceptional items and remeasurements	**(144)**	0
Profit after tax	**110**	368

Revenue

Revenue for the year ended 31 March 2022 increased by £252 million to £1,374 million. The increase in revenue is reflective of the changes in the charging regime under RIIO-T2, Declining meter population has also lowered meter revenues.

Operating profit

Adjusted operating profit for the year ended 31 March 2022 of £512 million represents an increase against last year of £28 million. Higher revenues were largely offset by higher operating costs. This is driven by higher shrinkage costs (due to higher gas prices) and depreciation.

Net finance costs

For the year ended 31 March 2022, net finance costs before exceptional items and remeasurements increased by £161 million to £188 million. This was driven by higher interest costs owed on borrowing received.

Exceptional finance gains/losses increased by £7 million to a £9 million gain for the year ended 31 March 2022. This increase was driven by higher gains on derivative financial instruments.

Taxation

The tax charge on profits before exceptional items and remeasurements, £66 million, was £20 million lower than 2020/21. This is inline with reduction in profit before tax driven mainly by movements in finance income and costs.

Taxation on exceptional items was £144 million higher than the prior year. This is largely driven by a £151m impact of a rate change on opening deferred tax balances, calculated at the increased substantively enacted rate of 25% from 19%.

Consolidated statement of financial position

	Year ended 31 March	
	2022	2021
	£m	£m
Non-current assets	**8,952**	8,676
Current assets	**670**	1,990
Total assets	**9,622**	10,666
Current liabilities	**(1,298)**	(1,832)
Non-current liabilities	**(4,262)**	(4,810)
Total liabilities	**(5,560)**	(6,642)
Net assets	**4,062**	4,024

Non-current Assets

The £276 million increase in non-current assets is primarily due to a £308 million increase in the value of pension assets driven by remeasurements.

Property, plant and equipment

Property, plant and equipment reduced by £5 million to £4,618 million as at 31 March 2022. This was primarily due to capital expenditure of £212 million, offset by £185 million of depreciation and impairments in the year, net disposals of £22 million and transfers of £10 million.

As detailed in note 10 there has been no revision to the assessment in the lives of pipeline assets following the net zero commitments.

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Financial and other investments

Financial and other investments comprise a contractual interest-bearing loan to our immediate parent company National Grid Gas Holdings Limited of £3,426 million. In 2020, this loan was reclassified to Financial and other investments when the loan became a contractual arrangement.

Other non-current assets

Other non-current assets comprise non-current prepayments which reduced by £25 million to £21 million reflecting gas holder demolition expenditure.

Current Assets

The decrease of £1,320 million in current assets is driven largely by movements in financial assets, primarily a £780 million reduction in the overnight loan facility to National Grid plc, an £87 million reduction in collateral receivable, and a £399 million reduction in derivatives classified as current assets.

Trade and other receivables

Trade and other receivables have decreased by £62 million to £214 million at 31 March 2022. This decrease is principally due to a reduction in trade receivables of £26 million and a decrease in amounts owed by fellow subsidiaries of £24 million.

Current Liabilities

The decrease of £534 million in current liabilities is driven mainly by a decrease in borrowings due within 12 months of £614 million.

Trade and other payables

Trade and other payables increased by £104 million. This is mainly due to £46 million increase in trade payables, £32 million higher amounts owed to fellow subsidiaries and an increase in other payables of £21 million, mainly due to emissions accruals reclassified from provisions to liabilities.

Non-current liabilities

The decrease of £548 million in non-current liabilities is driven mainly by a decrease of £710 million in borrowings due after more than 12 months.

Current and deferred tax liabilities

The net deferred tax liability increased by £260 million to £770 million. This is predominantly driven by the £151 million impact of the increase in tax rate from 19% to the substantively enacted rate of 25% on the opening deferred tax liability and on in year temporary difference movements of £6 million. The bulk of the remaining increase relates to current period movements on temporary differences in respect of pensions schemes and accelerated capital allowances.

Net debt

Net debt has decreased by £120 million. For detailed movements see cashflow statement commentary.

Provisions

Total provisions reduced by £30 million. The reduction reflects utilisation of decommissioning provisions.

Other non-current liabilities

Other non-current liabilities decreased by £5 million to £1 million.

Contract Liabilities

Contract liabilities decreased by £3 million to £133 million.

Net pension asset

A summary of the total assets and liabilities and the overall net IAS 19 (revised) accounting asset is shown below:

Net scheme asset	**£m**
As at 1 April 2021	356
Current service cost	(9)
Redundancies	(2)
Special termination benefit cost - redundancies	(4)
Net interest credit	2
Administration costs	(4)
Actuarial gains/(losses)	
on plan assets	285
on plan liabilities	24
Employer contributions	16
As at 31 March 2022	664

The principal movements in the pension asset during the year include net actuarial gains of £309 million and employer contributions of £16 million. The overall pension asset increased by £308 million to a closing asset of £664 million.

Further information on our pensions benefit obligations can be found in note 22 to the consolidated financial statements.

Off balance sheet items

There were no significant off balance sheet items other than the contractual obligations shown in note 29 (b) to the consolidated financial statements, and the commitments and contingencies discussed in note 27.

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Cash flow statement

The commentary below describes business results for the year ending 31 March 2022.

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

	2022	2021
	£m	£m
Cash generated from operations	864	616
Net capital expenditure	(212)	(179)
Business net cash flow	652	437
Net interest paid	(47)	(40)
Tax paid	(39)	(33)
Movement in short-term financial investments	861	(599)
Movements in loans and short term borrowings	(1,460)	341
Net cash movement on derivatives	327	39
Dividends paid to shareholders	(295)	(137)
Decrease in cash and cash equivalents	(1)	8
Decrease in financial investments	(861)	599
Decrease in borrowings and related derivatives	1,133	(380)
Net interest paid on the components of net debt	47	40
Changes in fair value of financial assets and liabilities and exchange movements	11	(14)
Other non-cash movements	(5)	(9)
Net interest charge on the components of net debt	(204)	(49)
Net debt increase	120	195
Opening net debt	(3,780)	(3,975)
Closing net debt	(3,660)	(3,780)

Cash generated from operations

Cash flows from our operations are largely stable when viewed over the longer term. Our gas transmission operation is subject to multi-year price control agreements with Ofgem.

For the year ended 31 March 2022, cash flow from operations increased by £248 million to £864 million. This is primarily due to changes in working capital, higher operating profit before depreciation, and lower pension costs.

Net capital cash expenditure

Net capital expenditure in the year Increased by £33 million to £212 million driven by an increase in property, plant and equipment expenditure.

Dividends paid

A dividend of £295 million was declared and subsequently paid in July 2021 in respect of the year ending 31 March 2021. No interim dividends have been paid. In July 2022, the board agreed and approved the declaration of the final dividend of £290m in respect of the year ending 31 March 2022.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

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 revenues are finalised. Our operating profit for the year includes a total estimated in year under recovery of £80 million (2020/21: £95 million under-recovery). Our closing balance at 31 March 2022 was £156 million under-recovery (2020/21: under-recovery of £80 million). Opening balances include true ups and adjustments for the time value of money totalling over-recovery £4 million (2020/21: £10 million).

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 (RoE) is a measure of how much profit a business generates from investment by shareholders and is our key metric to compare how the business is performing against many of our peers and also against our RIIO-T2 business plan. The RoE achieved in 2021/2022 was 7.8%, which is 1.2% higher than the 6.6% base return on equity agreed with Ofgem for the RIIO-T2 period. We met our customer satisfaction targets, where we achieved a score of 8.5 and performed well against other incentives in the RIIO-T2 price control.

This result for 2021/22 is 1.8% lower than the 9.6% we achieved in the final year of RIIO-T1, primarily because our base return is lower in the new price control.

Year ended 31 March	**2022**	2021
	%	%
Base return (including avg. 2% long-run inflation)	**6.6**	10.0
Totex incentive mechanism	**0.5**	(0.9)
Other revenue incentives	**0.6**	0.9
Unlicensed Income	**0.3**	0.0
Return including in year incentive performance	**8.0**	10.0
Pre-determined additional allowances	**(0.2)**	(0.4)
Return on Equity	**7.8**	9.6

Regulated Financial Position

In the year, RAV growth of 4% has increased compared to being broadly flat in 2020/21. The increase in growth reflects higher capital expenditure and higher inflation linked growth in the RAV.

£m	**2022**	2021
Opening Regulated Asset Value (RAV)	**6,307**	6,298
Asset additions (aka slow money) (actual)	**224**	193
Performance RAV or assets created	**3**	(23)
Inflation adjustment (actual RPI)	**388**	92
Depreciation	**(361)**	(253)
Closing RAV	**6,561**	6,307

£m	**2022**	2021
Opening balance of other regulated assets and (liabilities)	**27**	(5)
Movement	**67**	32
Closing balance	**95**	27
Closing Regulated Financial Position	**6,656**	6,334

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Our stakeholders

Effective engagement with our stakeholders is key to successful achievement of our strategy in the long term.

Section 172(1) Statement

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. Examples of how Directors have had regard to these matters during the year are set out on pages 38-39 which together form our section 172(1) statement.

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 and consideration of each stakeholder group depends on the matter at hand. The Board strives to balance the different priorities and interests of our stakeholders in a way compatible with the long-term sustainable success of the business and which maintains a standard of business conduct aligned to our values and purpose.

How our Board keeps up to date with stakeholder interests

Most engagement with key stakeholders is carried out by management teams and takes place at business level and the Directors engage directly with stakeholders where possible. Reporting mechanisms are in place to collate feedback and developments from such engagement and enable a flow of this information to the Board and Board Committees, to inform decision making. An overview of business-level engagement and outcomes is reported to the Board or appropriate Board Committee on a regular basis.

- **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.

Details on this are set out on the next page.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

Section 172	**Overview**
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 year, the forward business plan was reviewed to ensure sufficient time was allocated at Board meetings to allow a strong focus on key strategic priorities of the business with a long-term nature. During the year, the Board considered its strategic priorities in detail at the Strategy Day held in June 2021 to ensure the forward business plan allocated sufficient time to those matters of long-term importance to the Company. The Board provided input into the decision-making process which resulted in the submission of a technical appeal to the Competition and Markets Authority regarding Ofgem's proposed cost of equity and outperformance wedge. The CMA found in our favour on the outperformance wedge, which has since been dropped form the RIIO-T2 regulatory framework.
Interests of our colleagues	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 Board receives regular updates on the levels of employee engagement and satisfaction. The Board has also considered regular updates on workforce engagement sessions specific to the proposed sale of the Company. The health, safety and wellbeing of employees remains a main priority and updates on performance in this area are standing items at Board meetings. As COVID-19 restrictions in the UK eased, the Board was able to safely participate in site visits during the year. The Board has monitored its workforce engagement activities during the reporting period and is committed to continually develop its consideration of the interests of the Company's employees. The annual Grid:voice engagement survey provides insights into what is important to our colleagues and how they are feeling about the Company's strategy and leadership. The results of this survey were provided to the Board and plans to progress any areas of improvement identified. Further details can be found under 'Workforce Engagement' within the Corporate Governance Statement on page 43.
Fostering business relationships with suppliers, customers, regulators 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. The Independent User Group, established during the 2019/20 financial year, continues to provide oversight of the Company's activities from the perspective of our stakeholders and the IUG Chair was invited to the Board to share the IUG's findings - further details of this important activity can be found on page 43.
Communities, government and 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 17. We were a principal partner at COP26 in 2021 and hosted a number of sessions in relation to hydrogen. The Executive Directors and other members of senior leadership have directly with members of the UK government as part of the Company's ESG outreach to highlight our continuing efforts towards a clean energy transition.
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 10. 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 Gas Transmission business.
The need to act fairly as between members	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 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 43 where we explain our approach to 'Stakeholder Relationships and Engagement'.

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Corporate Governance

Corporate Governance Statement

National Grid Gas 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. The Company's Board applied the Wates Corporate Governance Principles for Large Private Companies (the Wates Principles) for the year ended 31 March 2022. 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 10, 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.

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 Gas 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. At the year end, the Board consisted of two executive directors, two National Grid Group-appointed non-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 pages 44.

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 on page 100.

Chair

During the year, Nicola Shaw left the National Grid Group and the Board welcomed a new Chair, Ben Wilson, the Chief Strategy & External Affairs Officer for National Grid plc. Ben is one of the Group-appointed non-executive directors and is a member of the National Grid Group Executive Committee. Through his participation at a National Grid Group level and as Chair of the Company's Board, he 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 and is appropriate for a subsidiary company part of a larger group.

The role of chair and chief executive (or GT President) are separate, 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.

Cathryn Ross was appointed to the Board as a SID with effect from 21 June 2019. Dr Clive Elphick has remained in his role as SID since April 2014. Clive reached the end of his eight-year tenure on 31 March 2022. Following an assessment of his independence, it was confirmed (in accordance with paragraph 9 of Standard Special Condition A42 of the Company's Gas Transporter licence) that he continues to meet the independence criteria set out in paragraphs 2, 3 and 5 of Special Condition A42. A recruitment process for a new SID to

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replace Clive is underway and is expected to be concluded during 2022.

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 & Risk 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 two members of the Gas Transmission Executive Team: Jon Butterworth (who replaced Phil Sheppard on 1 May 2021) and Nick Hooper.

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.

Group-appointed non-executive Directors

As noted above, Ben Wilson joined the Board on 22 November 2021 and was appointed as Chair. Ben is a member of National Grid's Group Executive Committee and brings to the Board more than 25 years' experience in the energy sector. His focus areas include strategy, regulation, external affairs, stakeholder engagement, M&A, innovation and sustainability. Alexandra Lewis is the Group Treasurer and Director of Pensions and has continued as a member of the Board since her appointment in April 2018. Both Ben and Alex are able to bring a National Grid Group perspective to the Boardroom.

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. This is key to enabling Board effectiveness individually and as a whole. During the year, Jon Butterworth, Nick Hooper and Ben Wilson received an induction tailored to their background, experience and committee membership.

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 page 3.

Regular Board meetings are generally scheduled and communicated approximately a year in advance providing all directors with sufficient notice to attend meetings. Where possible, Directors who were unable to attend a meeting provided comments to the Chair or Company Secretary in advance of the meeting. 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 system operator 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 National Grid 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. In June 2021,

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the Board held a Strategy Day, allowing Directors to focus on internal and external factors which influence the strategy, including the political environment, climate change, regulatory strategy, interaction with the Independent User Group and employee culture.

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:

- Gas Transmission Executive Committee
- Business Separation Compliance Committee (retired in June 2021)
- Finance 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 – pages 99 to 100 for the work of the People & Governance Committee (which covers the responsibilities of a typical Nominations Committee) and pages 101 to 105 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 Gas Transmission business. The work of this committee is supported, and forms part of, the National Grid 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.

Gas Transmission Executive Committee

This Committee directs the affairs of the Gas 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 sub-committees reporting to it. The Committee's remit extends to approving the GT 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 GT and GSO business and was chaired by Phil Sheppard, a Director of the Board. Following Phil Sheppard's resignation from the Board, Jon Butterworth became chair of the Committee on appointment to the Board.

Business Separation Compliance Committee

The Business Separation Compliance Committee was retired as a subcommittee of the Board during the year as it was no longer a requirement of the Company's licence. Going forward, business separation matters are be reported to the Board.

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 four 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.

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 a Group-appointed non-executive director, Alex Lewis. 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, the GT Chief Financial Officer (CFO), Head of UK Audit, UK Chief Risk Officer, other representatives of the finance function and the GT 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 Chair 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 Chair holds an annual meeting with the Chair of the National Grid plc Audit & Risk 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 GT CFO and members of the financial function are held before meetings, as required, to provide further details on matters to be discussed during the meetings.

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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 & Risk 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, judgements made in the preparation of the year-end financial statements and implementation of MyFinance, the Group's new general ledger system.

Looking forward, the Committee will continue to focus on the effectiveness of the internal control environment, gas asset lives and operational separation of the Finance function as part of the sale of the Company from the National Grid Group.

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. Following consideration of the auditor's independence from NGG, their objectivity, the audit quality and the auditor's performance, the Committee was satisfied with the effectiveness, independence and objectivity of Deloitte. The audit report presents the results of Deloitte’s own independence assessment on page 47.

A resolution to re-appoint Deloitte and giving authority to the Directors to determine their remuneration will be submitted to shareholders at the 2022 AGM.

Sanction Committee

During the year, the Sanction Committee, which previously considered and sanctioned investments impacting multiple business units across National Grid's UK business, was retired in line with a new delegation of authority policy adopted by the National Grid Group.

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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 22 to 30.

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 108 to 131.

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.

The Board's focus on stakeholder engagement has continued during the reporting period, including reviewing and mapping out key stakeholder groups and discussing the Board's currently level of engagement and incorporation of its views into decision-making. During the year, the Board took the opportunity to review stakeholder engagement, including that of workforce engagement, and has discussed its duty under section 172 of the Companies Act 2006.

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, BEIS 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-T2. We work with other networks and organisations outside of the energy industry to identify good practice. The Board considers the interests of these various stakeholder groups through reports and presentations at Board meetings, allowing Directors to reflect their interests in the decision-making process.

RIIO-2 Stakeholder Engagement

Our original RIIO-T2 business plans were developed following our largest ever engagement exercise to date, with customers, industry stakeholders, businesses and household bill payers across the country. As part of the process, the Independent User Group (IUG) was established to provide challenge on our business plan process. The IUG represents a cross-section of the energy industry and represents the interests of consumers, environmental and public interest groups, as well as large-scale and small-scale customers and distribution networks. The Board has committed to the continued operation of the IUG The Board continues to receive updates on the IUG's findings and the Chair of the IUG attends Board meetings on invitation to better understand the IUG's views and to allow for effective two-way engagement. Directors also attended meetings of the IUG to strengthen the overall stakeholder engagement, with an emphasis on two-way feedback.

Workforce Engagement

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.

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 held a series of workforce engagement events, including town halls, smaller engagement events and leadership briefings. The Board has also considered regular updates on workforce engagement events and briefing sessions in relation to the proposed sale of the Company.

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Directors' Report

The Directors present their report and the audited consolidated financial statements of the Company for the year ended 31 March 2022. 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:

Chris Bennett	Resigned 10 Sept 2021
Jonathan Butterworth	Appointed 1 May 2021
Dawn Childs**	Resigned 31 May 2021
Clive Elphick*	
Nick Hooper	Appointed 1 Aug 2021
Alexandra Lewis**	
Cathryn Ross*	
Nicola Shaw**	Resigned 5 Nov 2021
Alistair Todd**	Resigned 1 Aug 2021
Benjamin Wilson**	Appointed 22 Nov 2021

* Sufficiently Independent

**Group-appointed non-executive 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 2022. Alongside these indemnities, the Company places Directors' and Officers' liability insurance cover for each Director.

Wates Principles

The Directors chose to apply the Wates Corporate Governance Principles for 2021/22. Further details can be found on pages 39 to 43.

Principal activities and business review

A full description of the Company's principal activities, businesses, key performance indicators and principal risks and uncertainties is contained in the Strategic Report on pages 14 to 37, which are incorporated by reference into this report.

Material interests in shares

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

Dividends

A final dividend of £290 million was declared after the year end on July 2022 (2020/21: £295 million final dividend).

Share capital

Share capital remains unchanged. See note 24 to the consolidated financial statements for further details.

Research and development

Expenditure on research and development was £6.9 million during the year (2020/21: £4.9 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 17 and 20, which are incorporated by reference into this report.

Diversity

Details of how the Company approaches diversity can be found on pages 17 and 20 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 2022 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 29 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 has been assessed on page 30.

By order of the Board

DocuSigned by:
Nick Hooper
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Nick Hooper

Director

19 July 2022

National Grid Gas plc

1-3 Strand, London WC2N 5EH

Registered in England and Wales Number 2006000

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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.

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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 are required to prepare the Group financial statements in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRS) as adopted by the UK. The financial statements also comply with IFRS as issued by the IASB.

In addition, the Directors have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework'. Under company law, the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of the profit or loss of the Group and Parent 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 judgments 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

DocuSigned by:

Nick Hooper

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Nick Hooper

NGG CFO

19 July 2022

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NATIONAL GRID GAS PLC

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of National Grid Gas 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 2022 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- the parent company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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, international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as issued by the IASB. 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).

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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. The non-audit services provided to the group and parent company for the year are disclosed in note 4(e) to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC’s Ethical Standard 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	We have identified two key audit matters, being the impact of climate change on property, plant and equipment and treasury derivative transactions.
Materiality	The materiality that we used for the group financial statements was £19 million, which represents 5% of adjusted profit before tax (profit before tax excluding the impact of reported exceptional items and remeasurements).
Scoping	We focused our group audit scope on the Parent Company which accounts for 99% of the Group’s revenue, 95% of the Group’s profit before tax and 97% of the Group’s net assets.
Significant changes in our approach	There has been no significant change in our approach for the current year.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors’ assessment of the group’s and parent company’s ability to continue to adopt the going concern basis of accounting included:

- assessing the financing facilities including the nature of facilities, repayment terms and covenants;
- enquiring of management regarding the assumptions used in the going concern models;
- testing the clerical accuracy and appropriateness of the model used to prepare the forecasts;
- assessing the assumptions used in the forecasts;
- assessing management’s identified potential mitigating actions and the appropriateness of the inclusion of these in the going concern assessment;
- assessing the historical accuracy of forecasts prepared by management;
- reperforming management’s sensitivity analysis; and
- evaluating whether the Group’s disclosures in respect of going concern within the financial statements, meet the requirements of IAS 1.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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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. Treasury derivative transactions

Key audit matter description	**Account balances: Derivative financial assets and derivative financial liabilities. Refer to note 13 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 'higher' audit risk. At 31 March 2022 the group had derivative financial assets of £93 million (31 March 2021: £523 million) and derivative financial liabilities of £21 million (31 March 2021: £105 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.
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. Additionally, we have performed independent valuations. 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.
Key observations	We conclude that the valuation of derivatives and the group's use of hedge accounting is appropriate.

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5.2. The impact of climate change on property, plant and equipment

Key audit matter description	**Account balance: Property, plant and equipment. Refer to note 10 financial statements** The UK government have enacted legislation and established targets in respect of net zero carbon emissions by 2050. Accordingly, climate change represents a strategic challenge for the Group, which has also set targets for reducing direct greenhouse gas emissions by the same date. Natural gas, when burned, emits carbon dioxide and is considered a greenhouse gas. Therefore, the strategic challenge relates to the potential future use of the Group's assets used to facilitate gas transmission services in the period approaching 2050 and beyond. The remaining useful economic life of the Group's gas assets is up to 50 years, extending well beyond the 2050 "net zero" commitment date. As described in note 10 to the financial statements, the impact of changing the useful economic lives of all of the Group's gas assets, such that they would be fully depreciated by 2050, would be an increase in the annual depreciation expense of £41 million, and such that they would be fully depreciated by 2060, would be an increase in the annual depreciation expense of £15 million. As the continued use of natural gas as a primary energy source beyond 2050 appears to be in conflict with net zero targets and the impact of shortening the useful lives of the gas assets to 2050 has a material impact on annual depreciation, we identified a 'higher' risk related to the financial statement impact of those commitments, specifically pinpointed to management's judgement in determining the useful lives of gas assets in the context of the net zero commitments. Management performed a detailed assessment of the potential uses for the Group's gas assets as part of their consideration around whether developments in the UK towards binding carbon reduction targets should trigger any changes to National Grid's estimates, judgements or disclosures, especially regarding gas asset lives. Management's assessment included an overview of the legislative changes in the UK, and an evaluation of the possible future use of National Grid's networks in a net zero energy system. National Grid Gas Transmission (NGGT) owns and operates the National Transmission System (NTS). Pipelines represent the vast majority of the value that will be undepreciated by 2050. Having analysed the potential decarbonisation pathways, management has identified numerous potential uses for the Group's gas pipeline assets in a net zero energy system including for the continued transmission of natural gas as a back-up fuel or in order for the transmission of hydrogen or other low or zero carbon gases. Management concluded that the National Transmission System (NTS) pipeline assets in the UK will continue to have an economic use until 2070. Management operated an entity level control to assess the accounting and disclosure impacts associated with the transitional and reputational risks of climate change to ensure these are considered and reflected appropriately in external reporting. Management determined that disclosure of a key judgement in relation to the potential future use of the Group's gas assets post-2050 and disclosure of the gas asset lives as a key estimate as disclosed in note 1E to the financial statements, with appropriate sensitivity analysis in note 10 to the financial statements, was appropriate.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

How the scope of our audit responded to the key audit matter	We tested management's internal control over the accounting for and disclosure of the potential impacts associated with the energy transition and climate change. We challenged management's judgement that the useful lives of the group's gas assets extend beyond 2050 in light of the different goals, commitments and legislation relating to net zero by: • assessing potential strategic pathways to achieve net zero targets; • obtaining and reading government plans in the UK for achieving net zero which we compared to the potential strategic pathways; • evaluating information from the Group's regulators, including price controls in the UK , to consider whether they presented any contradictory evidence; • performing an assessment of the likelihood of occurrence of alternative scenarios for achieving net zero targets; • considering the potential for re-purposing the Group's gas networks for alternative uses, and in particular for transporting hydrogen; and • reading a number of external reports including:; the UK's Climate Change White Paper, produced by the Department for Business, Energy & Industrial Strategy; and searching for contradictory evidence in respect of management's judgements. We utilised our sustainability specialists to review management's key assumptions and to challenge the viability of some of the technological advances presented within the strategic pathways. We also consulted with Deloitte specialists in other countries regarding the suitability of existing gas infrastructure for transporting hydrogen. We also reviewed the disclosures set out in note 1E to the financial statements and the sensitivity analysis set out in note 10 to the financial statements regarding the carrying value of the useful economic lives of the Group's gas assets.
Key observations	We observe that whilst some indicators do exist suggesting that the useful economic lives of the Group's gas assets may be limited to 2050, these are mitigated by other statements by governments and advisory bodies which suggest gas, and therefore gas transmission and distribution assets, will continue to have a role beyond 2050. Furthermore, the emergence of a substantial hydrogen infrastructure could introduce another potential longer term role for National Grid gas assets past 2050, if technological developments allow the utilisation of existing assets in this infrastructure. We note that there is no alignment between the useful lives of the Group's gas assets for IFRS depreciation purposes, and the period of recovery of the regulatory asset value under regulation. Nevertheless, we conclude that it is reasonable to assume that there will be a valuable use for these assets until 2070. We consider the disclosures in note 1E to the financial statements and the sensitivity analysis in note 10 to the financial statements to be appropriate. We are satisfied that management's other disclosures in the Annual Report relating to the uncertainty surrounding the future use of the Group's gas assets are consistent with the financial statements and our understanding of the business.

6. Our application of materiality

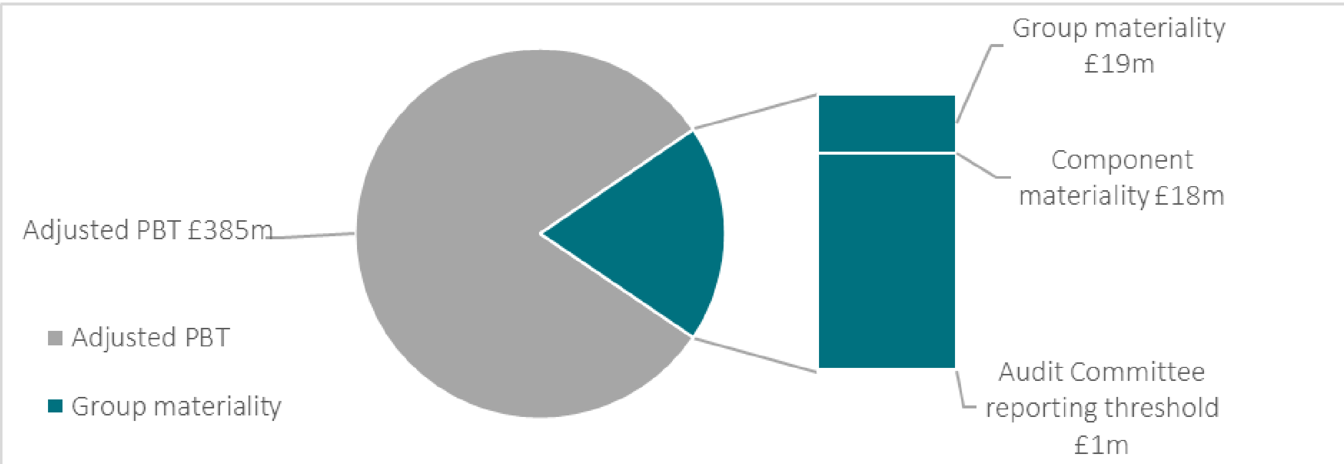
6.1. Materiality

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:

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

	Group financial statements	Parent company financial statements
Materiality	£19 million (2021: £23 million).	£18 million (2021: £15 million).
Basis for determining materiality	Our determined materiality represents 5% (2021: 5%) of adjusted profit before tax on a three-year average basis 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.	Our determined materiality represents 4.75% (2021: 3.3%) of adjusted profit before tax on a three-year average basis 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. Prior year materiality was determined on a similar basis.
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. 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.	



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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 financial statements
Performance materiality	70% (2021: 70%) of group materiality
Basis and rationale for determining performance materiality	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; • Our assessment of the group's overall control environment. We also considered the level of change in the business from the prior year.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1 million (2021: £1.1 million), as well as differences below that threshold that, 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

7.1. Identification and scoping of components

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 £18 million. This accounts for 95% of the group's revenue and profit before tax.

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

7.2. Our consideration of the control environment

Our audit approach was generally to place reliance on management's relevant controls over all business cycles affecting in scope financial statement line items. We tested controls through a combination of tests of inquiry, observation, inspection and re-performance.

In limited circumstances where controls were deficient and there were not sufficient mitigating or alternative controls we could rely on; we adopted a non-controls reliance approach. All control deficiencies which we considered to be significant were communicated to the Audit and Risk Committee. All other deficiencies were communicated to management. For all deficiencies identified, we considered the impact and updated our audit plan accordingly.

The group's financial systems environment relies on a high number of applications. In the current year, we scoped 12 IT systems as relevant to the audit. These systems are all directly or indirectly relevant to the entity's financial reporting process.

We planned to rely on the General IT Controls (GITCs) associated with these systems, where the GITCs were appropriately designed and implemented, and these were operating effectively. To assess the operating effectiveness of GITCs our IT audit specialists performed testing on access security, change management, data centre operations and network operations.

7.3. Our consideration of climate-related risks

Climate Change impacts National Grid's business in a number of ways as set out in the strategic report of the Annual Report and note 1 of the financial statements. It represents a key strategic consideration of management.

We reviewed management's climate change risk assessment, including developments post COP26, and evaluated the completeness of identified risks and the impact on the financial statements. We also considered the impact of climate change in our own risk assessment procedures. Our response to this risk is documented in our Key Audit Matter.

In addition to the procedures in respect of the Key Audit Matter mentioned above, with the involvement of our climate change specialists we:

– read the climate-related statements made by management (as disclosed in 'The Environment' section of the 'Our commitment to being a responsible business' in the Strategic Report) and considered whether these were in line with our

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understanding of management's approach to climate change and the narrative reporting was in line with financial statements and the knowledge obtained throughout the audit; and

– read the Task Force on Climate-related Financial Disclosures ('TCFD') and considered if any of the information disclosed was inconsistent with the information we obtained through our audit.

8. Other information

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

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 this regard.

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.

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.

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the group's own assessment of the risks that irregularities may occur either as a result of fraud or error;
- 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, valuations, 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 perform specific procedures to respond to the risk of management override.

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, IFRS as issued by the IASB, FRS 101, 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; and
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;

.

In addressing the risk of fraud through management override of controls, our procedures included:

- Making inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- Using our data analytics tools, we selected and tested journal entries and other adjustments made at the end of a reporting period or which identified activity that exhibited certain characteristics of audit interest;
- 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;
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud; and
- Considering whether there were any significant transactions that are outside the normal course of business, or that otherwise appear to be unusual due to their nature, timing or size.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, 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 the part of the directors' remuneration report to be audited has been properly prepared in accordance with 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 which we are required to address

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 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 five years, covering the years ending 31 March 2018 to 31 March 2022.

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).

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

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

19 July 2022

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

Consolidated income statement

for the years ended 31 March

	Notes	2022 £m	2022 £m	2021 £m	2021 £m
Revenue	2 (a)		**1,374**		1,122
Operating costs	4		**(862)**		(638)
Operating profit					
Before exceptional items	2 (b)	**512**		484	
Exceptional items	5	**(13)**		(5)	
Total Operating Profit	2 (b)		**499**		479
Finance income	6		**51**		58
Finance costs					
Before exceptional items and remeasurements	6	**(239)**		(85)	
Exceptional items and remeasurements	5, 6	**9**		2	
Total finance costs	6		**(230)**		(83)
Profit before tax					
Before exceptional items and remeasurements		**324**		457	
Exceptional items and remeasurements	5	**(4)**		(3)	
Total profit before tax			**320**		454
Tax					
Before exceptional items and remeasurements	7	**(66)**		(86)	
Exceptional items and remeasurements	5, 7	**(144)**		—	
Total tax	7		**(210)**		(86)
Profit after tax					
Before exceptional items and remeasurements		**258**		371	
Exceptional items and remeasurements	5	**(148)**		(3)	
Profit after tax			**110**		368
Total profit for the year attributable to owners of the parent			**110**		368

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

Consolidated statement of comprehensive income

for the years ended 31 March

	Notes	2022 £m	2021 £m
Profit for the year		**110**	368
Other comprehensive income:			
Items that will never be reclassified to profit or loss			
Remeasurement gains/(losses) on pension assets and post-retirement benefit obligations	22	**309**	(250)
Net losses on financial liability designated at fair value through profit and loss attributable to changes in own credit risk		**(1)**	(11)
Tax on items that will never be reclassified to profit or loss	7	**(92)**	48
Total items that will never be reclassified to profit or loss		**216**	(213)
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Net gains/(losses) in respect of cash flow hedges and cost of hedging		**1**	(5)
Tax on items that may be reclassified subsequently to profit or loss		**—**	3
Total items that may be reclassified subsequently to profit or loss		**1**	(2)
Other comprehensive income for the year, net of tax		**217**	(215)
Total comprehensive income for the year attributable to owners of the parent		**327**	153

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Consolidated statement of financial position

as at 31 March

	Notes	2022 £m	2021 £m
Non-current assets			
Intangible assets	9	**136**	106
Property, plant and equipment	10	**4,618**	4,623
Other non-current assets	11	**21**	46
Financial and other investments	12	**3,426**	3,427
Derivative financial assets	13	**87**	118
Pensions asset	22	**664**	356
Total non-current assets		**8,952**	8,676
Current assets			
Inventories and current intangible assets	14	**12**	13
Trade and other receivables	15	**214**	276
Financial and other investments	16	**438**	1,295
Derivative financial assets	13	**6**	405
Cash and cash equivalents	17	**—**	1
Total current assets		**670**	1,990
Total assets		**9,622**	10,666
Current liabilities			
Borrowings	18	**(843)**	(1,457)
Derivative financial liabilities	13	**—**	(8)
Trade and other payables	19	**(360)**	(256)
Contract liabilities	20	**(31)**	(32)
Current tax liabilities	7	**(31)**	(31)
Provisions	23	**(33)**	(48)
Total current liabilities		**(1,298)**	(1,832)
Non-current liabilities			
Borrowings	18	**(3,327)**	(4,037)
Derivative financial liabilities	13	**(21)**	(97)
Other non-current liabilities	21	**(1)**	(6)
Contract liabilities	20	**(102)**	(104)
Deferred tax liabilities	7	**(770)**	(510)
Provisions	23	**(41)**	(56)
Total non-current liabilities		**(4,262)**	(4,810)
Total liabilities		**(5,560)**	(6,642)
Net assets		**4,062**	4,024
Equity			
Share capital	24	**45**	45
Share premium account		**204**	204
Retained earnings		**2,488**	2,450
Other reserves	25	**1,325**	1,325
Shareholders' equity		**4,062**	4,024

The consolidated financial statements set out on pages **58 to 116** were approved by the Board of Directors and authorised for issue on **19 July 2022**. They were signed on its behalf by:

Jon Butterworth Director

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Nick Hooper Director

DocuSigned by:
Nick Hooper
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National Grid Gas plc
Registered number: 2006000

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Consolidated statement of changes in equity

for the years ended 31 March

	Share capital £m	Share premium account £m	Retained earnings £m	Other reserves[1] £m	Shareholders' equity £m
At 1 April 2020	45	204	2,418	1,337	4,004
Profit for the year	—	—	368	—	368
Total other comprehensive loss for the year	—	—	(203)	(12)	(215)
Total comprehensive income/(loss) for the year	—	—	165	(12)	153
Equity dividends	—	—	(137)	—	(137)
Share-based payments	—	—	4	—	4
At 1 April 2021	**45**	**204**	**2,450**	**1,325**	**4,024**
Profit for the year	**—**	**—**	**110**	**—**	**110**
Total other comprehensive income for the year	**—**	**—**	**217**	**—**	**217**
Total comprehensive income for the year	**—**	**—**	**327**	**—**	**327**
Equity dividends	**—**	**—**	**(295)**	**—**	**(295)**
Share-based payments	**—**	**—**	**6**	**—**	**6**
At 31 March 2022	**45**	**204**	**2,488**	**1,325**	**4,062**

1 Analysis of other equity reserves is provided within note 25.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

Consolidated cash flow statement

for the years ended 31 March

	Notes	2022 £m	2021 £m
Cash flows from operating activities			
Total operating profit	2 (b)	**499**	479
Adjustments for:			
Exceptional items	5	**17**	5
Depreciation, amortisation and impairment		**222**	194
Share-based payment charge		**6**	4
Changes in working capital		**123**	(10)
Changes in provisions		**(7)**	(28)
Loss on disposal of property, plant and equipment and intangible assets		**16**	16
Changes in pensions and other post-retirement benefit obligations		**—**	(39)
Cash flows relating to exceptional items		**(12)**	(5)
Cash generated from operations		**864**	616
Tax paid		**(39)**	(33)
Net cash inflow from operating activities		**825**	583
Cash flows from investing activities			
Purchases of intangible assets		**(55)**	(27)
Purchases of property, plant and equipment		**(164)**	(153)
Disposals of property, plant and equipment		**7**	1
Interest received		**46**	42
Movement in short-term financial investments		**861**	(599)
Net cash flow from / (used in) investing activities		**695**	(736)
Cash flows from financing activities			
Proceeds from loans		**—**	495
Repayment of loans		**(977)**	(9)
Net movement in short-term borrowings		**(476)**	(140)
Cash inflows on derivatives		**414**	41
Cash outflows on derivatives		**(87)**	(2)
Payments of lease liabilities		**(7)**	(5)
Interest paid		**(93)**	(82)
Dividends paid to shareholders		**(295)**	(137)
Net cash flow (used in) / from financing activities		**(1,521)**	161
Net (decrease) / increase in cash and cash equivalents		**(1)**	8
Net cash and cash equivalents at the start of the year		**1**	(7)
Net cash and cash equivalents at the end of the year	17	**—**	1

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

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 UK 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 Gas plc's principal activities involve the transmission of gas 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.

These consolidated financial statements were approved for issue by the Board of Directors on 19 July 2022.

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 International Accounting Standards Board (IASB) and IFRS as adopted by the UK. They are prepared on the basis of all IFRS accounting standards and interpretations that are mandatory for periods ended 31 March 2022 and in accordance with the Companies Act 2006. 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, and 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. This is consistent with the way that financial performance is measured by management and reported to the Board and the Executive Committee, and assists users of the financial statements to understand the results. The inclusion of total profit for the period from continuing operations before exceptional items and remeasurements is used to derive 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

The Directors considered it appropriate to prepare the financial statements on a going concern basis, having considered the Company's cash flow forecasts with respect to business planning, treasury management activities, and the range of possible outcomes of the business's proposed sale. The going concern basis presumes that the Group 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.

The Directors have assessed the principal cashflow risks, including by modelling both a base case and a reasonable worst-case scenario. The main cash flow impacts identified in the reasonable worst-case scenario are:

- adverse impacts on our own-use gas costs of prevailing market conditions;
- adverse impacts of inflation on our capex programme;
- adverse impact from actual versus forecast variations on working capital requirements, and
- adverse fluctuations in the timing of operational spend.

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:

- the payment of dividends to shareholders;
- further changes in the phasing of the capital programme with elements of non-essential works and programmes delayed; and
- a number of further reductions in operating expenditure across the Group primarily related to workforce cost options.

As part of their analysis the Board also gave consideration to the financing available to the Group under both the eventuality that the sale of the business completes, and the eventuality that the sale does not complete and the Group remains part of National Grid, taking into account the repayment of a £503 million bond which matures in December 2022. The Board determined that in either eventuality, the Group has adequate resources to meet its liabilities as they fall due for the period of 12 months following the approval of these

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

financial statements. This includes consideration whilst the Group remains within National Grid, of a Letter of Support received from National Grid plc expressing the intention to continue to make available for up to 12 months following the approval of these financial statements, if required, at least £1 billion of an existing uncommitted £3 billion loan facility between National Grid Gas plc and National Grid plc. In the event that the sale of the business is subsequently completed, the conditions of the sale agreement bind the acquiring consortium to having sufficient financial resources in place to support the Group thereafter.

Having considered the reasonable worst-scenario and further levers at the Board's discretion, we thus continue to have headroom against the available facilities under each scenario.

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.

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 (see note 29).

D. Disposal of UK Gas Transmission

On 27 March 2022 National Grid plc ('the Group') agreed to sell 100% of the UK Gas Transmission business to a new entity (the ‘Acquiring Entity’) in exchange for £4.2 billion cash consideration (subject to customary completion adjustments) and a 40% interest in the Acquiring Entity. The sale is expected to complete in the third quarter of the financial year ending 31 March 2023 subject to the receipt of all regulatory approvals. The Group’s 40% interest in the Acquiring Entity is expected to be classified as an associate on the basis that the Group will retain significant influence over the business through its retained stake. The Group has the ability to appoint two out of the seven Directors to the Board of the Acquiring Entity. On 27 March 2022, the Group also entered into a Further Acquisition Agreement (FAA) for the potential sale of the remaining 40% stake. The FAA is a put option that can be exercised by the purchaser either in the period between 1 January and 31 March 2023 or in the period between 1 April and 30 June 2023. The deferral of the option window is at the Group's discretion (subject to change depending on the timing of the closing of the sale agreement).

E. 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.

Areas of judgement that have the most significant effect on the amounts recognised in the financial statements are as follows:

- review of residual lives, carrying values and impairment charges for other intangible assets and property, plant and equipment, in particular the estimates made regarding the useful economic lives of our gas network assets due to the length over which they are being depreciated and the potential for significant technological change over that period – notes 9 and 10.
- categorisation of certain items as exceptional items or remeasurements and the definition of adjusted earnings (see notes 5 and 6). In applying the Company's exceptional items frameworks, we have considered a number of key matters, as detailed in note 5.
- the judgement that notwithstanding legislation enacted and targets committing the UK to achieving Net Zero greenhouse gas emissions by 2050.

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

- estimation of liabilities for pensions and other post-retirement benefits – note 22.
- the valuation of certain pension assets, in particular unquoted equities, properties and diversified alternatives, in light of the volatile economic markets (see note 22).
- valuation of financial instruments - note 26.
- estimation of decommissioning and other provisions - note 23.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

In order to illustrate the impact that changes in assumptions for the valuation of pension assets and liabilities, and financial instruments could have on our results and financial position, we have included sensitivity analysis in note 30.

F. 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, profit before tax and profit after tax, together with additional subtotals excluding exceptional items. 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 (see note 29(e)).

G. New IFRS accounting standards and interpretations effective for the year ended 31 March 2022

With effect from the period commencing 1 April 2021, the consolidated financial statements are prepared in accordance with IAS and IFRS and related interpretations as adopted by the UK, instead of those adopted by the EU. As both sets of accounting standards are currently aligned, there will be no transitional adjustments required and comparative amounts were not required to be restated.

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

- Amendments to IFRS 16 'Leases – COVID-19 Related Rent Concessions';
- Amendments to IFRS 3 'Business Combinations'; and
- Amendments to IAS 1 and IAS 8 'Definition of Material';

In April 2021, the IFRS IC (Interpretation Committee) also issued an agenda decision in relation to the accounting treatment for configuration and customisation costs in a cloud computing arrangement. This guidance clarified that in order for an intangible asset to be capitalised in relation to customisation and configuration costs in a cloud computing arrangement, it is necessary for there to be control of the underlying software asset or for there to be a separate intangible asset which meets the definition in IAS 38 Intangible Assets. As at 31 March 2022, National Grid Gas has recognised a cumulative adjustment against software intangible assets of £3.2 million for previously capitalised customisation and configuration relating to its continuing operations. National Grid Gas has also considered the application of the new accounting guidance for its comparative periods and concluded that it does not have a material impact. Accordingly, no comparative periods have been restated.

H. 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 UK:

- IFRS 17 'Insurance Contracts';
- Amendments to IFRS 3 'Business Combinations';
- Amendments to IAS 12 'Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction';
- Amendments to IAS 16 'Property, Plant and Equipment';
- Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets';
- Amendments to IAS 1 'Presentation of Financial Statements';
- Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors';
- Annual improvements to IFRS standards 2018-2020; and
- Amendments to IFRS Practice Statement 2 – making materiality judgements.

Effective dates will be subject to the UK 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.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

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 is National Grid Gas plc's chief operating decision maker (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 5).

There has been no change to the way in which our businesses have reported internally during the year. The following are the main activities for each operating segment:

1. Gas Transmission - The gas transmission network in Great Britain and liquefied natural gas (LNG) storage activities.

2. Other activities - Relate to the gas metering business, which provides regulated gas metering activities in the UK, together with corporate activities.

Sales between businesses are priced having regard to the regulatory and legal requirements that the businesses are subject to, which include requirements to avoid cross-subsidies.

(a) Revenue

	2022			2021		
	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:						
Gas Transmission	**1,166**	**(4)**	**1,162**	904	(8)	896
Other activities	**212**	**—**	**212**	227	(1)	226
Total revenue	**1,378**	**(4)**	**1,374**	1,131	(9)	1,122

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

	2022	2021
	£m	£m
Customer A	**164**	113
Customer B	**128**	51

No other single customer contributed 10% or more to the Group's revenue in either 2022 or 2021.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

2. Segmental analysis (continued)

(b) Operating profit

A reconciliation of the operating segments' 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	
	2022	2021	**2022**	2021
	£m	£m	**£m**	£m
Operating segment:				
Gas Transmission	**375**	336	**360**	331
Other activities	**137**	148	**135**	148
Total operating profit	**512**	484	**495**	479
Reconciliation to profit before tax:				
Operating profit	**512**	484	**499**	479
Finance income	**51**	58	**51**	58
Finance costs	**(239)**	(85)	**(230)**	(83)
Profit before tax	**324**	457	**320**	454

(c) Capital expenditure

	Net book value of property, plant and equipment and intangible assets		Capital expenditure		Depreciation, impairment and amortisation	
	2022	2021	**2022**	2021	**2022**	2021
	£m	£m	**£m**	£m	**£m**	£m
Operating segment:						
Gas Transmission	**4,569**	4,530	**242**	181	**201**	171
Other activities	**185**	199	**27**	27	**22**	22
Total	**4,754**	4,729	**269**	208	**223**	194
Asset type:						
Property, plant and equipment	**4,618**	4,623	**212**	180	**184**	166
Intangible assets	**136**	106	**57**	29	**39**	28
Total	**4,754**	4,729	**269**	208	**223**	194

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

3. Revenue

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

Transmission services and certain other services (excluding rental income but including metering) 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 value added tax. The Company recognises revenue when it transfers control over a product or service to a customer. It excludes value added tax and intra-group sales.

The following is a description of principal activities from which National Grid Gas plc generates its revenue. For more detailed information about our segments, see note 2.

UK Gas Transmission

The UK Gas Transmission segment principally generates revenue by providing gas transmission services to our customers (both as transmission owner and system operator) in Great Britain. The business operates as a monopoly regulated by Ofgem which has established price control mechanisms that determines our 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 businesses earn revenue for the transmission services they have provided during the year. In any one year, the revenue recognised may differ from the revenue allowed under our regulatory agreements and any such timing differences are adjusted against future prices.

The IFRS revenues we report are principally a function of volumes and price. Price is determined prior to our financial year end with reference to the regulated allowed returns and estimated annual volumes. The sales value for the transmission of gas is largely determined from the amount of system capacity sold for the year, and the amount of gas transported for the year, evaluated at contractual prices on a monthly basis. Where revenue received or receivable exceeds the maximum amount permitted by the regulatory agreement, adjustments will be made to the future prices to reflect this over-recovery. No liability is recognised as such an adjustment to future prices relates to the provision of future services. Similarly no asset is recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery. 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 gas encompasses the following principal activities:

- the supply of high-pressure gas (including both transmission and system operator charges); and
- construction work (principally for connections).

For the supply of high-pressure gas, revenue is recognised based on capacity and volumes. Our performance obligation is satisfied over time as our customers make use of our network, and we bill monthly in arrears with payment terms of up to 45 days.

For construction work relating to connections, customers pay for the connection upfront. Revenue is recognised over time, as we provide access to our network. Where revenues are received upfront, they are deferred and released over the life of the connection.

For other construction where there is no consideration for any future services (such as diversions), revenues are recognised when the construction work is completed.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

3. Revenue (continued)

Other activities

This segment includes £212m of revenue for our Metering business. The sales value for the provision of gas metering services is largely derived from monthly charges for the provision of individual meters under contractual arrangements.

Revenue for the year ended 31 March 2022	UK Gas Transmission £m	Other £m	Total £m
Revenue under IFRS 15:			
Gas Transmission	**1,155**	**217**	**1,372**
Revenue under other standards			
Other	**2**	**—**	**2**
Total revenue	**1,157**	**217**	**1,374**

Revenue for the year ended 31 March 2021	UK Gas Transmission £m	Other £m	Total £m
Revenue under IFRS 15:			
Gas Transmission	862	225	1,087
Revenue under other standards			
Other	34	1	35
Total revenue	896	226	1,122

Revenue to be recognised in future periods, presented as contract liabilities of £133 million (see note 20). £87m relates to contributions in aid of construction for which revenue will be recognised over the weighted average remaining life of the assets, being 36 years.

Total revenue is generated from operations solely based in the UK.

The business also receives recovery of pension deficit from other gas transporters under regulatory arrangement.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

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		Total	
	2022	2021	**2022**	2021	**2022**	2021
	£m	£m	**£m**	£m	**£m**	£m
Depreciation, impairment and amortisation	**223**	194	**—**	—	**223**	194
Payroll costs	**124**	129	**2**	3	**126**	132
Purchases of gas	**237**	73	**—**	—	**237**	73
Rates	**85**	88	**—**	—	**85**	88
Property Costs	**33**	30	**—**	—	**33**	30
Inventory consumed	**9**	13	**—**	—	**9**	13
Research and development expenditure	**7**	5	**—**	—	**7**	5
Other	**144**	106	**11**	2	**155**	108
	862	638	**13**	5	**875**	643

(a) Payroll costs

	2022	**2021**
	£m	£m
Wages and salaries	**99**	113
Social security costs	**17**	16
Defined contribution scheme costs	**10**	11
Defined benefit pension costs	**7**	8
Charges from other group defined benefit schemes	**1**	2
Share-based payments	**6**	4
	140	154
Less: payroll costs capitalised	**(15)**	(22)
Total payroll costs	**126**	132

(b) Number of employees, including Directors

	31 March	31 March	**Monthly average**	Monthly average
	2022	2021	**2022**	2021
	Number	Number	**Number**	Number
Gas Transmission and Other [1]	**2,118**	2,189	**2,151**	2,184

[1] Other comprises National Grid Metering and employees working in shared services supporting the Gas Transmission businesses.

(c) Key management compensation

	2022	2021
	£m	£m
Salary and short-term employee benefits	**2**	2
Share-based payment	**2**	1
	4	3

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 Gas plc.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

4. Operating costs (continued)

(d) Directors' emoluments

The aggregate amount of emoluments (excluding social security, pensions and share-based payment) paid to the Directors of the company in respect of qualifying services for 2022 was £1,839,006 (2021: £1,881,370).

During 2022 six Directors including the highest paid Director exercised share options (2021: Six 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 2022, retirement benefits were accruing to three (2021: two) Directors under a defined benefit scheme.

The aggregate emoluments for the highest paid Director were £519,219 for 2022 (2021: £538,604) and total accrued annual pension at 31 March 2022 for the highest paid Director was £nil (2021: £nil).

The aggregate amount of loss of office payments to Directors for 2022 was £nil (2021: £nil).

The Sufficiently Independent Directors each receive a director fee of £20,000 (2021: £20,000) per annum.

(e) Auditors' remuneration

	2022	2021
	£m	£m
Audit services		
Audit of parent company and consolidated financial statements	**0.6**	0.4
Other services supplied		
Fees payable to the company's auditors for audit-related assurance services[1]	**1.3**	0.8

1 Other services supplied represent fees payables for assurance 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), fees for reports in relation to regulatory returns, fees for reports in relation to the Euro Medium Term Note (EMTN) funding programme, and assurance fees in relation to grant claims..

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

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 'adjusted profit'.

Adjusted profit (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 adjusted profit 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 adjusted profit.

Exceptional items and remeasurements

	2022 **£m**	2021 £m
Included within operating profit:		
Exceptional items:		
Cost efficiency and restructuring programmes	**(3)**	(5)
Sale of business	**(10)**	—
	(13)	(5)
Included within finance income and costs:		
Remeasurements:		
Net (gain)/loss on derivative financial instruments	**14**	(88)
Net (gain)/loss on financial liabilities held at fair value through profit and loss	**(5)**	90
	9	2
Total included within profit before tax	**(4)**	(3)
Included within taxation:		
Exceptional charge arising on items not included in profit before tax:		
Tax on exceptional items	**3**	—
Deferred tax arising on the reversal of the reduction in UK corporation tax rate	**(144)**	—
Tax on remeasurements	**(3)**	—
	(144)	—
Total exceptional items and remeasurements after tax	**(148)**	(3)
Analysis of total exceptional items and remeasurements after tax:		
Total exceptional items after tax	**(10)**	(5)
Total remeasurements after tax	**(135)**	2
Total exceptional items and remeasurements	**(145)**	(3)

Exceptional items

Management uses an exceptional items framework that has been discussed and approved by the National Grid Gas plc Audit & Risk 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. The exceptional items framework was last updated in March 2022 and reflects the latest disclosure requirements arising in respect of FRC guidance issued in the year.

Items of income or expense that are considered by management for designation as exceptional items include significant restructuring, write-downs or impairments of non-current assets, significant changes in environmental or decommissioning 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.

No Covid-19 related costs incurred have been recognised as exceptional.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

5. Exceptional items and remeasurements (continued)

Further detail of exceptional items specific to 2022:

New operating model implementation costs

In 2020/21 the National Grid Group of companies commenced an exercise to design and implement a new operating model, built on a foundation of six business units, of which UK Gas Transmission (UKGT) is one. The costs recognised in the year ended 31 March 2022 primarily relate to professional fees incurred in designing and implementing the new UKGT business unit, alongside the redundancy provisions accrued in relation to certain employees where announcements have been made that they will be leaving the organisation as a result of the changes. We have concluded that the costs should be classified as exceptional in line with our exceptional items policy, in order to ensure that the costs are treated in a consistent manner with similar costs incurred previously. The revised operating model is expected to be fully implemented by the year ending 31 March 2023.

Sale of Business

The National Grid plc announced its intention to sell a majority stake in the UK Gas Transmission business on 18 March 2021, thus initiating the process to sell the business. The costs recognised in the year ended 31 March 2022 primarily relate to professional fees incurred in vendor due diligence, buyer engagement, IT separation and severance. We have concluded that the costs should be classified as exceptional in line with our exceptional items policy, in order to ensure that the costs are treated in a consistent manner with similar costs incurred previously.

Remeasurements

Remeasurements comprise unrealised gains or losses recorded in the income statement arising from changes in the fair value of certain financial assets and liabilities including derivative financial instruments accounted for at fair value through profit and loss (FVTPL).

Remeasurements excluded from business performance are made up of the following categories:

i. Net gains/(losses) on derivative financial instruments comprise gains/(losses) arising on derivative financial instruments 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 29).

ii. Net gains/(losses) on financial liabilities measured at FVTPL comprises the change in the fair value (excluding changes due to own credit risk) of a financial liability that has been designated at FVTPL on transition to IFRS 9 to reduce a measurement mismatch (see note 18).

Once the fair value movements are realised (for example, when the derivative matures), the previously recognised fair value movements are then reversed through remeasurements and recognised within earnings before exceptional items and remeasurements. These assets and liabilities include financing derivatives to the extent that hedge accounting is not available or is not fully effective. These assets and liabilities include financing derivatives to the extent that hedge accounting is not available or is not fully effective.

Items included within tax

In the Spring Budget 2021, the UK government announced an increase in the main corporation tax rate from 19% to 25% with effect from 1 April 2023. This was substantively enacted on 24 May 2021. Deferred tax balances as at 31 March 2022, that are expected to reverse after 1 April 2023, have been calculated at 25%.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

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 financing derivatives). 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 certain assets and liabilities now treated at FVPL. The interest income, and interest expense on these items are included in finance income and finance costs before remeasurements, respectively.

	2022 £m	2021 £m
Finance income		
Interest income on financial instruments:		
Bank deposits and other financial assets	**49**	45
Net interest on pension asset	**2**	13
	51	58
Finance costs		
Interest expense on financial liabilities held at amortised cost:		
Bank loans and overdrafts	**(32)**	(19)
Other borrowings	**(226)**	(110)
Interest expense on financial liabilities held at fair value through profit and loss	**(12)**	(20)
Derivatives	**16**	54
Unwinding of discount on provisions	**(1)**	(1)
Less: interest capitalised [1]	**16**	11
	(239)	(85)
Remeasurements - Finance costs		
Net gain/(loss) on financial liabilities held at fair value through profit and loss	**(5)**	90
Net gains/(losses) on derivative financial instruments:[2]		
Derivatives designated as hedges for hedge accounting	**5**	14
Derivatives not designated as hedges or ineligible for hedge accounting	**9**	(102)
	9	2
Total remeasurements - Finance income and costs	**(179)**	(25)
Finance income	**51**	58
Finance costs[3]	**(230)**	(83)
Net finance costs	**(179)**	(25)

1. Interest on funding attributable to assets in the course of construction was capitalised during the year at a rate of 3.6% (2021: 2.4%). Capitalised interest qualifies for a current year tax deduction with tax relief claimed of £3 million (2021: £2 million).
2. Includes a net foreign exchange gain on financing activities of £1 million (2021: £99 million gain) offset by foreign exchange losses and gains on derivative financial instruments measured at fair value.
3. Finance costs include principle accretion on inflation linked liabilities of £158 million (2021: £38 million; 2020: £76 million).

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

7. Taxation

This note gives further details of the 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.

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 Company's total tax charge involves a degree of estimation and judgement, and management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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 used in the computation of taxable profit.

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

	2022	2021
	£m	£m
Tax before exceptional items and remeasurements	**(66)**	(86)
Tax on total exceptional items and remeasurements (note 5)	**(144)**	—
Total tax charge	**(210)**	(86)

Tax as a percentage of profit before tax

	2022	2021
	%	%
Before exceptional items and remeasurements	**20.1**	18.9
After exceptional items and remeasurements	**65.9**	19.0

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

7. Taxation (continued)

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

	2022 **£m**	2021 £m
Current tax:		
Corporation tax at 19% (2021: 19%)	**42**	62
Corporation tax adjustment in respect of prior years	**—**	7
Total current tax	**42**	69
Deferred tax:		
UK deferred tax	**17**	23
Impact of change in tax rate	**151**	—
UK deferred tax adjustment in respect of prior years	**—**	(6)
Total deferred tax	**168**	17
Total tax charge	**210**	86

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

	2022 **£m**	2021 £m
Current tax:		
Remeasurement gains of financial instruments	**—**	8
Movement in Cash Flow Hedges, Cost of Hedging and Own Credit Reserves	**—**	(2)
Deferred tax:		
Share-based payments	**(2)**	1
Remeasurement losses of financial instruments	**—**	(8)
Movement in Cash Flow Hedges, Cost of Hedging and Own Credit Reserves	**(1)**	(1)
Remeasurements of net retirement benefit obligations	**94**	(47)
Total tax recognised in the statement of other comprehensive income	**91**	(49)

The tax charge for the year after exceptional items and remeasurements is higher (2021: the same) than the standard rate of corporation tax in the UK of 19% (2021: 19%):

	Before exceptional items and remeasurements 2022 £m	**After exceptional items and remeasurements 2022 £m**	Before exceptional items and remeasurements 2021 £m	After exceptional items and remeasurements 2021 £m
Profit before tax				
Before exceptional items and remeasurements	**324**	**324**	457	457
Exceptional items and remeasurements	**—**	**(4)**	—	(3)
Profit before tax	**324**	**320**	457	454
Profit before tax multiplied by UK corporation tax rate of 19% (2021: 19%)	**62**	**61**	87	86
Effect of:				
Adjustments in respect of prior years	**—**	**—**	1	1
Expenses not deductible for tax purposes	**1**	**2**	2	2
Non taxable income	**(3)**	**(3)**	(3)	(3)
Deferred tax impact of change in UK tax rate	**6**	**151**	—	
Total tax	**66**	**211**	87	86
Effective tax rate	**20.1%**	**65.9%**	18.9%	19.0%

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

7. Taxation (continued)

Factors that may affect future tax charges

In the Spring Budget 2021, the UK government announced an increase in the main corporation tax rate from 19% to 25% with effect from 1 April 2023. This was substantively enacted on 24 May 2021. Deferred tax balances as at 31 March 2022, that are expected to reverse after 1 April 2023, have been calculated at 25%.

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 (assets)/liabilities

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:

	Pensions £m	Accelerated tax depreciation £m	Share based payment £m	Financial instruments £m	Other net temporary differences £m	Total £m
1 April 2020	**104**	**445**	**(2)**	**1**	**1**	**549**
Charged/(credited) to income statement	10	5	—	3	(1)	17
Charged/(credited) to other comprehensive income and equity	(47)	—	1	(10)	—	(56)
31 March 2021	**67**	**450**	**(1)**	**(6)**	**—**	**510**
Deferred tax assets at 31 March 2021	—	—	(1)	(6)	—	(7)
Deferred tax liabilities at 31 March 2021	67	450	—	—	—	517
31 March 2021	**67**	**450**	**(1)**	**(6)**	**—**	**510**
Charged/(credited) to income statement	4	160	(1)	4	1	168
Charged/(credited) to other comprehensive income and equity	95	—	(3)	—	—	92
31 March 2022	**166**	**610**	**(5)**	**(2)**	**1**	**770**
Deferred tax assets at 31 March 2022	—	(24)	(1)	(2)	(9)	(36)
Deferred tax liabilities at 31 March 2022	166	634	(4)	—	10	806
31 March 2022	**166**	**610**	**(5)**	**(2)**	**1**	**770**

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an 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 £770 million (2021: £510 million). At the balance sheet date there were no material current deferred tax assets or liabilities (2021: £nil).

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

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:

	2022		2021	
	pence (per ordinary share)	**£m**	pence (per ordinary share)	£m
Ordinary dividends				
Final dividend in respect of the prior year	—	—	7.48	295

The directors are proposing a final dividend for the year ended 31 March 2022 of 7.35p per share that will absorb approximately £290 million of shareholders' equity (assuming all amounts are settled in cash. This was declared after the year end during the 19 July 2022 board meeting, as a result this was not included within the financial statements.

9. Intangible assets

Intangible assets include software which is written down (amortised) over the length of 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: i) an asset is created that can be identified; ii) it is probable that the asset created will generate future economic benefits; and iii) 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.

Cloud computing arrangements are reviewed to determine if the Group has control of the software intangible asset. Control is considered to exist where the Group has the right to take possession of the software and run it on its own or a third party's computer infrastructure or if the Group has exclusive rights to use the software such that the supplier is unable to make the software available to other customers.

Costs relating to configuring or customising the software in a cloud computing arrangement are assessed to determine if there is a separate intangible asset over which the Group has control. If an asset is identified, it is capitalised and amortised over the useful economic life of the asset. To the extent that no separate intangible asset is identified, then the costs are either expensed when incurred or recognised as a prepayment and spread over the term of the arrangement if the costs are concluded to not be distinct.

The accounting for costs incurred in cloud computing arrangements represents the application of new accounting guidance for the Group for the year ended 31 March 2022. Certain costs which were previously capitalised in respect of the Group's cloud computing arrangements have been expensed in the period.

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 ten years.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

9. Intangible assets (continued)

	Software	Assets in the course of construction	Total
	£m	£m	£m
Cost at 1 April 2020	**379**	**18**	**397**
Additions	5	24	29
Reclassifications[1]	1	(12)	(11)
Disposals	(11)	—	(11)
Transfers	3	(3)	—
Cost at 31 March 2021	**377**	**27**	**404**
Additions	5	52	57
Reclassifications[1]	44	(44)	—
Disposals	(5)	—	(5)
Transfers	9	1	10
Cost at 31 March 2022	**430**	**37**	**467**
Accumulated amortisation at 1 April 2020	**(279)**	**—**	**(279)**
Amortisation charge for the year	(28)	—	(28)
Disposals	9	—	9
Accumulated amortisation at 31 March 2021	**(298)**	**—**	**(298)**
Amortisation charge for the year	(38)	—	(38)
Disposals	5	—	5
Accumulated amortisation at 31 March 2022	**(331)**	**—**	**(331)**
Net book value at 31 March 2022	**99**	**37**	**136**
Net book value at 31 March 2021	79	27	106

1 Reclassifications represents amounts transferred (to)/from property, plant and equipment, see note 10.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

10. 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 or UEL) and charging the cost of the asset to the income statement equally over this period.

We operate a gas transmission business and therefore have a significant physical asset base. We continue to invest in our network 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; and 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.

Contributions received from customers towards the cost of tangible fixed assets for connections to the gas transmission network are initially recognised as a contract liability, and subsequently credited to revenue over the estimated useful economic lives of the assets to which they relate. Contributions towards the alteration, diversion or relocation of tangible fixed assets are initially included as a contract liability and subsequently credited to revenue over the course of the alteration, diversion, or relocation.

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	
- mains, services and regulating equipment	10 to 65
- NTS gas pipelines	up to 50
Motor vehicles and office equipment	3 to 10

Gas asset lives

The role that gas networks play in the pathway to achieving the greenhouse gas emissions reductions targets in which we operate is currently uncertain. However, we believe the gas assets which we own and operate today will continue to have a crucial role in maintaining security, reliability and affordability of energy beyond 2050, although the scale and purpose for which the networks will be used is dependent on technological developments and policy choices of governments and regulators.

The gas mains, services and regulating assets relating to the National Transmission System (NTS) were subject to a detailed review in January 2019. The most material components of these are our pipeline assets, which are due to be fully depreciated by 2070, with other assets being depreciated over various periods between now and then. That review was undertaken prior to the UK enacting legislation committing to net zero by 2050, but considered scenarios which included an extension of the emissions reduction targets (80% emissions reduction target at the time of the report). The review concluded that the most likely outcome was for the NTS network assets to remain in use beyond 2050, including in those scenarios where the greenhouse gas emissions of gas networks were largely eliminated. We do not believe developments since January 2019 would change the conclusions of this review.

Given the uncertainty described relating to the UELs of our gas assets, below we provide a sensitivity on the depreciation charge were a shorter UEL presumed:

	Increase in depreciation expense
	£m
UELs limited to 2050	41
UELs limited to 2060	15
UELs limited to 2070	2

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

10. Property, plant and equipment (continued)

Note that this sensitivity calculation excludes any assumptions regarding residual value for our asset base and the effect shortening asset depreciation lives would expect to have on our regulatory recovery mechanisms.

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 the 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.

	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 2020	**319**	**8,217**	**547**	**246**	**9,329**
Additions	8	55	111	6	180
Disposals[1]	—	(70)	(3)	(6)	(79)
Reclassifications[2]	—	210	(205)	12	17
Cost at 31 March 2021	**327**	**8,412**	**450**	**258**	**9,447**
Additions	8	15	187	2	212
Disposals[1]	(27)	(63)	—	(14)	(104)
Reclassifications[2]	—	52	(66)	14	—
Transfers[3]	—	—	(10)	—	(10)
Cost at 31 March 2022	**308**	**8,416**	**561**	**260**	**9,545**
Accumulated depreciation at 1 April 2020	**(191)**	**(4,320)**	**(7)**	**(203)**	**(4,721)**
Depreciation charge for the year	(10)	(137)	—	(15)	(162)
Disposals[1]	—	57	1	6	64
Impairment	—	(4)	—	—	(4)
Reclassifications[2]	—	(3)	—	(3)	—
Accumulated depreciation at 01 April 2021	**(201)**	**(4,408)**	**(6)**	**(209)**	**(4,824)**
Depreciation charge for the year	(9)	(156)	—	(17)	(182)
Disposals[1]	23	45	—	14	82
Reclassifications[2]	(5)	5	—	—	—
Impairment	—	(2)	(1)	—	(3)
Accumulated depreciation at 31 March 2022	**(192)**	**(4,516)**	**(7)**	**(212)**	**(4,927)**
Net book value at 31 March 2022	**116**	**3,900**	**554**	**48**	**4,618**
Net book value at 31 March 2021	126	4,004	444	49	4,623

[1] Includes data cleanse activities resulting in disposals of nil net book value assets

[2] Reclassifications represent commissioning of assets from assets under construction into usage

[3] Transfers represents amounts transferred (to)/from intangible assets (see note 9)

Right-of-use assets

National Grid Gas plc leases various properties, equipment and cars. 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 company. 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 Gas plc continues to recognise a lease expense on a straight-line basis.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

10. Property, plant and equipment (continued)

Included within the net book value of property, plant and equipment at 31 March 2021 are right-of-use assets, split as follows:

	Land and buildings	Motor vehicles and office equipments	Total
	£m	£m	£m
Net book value at 1 April 2020	**13**	**3**	**16**
Additions	7	3	10
Disposals	—	(1)	(1)
Depreciation charge for the year ended 31 March 2022	(4)	(2)	(6)
Net book value at 31 March 2021	**16**	**3**	**19**
Additions	—	2	2
Disposals	(7)	—	(7)
Depreciation charge	(3)	(2)	(5)
Depreciation on disposals	2	—	2
Net book value at 31 March 2022	**8**	**3**	**11**

The following balances have been included in the income statement for the year ended 31 March 2022 in respect of right-of-use assets:

	2022	2021
	£m	£m
Included within revenue:		
Lease income	**2**	**2**

The associated lease liabilities are disclosed in note 18.

	2022	2021
	£m	£m
Information in relation to property, plant and equipment:		
Non-current liabilties		
Contract liabilities - current (2021: Trade and other payables)	**2**	2
Contract liabilities - non-current (2021: Non-current liabilities)	**73**	74

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

11. Other non-current assets

Other non-current assets include assets that do not fall into any other non-current asset category (such as property, plant and equipment) where the benefit to be received from the asset is not due to be received until after 31 March 2023.

	2022 £m	2021 £m
Prepayments[1]	**21**	**46**

1 Represents amounts paid in advance to a number of National Grid Group undertakings for the demolition of gas-holders (see note 23).

12. Non-current financial and other investments

	2022 £m	2021 £m
Loans and receivables - amounts owed by parent undertaking[1]	**3,426**	**3,427**

1 The far value of the amount owed by parent undertaking is approximate to book value.

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. Derivatives are transacted in accordance with the National Grid plc Board approved policies, these policies have been deemed applicable at NGG by their respective boards of directors. Derivatives are transacted by NGG 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 notes 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.

Certain clauses embedded in non-derivative financial instruments or other contracts are presented as derivatives because they impact the risk profile of their host contracts and they are deemed to have risks or rewards not closely related to those host contracts.

Further information on how derivatives are valued and used for risk management purposes is presented in note 29.

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

	2022			2021		
	Asset £m	Liabilities £m	Total £m	Asset £m	Liabilities £m	Total £m
Interest rate swaps	**26**	**(19)**	**7**	178	(31)	147
Cross-currency interest rate swaps	**67**	**—**	**67**	345	(7)	338
Foreign exchange forward contracts	**—**	**(2)**	**(2)**	—	(2)	(2)
Inflation linked swaps	**—**		**—**	—	(65)	(65)
	93	**(21)**	**72**	523	(105)	418

1 Included within the foreign exchange forward contracts balance is net £(2) million (2021: £(2) million) of derivatives in relation to capital expenditure.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

13. Derivative financial instruments (continued)

The maturity profile of derivative financial instruments is as follows:

	2022			2021		
	Assets	**Liabilities**	**Total**	Assets	Liabilities	Total
	£m	**£m**	**£m**	£m	£m	£m
Current						
Less than 1 year	**6**	**—**	**6**	405	(8)	397
	6	**—**	**6**	405	(8)	397
Non-current						
In 1 - 2 years	**—**	**(2)**	**(2)**	7	—	7
In 2 - 3 years	**—**	**—**	**—**	—	(2)	(2)
In 3 - 4 years	**2**	**—**	**2**	1	—	1
In 4 - 5 years	**—**	**—**	**—**	4	—	4
More than 5 years	**85**	**(19)**	**66**	106	(95)	11
	87	**(21)**	**66**	118	(97)	21
	93	**(21)**	**72**	523	(105)	418

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

	2022	2021
	£m	£m
Interest rate swaps	**(274)**	(651)
Cross-currency interest rate swaps	**(146)**	(563)
Foreign exchange forward contracts	**(33)**	(25)
Inflation linked swaps	**—**	(200)
	(453)	(1,439)

LIBOR is being replaced as an interest rate benchmark by alternative reference rates and therefore we transitioned LIBOR cash flows on our affected contracts in line with the relevant jurisdictions. During the year we transitioned derivatives which pay or receive cash flows that reference GBP LIBOR (maturing between 2023 and 2038) to alternative reference rates (not transitioned in 2021: £228 million notional, maturing between 2023 and 2026). All derivatives with pay or receive cash flows that referenced GBP LIBOR in 2021 have been amended after renegotiation of their contracts, including any related hedge documentation, to reference GBP SONIA as at 31 March 2022.

14. Inventories and current intangible assets

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 (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.

Emission allowances, principally relating to the emissions of carbon dioxide in the UK, are recorded as intangible assets within current assets, and are initially recorded at cost and subsequently at the lower of cost and net realisable value. A liability is recorded in respect of the obligation to deliver emission allowances, and emission charges are recognised in the income statement in the period in which emissions are made.

	2022	2021
	£m	£m
Raw materials, spares and consumables	**9**	10
Current intangible assets - emission allowances	**3**	3
	12	13

Raw materials, spares and consumables includes £4 million (2021: £4 million) of gas stocks to support network flows and shrinkage losses on the network.

There is a provision for obsolescence of £1m against inventories as at 31 March 2022 (2021: £4m).

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

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.

	2022 £m	2021 £m
Trade receivables	**32**	58
Amounts owed by fellow subsidiaries of National Grid plc	**20**	44
Contract assets	**113**	122
Prepayments	**33**	33
Other receivables	**16**	19
	214	276

Trade receivables are non-interest bearing and generally have a 30 to 90 day term. Due to their short maturities, the fair value of trade and other receivables approximates their carrying value. The maximum exposure of trade receivables to credit risk is the gross carrying amount of £32 million (2021: £58 million).

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.

	2022 £m	2021 £m
At 1 April	**3**	4
Recovery for the year - shown net of recoveries	**—**	(1)
At 31 March	**3**	3

For further information about wholesale credit risk, refer to note 29(a).

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

16. Financial and other investments

The financial and other Investments balance of £438 million primarily comprises of an overnight facility loan with National Grid plc, in addition to collateral receivable, representing cash pledged against derivative holdings and other borrowings, it also includes current loans to fellow group undertakings.

Financial and other investments are initially recognised on trade date at fair value less transaction costs and expected losses. In the current year, the transaction value equals fair value.

Loans and other receivables are initially recognised at fair value plus transaction costs and subsequently held at amortised cost 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.

	2022 £m	2021 £m
Current		
Financial assets at amortised cost	**428**	1,295
Restricted cash	**10**	—
	438	1,295
Financial assets at amortised cost comprise the following:		
Loans and receivables - amounts due from fellow subsidiaries[1]	**428**	1,208
Restricted balances:		
Collateral[2]	**—**	87
NIC restricted cash deposits	**10**	—
	438	1,295

1 Includes an overnight facility between the Company and National Grid plc for £403 million (2021: £1.2 billion).

2 Balance included collateral placed with counterparties with whom we had entered into a credit support annex to the ISDA Master Agreement £nil, (2021: £87 million).

The carrying value of current loans financial assets at amortised cost approximates their fair values, primarily due 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 29(a).

For the purposes of impairment assessment, all financial assets at amortised cost are investment grade and are therefore considered to have low credit risk. Therefore, they have a loss allowance equal to the lesser 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.

No amortised cost financial assets have had modified cash flows during the period. There has been no change in the estimation techniques or significant assumptions made during the year in assessing the loss allowance for these financial assets. There were no significant movements in the gross carrying value of financial assets during the year that contribute to changes in the loss allowance. No collateral is held in respect of any of the financial investments in the above table. No balances are more than 30 days past due, and no balances were written off during the year.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

17. 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 29(c).

	2022 **£m**	2021 £m
Cash at bank and short-term deposits	**—**	1
Cash and cash equivalents excluding bank overdrafts	**—**	1
Net cash and cash equivalents less bank overdrafts	**—**	1

18. Borrowings

We borrow money primarily in the form of bonds 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. Lease liabilities are also included within borrowings.

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.

On adoption of IFRS 9, the Group elected to change the measurement basis of one current liability from amortised cost to fair value through profit and loss, in order to eliminate a measurement mismatch. All other borrowings are accounted for at amortised cost.

Borrowings, which include interest-bearing and inflation-linked debt and overdrafts, are initially recorded at fair value value. This normally reflects the proceeds received (net of direct issue costs for liabilities measured at amortised cost). Subsequently, borrowings are stated either (i) at amortised cost; or (ii) at fair value though profit and loss. Where a borrowing is held 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. For the liability held at fair value through profit and loss, interest is calculated using the effective interest method.

Where a borrowing or liability is held at fair value, changes in the fair value of the borrowing due to changes in the issuer's credit risk are recorded in the own credit reserve (see note 25). All other changes in the fair value of the liability are recognised in the income statement within remeasurements (see notes 5 and 6).

Further information on how we manage the rates and currency risk of our borrowings portfolio is presented in note 29. Information on our net debt is presented in note 26.

	2022 **£m**	2021 £m
Current		
Bank loans and overdrafts	**294**	741
Bonds[1]	**544**	710
Lease liabilities	**4**	5
Other loans	**1**	1
	843	1,457
Non-current		
Bank loans	**—**	279
Bonds	**3,184**	3,588
Lease liabilities	**7**	14
Other loans	**136**	156
	3,327	4,037
Total borrowings	**4,170**	5,494

1 2021 balance includes £682 million liability held at fair value through profit and loss, 2022 £nil.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

18. Borrowings (continued)

Total borrowings are repayable as follows:

	2022 £m	2021 £m
Less than 1 year	**843**	1,457
In 1 - 2 years	**—**	777
In 2 - 3 years	**87**	—
In 3 - 4 years	**15**	90
In 4 - 5 years	**—**	17
More than 5 years:		
By instalments	**49**	47
Other than by instalments	**3,176**	3,106
	4,170	5,494

The fair value of borrowings at 31 March 2022 was £5,123 million (2021: £6,514 million). Where market values were available, fair value of borrowings (Level 1) was £1,590 million (2021: £2,032 million). Where market values were not available, the fair value of borrowings (Level 2) was £3,533 million (2021: £4,482 million), calculated by discounting cash flows at prevailing interest rates. The notional amount outstanding of the debt portfolio at 31 March 2022 was £4,166 million (2021: £5,462 million).

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 £nil (2021: £472 million) in respect of cash received under collateral agreements.

LIBOR is being replaced as an interest rate benchmark by alternative reference rates. As at 31 March 2022 and 2021, there is no impact to the interest rate paid on borrowings.

At 31 March 2022, we had committed credit facilities of £350 million (2021: £350 million) of which £350 million was undrawn (2021: £350 million undrawn). All of the facilities at 31 March 2022 and at 31 March 2021 are available for liquidity purposes.

Included within borrowings repayable in less than 1 year, the Company has a £503 million GBP inflation linked bond with a maturity date of 14th December 2022.

Financial liability at fair value through profit and loss

The financial liability was designated at fair value through profit and loss. Up until the date of maturity in November 2021, the liability was analysed as follows:

i. the fair value of the liability was £699 million (2021: £682 million), which includes cumulative change in fair value attributable to changes in credit risk recognised in other comprehensive income, post tax of £nil million (2021: £1 million);

ii. the amount repayable at maturity in November 2021 was £699 million (2021: £684 million); and

iii. the difference between carrying amount and contractual amount at maturity in 2021 was £2million, 2022: £nil

The change in the fair value attributable to a change in credit risk is calculated as the difference between the total change in the fair value of the liability and the change in the value of the liability due to changes in market risk factors alone. The change in the fair value due to market risk factors was calculated using benchmark yield curves as at the end of the reporting period holding the credit risk margin constant. The fair value of the liability was calculated using observable market

Lease liabilities

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.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

18. Borrowings (continued)

	2022	2021
	£m	£m
Gross lease liabilities are repayable as follows:		
Less than 1 year	**4**	5
1 to 5 years	**6**	9
More than 5 years	**1**	6
	11	20
Less: finance charges allocated to future periods	**—**	(1)
	11	19
The present value of lease liabilities are as follows:		
Less than 1 year	**4**	5
1 to 5 years	**6**	9
More than 5 years	**1**	5
	11	19

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19. 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 represent 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.

	2022	2021
	£m	£m
Trade payables	**170**	124
Amounts owed to fellow subsidiaries of National Grid plc	**50**	18
Deferred income	**9**	1
Social security and other taxes	**36**	39
Other payables	**95**	74
	360	256

Due to their short maturities, the fair value of trade and other payables approximates their carrying value.

20. 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.

	2022	2021
	£m	£m
Current	**31**	32
Non-current	**102**	104
	133	136

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

	2022	2021
	£m	£m
As at 1 April 2021	**136**	132
Revenue recognised that was included in the contract liability balance at the beginning of the period	**(24)**	(33)
Increase due to cash received, excluding amounts recognised as revenue during the period	**21**	37
At 31 March 2022	**133**	136

21. Other non-current liabilities

Other non-current liabilities include deferred income which will not be recognised as income until after 31 March 2023. 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.

	2022	2021
	£m	£m
Other payables	**1**	6
	1	6

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22. Pensions and other post-retirement benefits

All of our employees are eligible to participate in a pension plan. We have defined contribution (DC) and defined benefit (DB) pension plans in the UK. The fair value of associated plan assets and present value of DB obligations are updated annually in accordance with IAS 19 ‘Employee Benefits’. 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.

Defined contribution plans

Employees of National Grid’s UK businesses are eligible to join the National Grid UK Retirement Plan (NGUKRP), a section of a Master Trust arrangement managed by Legal & General. National Grid pays contributions into the NGUKRP to provide DC benefits on behalf of its employees, generally providing a double match of member contributions up to maximum Company contribution of 12% of salary.

This plan is defined contribution in nature and is designed to provide members with a pension pot for their retirement. Investment risks are borne by the member and there is no legal or constructive obligation on National Grid to pay additional contributions in the instance that investment performance is poor. Payments to this DC plan are charged as an expense as they fall due.

Defined benefit ('DB') plan

National Grid Gas plc sponsors Section B of NGUKPS, a defined benefit pension plan which is now closed to new members. This plan is managed by a Trustee company with a board consisting of company- and member-appointed directors and holds its assets in separate Trustee administered funds. The net defined pension asset of the pension plan is reflected within the Company’s statement of financial position.

The pension plan is subject to independent actuarial funding valuations every three years and following consultation and agreement with the Company, the qualified actuary certifies the employers’ contributions, which, together with the specified contributions payable by the employees and proceeds from the plans’ assets, are expected to be sufficient to fund the benefits payable. The latest full actuarial valuation was carried out at 31 March 2019, with the Company agreeing to fund the assessed funding shortfall for Section B of NGUKPS via recovery plan payments of approximately £34m per annum with the last payment being made in September 2020. In addition, the Company has agreed to further cash contributions of up to £175 million, that become payable on trigger events linked to its credit rating. The Company continues to fund the cost of future benefit accrual (over and above member contributions), with the aggregate level of ongoing contributions in the year to March 2022 (excluding recovery plan payments) totalling £16 million (2021: £20 million; 2020: £26 million) and pays contributions in respect of plan administration costs and the Pension Protection Fund (PPF) levies.

Actuarial assumptions

On retirement, members of DB plans 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 plans 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.

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.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

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

The company has applied the following financial assumptions in assessing DB liabilities.

	2022	2021
	%	%
Discount rate - past service	**2.80**	2.00
Discount rate - future service	**2.85**	2.15
Rate of increase in salaries	**3.60**	3.40
Rate of increase in RPI - past service	**3.60**	3.15
Rate of increase in RPI - future service	**3.30**	3.00

Single equivalent financial assumptions are shown here for presentational purposes, although full yield curves have been used in our calculations. 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 with a further promotional scale also applying. 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 in Section B of the NGUKPS.

The table below sets out the projected life expectancies adopted for the Company's pension arrangements:

	2022	2021
	Years	Years
Assumed life expectations for a retiree age 65		
Males	**21.6**	21.5
Females	**23.5**	23.4
In 20 years:		
Males	**22.9**	22.9
Females	**25.0**	25.0

The weighted average duration of the DB obligation for Section B of NGUKPS is 14 years.

As at the reporting date, the present value of the funded obligations split according to member status, was approximately 6% active members (2021: 8%); 14% deferred members (2021: 14%) and 80% pensioner members (2021: 78%).

For sensitivity analysis see note 30.

Amounts recognised in the consolidated statement of financial position

	2022	2021
	£m	£m
Present value of funded obligations	**(4,844)**	(5,090)
Fair value of scheme assets	**5,508**	5,446
Net defined benefit asset	**664**	356
Represented by:		
Asset	**664**	356
	664	356

The recognition of the pension assets reflects legal and actuarial advice that we have taken regarding recognition of surpluses under IFRIC 14. The Company has an unconditional right to a refund in the event of a winding up. The NGUKPS Trustees must seek the agreement of the Company to any benefit augmentation beyond the provisions set out in the Scheme Rules.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

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

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

	2022	2021
	£m	£m
Included within operating costs		
Administration costs	**4**	3
Included within payroll costs		
Defined benefit scheme costs:		
Current service cost	**9**	10
Past service cost - redundancies	**2**	—
Special termination benefit cost - redundancies	**4**	2
	15	12
Amounts charged to National Grid fellow group undertakings	**(8)**	(4)
Total amount included within payroll costs	**7**	8
Total of operating costs	**11**	11
Included within finance income and costs		
Net interest income	**(2)**	(14)
Total included in the consolidated income statement	**9**	(3)
Actuarial (gains)/losses on defined benefit obligations	**(24)**	472
Return on assets greater than discount rate	**(285)**	(222)
Total included in the consolidated statement of other comprehensive income	**(309)**	250

Reconciliation of the net defined benefit asset

	2022	2021
	£m	£m
Opening defined benefit asset	**356**	553
Net (charge)/credit recognised in the consolidated income statement	**(9)**	3
Amounts recharged to National Grid fellow group undertakings	**(8)**	(4)
Remeasurement effects recognised in the consolidated statement of other comprehensive income	**309**	(250)
Employer contributions	**16**	54
Closing net defined benefit asset	**664**	356

Changes in the present value of defined benefit obligations

	2022	2021
	£m	£m
Opening defined benefit obligations	**(5,090)**	(4,770)
Current service cost	**(9)**	(10)
Interest cost	**(24)**	(110)
Actuarial losses - experience	**(181)**	(18)
Actuarial gains/(losses) - demographic assumptions	**14**	(2)
Actuarial gains/(losses) - financial assumptions	**191**	(452)
Past service cost in respect of redundancies	**(2)**	—
Special termination benefit cost - redundancies	**(4)**	(2)
Benefits paid	**261**	274
Closing defined benefit obligations	**(4,844)**	(5,090)

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

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

The table below shows the movement in defined benefit assets over the year

	2022	2021
	£m	£m
Opening fair value of scheme assets	**5,446**	5,323
Interest income	**26**	124
Return on assets greater than assumed	**285**	222
Administration costs	**(4)**	(3)
Employer contributions	**16**	54
Benefits paid	**(261)**	(274)
Closing fair value of scheme assets	**5,508**	5,446
Actual return on scheme assets	**311**	346
Expected contributions to scheme in the following year	**17**	14

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

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

Main defined benefit risks

The Company underwrites the financial and demographic risks associated with the plan. Although the Trustee has sole responsibility for setting investment strategies and managing risks, the Company closely works with and supports the Trustee, to assist in mitigating the risks associated with the plan and to ensure that the plan is funded to meet its obligations.

The most significant risks associated with the DB plan are:

- Investment risk – the plan invests in a variety of asset classes, with actual returns likely to differ from the underlying discount rate adopted, impacting the funding position of the plan through the net balance sheet asset or liability. The plan 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;
- Changes in bond yields – liabilities are calculated using discount rates set with reference to the yields on high-quality corporate bonds prevailing in the UK and will fluctuate as yields change. Volatility of the net balance sheet asset or liability is controlled through liability-matching strategies. The investment strategies allow for the use of synthetic as well as physical assets to be used to hedge interest rate risk;
- 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 as well as bulk annuity buy-in policies. The investment strategies allow for the use of synthetic as well as physical assets to be used to hedge inflation risk;
- Member longevity – longevity is a key driver of liabilities and changes in life expectancy have a direct impact on liabilities. Improvements in life expectancy will lead to pension payments being paid for longer than expected and benefits ultimately being more expensive. This risk has been partly mitigated by recent scheme investment transactions including bulk annuity policy.
- 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. For our bulk annuity policy, various termination provisions were introduced in the contract, managing our exposure to counterparty risk. The insurer’s operational performance and financial strength is monitored on a regular basis;
- Default risk - investments are predominantly made in regulated markets in assets considered to be of investment grade. 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;
- Liquidity risk - the pension plans holds sufficient cash to meet benefit requirements, with other investments being held in liquid or realisable assets to meet unexpected cash flow requirements. The plans does not borrow money, or act as guarantor, to provide liquidity to other parties (unless it is temporary);
- 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.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

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

Defined benefit plan investment strategy

The Trustees, after taking advice from professional investment advisors and in consultation with National Grid Gas plc, set their key principles, including expected returns, risk and liquidity requirements. They formulate an investment strategy to manage risk through diversification, taking into account expected contributions, maturity of the pension liabilities, and the strength of the covenant. This strategy allocates investments between return-seeking assets such as equities and property, and liability-matching assets such as government securities, corporate bonds and the bulk annuity policy which are intended to protect the funding position.

The approximate asset allocation of the plan as at 31 March 2022 is as follows:

	2022	2021
	%	%
	%	%
Return - seeking assets	**21**	18
Liability - matching assets	**79**	82
	100	100

The allocation of assets by asset class is set out below. Within these asset allocations, there is significant diversification across regions, asset managers, currencies and bond categories.

	2022 Quoted £m	**2022 Unquoted £m**	**2022 Total £m**	2021 Quoted £m	2021 Unquoted £m	2021 Total £m
Equities	**382**	**192**	**574**	207	179	386
Corporate bonds	**1,606**	**—**	**1,606**	1,689	—	1,689
Government securities	**1,390**	**—**	**1,390**	1,390	—	1,390
Property	**—**	**237**	**237**	—	221	221
Diversified alternatives	**—**	**364**	**364**	—	357	357
Liability-matching assets[1]	**—**	**1,248**	**1,248**	—	1,302	1,302
Cash and cash equivalents	**—**	**89**	**89**	—	99	99
Other	**—**	**—**	**—**	—	2	2
	3,378	**2,130**	**5,508**	3,286	2,160	5,446

[1] This is in respect of a bulk annuity policy held by NGUKPS with a total value of £1,248 million (2021: £1,302 million). Included above is £510 million (2021: £670 million) of repurchase agreements. These are used to increase the market exposure of the liability-matching portfolios.

The Trustees 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 in those markets, process and financial security to manage the investments. Their performance is regularly reviewed against measurable objectives, consistent with the pension plan's long-term objectives and accepted risk levels.

The pension plan has a Responsible Investment (RI) Policy, which takes into account Environmental, Social and Governance (ESG) factors and incorporates the six UN-backed Principles for Responsible Investment (UNPRI). The Trustee board believes that ESG factors can be material to financial outcomes and should therefore be considered alongside other factors. They recognise that their primary responsibility remains a fiduciary one, i.e. their first duty is to ensure the best possible return on investments with the appropriate level of risk. However, they also recognise the increasing materiality of ESG factors and that they have a fiduciary and regulatory duty to consider RI, including ESG factors and their potential impact on the quality and sustainability of long-term investment returns. The principle defined contribution arrangement in the UK, the NGUKRP, is operated by Legal & General, which embeds ESG factors in the investment options offered to members. As well as offering a range of self-select ethical funds, it directly incorporates its Climate Impact Pledge into the default investment option, which acts to align the fund to a carbon net zero future.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

23. 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 and decommissioning costs for various sites we own or have owned 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.

Changes in the provision arising from revised estimates or discount rates or changes in the expected timing of expenditures that relate to property, plant and equipment are recorded as adjustments to their carrying value and depreciated prospectively over their remaining estimated useful economic lives; otherwise such changes are recognised in the income statement.

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

	Decommissioning £m	Environmental £m	Restructuring £m	Other £m	Total provisions £m
At 1 April 2020	73	12	1	44	130
Additions	—	—	1	8	9
Reclassifications	—	(1)	—	(13)	(14)
Unused amounts reversed	1	1	—	—	2
Unwinding of discount	(14)	—	(1)	(8)	(23)
At 31 March 2021	**60**	**12**	**1**	**31**	**104**
Additions	—	—	3	4	7
Unused amounts reversed	—	(2)	—	(2)	(4)
Unwinding of discount	1	—	—	—	1
Utilised	(21)	—	(2)	(4)	(27)
Other movements	—	—	—	(7)	(7)
At 31 March 2022	**40**	**10**	**2**	**22**	**74**

	2022 £m	2021 £m
Current	**33**	48
Non-current	**41**	56
	74	104

Decommissioning provision

The decommissioning provision represents expenditure relating to the demolition of gas-holders expected to be incurred until 2026.

Following the sale of the Gas Distribution business in 2016, the company sold 78 surplus land sites to a number of fellow National Grid Group undertakings and a legal agreement was entered into with these National Grid Gas Group companies to demolish the non-operational gas holders on these sites, creating a constructive obligation for the Company.

The undiscounted provision based on 0.5% real discount rate was £40 million (2021: £60 million).

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

23. Provisions (continued)

Environmental provision

The environmental provision represents the estimated restoration and remediation costs relating to operational sites owned by the Company. Cash flows are expected to be incurred until 2075, with £2 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 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 £10 million (2021: £13 million).

Restructuring provision

In 2022, we continued to undertake design and implementation activities in respect of our new operating model and cost efficiency programme, which resulted in the recognition of an increased provision of £3 million in the year (2021: £1 million). The income statement expense relating to the provision has been treated as an exceptional item, and details are provided in note 5.

Other provisions

Other provisions at 31 March 2022 include £10 million (2021: £11 million) in respect of legacy provisions recognised following the sale of the Gas Distribution (GD) business.

24. 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 2022 millions	Number of shares 2021 millions	**2022 £m**	2021 £m
At 31 March - ordinary shares 1 2/15 p each				
Allotted, called-up and fully paid	**3,944**	3,944	**45**	45

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.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

25. 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 cost of hedging reserve, the capital redemption reserve, cash flow hedge reserve and own credit reserve. The capital redemption reserve arose from the refinancing and restructuring of the Lattice Group in 1999. It represents the amount of the reduction in share capital of the Company as a consequence of that restructuring. Cost of hedging equity reserve arose as a result of the adoption of IFRS 9 on 1 April 2018. Cash flow hedge represents the Group's cash flow hedging activities (see note 29).

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.

	Cash flow hedge	Cost of hedging	Own credit	Capital redemption	Other equity
	£m	£m	£m	£m	£m
At 1 April 2021	(8)	—	1	1,332	1,325
Net gains/(losses) taken to equity	5	(5)	(1)	—	(1)
Transferred (from)/to profit or loss	(1)	1	—	—	—
Cash flow hedges transferred to the statement of financial position, net of tax	1	—	—	—	1
Tax	(1)	1	—	—	—
At 31 March 2022	**(4)**	**(3)**	**—**	**1,332**	**1,325**

26. Net debt

Net debt represents the amount of cash and financial investments held, less borrowings, overdrafts and related derivatives.

Funding and liquidity risk management is carried out by the central National Grid plc treasury function under policies and guidelines approved by Finance Committee of the National Grid plc Board, these policies have been deemed applicable at NGG 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 financing activities can be found in note 29 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

	2022	2021
	£m	£m
(Decrease)/Increase in cash and cash equivalents	**(1)**	8
Increase/(Decrease) in financial investments	**(861)**	599
(Increase)/decrease in borrowings and related derivatives	**1,133**	(380)
Net interest paid on the components of net debt	**47**	40
Change in net debt resulting from cash flows	**318**	267
Changes in fair value of financial assets and liabilities and exchange movements	**11**	(14)
Net interest charge on the components of net debt	**(204)**	(49)
Other non-cash movements	**(5)**	(9)
Movement in net debt (net of related derivative financial instruments) in the year	**120**	195
Net debt (net of related derivative financial instruments) at the start of the year	**(3,780)**	(3,975)
Net debt (net of related derivative financial instruments) at the end of the year	**(3,660)**	(3,780)

26. Net debt (continued)

Composition of net debt

Net debt is summarised as follows:

	2022 **£m**	2021 £m
Cash, cash equivalents and financial investments	**438**	1,296
Borrowings and bank overdrafts	**(4,170)**	(5,494)
Derivatives	**72**	418
	(3,660)	(3,780)

(b) Analysis of changes in net debt

	Cash and cash equivalents £m	Financial investments £m	Borrowings £m	Financial derivatives £m	Total debt £m
At 1 April 2020	(7)	693	(5,235)	574	(3,975)
Cash flow	8	557	(248)	(50)	267
Fair value gains and losses	—	—	47	(160)	(113)
Foreign exchange movements	—	—	99	—	99
Interest income/(charges)	—	45	(148)	54	(49)
Other non-cash movements	—	—	(9)	—	(9)
At 31 March 2021	1	1,295	(5,494)	418	(3,780)
Cash flow	(1)	(906)	1,562	(337)	318
Fair value gains and losses	—	—	39	(19)	20
Foreign exchange movements	—	—	(9)	—	(9)
Interest income/(charges)	—	49	(269)	16	(204)
Other non-cash movements	—	—	1	(6)	(5)
At 31 March 2022	**—**	**438**	**(4,170)**	**72**	**(3,660)**
Balances at 31 March 2022 comprise:					
Non-current assets	—	—	—	87	87
Current assets	—	438	—	6	444
Current liabilities	—	—	(843)	—	(843)
Non-current liabilities	—	—	(3,327)	(21)	(3,348)
	—	**438**	**(4,170)**	**72**	**(3,660)**

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

27. 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 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.

Future capital expenditure

	2022	2021
	£m	£m
Future capital expenditure		
Contracted for but not provided	**205**	188

Other commitments, contingencies and guarantees

The value of other commitments and guarantees at 31 March 2022 amounted to £52 million (2021: £52 million), including energy purchase commitments amounting to £27 million (2021: £3 million). Energy purchase commitments relate to contractual commitments to purchase electricity or gas that are used to satisfy physical delivery requirements to our customers or for energy that we use ourselves (i.e. normal purchase, sale or usage) and hence are accounted for as ordinary purchase contracts.

Security arrangements in favour of NGUKPS Trustees are disclosed separately in note 22.

Parent Company loan guarantees on behalf of subsidiaries

The Company has guaranteed the repayment of principal sums, any associated premium and interest on specific loans due from its subsidiaries to third parties. At 31 March 2022, the sterling equivalent amounted to £nil million (2021: £684 million).

Litigation and claims

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 and claims.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

28. 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 Gas 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:

	2022	2021
	£m	£m
Income:		
Goods and services supplied	**12**	9
Expenditure:		
Services received	**6**	18
Corporate services received	**9**	9
Charges in respect of pensions costs	**18**	13
Interest received on borrowings from fellow subsidiaries	**46**	43
	79	83
Outstanding balances at 31 March in respect of income, expenditure and settlement of corporation tax:		
Amounts receivable	**20**	45
Amounts payable	**93**	79
Advances to ultimate parent (due within one year)	**403**	1,186
At 31 March	**403**	1,186
Advances to parent company (due after more than one year):[1]	**3,426**	3,426
At 31 March	**3,426**	3,426

[1] Immediate parent company is National Grid Gas Holdings Limited (NGGH).

There were no advances to other related parties at 31 March 2022 (2021: £nil).

Amounts receivable from or payable to related parties in respect of sales and expenditure are ordinarily settled one month in arrears. The advance to the parent due after more than one year is not interest bearing. Advances to and borrowings from fellow subsidiaries are repayable on demand and bear interest at commercial rates.

No amounts have been provided at 31 March 2022 (2021: £nil) and no expense has been recognised during the year (2021: £nil) in respect of bad or doubtful debts for related party transactions.

Details of guarantees provided in respect of related parties are provided in note 27.

Details of key management compensation are provided in note 4(c).

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

29. Financial risk management

Our activities expose us to a variety of financial risks including currency risk, interest rate risk, credit risk, capital risk and liquidity 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 NGG by their respective boards 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 National Grid plc 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.

We have exposure to the following risks, which are described in more detail below:

- credit risk;
- liquidity risk;
- currency risk;
- interest rate risk;
- 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 NGG 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 now treated separately as costs hedging, with the cost of hedging 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 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 our cash and cash equivalents, derivative financial instruments, deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

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.

At 31 March 2021 and 2022, 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.

Wholesale

Our principal commercial exposure in the UK is governed by the credit rules within the Uniform Network Code. These set out the level of credit relative to the RAV for each credit rating. We are committed to measuring, monitoring, minimising and recording counterparty credit risk in our wholesale business. The utilisation of credit limits is regularly monitored and collateral is collected against these accounts when necessary. Management does not expect any significant losses of receivables that have not been provided for as shown in note 15.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

29. Financial risk management (continued)

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 National Grid Gas's net exposure.

Financial assets and liabilities on different transactions would only be reported net in the balance sheet if the transactions were with the same counterparty, a currently enforceable legal right of offset exists, and the cash flows were 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, there are no 'Gross amounts offset' under cash pooling arrangements (2021: £0 million). Our UK bank accounts for National Grid Gas subsidiaries participate in GBP, EUR and USD Composite Accounting System overdraft facilities subject to offsetting gross and net overdraft limits. EUR and USD offsetting arrangements have been discontinued in the year and GBP offsetting arrangements have no impact as at 31 March 2022.

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			
As at 31 March 2022	***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	**93**	**—**	**93**	**(6)**	**—**	**87**
	93	**—**	**93**	**(6)**	**—**	**87**
Liabilities						
Derivative financial instruments	**(21)**	**—**	**(21)**	**6**	**—**	**(15)**
	(21)	**—**	**(21)**	**6**	**—**	**(15)**
Total	**72**	**—**	**72**	**—**	**—**	**72**

			Related amounts available to be offset but not offset in statement of financial position			
As at 31 March 2021	*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	523	—	523	(21)	(462)	40
	523	—	523	(21)	(462)	40
Liabilities						
Derivative financial instruments	(105)	—	(105)	21	83	(1)
	(105)	—	(105)	21	83	(1)
Total	418	—	418	—	(379)	39

(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.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

29. Financial risk management (continued)

We believe our contractual obligations, including those shown in commitments and contingencies in note 27 can be met from existing cash and investments, operating cash flows and internal or external financing 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, restrictions on disposals 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 to access the capital markets.

The following is a payment profile of our financial liabilities and derivatives:

At 31 March 2022	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	**(808)**	**—**	**(82)**	**(3,266)**	**(4,156)**
Interest payments on borrowings[1]	**(89)**	**(76)**	**(76)**	**(1,062)**	**(1,303)**
Lease liabilities	**(4)**	**(3)**	**(2)**	**(2)**	**(11)**
Other non-interest bearing liabilities	**(265)**	**(1)**	**—**	**—**	**(266)**
Derivative financial liabilities					
Derivative contracts - receipts[2]	**—**	**26**	**—**	**—**	**26**
Derivative contracts - payments[2]	**(2)**	**(31)**	**(6)**	**(111)**	**(150)**
Derivative financial assets					
Derivative contracts - receipts[2]	**61**	**25**	**238**	**178**	**502**
Derivative contracts - payments[2]	**(43)**	**(16)**	**(208)**	**(151)**	**(418)**
Total at 31 March 2022	**(1,150)**	**(76)**	**(136)**	**(4,414)**	**(5,776)**

At 31 March 2021	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	(1,424)	(777)	—	(3,241)	(5,442)
Interest payments on borrowings[1]	(101)	(86)	(72)	(1,031)	(1,290)
Lease liabilities	(5)	(4)	(2)	(9)	(20)
Other non-interest bearing liabilities	(198)	(6)	—	—	(204)
Derivative financial liabilities					
Derivative contract - receipts[2]	23	2	24	9	58
Derivative contract - payments[2]	(32)	(4)	(30)	(127)	(193)
Derivative financial assets					
Derivative contract - receipts[2]	856	73	20	422	1,371
Derivative contract - payments[2]	(441)	(44)	(7)	(360)	(852)
Total at 31 March 2021	(1,322)	(846)	(67)	(4,337)	(6,572)

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).

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

29. Financial risk management (continued)

(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 2022 and 2021, derivative financial instruments were used to manage foreign currency risk as follows:

	2022				
	Sterling £m	**Euro £m**	**Dollar £m**	**Other £m**	**Total £m**
Cash and cash equivalents	**—**	**—**	**—**	**—**	**—**
Financial investments	**438**	**—**	**—**	**—**	**438**
Borrowings	**(3,983)**	**—**	**—**	**(187)**	**(4,170)**
Pre-derivative position	**(3,545)**	**—**	**—**	**(187)**	**(3,732)**
Derivative effect	**(127)**	**12**	**—**	**187**	**72**
Net debt position	**(3,672)**	**12**	**—**	**—**	**(3,660)**

	2021				
	Sterling £m	Euro £m	Dollar £m	Other £m	Total £m
Cash and cash equivalents	1	—	—	—	1
Financial investments	1,295	—	—	—	1,295
Borrowings	(4,604)	—	(682)	(208)	(5,494)
Pre-derivative position	(3,308)	—	(682)	(208)	(4,198)
Derivative effect	(486)	21	675	208	418
Net debt position	(3,794)	21	(7)	—	(3,780)

There was no significant currency exposure on other financial instruments, including trade receivables and payables and other receivables and payables.

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.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

29. Financial risk management (continued)

(d) Interest rate risk

National Grid Gas' 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 for USD and Sterling Overnight Index Average (SONIA) for GBP.

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 transitioning LIBOR cash flows to alternative reference rates on our affected contracts in line with the relevant jurisdictions. The migration project is underway, with all affected contracts where we previously paid or received GBP LIBOR amended in the year to 31 March 2022 (see note 18). The Finance Committee of the Board have delegated to the treasury department the authority to determine which benchmarks are the most appropriate. Successor benchmarks, primarily GBP SONIA and USD Secured Overnight Financing Rate (SOFR) will be used in the portfolio during the migration period.

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 18 (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 2022 and 2021, net debt was managed using derivative instruments to hedge interest rate risk as follows:

	2022			
	Fixed rate £m	**Floating rate £m**	**RPI £m**	**Total £m**
Cash and cash equivalents	**—**	**—**	**—**	**—**
Financial investments	**—**	**438**	**—**	**438**
Borrowings	**(1,169)**	**—**	**(3,001)**	**(4,170)**
Pre-derivative position	**(1,169)**	**438**	**(3,001)**	**(3,732)**
Derivative effect	**253**	**(203)**	**22**	**72**
Net debt position	**(916)**	**235**	**(2,979)**	**(3,660)**

	2021			
	Fixed rate £m	Floating rate £m	RPI £m	Total £m
Cash and cash equivalents	—	1	—	1
Financial investments	—	1,295	—	1,295
Borrowings	(1,897)	(472)	(3,125)	(5,494)
Pre-derivative position	(1,897)	824	(3,125)	(4,198)
Derivative effect	998	(515)	(65)	418
Net debt	(899)	309	(3,190)	(3,780)

Hedge accounting for interest rate risk

Borrowings paying variable or floating rates expose National Grid Gas 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 Gas 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.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

29. Financial risk management (continued)

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.

The Group early-adopted Phase I of IFRS Interest Rate Benchmark Reform amendments related to hedge accounting, with effect from 1 April 2019, and Phase II with effect from 1 April 2020. The amendments impact our fair value hedging relationships where derivative cash flows will have been transitioned from paying LIBOR to paying an alternative reference rate. The hedged risk must be re-documented to reflect this, and allow existing hedge designations to continue unchanged during the period of uncertainty relating to the timing and method of benchmark migrations. This process has been completed for sterling LIBOR contracts.

The amendments will be applied until the earliest 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 29(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:

Year ended 31 March 2022	Fair value hedges of foreign currency and interest rate risk	Cash flow hedges of foreign currency and interest rate risk	Cash flow hedges of foreign currency risk
	£m	£m	£m
Consolidated statement of comprehensive income			
Net gains/(losses) in respect of:			
Cash flow hedges	—	5	—
Cost of hedging	(3)	(2)	—
Transferred to profit or loss in respect of:			
Cash flow hedges	—	(4)	—
Cost of hedging	1	—	—
Consolidated statement of changes in equity			
Other equity reserves - cost of edging balances	(5)	1	—
Consolidated statement of financial position			
Derivatives - carrying value of hedging instruments[1]			
Assets - current	6	—	—
Assets - non-current	49	30	—
Liabilities - current	—	—	—
Liabilities - non-current	(14)	—	(1)
Profiles of the significant timing, price and rate information of hedging instruments			
Maturity range	Jan 2023 - May 2038	Mar 2029 - Nov 2029	Aug 2023
Spot FX range			
GBP USD	1.64	1.65 - 1.66	n/a
GBP EUR	n/a	n/a	1.07
Interest rate range			
GBP	SONIA +42bps/ +432bps	1.795%	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.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

29. Financial risk management (continued)

Year ended 31 March 2021	Fair value hedges of foreign currency and interest rate risk	Cash flow hedges of foreign currency and interest rate risk	Cash flow hedges of foreign currency risk
	£m	£m	£m
Consolidated statement of comprehensive income			
Net losses in respect of:			
Cash flow hedges	—	(1)	(2)
Cost of hedging	(5)	(2)	—
Transferred to profit or loss in respect of:			
Cash flow hedges	—	4	—
Cost of hedging	1	—	—
Consolidated statement of changes in equity			
Other equity reserves - cost of edging balances	(2)	2	—
Consolidated statement of financial position			
Derivatives - carrying value of hedging instruments[1]			
Assets - current			
Assets - non-current	71	26	
Liabilities - current			
Liabilities - non-current	(14)	(15)	(1)
Profiles of the significant timing, price and rate information of hedging instruments			
Maturity range	Jan 2023 - Jan 2043	Mar 2029 - Nov 2029	Aug 2023
Spot FX range			
GBP USD	1.64	1.65 - 1.66	n/a
GBP EUR	n/a	n/a	1.07
Interest rate range			
GBP	Libor +30bps/+409bps	1.795% - 5.845%	n/a

The following tables show the effects of hedge accounting on financial position and year-to-date performance for each type of hedge:

(i) Fair value hedges of foreign currency and interest rate risk on recognised borrowings as at 31 March 2022:

At 31 March 2022		Balance of fair value hedge adjustments in borrowings		Change in value used for calculating ineffectiveness		
	Hedging instrument nominal [2]	Continuing hedges	Discontinued hedges	Hedged item	Hedging instrument	Hedge ineffectiveness
Hedge type	£m	£m	£m	£m	£m	£m
Foreign currency and interest rate risk on borrowings[1]	(274)	52	(41)	22	(21)	1

1 The carrying value of the hedged borrowings is £307 million, of which £18 million is current and £289 million is non-current.

2 Included within the hedging instrument notional balance is £274 million (2021: £278 million) impacted by Interest Rate Benchmark Reform amendments.

At 31 March 2021		Balance of fair value hedge adjustments in borrowings		Change in value used for calculating ineffectiveness		
	Hedging instrument nominal [1]	Continuing hedges	Discontinued hedges	Hedged item	Hedging instrument	Hedge ineffectiveness
Hedge type	£m	£m	£m	£m	£m	£m
Foreign currency and interest rate risk on borrowings	(354)	24	(42)	51	(48)	3

1 The carrying value of the hedged borrowings was £364 million, all of which is non-current.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

29. Financial risk management (continued)

(ii) Cash flow hedges of foreign currency and interest rate risk as at 31 March 2022:

		Balance in cash flow hedge reserve		Change in value used for calculating ineffectiveness		
	Hedging instrument nominal [1]	Continuing hedges	Discontinued hedges	Hedged item	Hedging instrument	Hedge ineffectiveness
Hedge type	£m	£m	£m	£m	£m	£m
Foreign currency and interest rate risk on borrowings	(108)	(5)	—	(10)	5	(5)
Foreign currency risk on forecasted cash flows	(11)	(1)	1	—	—	—

[1] Included within the hedging instrument notional balance is £52 million (2021: £76 million) impacted by Interest Rate Benchmark Reform amendments.

At 31 March 2021		Balance in cash flow hedge reserve		Change in value used for calculating ineffectiveness		
	Hedging instrument nominal	Continuing hedges	Discontinued hedges	Hedged item	Hedging instrument	Hedge ineffectiveness
Hedge type	£m	£m	£m	£m	£m	£m
Foreign currency and interest rate risk on borrowings	(145)	(3)	(6)	1	(1)	—
Foreign currency risk on forecasted cash flows	(21)	(1)	—	2	(2)	—

[1] Included within the hedging instrument notional balance is £76 million (2020: £76 million) impacted by Interest Rate Benchmark Reform amendments.

(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 a financial instrument is not active, a valuation technique is used.

	2022				2021			
	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	**—**	**93**	**—**	**93**	—	523	—	523
	—	**93**	**—**	**93**	—	523	—	523
Liabilities								
Derivative financial instruments	**—**	**(21)**	**—**	**(21)**	—	(40)	(65)	(105)
Liabilities held at fair value	—	—	—	—	(682)	—	—	(682)
	—	**(21)**	**—**	**(21)**	(682)	(40)	(65)	(787)
	—	**72**	**—**	**72**	(682)	483	(65)	(264)

Level 1: Financial instruments with quoted prices for identical instruments in active markets.

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 1 financial liability held at fair value is valued using quoted prices from liquid markets.

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 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.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

29. Financial risk management (continued)

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.

(f) Fair value analysis (continued)

The changes in value of our level 3 derivative financial instruments are as follows:

	Financing derivatives	
	2022	**2021**
	£m	£m
At 1 April	**(65)**	(85)
Net gain for the year[1]	**65**	19
Settlements	**—**	1
At 31 March	**—**	(65)

1 £Nil (2021: £19 million loss) 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:

	Financing derivatives	
	2022	2021
	£m	£m
+20 basis points change in LPI (Limited Price Inflation) market curve[1]	**—**	(31)
-20 basis points change in LPI market curve[1]	**—**	31

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.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

29. Financial risk management (continued)

(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 26). Our objectives when managing capital are: to safeguard our ability to continue as a going concern, to remain within regulatory constraints of our regulated operating company 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 62.5% - 65%. The RAV gearing ratio at 31 March 2022 was 62% (2021: 60%).

Group companies are 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;
- 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 Gas 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 alteration in the normal licence review process.

As most of our business is regulated, at 31 March 2022 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 Group has complied with all externally imposed capital requirements to which it is subject.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

30. 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 estimation uncertainty

The table below sets out the sensitivity analysis for certain areas of estimation uncertainty set out in note 1E. 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.

	2022		2021	
	Income statement £m	**Net assets £m**	Income statement £m	Net assets £m
Pensions obligations benefit (pre-tax)[1]				
Discount rate change of 0.5%[2]	**1**	**357**	1	357
RPI rate change of 0.5%[3]	**1**	**286**	1	286
Long-term rate of increase in salaries change of 0.5%[4]	**—**	**14**	—	14
Change of one year to life expectancy at age 65	**—**	**227**	—	227

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.

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 2022. 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 are recognised.

(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 26 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.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

30. Sensitivities (continued)

(b) Sensitivities on financial instruments (continued)

The following main assumptions were made in calculating the sensitivity analysis for continuing operations:

- 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 2022 and 2021 respectively;
- the statement of financial position sensitivity to interest rates relates to items presented at their fair values: derivative financial instruments; our investments measured at fair value through profit and loss (FVTPL) and fair value through other comprehensive income; and our liability measured at FVTPL. 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;
- 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.

	2022		2021	
	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]	**12**	**—**	13	—
UK Interest rate changes of 0.5%	**1**	**3**	—	4

1 Excludes sensitivities to LPI curve in 31 March 2021. No LPI derivative held as at 31 March 2022. Further details on sensitivities are provided in note 29.

Additional sensitivities in respect to our derivative fair values are as follows:

	2022		2021	
	Income statement	**Net assets**	**Income statement**	**Net assets**
Assets and liabilities carried at fair value (post-tax):	**£m**	**£m**	£m	£m
10% fair value change in derivative financial instruments[1]	**6**	**6**	34	34

1 The effect of a 10% change in fair value assumes no hedge accounting.

31. Ultimate parent company

This note shows the immediate and ultimate parent companies for these consolidated financial statements.

National Grid Gas plc's immediate parent company is National Grid Gas Holdings Limited. The ultimate parent company and controlling party is National Grid plc. Both of these companies are incorporated in Great Britain and are registered in England and Wales. National Grid plc consolidates the financial statements of National Grid Gas plc. Copies of the consolidated financial statements of National Grid plc may be obtained from the Company Secretary, 1-3 Strand, London WC2N 5EH.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

32. Subsidiary undertakings, joint ventures and associates

While we present consolidated results in these financial statements as if we were one company, our legal structure is such that there are a number of different operating and holding companies that contribute to the overall result. This structure has evolved through acquisitions as well as regulatory requirements to have certain activities within separate legal entities.

Subsidiary undertakings

The list below contains all subsidiaries included within the National Grid Gas plc Group.

	Principal activity		Holding
National Grid Metering Limited (incorporated in England and Wales) 1 - 3 Strand, London, WC2N 5EH	Gas metering services	Direct	100 %

Other equity investments

The list below contains all other equity investments included within the National Grid Gas plc Group.

	Principal activity	Holding
PRISMA European Capacity Platform GmbH (incorporated in Germany)	Trading platform	12 %
Joint Radio Company Limited (incorporated in England and Wales)	Consultancy services	25 %

PRISMA European Capacity Platform GmbH is based at Reichsstraße 1-9, Leipzig, Saxony 04109, Germany.

Joint Radio Company Limited is based at Friars House, Manor House Drive, Coventry, England, CV1 2TE.

33. Events after the reporting period

There were no events after the reporting period.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

Company balance sheet

as at 31 March

	Notes	2022 £m	2021 £m
Fixed assets			
Intangible assets	5	**130**	105
Property, plant and equipment	6	**4,621**	4,625
Investments	7	**1**	17
		4,752	4,747
Current assets			
Cash at bank and in hand		**—**	—
Stocks and other current assets	8	**12**	13
Debtors (amounts falling due within one year)	9	**606**	1,454
Debtors (amounts falling due after more than one year)	9	**3,453**	3,474
Derivative financial instruments (amounts falling due within one year)	10	**6**	405
Derivative financial instruments (amounts falling due after more than one year)	10	**87**	118
Financial assets and other investments	11	**34**	108
Post employment benefits pension asset	15	**664**	356
		4,862	5,928
Creditors (amounts falling due within one year)	12	**(1,382)**	(1,913)
Net current assets		**3,480**	4,015
Total assets less current liabilities		**8,232**	8,762
Creditors (amounts falling due after more than one year)	13	**(3,455)**	(4,243)
Provisions for liabilities	16	**(846)**	(616)
Net assets		**3,931**	3,903
Equity			
Share capital	17	**45**	45
Share premium account		**204**	204
Other equity reserve	18	**1,325**	1,325
Profit and loss account		**2,357**	2,329
Total shareholders' equity		**3,931**	3,903

The Company financial statements set out on pages **116 to 129** were approved by the Board of Directors and authorised for issue on 19 July 2022. They were signed on its behalf by:

DocuSigned by:
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Jon Butterworth Director

DocuSigned by:
Nick Hooper
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Nick Hooper Director

National Grid Gas plc

Registered number: 2006000

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

Company statement of changes in equity

for the years ended 31 March

	Share capital	Share premium account	Retained earnings	Other reserves[1]	Shareholders' equity
	£m	£m	£m	£m	£m
At 1 April 2020	45	204	2,302	1,337	3,888
Profit for the year	—	—	363	—	363
Total other comprehensive income for the year	—	—	(203)	(12)	(215)
Total comprehensive income/(loss) for the year	—	—	160	(12)	148
Equity dividends	—	—	(137)	—	(137)
Share-based payments	—	—	4	—	4
At 31 March 2021	**45**	**204**	**2,329**	**1,325**	**3,903**
Profit for the year		—	99	—	99
Total other comprehensive income for the year	—	—	217	—	217
Total comprehensive income for the year	—	—	316	—	316
Equity dividends	—	—	(295)	—	(295)
Share-based payments	—	—	6	—	6
At 31 March 2022	**45**	**204**	**2,356**	**1,325**	**3,930**

Other reserves comprise the capital redemption reserve arising from the refinancing and restructuring of the Lattice Group in 1999. It represents the amount of the reduction in the share capital of the Company as a consequence of that restructuring. As the amounts included in other reserves are not attributable to any of the other classes of equity presented, they have been disclosed as a separate classification of equity.

The Company is prohibited from declaring a dividend or other distribution unless it has certified that it is in compliance in all material respects with certain regulatory obligations, including a requirement to ensure it has sufficient financial resources and facilities to enable it to carry on its business and a requirement to use all reasonable endeavours to maintain an investment grade credit rating.

The Company has not presented its own profit and loss account and related notes as permitted by section 408 of the Companies Act 2006. The Company's profit after taxation was £99 million (2021: £363 million).

For further details of dividends paid and payable to shareholders, refer to note 8 in the consolidated financial statements.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

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 Gas 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 FRS101

National Grid Gas plc's principal activities involve the transmission of gas 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 31 to the consolidated financial statements.

These individual financial statements of the Company have been prepared on an 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 2019 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 pages 44.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

2. Auditors' remuneration

Auditors' remuneration in respect of the Company is set out below:

	2022	2021
	£m	£m
Audit services		
Audit fee of Company	**0.4**	0.4
Other services		
Fees payable to the Company's auditors for audit related assurance services[1]	**1.3**	0.8

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

	2022	2021
	Monthly Average	Monthly average
	number	number
Gas Transmission	**1,927**	1,946

4. Key management compensation and Directors' emoluments

Key management comprises the Board of Directors of the Company together with those Executive Directors of National Grid plc who have managerial responsibility for National Grid Gas plc. Details of key management personnel compensation are provided in note 4(c) to the consolidated financial statements.

Details of Directors' emoluments are provided in note 4(d) to the consolidated financial statements.

5. Intangible assets

	Software	Assets in the course of construction	Total
	£m	£m	£m
Cost at 1 April 2021	**362**	**27**	**389**
Additions	53	—	53
Transfer	9	—	9
Disposals	(5)	—	(5)
Reclassifications	27	(27)	—
Cost at 31 March 2022	**446**	**—**	**446**
Accumulated amortisation at 1 April 2021	**(284)**	**—**	**(284)**
Amortisation charge for the year	(37)	—	(37)
Disposals	5	—	5
Accumulated amortisation at 31 March 2022	**(316)**	**—**	**(316)**
Net book value at 31 March 2022	**130**	**—**	**130**
Net book value at 31 March 2021	105	—	105

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

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 2021	325	8,412	450	258	9,445
Additions	8	15	187	2	212
Disposals	(26)	(63)	—	(13)	(102)
Transfers	—	—	(9)	—	(9)
Reclassifications[1]	—	53	(67)	14	—
Cost at 31 March 2022	307	8,417	560	261	9,545
Accumulated depreciation at 1 April 2021	(199)	(4,405)	(5)	(211)	(4,820)
Depreciation charge for the year	(8)	(156)	—	(17)	(181)
Disposals	22	45	—	13	80
Impairment	—	(2)	(1)	—	(3)
Accumulated depreciation at 31 March 2022	(191)	(4,512)	(6)	(215)	(4,924)
Net book value at 31 March 2022	**116**	**3,905**	**554**	**46**	**4,621**
Net book value at 31 March 2021	126	4,007	445	47	4,625

1 Represents amounts transferred between categories, (to)/from other intangible assets (see note 5) and also includes £6m transferred from inventory, a reclassification made to better reflect the nature of the assets.

The net book value of land and buildings comprised:

	2022	2021
	£m	£m
Freehold	**103**	66
Long Leasehold	**11**	—
Short leasehold (under 50 years)	**2**	60
	116	126

Right-of-use assets

National Grid Gas plc 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 by the company (see note 21). 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 Gas plc continues to recognise a lease expense on a straight-line basis.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

6. Property, plant and equipment (continued)

The table below shows the movements in the net book value of right-of-use assets included within property, plant and equipment at 31 March 2022 and 31 March 2021, split by category.

	Land and buildings	Motor vehicles and office equipment	Total
	£m	£m	£m
Net book value at 1 April 2020	13	3	16
Additions	6	3	9
Disposals	—	(1)	(1)
Depreciation charge for the year ended 31 March 2021	(4)	(2)	(6)
Net book value at 31 March 2021	**15**	**3**	**18**
Additions	—	2	2
Disposals	(6)	—	(6)
Depreciation charge for the year ended 31 March 2022	(3)	(2)	(5)
Net book value at 31 March 2022	**8**	**3**	**11**

The following balances have been included in the income statement for the year ended 31 March 2022 in respect of right-of-use assets:

	Total
	£m
Included within revenue:	
Lease income	**2**

The associated lease liabilities are disclosed in note 14.

7. Investments

	2022	2021
	£m	£m
Shares in subsidiary undertakings	**1**	17

The names of the subsidiary undertakings and joint ventures are included in note 32 to the consolidated financial statements.

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

8. Stocks and other current assets

	2022	2021
	£m	£m
Raw materials and consumables	**9**	9
Other current assets - emission allowances	**3**	4
	12	13

There is a provision for obsolescence of £1m against inventories as at 31 March 2022 (2021: £4m).

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

9. Debtors

	2022 £m	2021 £m
Amounts falling due within one year:		
Trade debtors	**32**	58
Amounts owed by fellow subsidiary undertakings	**415**	1,227
Other debtors	**13**	16
Contract assets	**113**	121
Prepayments	**33**	32
	606	1,454
Amounts falling due after one year:		
Amounts owed by immediate parent undertaking[1]	**3,427**	3,426
Other debtors	**26**	48
	3,453	3,474
Total debtors	**4,059**	4,928

[1] Immediate parent company is National Grid Gas Holdings Limited (NGGH).

The carrying values stated above are considered to represent the fair values of the assets.

10. Derivative financial instruments

The fair values of derivative financial instruments are:

	2022			2021		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
Amounts falling due within one year	**6**	**—**	**6**	405	(8)	397
Amounts falling due after more than one year	**87**	**(21)**	**66**	118	(97)	21
	93	**(21)**	**72**	523	(105)	418

For each class of derivative the notional contract amounts[1] are as follows:

	2022 £m	2021 £m
Interest rate swaps	**(274)**	(651)
Cross-currency interest rate swaps	**(146)**	(563)
Foreign exchange forward currency	**(33)**	(25)
Inflation linked swaps	**—**	(200)
	(453)	(1,439)

[1] The notional contract amounts of derivatives indicate the gross nominal value of transactions outstanding at the balance sheet date.

For details on fair value techniques and assumptions, refer to note 29 to the consolidated financial statements.

11. Financial assets and other investments

	2022 £m	2021 £m
Collateral[1]	**—**	87
Amounts due from fellow subsidiaries	**24**	21
NIC restricted cash deposits	**10**	—
	34	108

[1] Includes collateral placed with counterparties with whom we have entered into a credit support annex to the ISDA Master Agreement £nil, (2021: £87 million).

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

12. Creditors (amounts falling due within one year)

	2022 £m	2021 £m
Derivative financial instruments (note 10)	—	8
Borrowings (note 14)	985	1,595
Trade creditors	100	86
Amounts owed to fellow subsidiary undertakings	40	28
Corporation tax	31	31
Other taxation and social security	38	40
Other creditors	120	100
Deferred income	68	25
	1,382	1,913

13. Creditors (amounts falling due after more than one year)

	2022 £m	2021 £m
Derivative financial instruments (note 10)	21	97
Borrowings (note 14)	3,327	4,036
Other creditors	6	6
Accruals and deferred income	101	104
	3,455	4,243

14. Borrowings

The following table analyses the Company's total borrowings:

	2022 £m	2021 £m
Amounts falling due within one year:		
Bank loans and overdrafts	293	742
Bonds	544	58
Lease liabilities	4	5
Borrowings from fellow subsidiary undertakings	143	789
Other loans	1	1
	985	1,595
Amounts falling due after more than one year:		
Bank loans	—	279
Bonds	3,185	3,587
Lease liabilities	6	14
Other loans	136	156
	3,327	4,036
Total borrowings	4,312	5,631

Total borrowings are repayable as follows:		
Less than 1 year	985	1,595
In 1 - 2 years	—	777
In 2 - 3 years	88	—
In 3 - 4 years	15	90
In 4 - 5 years	—	17
More than 5 years by instalments	49	47
More than 5 years, other than by instalments	3,175	3,105
	4,312	5,631

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14. Borrowings (continued)

The notional amount outstanding of the Company's debt portfolio at 31 March 2022 was £4,309m (2021: £5,567m).

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

Lease liabilities

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.

	2022 £m	2021 £m
Gross lease liabilities are repayables as follows:		
Less than 1 year	**4**	5
1 to 5 years	**7**	9
More than 5 years	**2**	6
	13	20
Less: finance charges allocated to future periods	**—**	(1)
	13	19
The present value of lease liabilities are as follows:		
Less than 1 year	**3**	5
1 to 5 years	**—**	9
More than 5 years	**7**	5
	10	19

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

15. Pensions

National Grid Gas plc's employees are members of either a defined benefit pension scheme (primarily Section B of the National Grid UK Pension Scheme) or of a defined contribution plan.

Further details of the National Grid UK Pension Scheme and the actuarial assumptions used to value the associated assets and pension obligations are provided in note 22 to the consolidated financial statements.

Up to 31 March 2021, the National Grid YouPlan (a defined contribution plan) was the qualifying plan for automatic enrolment of new hires. Since 1 April 2021 the National Grid UK Retirement Plan (NGUKRP), a Master Trust arrangement managed by Legal & General, replaced YouPlan as the defined contribution plan available to members and all subsequent contributions will be paid to NGUKRP. YouPlan has now been wound up with all existing member funds transferred to NGUKRP.

Amounts recognised in the Company balance sheet

	2022	2021
	£m	£m
Present value of funded obligations	**(4,844)**	(5,090)
Fair value of scheme assets	**5,508**	5,446
Net pension defined benefit asset	**664**	356
Changes in the present value of defined benefit obligations		
Opening defined benefit obligations	**(5,090)**	(4,770)
Current service cost	**(9)**	(10)
Interest cost	**(24)**	(110)
Actuarial losses - experience	**(181)**	(18)
Actuarial gains/(losses) - demographic assumptions	**14**	(2)
Actuarial gains/(losses) - financial assumptions	**191**	(452)
Past service cost - redundancies	**(2)**	—
Special termination benefit cost – redundancies	**(4)**	(2)
Benefits paid	**261**	274
Closing defined benefit obligations	**(4,844)**	(5,090)
Changes in the fair value of scheme assets		
Opening fair value of scheme assets	**5,446**	5,323
Interest income	**26**	124
Return on assets greater than assumed	**285**	222
Administration costs	**(4)**	(3)
Employer contributions	**16**	54
Benefits paid	**(261)**	(274)
Closing fair value of scheme assets	**5,508**	5,446

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16. Provisions for liabilities

	Decommissioning £m	Environmental £m	Restructuring £m	Deferred taxation £m	Other £m	Total £m
At 1 April 2020	**73**	**12**	**1**	**551**	**44**	**681**
Additions	—	—	1	17	8	26
Transferred to reserves	—	—	—	(56)	—	(56)
Utilised	(14)	—	(1)	—	(8)	(23)
Unused amounts reversed[1]	—	(1)	—	—	(13)	(14)
Unwinding of discount	1	1	—	—	—	2
At 1 April 2021	**60**	**12**	**1**	**512**	**31**	**616**
Additions	—	—	3	169	2	174
Transferred to reserves	—	—	1	92	—	93
Utilised	(21)	—	(2)	—	(4)	(27)
Unused amounts reversed	—	(2)	—	—	(2)	(4)
Unwinding of discount	1	—	—	—	—	1
Other Movements	—	—	—	—	(7)	(7)
At 31 March 2022	**40**	**10**	**3**	**773**	**20**	**846**

Decommissioning provision

The decommissioning provision represents expenditure relating to the demolition of gas-holders expected to be incurred until 2026.

Following the sale of the Gas Distribution business in 2016, the company sold 78 surplus land sites to a number of fellow National Grid Group undertakings and a legal agreement was entered into with these National Grid Gas Group companies to demolish the non-operational gas holders on these sites, creating a constructive obligation for the Company.

The undiscounted provision based on 0.5% real discount rate was £60 million (2021: £75 million).

Environmental provision

The environmental provision represents the estimated restoration and remediation costs relating to operational sites owned by the Company. Cash flows are expected to be incurred until 2075, with £2 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 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 £13 million (2021: £13 million).

Restructuring provision

In 2022, we continued to undertake design and implementation activities in respect of our new operating model and cost efficiency programme, which resulted in the recognition of an increased provision of £3 million in the year (2021: £1 million). The income statement expense relating to the provision has been treated as an exceptional item, and details are provided in note 5.

Deferred tax

Deferred taxation comprises:

	2022 £m	2021 £m
Accelerated capital allowances	**613**	452
Other timing differences	**160**	60
	773	512

Other provisions

Other provisions at 31 March 2022 include £10 million (2021: £12 million) in respect of legacy provisions recognised following the sale of the Gas Distribution (GD) business.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

17. Share capital

	Number of shares 2022 millions	Number of shares 2021 millions	2022 £m	2021 £m
At 31 March - ordinary shares 1 2/15 p each				
Allotted, called-up and fully paid	**3,944**	3,944	**45**	45

18. Other equity reserves

	Capital Redemption £m	Own credit £m	Cash flow hedge £m	Cost of hedging £m	Total £m
At 31 March 2021	1,332	1	(8)	—	1,325
Transferred to reserves	—	(1)	4	(4)	(1)
Tax	—	—	—	1	1
At 31 March 2022	**1,332**	**—**	**(4)**	**(3)**	**1,325**

Other reserves comprise the capital reserve, own credit reserve and the cost of hedging reserve. The capital redemption reserve arising from the refinancing and restructuring of the Lattice Group in 1999 represents the amount of the reduction in the share capital of the Company as a consequence of that restructuring.

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

19. Capital and other commitments

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 energy purchase agreements and contracts for the purchase of assets which, in many cases, extend over a long period of time. 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 14). Therefore, only low-value leases and short-term leases are off-balance sheet commitments, both of which are immaterial. 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.

(a) Future capital expenditure

	2022 £m	2021 £m
Contracted for but not provided	**200**	186

(b) Operating lease commitments

The Company had no future lease payments under non-cancellable operating leases in the current or prior financial years.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

20. Contingent liabilities

(a) Other commitments, contingencies and guarantees

The value of other commitments and guarantees at 31 March 2022 amounted to £52 million (2021: £52 million), including energy purchase commitments amounting to £27 million (2021: £3 million). Energy purchase commitments relate to contractual commitments to purchase electricity or gas that are used to satisfy physical delivery requirements to our customers or for energy that we use ourselves (i.e. normal purchase, sale or usage) and hence are accounted for as ordinary purchase contracts.

Security arrangements in favour of NGUKPS Trustees are disclosed separately in note 22 to the consolidated financial statements.

(b) Parent Company loan guarantees on behalf of subsidiaries

The Company has guaranteed the repayment of principal sums, any associated premium and interest on specific loans due from its subsidiaries to third parties. At 31 March 2022, the sterling equivalent amounted to £nil (2021: £684 million).

(c) Litigation and claims

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 and claims.

21. Related parties

The following transactions are with joint ventures and a former subsidiary of the Company which are not wholly owned by National Grid plc and are in the normal course of business. Other related party transactions are not disclosed in accordance with the exemptions available under FRS 101.

	2022	2021
	£m	£m
Goods and services supplied	**12**	9
Services received	**15**	27
Amounts receivable at 31 March	**11**	38
Amounts payable at 31 March	**83**	88

Amounts payable or receivable are ordinarily settled one month in arrears. No amounts have been provided at 31 March 2022 (2021: £nil) and no expense has been recognised during the year (2021: £nil) in respect of bad or doubtful debts from the above related party transactions.

DocuSign Envelope ID: DA16BA57-5827-42AA-89CE-AEDADF4FC142

Glossary and definitions

References to the 'Company', 'we', 'our', and 'us', refer to National Grid Gas plc itself or to National Grid Gas plc and its subsidiaries collectively, depending on context.

EU

European Union

FRS

UK Financial Reporting Standard

GAAP

Generally accepted accounting principles

GHG

Greenhouse Gas

GW

Gigawatt, 10^9 watts

GWh

Gigawatt hours

HSE

Health and Safety Executive

IAS

International Accounting Standard

IASB

International Accounting Standards Board

IFRIC

International Financial Reporting Standard Interpretations Committee

IFRS

International Financial Reporting Standard

KPI

Key Performance Indicators

LNG

Liquefied natural gas

Lost time injury (LTI)

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 Gas plc and its controlling party

Ofgem

The Office of Gas and Electricity Markets which regulates the energy markets in the UK.

tonnes CO_2 equivalent

Measure of greenhouse gas emissions in relation to the impact of carbon dioxide

regulated controllable operating costs

Total operating costs under IFRS less depreciation and certain regulatory costs where, under our regulatory agreements, mechanism are in place to recover such costs in current or future periods

regulatory asset value (RAV)

The value ascribed by Ofgem to the capital employed in the relevant licensed business. It is an estimate of the initial market value of the regulated asset base at privatisation, plus subsequent allowed additions at historical cost, less than 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 of inflation.

RIIO

Revenue = Incentives + Innovation + Outputs, the regulatory framework for energy networks issued by Ofgem which started on 1 April 2021.

RoE

A performance metric measuring returns from the investment of shareholders' funds. It is a financial ratio of a measure of earnings divided by an equity base.

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 Prices Index

STEM

Science, Technology, Engineering & Mathematics

TW

Terawatt, 10^{12} watts

TWh

Terawatt hours