



National Grid Electricity Transmission plc Annual Report and Accounts 2022/23

Company number 2366977

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Overview

About National Grid Electricity Transmission plc

National Grid Electricity Transmission plc (National Grid Electricity Transmission, NGET, the Company) is a subsidiary of National Grid plc (National Grid), based in the United Kingdom (UK). We own and operate the regulated electricity transmission network in England and Wales. We do not own the Scottish networks. We play a vital role in connecting millions of people safely, reliably and efficiently to the energy they use. See page 7 for further details.

The governance of National Grid Electricity Transmission is the responsibility of its Board of Directors. Strategic direction is determined by our ultimate parent company, National Grid plc. Our Directors are listed on page 40.

More information on the management structure of National Grid can be found in the National Grid plc Annual Report and Accounts 2022/23 and on National Grid's website at www.nationalgrid.com.

The International Financial Reporting Standard (IFRS) as adopted by the UK 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 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

	2022/23	2021/22	Percentage change
	£m	£m	
Revenue	1,987	2,036	(2.4)%
Operating profit before exceptional items	983	1,058	(7.1)%
Exceptional items ¹	26	(12)	(316.7)%
Operating profit	1,009	1,046	(3.5)%
Profit before tax	691	803	(13.9)%
Cash generated from operations	1,407	1,556	(9.6)%
Regulated assets ²	17,072	15,486	10.2 %

¹ Includes a settlement gain of £35 million relating to a defined benefit pension plan, and restructuring costs of £9 million. For further detail refer to note 5 of the consolidated financial statements.

² The value ascribed by to the capital employed in the NGET business for regulatory purposes. See page 31 for further details.

	2022/23	2021/22
	£m	£m
Return on equity ¹	7.5%	7.7%

¹ See page 30 for further details.

Non-financial highlights

	2022/23	2021/22
Number of employees ¹	3,940	2,888
Network reliability ²	99.999997%	99.999930%

¹ Increase driven by contractual employment of National Grid UK Shared Functions Personnel by NGET in 2023 following restructuring

² See pages 10 - 12 for further details on KPIs

What we do – Electricity

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

The UK electricity industry has five main sectors.

1. Generation

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

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

2. Interconnectors

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

Great Britain (GB) is linked via interconnectors with Ireland, Northern Ireland, France, Belgium, Norway and the Netherlands. The National Grid Group is continuing to develop additional interconnector projects, which will deliver significant benefits to consumers. This includes another interconnector to link us with Denmark and multipurpose interconnectors.

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

3. Transmission

We own and operate the high-voltage electricity transmission network in England and Wales.

We are responsible for ensuring electricity is transported safely, reliably and efficiently from where it is produced to local communities. We connect to industrial properties and distribution networks that deliver the electricity on to homes and commercial properties. We also facilitate the connection of generation assets directly to the transmission system.

4. Distribution

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

National Grid, through separate companies held outside of National Grid Electricity Transmission, owns and operates the electricity distribution networks for the East and West Midlands, the South West and South Wales. The combined network of Electricity Distribution (ED), which became part of National Grid in June 2021, makes it the largest electricity distribution network operator (DNO) group in the UK.

5. Supply

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

We do not sell electricity to consumers. The National Grid Group manages these activities through a separate company. National Grid Electricity System Operator Limited (NGESO) which is outside of National Grid Electricity Transmission.

What we do – Regulation

Our business operates as a regulated monopoly. We have one economic regulator for our business, the Office of Gas and Electricity Markets (Ofgem). The regulator has established a price control regime that ensures our interests are aligned with those of wider stakeholders.

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 regulated energy companies to invest in efficiency and innovation, creating value that is shared, through the regulatory mechanisms, between the company (hence creating the incentive) and consumers. It ensures that companies drive to deliver the outputs their customers want and also creates the opportunity for funding schemes with wider societal benefits. We are now in the second RIIO price control, known as RIIO-T2, which runs until the end of FY26.

How we manage our regulated assets

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

Our network is regulated by Ofgem, which has a statutory duty under the Act to protect the interests of consumers. Ofgem also has responsibility to enable competition and innovation to drive down prices, resulting in the introduction of new products and services. Ofgem has established price controls to protect consumers from the ability of monopoly energy companies to set unduly high prices. These limit the amount of revenue NGET can earn. In setting price controls, Ofgem must also have regard to ensuring that licence holders are able to finance their obligations under the Act. Licensees and other affected parties can appeal licence modifications which have errors, including in respect of the financial feasibility of licence requirements.

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

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

Since 1 April 2019, the electricity system operator (ESO) licence has been held by NGESO. NGESO is a separate legal entity currently within National Grid. To further ensure appropriate ring-fencing between itself and the rest of National Grid, NGESO is governed by its own Board of Directors including three independent directors.

On 6 April 2022, the UK government announced its intention to establish an independent Future System Operator (FSO), that will take on the operations currently performed by NGESO. National Grid has been working closely with the government, industry and the regulator on how the FSO will enable long-term holistic thinking, drive progress towards Net Zero, and lay

the foundations for the regulatory reform necessary to deliver a clean, fair and affordable energy transition. Depending on the legislative timeline an FSO could be established by, or in, 2024. National Grid Electricity Transmission plc will retain the electricity transmission licence.

Following the Ofgem announcement in December 2022 that NGET would be asked to deliver 17 major new projects under the Accelerated Strategic Transmission Investment (ASTI) funding mechanism, National Grid has decided to establish a new business unit, Strategic Infrastructure for the delivery of this work.

This work represents the largest transmission growth the UK has seen for 50 years. It will help deliver Net Zero, lower consumer bills and underpin the UK's energy security by boosting home-grown renewable energy generation. Strategic Infrastructure will work closely with Electricity Transmission, the existing business unit that delivers work for NGET, under a single Ofgem licence and both business units will remain part of the NGET plc statutory entity.

RIIO-T2 Price Control

The building blocks of the RIIO-T2 price control are broadly similar to the historical price controls set by Ofgem for the high voltage electricity transmission network. RIIO-T2 covers the five-year period from 1 April 2021 to 31 March 2026.

Key parameters RIIO-T2

	NGET
Allowed return on equity ¹	4.25% (real, relative to CPIH), at 55% gearing (which is broadly equivalent to 4.55% at 60% gearing)
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 2021/22 to 14 years for 2025/26), plus 25 bps additional borrowing costs.
Depreciation of Regulatory Asset Value (RAV)	No change in policy: straight line over 45 years for post-2021 RAV additions, with pre-2021 RAV additions as per RIIO T1.
Notional Gearing	55%
Split between fast/slow money	Fast: Baseline 22%; Uncertainty mechanisms 15% Slow: Baseline 78%, Uncertainty mechanisms 85%
Sharing factor	33%
Core baseline totex in 2018/19 prices (cumulative for the 5 years of RIIO -T2)	£5.4 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 4.25% figure shown is Ofgem's estimates of the average allowed Return on Equity over the five years of RIIO-T2, as given in the RIIO-T2 Price Control Financial Model published in November 2021.

Revenue under the RIIO-T2 price control

Under RIIO-T2, the outputs we deliver are clearly articulated and are integrally linked to the calculation of our allowed revenue, although some outputs and deliverables have only a reputational impact or are linked to legislation. We do not earn

Revenue under the RIIO-T2 price control (continued)

allowances if we do not deliver the associated agreed output. These outputs have been determined through an extensive consultation process, which has given stakeholders a greater opportunity to influence the decisions.

There are 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** - funding to replace ageing assets while ensuring costs to consumers are kept as low as possible. This includes funding for cyber resilience projects and IT investment. Uncertainty mechanisms are used to fund further upgrades during RIIO-T2 when greater certainty around the scope of work is required.
- **Supporting the delivery of an environmentally sustainable network** - funding or uncertainty mechanisms to 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.

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

Totex

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-T2 this is known as 'totex', which is a component of total allowable expenditure and is broadly the sum of what was defined in previous price controls as operating expenditure (opex) and capital expenditure (capex).

A number of assumptions are necessary in setting the outputs, such as certain prices or the volumes of work that will be needed. Consequently, the uncertainty mechanisms within the RIIO-T2 framework can result in adjustments to totex allowances if actual volumes differ from the assumptions. These mechanisms protect us and our customers from windfall gains and losses.

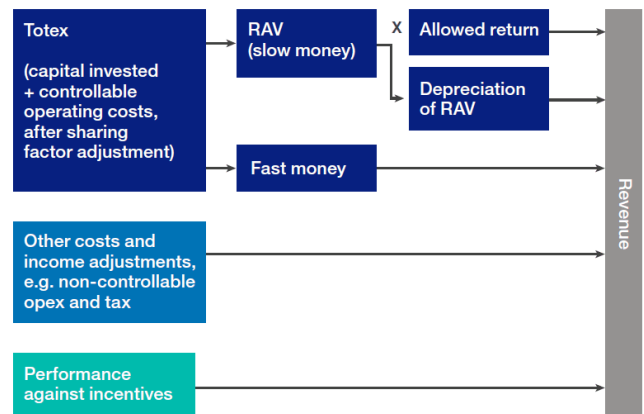
Where we under or over-spend against the allowed totex there is a "sharing" factor. This means we share the under- or over-spend with consumers through an adjustment to allowed revenues in future years. This sharing factor provides an incentive for us to provide the outputs efficiently, as we are able to keep a portion of savings we make, with the remainder benefiting consumers. Likewise, it provides a level of protection for us if delivery of the agreed outputs requires us to spend more than allowances.

Allowed revenue to fund totex costs is split between 'fast' and 'slow' money using specified ratios that are fixed for the duration

of the price control. Fast money represents the amount of totex we are able to recover in the year of expenditure. Slow money is added to our Regulatory Asset Value (RAV) – effectively the regulatory I Owe You which is subsequently depreciated.

In addition to fast money, each year we are allowed to recover regulatory depreciation, i.e. a portion of the RAV, and a return on the outstanding RAV balance. The RAV is also indexed to a measure of inflation, using CPIH in RIIO-T2. For RIIO-T2, regulatory depreciation for new additions to the RAV continue on a straight-line depreciation methodology over 45 years. We are also allowed to collect additional revenues related to non-controllable costs and incentives. In addition to totex sharing, incentive mechanisms can increase or decrease our allowed revenue to reflect our performance against various other measures related to our outputs. These incentive payments are a function of allowed revenue and could result in potential upsides for electricity transmission of up to £15million and downsides in the region of £47million, thereby incentivising us to deliver the agreed outputs.

Simplified illustration of RIIO regulatory building blocks:



Reopeners

Under RIIO-T2, there are several specific areas where we can submit further claims for new allowances within the period over and above our baseline funding. These are known as reopeners. These give NGET the opportunity to request funding when there is more certainty about project details.

We have submitted nearly £1bn of reopener funding proposals during the regulatory period covering areas such as large customer connections, updating IT systems for cyber security and upgrading our operational assets. We anticipate further ASTI funding submissions of over £14bn over the remaining three years of RIIO-T2 and the subsequent the price control.

Accelerated Strategic Transmission Investment (ASTI)

Ofgem's decision to establish the ASTI funding mechanism follows the ESO's Holistic Network Design (HND) and Network Options Assessment (NOA) Refresh. These set out the required offshore and onshore network reinforcements required for offshore generation of renewable electricity.

Delivering the UK Government's ambition to connect 50GW of offshore wind generation to the electricity network by 2030 will require accelerated funding. ASTI projects will therefore be exempt from competition and the responsibility for delivering 17 ASTI projects have been awarded to NGET. The following table presents a list of the ASTI projects with earliest in-service dates. We are looking to accelerate delivery wherever possible in order to meet the government's 2030 target.

	Project name	Earliest In-Service date*
Offshore mature schemes	Eastern Link 1 (Torness to Haw thorn Pit)	2027
	Eastern Link 2 (Peterhead to Drax)	2029
Offshore Mid-stage schemes	Eastern Link 3 (Peterhead to South Humber)	2031
	Eastern Link 4 (Westfield/Fife to South Humber)	2031
	SEA Link, South & East Anglia Link	2030
Onshore Mature schemes	Yorkshire GREEN	2027
	Bramford to Twinstead	2028
Onshore Mid-stage schemes	North East Anglia GREEN	2030
	South East Anglia GREEN	2030
	Humber Trent GREEN	2031
	Lincolnshire GREEN	2031
	Chesterfield to Ratcliffe-on-Soar	2032
Upgrades to existing NGET assets	Brinsworth to Chesterfield	2027
	Hackney, Tottenham & Waltham	2027
	Tilbury to Grain & Tilbury Kingsnorth	2028
	Pentir to Trawsfynydd	2029
	North Wales	2029
Onshore New schemes	Lincolnshire to Hertfordshire	2033
	Pentir to Swansea North	2037

* As provided by NGET as an input to the Holistic Network Design.

Independent User Group (IUG)

The Independent User Group represents a cross-section of the energy industry and acts as an advocate for the interests of consumers, environmental and public interest groups, as well as large-scale and small-scale customers and distribution networks.

The IUG has an enduring role through RIIO-T2 and has three key focus areas, which are to:

- scrutinise and challenge the periodic Business Plans;
- monitor, interrogate and help the business to enhance transparency of performance against commitments; and
- act as a 'critical friend' for strategy, culture and processes in key areas such as stakeholder engagement, innovation, customers, consumers and responsible business.

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 is what drives our desire to serve our customers and makes us proud about the work we do.

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

Our vision is 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 by targeting Net Zero for our own emissions by 2050.

Creating a clean, fair and affordable energy future is what society demands and what we demand of ourselves.

- **Clean:** because we have a critical role to play in tackling climate change, leading the way to Net Zero.
- **Fair:** because we want to enable the energy transition for all, making sure that no-one gets left behind.
- **Affordable:** because everyone should be able to pay for all their essential energy needs.

We're committed to being at the heart of a **clean, fair and affordable** energy future by delivering the 17 major new projects announced in December 2022. These are a key element of delivering the UK Government's ambition to connect 50GW of offshore wind generation to the electricity network by 2030. This work will help cut emissions, be a critical element of the UK's energy security and ensure everyone benefits from the energy transition by reducing bills for individuals and families so that no-one gets left behind.

Our values

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

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 Electricity Transmission, we expect our leaders to be role-models 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 a team to find solutions, embracing technology, 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 NGET's business and will ensure it is set up to play a leading role in the energy future. It will be delivered through four priorities.

1) Enable the energy transition for all

Fully decarbonising the electricity grid through modernisation, increased flexibility and by connecting renewables quickly and efficiently.

2) Deliver for customers efficiently

Providing safe, reliable and affordable energy for consumers 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 consumers and the communities they live and work in.

3) Grow organisational capability

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

4) Empower colleagues for great performance

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

Business Review

Overview

Highlights

Electricity Transmission has performed strongly in 2022/23, investing £1.3bn in the network as part of our £9bn RII0-T2 promise, delivering a return on equity of 7.53% and operating profit of £1,009m. Our strong financial performance was delivered in the context of challenging headwinds with strains on our supply chain in the post-COVID period, further supply chain disruption caused by the war in Ukraine and energy price-led inflation. Throughout this period we have maintained focus on safety, customers, reliability and innovation as well as driving forward the Net Zero energy agenda.

Following extensive engagement with Ofgem and the Department for Energy Security & Net Zero (DESNZ), the UK Government has asked NGET to deliver 17 major new projects to connect low carbon power to our network. These projects will be delivered under the Regulator's Accelerated Strategic Transmission Investment (ASTI) framework and are a vital part of achieving the Government's ambition of connecting 50GW of offshore wind by 2030. Delivery will require NGET to double its annual capital investment over the next decade. This work represents the largest transmission growth the UK has seen for 50 years. It will help deliver Net Zero and lower consumer bills and underpin the UK's energy security by boosting home-grown renewable energy generation. National Grid has established a new business unit for the delivery of this work – Strategic Infrastructure. The new business unit will be focused on overcoming key hurdles on planning, consenting and supply chain to ensure we are able to deliver the infrastructure required for the transition to Net Zero. Strategic Infrastructure will work closely with NGET under a single Ofgem licence and will remain part of the National Grid Electricity Transmission plc statutory entity.

Enable the energy transition for all

We are embarking on a transformation to the electricity grid at a pace never seen before, connecting nearly three times the existing customer generation capacity connected to the network. Reform is needed if we are to add the capacity and connect customers to the network at the rate required to fully decarbonise the power system by 2035 and support the electrification of the wider economy.

We are committed to reducing SF6 emissions from our operations by 50% by 2030 and removing all SF6 gas from electrical assets by 2050. We are collaborating closely with suppliers and universities on innovative retrofill feasibility works. We commissioned a world-first pilot project at our Richborough 400kV substation. This replaced 764kg of SF6 with an alternative gas, delivering a 13% reduction in our total SF6 holding at that site. We have identified further assets of the same design and will work to explore the feasibility of extending this approach. We're working to re-wire London on our London Power Tunnels 2 (LPT2) project and have commenced enabling works for a totally SF6-free substation.

Deliver for our customers efficiently

We have maintained our world-class record for reliability. We had only 7MWh of energy not supplied in 2022/23 in spite of a record-breaking hot summer, including the two hottest days on record. This represents the best performance since 2015/16 and equates to 99.999997% network reliability. See pages 10 to 12 for further information on our KPIs.

The current market arrangements, coupled with the existing regulatory and industry frameworks, means it takes too long to connect new customers. We are continuing to take concrete actions to both rationalise the connections pipeline and drive industry reforms. Following discussions with DESNZ, Ofgem and the ESO, Ofgem has agreed arrangements that will allow us to optimise connections contracts and reduce connection timescales for some existing customers. In parallel, a one-off amnesty has been introduced to allow customers to leave the pipeline with little or no termination cost. We are also working with other industry stakeholders on "queue management" reforms. If approved by Ofgem, this would give the ESO the ability to remove stalled or delayed projects from the connection pipeline if customers do not meet connection milestones.

Grow our organisational capability

We are mobilising to build a new NGET Control Centre and replace our national control system with state-of-the-art digital technology. Full design of the required capabilities is underway. The new control centre will play a critical role in future-proofing the network, providing long-term resilience as new technology is added and the independent Future System Operator is established. Construction will commence within the next 12 months.

Empower colleagues for great performance

We hold ourselves to the very highest standards for safety, proactively considering it in everything we do. Amongst our directly employed colleagues this is reflected in an Lost Time Injury Frequency Rate (LTIFR) well below our target of 0.1, which we consider to be world-class. Whilst down on 2022/23, a persistent injury rate amongst our contractors has resulted in us exceeding that 0.1 target overall. Therefore as we look forward to our growing workbook, we have increased the scope, remit and engagement in our Contractor Safety Forum, embarked on a focus on the severity of incidents and launched a unified Behavioural Safety programme which will run throughout 2023/24, giving our leaders and teams new tools and techniques for coaching for safety.

Looking ahead

Network owners across the globe are all looking to reduce their carbon emissions. NGET will play a pivotal role leading the transition to renewable energy, lowering consumer bills and boosting the UK's energy security by ensuring we use home-grown renewable energy generation. We have a clear roadmap to delivering the low carbon energy revolution. However, meeting the UK Government's targets will require DESNZ and Ofgem to stimulate skills, capabilities and supply chain capacity, and ensure we have the right regulatory frameworks in place to fund the infrastructure needed. Our work to deliver the energy network of the future has already started.

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 our customers efficiently	Grow our organisational capacity	Empower our people for great performance
What this means	Build the digitally enabled electric network of the future	Build operational excellence in all we do Build capital project excellence and partnerships with the supply chain Place customer and community at the heart of our business	Develop a new regulatory paradigm and engage with stakeholders to secure the right and timely outcomes Deliver a step change in how we engage and influence key stakeholders Develop our digital and data capabilities	Recruit and Develop the capability required for the future Our workforce is representative of the communities we serve
2022/23 achievements	<p>Our capital programme is on track.</p> <p>We were awarded delivery of 17 major new projects to connect green energy under the Accelerated Strategic Transmission Investment (ASTI) regime.</p> <p>We have bored over 27km (85%) of London Power Tunnels to re-wire the capital.</p> <p>We completed three new substations as part of the Hinkley project, which is now 80% complete.</p> <p>We installed and energised T-pylons - one third shorter and a smaller footprint than lattice pylons, reducing land use and visual impact.</p> <p>We delivered our first SF₆-free substation.</p>	<p>We exceeded our Return on Equity target - 118bps outperformance on the RIIO-T2 deal. Any outperformance is shared between NGET and consumers.</p> <p>We returned an operating profit of over £1bn.</p> <p>We kept controllable costs down to £272m in spite of CPI-H running at 8.4%.</p> <p>We delivered our best Reliability performance since 2015/16 - 99.999997%.</p> <p>We moved and energised cables underground in Dorset and Peak East areas of outstanding natural beauty.</p> <p>We secured critical reforms to the customer connection process - a two-stage connection offer process and a new process where customers can terminate connection agreements with little or no cost incurred.</p>	<p>We established a new business unit to deliver the 17 ASTI projects.</p> <p>We are working with suppliers on SF₆ retrofill solutions.</p> <p>We delivered £170m consumer benefit through innovative solutions under the SO:TO Incentive.</p> <p>We are embracing digital and launched a new defects platform.</p> <p>We commenced design work on a new Control Centre to revolutionise our ways of working.</p>	<p>We are upskilling our workforce for delivery of the ASTI projects.</p> <p>We developed and launched fully scalable critical skills development pathways.</p> <p>We increased the diversity of our colleagues with over 44% of new joiners being diverse (based on ethnicity and gender).</p>

Our strategic objectives (continued)

	Enable the energy transition for all	Deliver for customers efficiently	Grow our organisational capacity	Empower colleagues for great performance
Looking ahead	<p>We will:</p> <p>Deliver the first "Grid Park" to connect new customers (faster connection mechanism).</p> <p>Connect the Viking Link interconnector.</p> <p>Connect Dogger Bank 1 wind power.</p> <p>Work with our supply chain: Stand up external capacity to deliver ASTI projects.</p> <p>Set out & progress the technical design standard for the intelligent network of the future.</p>	<p>We will:</p> <p>Fully realise the synergies between NGET and National Grid's recently acquired Electricity Distribution business.</p> <p>Upgrade digital tools so customers can see progression of projects.</p> <p>Establish the enterprise delivery model for ASTI projects.</p> <p>Design future network blueprints and site strategies to 2035+.</p> <p>Define the supply chain strategy required to deliver for 2035.</p> <p>Move Net Zero construction from concept to delivery.</p>	<p>We will:</p> <p>Define the roles and responsibilities of industry for many years to come and set out our financial future (across PC26 (next regulatory period), Future System Operator, Electricity Transmission Network Planning Review Consultation, Centralised Strategic Network Planning, competition, and complex offshore decisions)</p> <p>Shape & influence critical industry reform to underpin delivery</p> <p>Mobilise to replace the national control system and build new resilient control centre.</p> <p>Deploy the Supervisory Control and Data Acquisition platform in readiness for ESO separation.</p> <p>Re-design and automate regulatory reporting.</p>	<p>We will:</p> <p>Define how to create the workforce of the future</p> <p>Upskill today's workforce and leadership.</p> <p>Establish internal & supply chain capability.</p> <p>Stand up a fully functional Strategic Infrastructure business unit and develop a forward resource and capability plan for HND1 onshore work</p> <p>Transform Safety, Risk and Compliance processes to ensure learning, continuous improvement and embed behavioural safety.</p>

Progress against objectives – key performance indicators (KPIs)

Enable the energy transition for all	SF₆ leakage (measured through top-ups) Sulphur hexafluoride is a potent Greenhouse Gas with a global warming potential approximately 23,000 times that of Carbon Dioxide. Cutting SF ₆ emissions is a major contributor towards meeting our Group target of reducing greenhouse gas emissions to Net Zero by 2050.	2022/23: 9,462kg (target 9,759kg) 2021/22: 9,703kg (target 10,900kg)
	Customer capacity connected (Generation) Connecting generators of electricity is central to ensuring reliability, reducing carbon emissions and delivering energy security. This target was missed due to customer delays, extended component lead times and an asset failure. All outstanding work is expected to be complete by the end of June 2023. Learnings are being taken forward for 2023/24. Under the existing regulatory and industry framework, we are obliged to connect customers a on first-come-first-served basis. As a consequence, this target may vary considerably from year to year. 2021-22 featured a number of large connections, including ElecLink (1000MW), NSL (1400MW) and Hornsea II (1320MW). Work is ongoing to reform the customer connection process, including “queue management” reforms, to accelerate customer connections.	2022/23: 150MW (target 250MW) 2021/22: 5,180MW (target 3,860MW)
	Customer capacity connected (Demand) Large businesses with high energy needs, such as electrified railway, need to be connected directly to the transmission network. Projects have been impacted by contractor performance, customer delays, outage constraints and archaeological finds, resulting in connected capacity being below target. Learnings are being taken forward into 2023/24. Under the existing regulatory and industry framework, we are obliged to connect customers a on first-come-first-served basis. As a consequence, this target may vary considerably from year to year. 2021-22 featured a number of significant connections, including three connections of 240MVA. Work is ongoing to reform the customer connection process, including “queue management” reforms, to accelerate customer connections.	2022/23: 284MVA (target 656MVA) 2021/22: 1,020MVA (target 1,020MVA)
	Network boundary increase To sustain a robust energy network ready for the renewable energy revolution, NGET needs to increase the network boundary capability to avoid overloading transmission equipment and ensure stable supply of electricity to consumers. This target was missed due to poor contractor performance and extended component lead times. Learnings are being taken forward into 2023/24.	2022/23: 4,114MW (target 4,488MW) 2021/22: 4,190MW (target 5,950MW)
Grow our organisational capability	Employee enablement Empowered staff with the right tools and training to succeed in roles that make good use of their skills and abilities are more productive and reduces staff turnover. This KPI is measured annually in the Grid:Voice survey.	2022/23: 70% (target 70%) 2021/22: 65% (no formal target)
	Network innovation This KPI measures financial benefits as a proportion of spend on innovation expressed as a ratio, meaning that 2022-23 saw significant outperformance of our target. NGET will invest c.£50m in innovative network solutions aligned to stakeholder priorities over RIIO-T2. By continuing to invest in innovative solutions that deliver benefits to the business and to consumers, NGET will be well positioned to deliver on its commitments and make Net Zero a reality.	2022/23: 10.1:1 (target 4:1) 2021/22: 3:1 (no formal NGET target)

Deliver for customers efficiently	Quality of Connections score <p>Customers rate their satisfaction with the experience we provide across the end-to-end customer journey under the Our Quality of Connections (customer satisfaction) framework. Understanding customer sentiment, overall and at specific points, ensures we can target need and set up for success now and into the future.</p> <p>Low scores have been driven by the long lead time before a customer can be connected. NGET continues to work with other transmission owners and stakeholders for industry reform.</p>	2022/23: 7.2 (target 8.0) 2021/22: 7.8 (target 7.8)
	Network reliability (Energy not supplied incentive) <p>Stable and secure supply of energy is at the heart of our existence. The RIIO-T2 agreement includes an incentive mechanism that rewards or penalises NGET for Energy Not Supplied. The NGET license has a starting reward position of £1.019m. NGET is penalised for every instance of customer disconnection based on duration and amount of load through to a potential loss of £31.331m.</p>	2022/23: 5.2MWh (target <103MWh) 2021/22: 26.7MWh (target 103 MWh)
	Delivery of funded asset health interventions <p>Asset health makes up approximately half of NGET's RIIO-T2 baseline capex allowances. Refurbishing, reconditioning and replacing existing assets is critical to maintaining a reliable network.</p> <p>Whilst below target, our performance represents a significance increase in volumes on 2021-22. We continue to revise our ways of working so that we can deliver larger volumes each year.</p>	2022/23: 1,120 (target 1,421) 2021/22: 920 (target 1,015)
	Reopener funding secured vs plan <p>In order to deliver on our Net Zero commitments and meet financial targets, we will need to obtain further funding through reopeners. To give us a chance of delivering within allowances and improve credibility with Ofgem we need to secure close to 100% of the funding requested.</p>	2022/23: 99% (target 95%) 2021/22: Not measured.
	Controllable costs <p>Driving enduring efficiencies in net controllable costs supports Group's commitment to deliver flat operating costs by 2024. At an NGET level, this supports sustainable profit growth over RIIO-T2 and outperforming the regulatory return on equity.</p> <p>Whilst we have missed our target, this remains a strong performance against CPI-H at 8.4%.</p>	2022/23: £272m (target £262m) 2021/22: £253m (target £258m)
	Return on Equity <p>Our shareholders expect a certain return on their investment. Over the course of RIIO-T2, NGET is targeting a return of 100bps outperformance against the regulatory price control.</p>	2022/23: 7.53% (target 7.35%) 2021/22: 7.66% (target 7.46%)

Empower colleagues for great performance	Employee engagement index An engaged workforce is one where employees feel invested in the achievement of positive organisational outcomes and want to come to work	2022/23: 78% (no formal NGET target) 2021/22: 76% (no formal NGET target)
	Organisational Health High-performing teams are those where staff have the psychological safety to express their ideas and opinions, challenge existing ways of working and speak up where things are going wrong.	2022/23: 87% (no formal NGET target) 2021/22: 82% (no formal NGET target)
	Inclusiveness (measured through Safe to Say Index) Staff feeling Safe to Say indicates that staff feel they can be themselves at work and challenge the way things are done to improve performance.	2022/23: 79% (target 71%) 2021/22: 71% (target 69%)
	Safety – Employee lost time injury frequency rate (LTIFR) We want all our staff and contractors to go home safely at the end of each day. This measures injuries resulting in employees taking time off work per 100,000 hours worked. Whilst our performance shows a decline on 2021-22, this remains below target and represents just one employee LTI across 2021-22 and 2022-23, a world-class level of safety performance.	2022/23: 0.02 (target 0.10) 2021/22: 0.00 (target 0.10)
	Safety – Contractor lost time injury frequency rate We want all our staff and contractors to go home safely at the end of each day. This measures injuries resulting in contractors taking time off work per 100,000 hours worked. Whilst our performance is above target, there is a clear improvement on 2021-22. We are working to transform Safety, Risk and Compliance processes to ensure learning, continuous improvement and embed behavioural safety.	2022/23: 0.19 (target 0.10) 2021/2022: 0.24 (target 0.10)
	Diversity of external new hires rate Recruiting diverse experiences and perspectives to the workforce increases innovation, improves problem-solving and drives better decision-making so that NGET can deliver on its commitments efficiently. For this KPI, diversity is determined on the basis of gender and ethnicity.	2022/23: 44.3% (target >=42.1%) 2021/22: 46.8% (target >=50.5%)
	Diversity of leavers rate The retention of diverse experiences and perspectives within the workforce increases innovation, improves problem-solving and drives better decision-making so that NGET can deliver on its commitments efficiently. For this KPI, diversity is determined on the basis of gender and ethnicity.	2022/23: 29.3% (target <=35.5%) 2021/22: 30.3% (target <=37.5%)

Strategic Report

Our business environment

As well as managing the business through recent geopolitical events and the macroeconomic environment, including the rising cost of living and the conflict in Ukraine, National Grid's societal ambition remains to achieve Net Zero. We are committed to working with the government to help them meet their own carbon reduction targets in a fair and affordable way.

Net Zero

We are focused on delivering the energy transition while balancing key societal issues. 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' (2020-30) for climate action, we are committed to working with the government and regulator to meet their carbon reduction targets.

2022/23 developments

The Met Office has confirmed that last year was the warmest since records began in the UK and that for the first time the average annual temperature was over 10C. A new record high absolute temperature occurred on 19 July 2022, breaching 40C. All of the ten hottest years since records began have been since 2003.

At COP26, the UK made a binding commitment to achieve Net Zero emissions by 2050. Additionally, it committed to phasing out inefficient fossil-fuel subsidies to help limit 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 with the vision to produce 95% of electricity from low carbon sources by 2030. It included plans for up to 50GW of offshore wind by 2030, 70GW of solar by 2035, and an additional 24GW of nuclear by 2050. The strategy highlighted the critical role of electricity network infrastructure in delivering on its ambitions, including recognising the need for a national planning regime and expedited approvals processes.

Zero carbon electricity sources have played an increasing role in delivering electricity, with over 50% of electricity coming from these sources in February, May, October, November and December 2022 and 48.5% across 2022 (compared to 40% from gas and coal power stations).

The UK had its greenest day on record (52g CO₂/kWh) on 28 December 2022 and 2022 was the second greenest year on record, second only to 2020.

Our response

- For the seventh consecutive year, National Grid received the prestigious climate change 'A' score from CDP Climate Change for our actions in corporate sustainability for cutting emissions and moving towards a low-carbon economy. CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts.
- We worked with the Electric Power Research Institute, the Gas Technology Institute and other utilities to sponsor the Low-Carbon Resources Initiative to accelerate the development and demonstration of low-carbon and zero-carbon energy technologies.
- Offshore wind will be central to achieving Net Zero. We have progressed our east coast portfolio of projects. The first of these projects will be energised in 2027. The Eastern Green Link 1 & 2 projects will shortly go out to tender with contracts to be awarded in early 2024.
- After working with Hitachi Energy in a pilot project at Richborough Substation in Kent to replace sulphur hexafluoride (SF₆) gas with a greener alternative, we are now using Hitachi technology to build the first SF₆-free substation. This forms part of our ambition to reduce SF₆ emissions by 50% by 2030 and remove SF₆ gas from our electricity assets by 2050.

Fairness and affordability – Impact on consumer bills

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

2022/23 developments

Supply and demand mismatches due to factors such as the conflict in Ukraine have driven surges in energy prices that have challenged many customers, whilst European gas prices remain high. In 2022, the UK Government estimated 3.26million (13.4%) of all English households to be fuel poor (an increase from 13.1% 2021).

Our response

- With some in our communities struggling to pay bills, National Grid launched a £50million energy support fund to relieve some of the financial distress being caused by rising energy costs.
- The funding went to non-profit organisations which are providing immediate, emergency financial relief to households using pre-payment energy meters, charities which fund energy efficiency measures to help lower bills over the longer term, and charities providing advisory services for households which need help with energy bills and debts.
- Specific examples of the way the money will be used by the charities include increasing the number of support staff working on crisis phone lines, providing fuel vouchers and improving the energy efficiency of homes at no cost to householders.
- As part of the fund, the following donations were made:
 - £10 million to the Fuel Bank Foundation, which provides emergency financial support and advice to households with a pre-payment meter and which are in fuel crisis and at risk of living without heat, light and power.

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- £10 million to Citizens Advice, which delivers advice across a range of issues including managing energy bills.
 - £10 million to Affordable Warmth Solutions, which provides free home insulation and other energy efficiency measures to households which do not qualify for government programmes.
 - £1.5 million to National Energy Action to partner with communities to ensure people can be warm at home.
 - £1 million to National Energy Foundation, which works to help improve the energy efficiency of homes, offers guidance on lowering energy bills and delivers practical solutions to make homes warmer.
 - The remaining £15 million was distributed to other organisations we identified as providing direct help and support to those who need it most.
- As well as the help for communities detailed above, National Grid also assists colleagues struggling with one-off financial issues. Our colleague emergency support fund had paid out 587 grants to National Grid employees across the US and UK.
 - As well as increasing energy security and enabling Net Zero, the connection of new sources of generation will reduce the cost to consumers through mitigation of constraint costs.
 - Our 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 nearly 12,000 young people.

Decentralisation – Energy Security

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

2022/23 developments

Europe is projected to decentralise faster and further than any other region between now and 2050. The median power plant in Europe could reduce in size by up to 95% due to the scale of distributed generation.

Decentralised electricity systems are increasingly made possible by developments in smart systems and flexibility solutions and supported by local initiatives to develop decarbonisation pathways.

Our response

- There are more customers than ever in the connection pipeline. Over 65% of generation projects contracted to connect during 2021-2025 are for generation of less than 100MW. This compares with 20% during 2013-2021 (RIIO-T1). The needs and delivery models of new connections has changed, however, the operating environment has not kept up with this rate of change. This means that new entrants to the market have to navigate a process which was designed for large customer connections.

Digitalisation

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.

2022/23 developments

We have completed a two-year trial of LineVision technology, already in operation in our New York and New England businesses, on the Penwortham-Kirby 275kv circuit. Its sensors continuously monitor the transmission lines and apply advanced analytics and real-time laser measurement to calculate the Dynamic Line Rating (DLR). The DLR is determined by a power line's physical and electrical properties, such as size, resistance and maximum safe operating temperature together with local weather conditions. It is the first time DLR has been used in this country.

The new technology has the potential to unlock 0.6GW of additional capacity a year, enough to power more than 500,000 homes.

Our commitment to being a responsible business

Responsible Business underpins our core purpose, to Bring Energy to Life, and aligns to our Group vision to be at the heart of a clean, fair and affordable energy future. We continue to make progress against our Responsible Business Charter commitments, both across the National Grid Group and specifically within NGET.

Responsibility at National Grid

NGET has a pivotal role in delivering the UK's ambitions by developing, maintaining and protecting our network to provide low carbon electricity to homes and businesses, safely, reliably and affordably, now and in the future. Our Responsible Business commitments signal our value of doing the right thing; investing in our assets, environment, colleagues and communities in the right way, generating social and economic value to leave a positive legacy.

National Grid Group published our Responsible Business Charter (RBC) in October 2020 and the commitments we made then remain the foundation of our activity. The RBC 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 progress against each commitment is regularly reviewed.

Our approach to reporting

The Responsible Business Report (RBR) for 2022/23 was published on 6th June 2023 and is guided by internationally recognised reporting standards from the Global Reporting Initiative (GRI) and Sustainability Accounting Standards Board (SASB). The RBR contains information relating to our material focus areas and provides detail on our management approach, performance and the commitments set out in the RBC. Certain metrics are subject to independent external assurance.

Environmental: The path to Net Zero

NGET plays a dual role in the transition to a low-carbon economy and in achieving Net Zero. We are supporting long-term, national decarbonisation goals, while continuing to manage our own environmental performance responsibly.

The RBC sets out ambitious climate-related commitments, the most significant of which is to achieve Net Zero by 2050. In June 2022, Group published our Climate Transition Plan (CTP) as part of the RBR. In 2021/22, NGET's Net Zero targets were validated by the Science Based Targets Institute in line with limiting greenhouse gas emissions (GHG) to a 1.5°C warming scenario.

Fully aligned to the RBC, NGET's 2021-2026 Environmental Action Plan (EAP), published in April 2021, articulates in more detail how we are operating in an environmentally sustainable way over the RIIO-T2 regulatory period. In September 2022, our first Annual Environmental Report provided a progress update on how we are achieving our environmental commitments as set out in the EAP. Following publication, we consulted with our stakeholders and have incorporated suggested amendments to our approach in our latest review of the EAP, which will be reflected in our next report.

Enabling the energy transition

We are responsible for building the electricity network that will support a Net Zero economy by 2050. We recognise that we need to work with government and our regulator to advocate for action and broader influence to ensure the continued development of policies and regulation that support enabling the energy transition for all.

A key dependency of us achieving our Scope 1 and 2 emissions reduction target is the rate of decarbonisation of the electricity sector in the UK, with supporting policies and the development of associated regulatory allowances and planning systems required to support the delivery of our targets.

Our business is embarking on significant transformation to ensure we are at the heart of the energy transition, accelerating the pace and scale of capital investment delivery. We are connecting increasing volumes of low carbon generation customers to the network and adapting our network and operations. In addition to our existing portfolio of capital works, the ASTI framework is a vital part of achieving the government's ambition of connecting 50GW of offshore wind by 2030 and will help deliver Net Zero, lower consumer bills and energy security.

We are moving away from traditional models of investment planning to meet the anticipated scale of electricity transmission network growth required to enable Net Zero. Future Network Blueprints, developed via a stakeholder-centric approach to regional network planning, will allow us to make more efficient and coordinated decisions that will consider the nuances of different geographical area's network requirements. Network and Site strategies will limit network disruption and help us deliver a fit-for-future transmission network that enables low carbon energy to reach the homes and businesses we serve. We have been engaging on our Future Network Blueprints with Ofgem, the ESO, our Distribution Network Owner industry colleagues and wider stakeholders via internal and external webinars.

Climate change

Our business generates GHG emissions across Scope 1, Scope 2 and Scope 3.

Scope 1 and 2

Our scope 1 and 2 emissions totalled 242,050 tonnes CO₂e (excluding emissions from electricity line losses, which NGET has little or no control over). This represents a 19% reduction from our 2018/19 baseline, exceeding our annual reduction target of 13.6%.

NGET's biggest contributor to climate change under our direct control is leakage of sulphur hexafluoride (SF₆), a very potent greenhouse gas used as an insulating gas in high-voltage equipment. We are committed to reducing Scope 1 SF₆ emissions from our operations by 50% by 2030 and removing all

SF6 gas from electrical assets by 2050. We have reduced SF6 emissions across the network by 19% since 2020/21. As detailed under 'Principal Operations', NGET has outperformed its 2022/23 SF6 emissions target through a programme of targeted repair, refurbishment and replacement of assets. We are also collaborating closely with suppliers on retrofill feasibility works. In a world-first pilot project at our Richborough 400kV substation, we replaced 764kg of SF6 with an alternative gas, delivering approximately a 13% reduction in carbon dioxide equivalent, and work is ongoing to trial alternatives to SF6-filled equipment on other large capital projects. We are also partnering with the University of Manchester on a four-year project designed to test at scale how we can retrofill SF6 across our network of high-voltage equipment, with the solution to be tested at our test facility, the Deeside Centre for Innovation.

The remaining source of scope 1 emissions (2%) are from operational transport, which decreased by 1.7% from 2021-22. We have a National Grid Group-wide commitment to move to a 100% electric fleet by 2030 for our light-duty vehicles, and an associated EAP commitment to replace 60% of our commercial fleet by 2026. At the end of 2022/23, NGET had replaced 11% of the fleet. We have experienced some challenges regarding adequate range and compatibility of new vehicles, increased lead times and significant price increases. However, following a successful trial, an order for 114 electric vans was placed in January for delivery this summer. We remain confident in achieving the 60% target by 2026.

The majority of our Scope 2 emissions are due to energy losses on our network. Electricity network losses occur when transferring energy across our transmission and distribution systems. They are a measure of the difference between the amount of electrical energy entering and leaving a network and occur for several reasons, predominantly due to the energy used by network equipment (e.g. transformers, overhead lines and cables), when transporting energy for consumption. Energy losses from overhead Transmission lines can increase as the distance to move energy between supply (generation) and demand (customer use) increases. The trajectory to 2030 is not expected to be linear as emissions from line losses are subject to annual volatility and this year, we have seen an increase in UK Electricity Transmission emissions due to a significant increase in energy losses on the network. This is mainly due to an increase in the distance between electricity supply and demand, with an increase in offshore wind generation output contributing to this. Further detail of the methodology applied can be found in the RBR.

NGET's Scope 2 emissions otherwise relate to electricity usage at operational and office sites. These have reduced by 8.6% from 2021-22 following to the closure of one of our office sites, Osprey House. As part of a substation energy efficiency programme and in line with our UK Energy Savings Opportunities Scheme (ESOS) requirements, energy audits have identified measures that will realise further reductions of electricity use towards the end of RII0-T2.

Scope 3

Our Scope 3 target covers emissions across our entire value chain with a commitment to reduce the carbon emissions by 37.5% by financial year 2034 (from a financial year 2018/2019 baseline). Across the Group, Scope 3 emissions have increased by 1.4% in 2022/23 compared with 2021/22 and are

higher than the 2% decrease we projected in the CTP due to higher than projected energy usage and electricity carbon intensity in our US regions. In 2022/23, reporting on Scope 3 has been focused at Group-level; however, in 2023/24 we plan to implement more detailed carbon reporting in ET to improve transparency of performance and support achievement of our capital carbon targets.

National Grid group has set a target of reducing air travel by 50% to contribute to reducing our Scope 3 emissions. We also engage with our supply chain to support a reduction in emissions from goods and services, with the current goal to have 75% with active carbon reduction targets by 2030.

Caring for the Natural Environment

Due to the size and nature of our land portfolio, we can have a significant impact on the natural environment at our sites. NGET has committed to improve the environmental value of our non-operational land by at least 10% by 2026, and we have a five-year delivery strategy to reach this.

Environmental value is a measure of the condition of, and ecosystem services that flow from, our natural assets. It is a representation of the benefits and services that nature provides to society and businesses, such as climate adaptation, pollution control, improved air quality, pollination and recreational use of land. To date, we have improved this environmental value by 4.63%, on track against our commitment. Building on land management agreements we put in place last year, we have agreed 10-year Enhanced Partnership Agreements with partners at Skelton Grange Environment Centre, West Boldon Lodge and Fleet substation.

The agreements will increase opportunities for more than 8,700 people per year from local communities to engage and connect with nature in their local area through events such as conservation days, guided walks and Forest School programmes. The partnerships will deliver ecological improvements through activities such as tree and hedgerow planting, pond management, treatment of invasive species and creation of glades and new wildflower meadows.

We also have a commitment to achieve at least 10% net gain when constructing our assets. This means leaving the environment in a better state than we found it and we have met this design challenge on all projects that have been sanctioned in the year. One scheme, our Peak East Visual Improvement Project scheme celebrated an achievement of 18% biodiversity net gain through careful management of the environment around the project's very sensitive and constrained construction site, and the creation of additional habitat for wildlife.

Our communities

Public safety, network reliability and resilience remain at the core of our work to enable a fair and affordable transition for our communities and customers. No members of the public were injured during 2022/23 as a result of our operations and activities. In addition, 2022/23 was one of our most reliable on record. In ET we achieved reliability of 99.99997%, our best performance since 2015/16.

Our infrastructure projects and daily operations allow us to give back to communities impacted by our works. The intensifying scale and pace of our capital works, will not only necessitate a

fundamental shift in the way we think, plan and deliver infrastructure but also require us to build a coalition of trust within the communities we work. Our ambition is to support economic growth and create genuine social value in those areas touched by our operations, to leave a lasting positive legacy.

Engaging with our communities

We remain committed to listening to our stakeholders and have supported a series of UK stakeholder workshops on issues relating to a fair transition, including the specific topics of affordability, community synergy (local/regional environmental and socio-economic impacts) and education, jobs and skills and a separate series of citizens engagement workshops, reaching underrepresented groups and elevating their voices. We have also been engaging with a wide range of stakeholders to develop a community benefit strategy that responds to regional needs.

An energy transition for all

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.

In November 2022, National Grid pledged £50 million in the UK to provide assistance to some of the hardest-hit households. Our partners in the UK include: Fuel Bank Foundation, Citizens Advice, Affordable Warmth Solutions, National Energy Action, and National Energy Foundation. As of 31 March 2023, 30,565 households across our UK footprint have benefited from our energy support fund.

Benefiting communities

We are supporting opportunity and growth in our communities, working closely with the National Grid Social Impact programme, Grid for Good, to achieve social mobility for disconnected young people in the communities we serve. We made a 10-year commitment to develop skills for the future for 45,000 people in our communities, with a Group target to upskill 4,976 people in 2022/23. As of 31 March 2023, 2,502 people have been meaningfully upskilled in the UK. Through our Grid for Good skills and employability programmes, we have positively impacted the lives of 11,823 people across the group, with 124 going on to apply for roles in National Grid and 19 people securing employment, bringing the total since launch to 29.

National Grid colleagues across the UK and US have volunteered 60,096 hours in support of a variety of causes this year and we will continue to grow our programmes to meet our 2030 commitment of 500,000 hours.

In NGET, as part of capital delivery projects, we work with third-party organisations to provide community benefits at scale, tailored to local need. At London Tunnels Power (LPT2), we have partnered with Connectr to promote STEM activities in schools and our Hinkley Connection Project (HCP) is also working with children from disadvantaged backgrounds. In 2022/23 HCP won three awards in recognition of its responsible business activity, including the International CSR Excellence Awards 2023 for Community Commitment and the UK Social

Mobility Awards 2022 for Community Programme of the year award. We are also working with Grid for Good on local, project-led initiatives along the East Coast.

We also support communities affected by our infrastructure projects via our Community Grant Programme (CGP), providing grants for local projects that bring social, economic or environmental benefits. The total value of CGP grants awarded in 2022/23 is £870,357, supporting 57 community organisations.

Our colleagues

The safety and wellbeing of our people is a top priority, as well as creating a truly diverse, equitable and inclusive workforce and culture, where all our colleagues feel that they belong and can achieve their full potential.

Our Group-wide Diversity, Equity and Inclusion (DEI) commitments provide the framework required for us to achieve our aspiration, which is 'to one day be among the most diverse, equitable, and inclusive companies of the 21st century'.

Engaging with our colleagues

Our people are the lifeblood of our organisation. We aim to attract and retain the best people and strive to be recognised as an employer of choice that values diversity.

An engaged workforce is one where employees feel invested in the achievement of positive organisational outcomes and want to come to work; staff feeling Safe to Say indicates that staff feel they can be themselves at work and challenge the way things are done to improve performance.

NGET colleague engagement in 2022/23 was 78% and Inclusiveness (measured through Safe to Say Index) was 79%, up from 71% in 2021/22.

Colleague and contractor 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 (LTIFR) is one of the core KPIs of the business (refer to 'Progress against objectives'). 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 via the Group Incident Review Panel, and the Safety, Health & Sustainability Committee of the Board undertakes regular deep dives on safety-related topics.

In 2022/23, the frequency of LTIFRs amongst our employees was 0.02 versus a target 0.1; contractor LTIFR was 0.19 (target 0.1), bringing overall safety performance higher than ET's target. As a result, we have increased the scope, remit and engagement of our Contractor Safety Forum and work on behavioural safety has focused on the severity of incidents.

A Group-wide stand up for safety campaign has been undertaken to align everyone behind our new company-wide 'safe to' principles and the behaviours we want to see in colleagues' everyday actions, which is a core element of our new safety strategy. We will continue our focus on safety in 2023/24 to ensure we keep our colleagues and contractors safe at work.

Living wage

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

This year, we launched a new campaign: 'DEI is everyone's business, but it starts with me', highlighting that everyone has a part to play in our journey to achieve our global Diversity, Equity and Inclusion (DEI) aspirations.

The NGET DEI Network has representatives from all departments, providing a forum for strategic direction and sharing best practice while developing local, business-led plans and driving engagement at all levels.

The RBC commits us to be as transparent as possible internally and externally on gender and ethnicity. We have a commitment to achieve a 50% diversity ratio in our Senior Leadership Group and in all our new talent programmes, by 2025.

We know that recruiting diverse experiences and perspectives to the workforce increases innovation, improves problem-solving and drives better decision-making so that NGET can deliver on its commitments efficiently. Interventions such as DEI training and neutral talent and selection processes are helping drive diversity in recruitment and in 2022/23, the diversity of new joiners was over 44% (based on ethnicity and gender).

National Grid continues to be recognised in awards and benchmarks, including being named one of The Times Top 50 Employers for Women 2022. We have close partnerships with external best practice organisations and are active members of sector- and industry-wide groups that ensure we are sharing best practice and campaigning at a sector-wide level for greater inclusion for all.

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' Report) Regulations 2013. 'Senior management' is defined as those managers who are at the same level, or one level below, the Group Executive Committee. It 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 2023 - NGET

	Male	Female	Total	Male	Female
Our Board	4	4	8	50%	50%
Whole Company	2,089	405	2,494	84%	16%

Ethnicity demographic as at 31 March 2023 - NGET

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

White	2,113
Minority	381
Total	2,494
White (%)	85
Minority (%)	15

The table above only provides data for Direct business employees only and not all employees of NGET.

The economy

Our work to deliver secure, reliable, affordable energy underpins the wider economic success of our customers and their communities and nations we serve. We are investing in innovation and raising Green Finance to help enable the energy transition.

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

Our contribution

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 supporter. We help regional government formulate and manage 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 secure, reliable energy supply and the clean energy transition, each of which are key in protecting future economic growth, safety and wellbeing in society.

Finance, tax and investment innovation

The National Grid Group published our Green Financing Framework in November 2019, and this year issued bonds totalling £1.1 billion, to advance our commitment to preparing for a decarbonised future.

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.

Partnership with our supply chain

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 have aligned our Global Supplier Code of Conduct to our RBC pillars and require suppliers to share our commitment to respecting, protecting and promoting human rights. We expect our suppliers to comply with all applicable local, 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.

Governance

Adopting the right approach to governance and the highest ethical standards is critical to the success of our business.

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

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'. Our Group Ethics, Risk and Compliance Committee oversees the Code of Ethics and associated awareness programmes. We issue this Code and operate an e-learning course for all colleagues so they adequately understand our zero-tolerance approach

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 and ensure adequate procedures are in place to address them.

Any cases alleging bribery are referred immediately to the relevant Ethics and Compliance Committees (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.

We are required to consider specific risks and maintain a compliance framework, setting out the controls we have in place to detect and prevent bribery. We then 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.

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 whistleblowers and any form of retaliation will not be tolerated.

Internal control and risk management

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

Managing our risks

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

The National Grid Electricity Transmission Board oversees the Company's risk management and internal control systems. As part of the role, the Board sets and monitors the level of risk the Company is prepared to seek or accept in pursuing our strategic objective - our risk appetite. The Board assesses the Company's Principal Risks (PRs) and monitors the risk management process through risk review sessions at least 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. The established risk governance structure including the Group Executive Ethics, Risk and Compliance Committee (Group ERC), along with equivalent committees in the business units, provides enhanced oversight and governance of risk from top-down and bottom up across the Group.

Our risk profile, which is presented to National Grid Electricity Transmission Board biannually, contains the principal risks that the ET Executive 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 reported and debated with the Electricity Transmission Risk and Compliance Committee on a monthly basis.

The NGET risk profile informs our Group Principal Risk profile which is assessed 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, Executive Committee and other leadership teams discuss the results of the annual principal risk testing at the end of the year.

Emerging risks

Emerging risks (ERs) are less defined than Group Principal Risks (GPRs) and typically do not pose an immediate threat. They are future focused, with greater uncertainty and are more difficult to quantify; however, they could threaten the future achievement of our strategy. Utilising future scenarios, horizon scanning and emerging risk assessments, we identify ERs that could potentially threaten the achievement of our strategic

objectives in the future. Our ongoing ER process includes the identification, assessment, response, and reporting of ERs.

Assessment includes the potential impact and velocity (time to impact) and our response is to then either watch, monitor or manage the risk that are reported to the Board and Company PRs using our emerging risk radar.

Changes during the year

The NGET risk profile continues to be managed by drawing upon the most significant risks across our business profile. This year we established new principal risks:

- the risk to our business model posed by technological, strategic regulatory or industry changes
- the risk to our network if assets fail to perform as expected due to the changing network environment
- the risk that the connections process does not allow us to meet the needs of our customers.

There have been positive movement in elements of our risk profile this year. We have improved our controls used to manage our business continuity risk, and the processes we put in place to respond effectively to a significant event, helping to ensure we continue to maintain a safe and reliable network.

We have also seen improvements in our occupational safety risk. Our safety performance for our employees has remained strong, outperforming our 0.1 target. This represents just one employee LTI across the whole of 2021-22 and 2022-23. However to further improve our safety performance we have introduced our behavioural safety programme, and launched a campaign to focus on the highest incident causal risk factors.

Global energy policies are changing in the face of increasing energy costs and increased recognition of the need to decarbonise energy. While our current risk levels are predominantly unchanged, the rapidly evolving situation and uncertainty require very careful monitoring and assessment of our Company PRs and ERs. The inherent risk has increased across a number of areas, including cyber security, securing satisfactory regulatory outcomes, changing political and societal expectations, and disruption of energy supply. We continue to monitor these risks closely.

Following the outbreak of war in Ukraine, NGET fed into a multi-disciplinary Group-wide crisis assessment team to oversee and coordinate our response. We evaluated the immediate threat, analysed the risk profile across different time horizons and scenarios, and completed a strategic impact assessment.

Although the immediate impact to NGET 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.

Increased consumer energy bills due to the war in Ukraine and other geopolitical factors, together with changes to UK and EU energy policy, have increased uncertainty across the energy sector. We are continually evaluating how we manage our risks, to deliver for our customers.

The NGET risks are currently discussed monthly at the Electricity Transmission Ethics, Risk and Compliance 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 NGET risk profile is presented in the following 'Principal Risks and Uncertainties' section.

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, and financial risks, which exist because of our financing activities. Our most important risks and a summary of management and mitigation actions are provided in the table below.

Operational Risks	
Risks	Action taken by management
<p>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.</p> <p>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 efficiently for our customers'. Principal risk assessment includes reasonable worst-case scenario testing i.e. electricity transmission asset failure, loss of licence to operate, cyber security attack – and the financial and reputational impact should a single risk or multiple risks materialise.</p>	
<p>Business Continuity: The risk that we fail to respond to significant factors caused by a Business Continuity event.</p> <p>Risk Trend: Neutral</p>	<p>We continue to be committed to increasing our level of business resilience through the identification of risks, testing, and learning from incidents. We are prepared for initial response and recovery from network incidents through our framework for the management of, and recovery from, incidents, with our work planning and asset investment processes enabling full recovery.</p>
<p>Asset failure leading to a public safety event: The risk of catastrophic asset failure on the electricity transmission system leading to a significant public safety event.</p> <p>Risk Trend: Neutral</p>	<p>We continue to focus on risk mitigation actions to reduce the risk of catastrophic asset failure or, in the event of this, to limit its impact. We incorporated monitoring action status into various business processes and senior leadership including:</p> <ul style="list-style-type: none"> • 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; • Where asset failures occur, performing a full investigation to ensure causes are understood, and, if not an isolated incident, appropriate management actions are implemented on the rest of the network; • Developing a rigorous and consistent framework of risk management across our high-hazard asset portfolio, with safety-critical assets clearly identified on the asset register. • Established capability frameworks to make sure our workforce has the appropriate skills and expertise to meet the performance requirements
<p>Cyber Security: The risk that we are unable to operate the network, bear damage to assets, loss of confidentiality, integrity and/or availability of systems, as a result of a cyber-attack.</p> <p>Risk Trend: Increasing</p>	<p>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:</p> <ul style="list-style-type: none"> • Collaborative working with UK Government agencies including the National Cyber Security Centre (NCSC), the Department for Energy Security and Net Zero (DESNZ) 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; and Cyber response incident procedures and contingency planning.

<p>Asset failure leading to a serious loss of supply: The risk that an asset or assets fail on the electricity transmission system leading to a serious loss of supply or a higher number of smaller losses of supply than currently experienced.</p> <p>Risk Trend: Neutral</p>	<p>We continue to apply a holistic approach encompassing preventative and mitigating actions including pre-emptive measures to maintain network reliability such as:</p> <ul style="list-style-type: none"> • Flood contingency plans for substations. • System operator supply and demand forecasting. <p>Should energy flow disruptions occur:</p> <ul style="list-style-type: none"> • Business continuity and emergency plans are in place and practised, including Electrical System Restart testing; and critical spares are maintained to ensure we can quickly and effectively respond to a variety of incidents - storms, physical and cyber-related attacks, environmental incidents and asset failures.
<p>Data: The risk that we do not manage our data effectively.</p> <p>Risk Trend: Neutral</p>	<p>We continue to progress and improve our data management processes including:</p> <ul style="list-style-type: none"> • Implementation of our data and other related business management standards. • Privacy impact assessments carried out across business areas affected by General Data Protection Regulation (GDPR). • Access controls for our data and systems are underpinned by robust licence control, multi-factor user authentication and NG Data Business Management Standards.
<p>Occupational Safety: The risk that our workers or contractors experience an occupational safety incident that results in a fatal or life changing injury.</p> <p>Risk Trend: Neutral</p>	<p>We are committed to ensuring a safe working environment for all our employees and partners when delivering our objectives. Our preventative and detective controls focus on the following areas:</p> <ul style="list-style-type: none"> • Leadership – Director level safety visits. • Planning & Risk Assessing Work – A well established management framework of safety procedures and standards for NGET and contractor based work. • Behavioural Safety – Company wide programme to further develop the Company's safety maturity. • Competency and Training – Induction and ongoing training authorisation processes. • Increased safety engagement with our contractors, focusing on working collaboratively to improve our collective safety performance.

Strategic and regulatory risks

Strategic risk is the risk of failing to achieve the Company's overall strategic business plans and objectives, as well as failing to have the 'right' strategic plan. We intentionally accept some risk so we can generate the desired returns from our strategy. Management of strategic risks 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 risks. These risks link to our strategic priorities of "Enable the energy transition for all" and "Deliver efficiently for customers". The political climate and policy decisions of our regulators were key considerations in assessing our risks. The climate change adaptation risk is classed as a strategic and regulatory risk but is also an operational risk, i.e. the impact of rising temperatures and widening temperature ranges on the performance and operation of our networks.

Risks	Action taken by management
<p>Business Model Legitimacy: The risk that NGET's business model is fundamentally undermined, because of technological, customer or strategic regulatory or industry framework changes.</p> <p>Risk Trend: Neutral</p>	<p>With a changing industry due to the drive to achieve Net Zero, we continue to engage and consult with various external stakeholders and industry groups to ensure we understand the impacts to our business.</p> <p>We continue to provide high levels of reliability across our network and are progressing a portfolio of innovation projects with a good reach across different industry groups.</p>

<p>Business Transformation: The risk that we fail to deliver fully on our T2 commitments, meet government targets and set ourselves up for T3, because we fail to transform the business effectively.</p> <p>Risk Trend: Neutral</p>	<p>We have a clear set of priorities and defined transformation outcomes. Our Transformation scorecard with clear KPIs tracks progress. Key controls identified to manage the risk are being put in place, the control areas are:</p> <ul style="list-style-type: none"> • Transformation Plan • Value Levers • Performance Reporting • Digitally Enabling the Business • Building Capability
<p>Climate Change Adaptation: The risk that we fail to adapt to the physical impact of climate change</p> <p>Risk Trend: Neutral</p>	<p>The impact that climate change may have on our assets is assessed and reported on a yearly basis through our Climate Change Adaptation Impact Strategy. We continue to engage with external stakeholders and groups to ensure the potential impacts of climate change are understood. Our Climate Change Adaptation Plan supports the delivery of short- and long-term requirements to fulfil our Climate Change Adaptation Strategy.</p>
<p>Net Zero: The risk that NGET fails to enable the UK's transition to Net Zero or meet our own Net Zero commitments.</p> <p>Risk Trend: Neutral</p>	<p>Enabling the energy transition is core to our strategic priorities and embedded in our processes and investment decision making. Our regional strategies and systems access strategies help to surface and manage any potential risks. A new National Grid business unit, Strategic Infrastructure, operating under the same NGET licence as ET, has been formed. This new business unit is responsible for delivery of 17 major infrastructure projects in the UK, as well as other strategic projects that will help deliver our Net Zero ambitions and help the UK government meet its targets.</p> <p>Internally our environmental plan will enable us to meet our Net Zero commitments.</p>
<p>Failure to Deliver: The risk that we fail to deliver our RIIO-T2 regulatory outputs</p> <p>Risk Trend: Neutral</p>	<p>To manage the risk of delivering our regulatory commitments, we are working to ensure we:</p> <ul style="list-style-type: none"> • Have an effective resourcing strategy. • Monitor legislation & Government for any planned new, or changes to, legislation that may affect us. • Plan system access and outage availability. • Have a detailed plan of the volumes we are expecting to deliver during the current regulatory period. • Have an awareness programme to help our employees understand the current regulatory deal and the consequences of our choices and deliverables. • Ensure data and processes are in place and available to enable timely and accurate regulatory reporting.
<p>Failure to Perform: The risk that we fail to deliver our regulatory outcomes in line with our business plan</p> <p>Risk Trend: Neutral</p>	<p>To manage the risk of failing to deliver outcomes in line with our business plan, we are working to ensure we:</p> <ul style="list-style-type: none"> • Have an effective resourcing strategy. • Successfully win work to deliver through re-opener opportunities where possible. • Ensure availability of the equipment needed to deliver work. • Effectively manage lead times through engagement with suppliers. • Monitor planned and expected costs. • Ensure data and processes are in place and available to enable timely and accurate regulatory reporting.

<p>Political and Societal Expectations: The risk that we do not deliver what society and political stakeholders want us to deliver.</p> <p>Risk Trend: Increasing</p>	<p>Processes and resources are in place to review, monitor and influence perceptions of our business and our reputation including by:</p> <ul style="list-style-type: none"> • Enhancing and consolidating our digital roadmap and social channels. • Developing an internal forum to increase management of stakeholder and media reputational issues. • Delivering on our commitment to be a responsible business • Implementing campaigns to recruit for the future e.g. 'The Job That Can't Wait' • Promoting partnerships and discussions of decarbonisation across the jurisdictions where we operate. <p>Considerations on emerging risks such as the economic downturn due to post-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 NG Plc 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.</p>
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<p>People</p>	
<p>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".</p>	
<p>Risks</p>	<p>Action taken by management</p>
<p>Capability: The risk that we do not have the right people with the right capabilities & behaviours to deliver our strategic priorities</p> <p>Risk Trend: Neutral</p>	<p>We are involved in a number of initiatives to help secure the future engineering talent we require, including industrial placements and internships, advanced and higher apprenticeships. We are focused on ensuring we have high levels of diversity in these future talent pools. Our entry-level talent development schemes (graduate training and apprenticeships) are a potential source of competitive advantage in the marketplace.</p> <p>We also continue to develop the rigour of our succession planning and development planning process, particularly at senior levels. We are now applying it deeper into the organisation as well as giving continued attention to the diversity of both our management and field force.</p> <p>There are multiple activities underway to support this agenda, including 'neutral' talent and selection processes, development interventions and a global launch of our diversity, equality and inclusion (DEI) strategy and resources.</p>

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 34 to 38.

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

Reviewing the effectiveness of our internal control and risk management

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

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

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

A feature of our internal controls system is our three lines of defence model. This model is a way of explaining the relationship between functions and how responsibilities for risk and controls are allocated and monitored. Each business

function owns and is responsible for managing its own particular risk and controls (the first line of defence). Central management teams (the second line of defence) act as an advisory function on implementing the principal risk assessments and actions taken to mitigate and manage those risks. Our internal audit function then audits selected controls to provide independent assessments of the effectiveness of our risk management and internal control systems (the third line of defence).

The Certificate of Assurance (CoA) from the 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. 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 monthly business reviews attended by the Group CEO and CFO, during which financial & non-financial metrics are considered via analysis of performance contract scorecards. Deep dives on particular topics are driven by identified risks and opportunities.

Viability statement

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

National Grid Electricity Transmission plc (NGET) is a wholly owned subsidiary of National Grid plc which performed a group wide business plan that was reviewed and approved by the National Grid plc Board and which included detail of the NGET operating segment. Details of the National Grid viability statements can be found in the National Grid plc Annual Report and Accounts 2022/23 on page 33 to 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 page 22, 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 NGET plc Board review and approve the annual certificates in respect of compliance with certain licence conditions (including Financial Ring-fencing, and Availability of Resources). The Electricity Transmission Financial Ring-fencing certificate was approved by the Board in July 2023, and the Availability of Resources certificate was issued in July 2023.

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

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 40, the Directors have a reasonable expectation that the Company will be able to continue operating and meet its liabilities over the period to July 2028.

Financial review

Operating profit decreased by £37 million to £1,009 million, with the impact of a £49 million revenue decrease to £1,987 million and increased operating costs being partially offset by a favourable exceptional result.

New accounting standards

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

- Amendments to IFRS 3 'Business Combinations'; and
- Amendments to IAS 16 'Property, Plant and Equipment'.
- Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'; and
- Annual improvements to IFRS standards 2018-2020.

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, and profit for the year attributable to equity shareholders into two components.

The first of these components is referred to as an adjusted profit measure. Adjusted results exclude significant exceptional items, and financial derivative remeasurements, as defined in our accounting policies. 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 total profit measures as they exclude important elements of our financial performance. However, we believe that using adjusted profit to monitor financial performance 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.

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, exclusive of timing differences, as the basis for internal monitoring of financial performance. These measures are also used by National Grid in communicating financial performance to its investors in certain external presentations and announcements of financial results.

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

Reconciliations of adjusted profit measures

Reconciliation of adjusted operating profit to total operating profit

There are exceptional items included within operating profit for the year ended 31 March 2023 and 31 March 2022, relating to matters including changes to pension settlement gains on a scheme disposal and a restructuring programme that commenced in FY20/21 across the National Grid Group of companies.

	Years ended 31 March	
	2023	2022
	£m	£m
Adjusted operating profit	983	1,058
Exceptional items ¹	26	(12)
Total operating profit	1,009	1,046

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

Reconciliation of adjusted operating profit to adjusted earnings and earnings

	Years ended 31 March	
	2023	2022
	£m	£m
Adjusted operating profit	983	1,058
Adjusted net finance costs	(402)	(280)
Adjusted profit before tax	581	778
Adjusted taxation	(137)	(171)
Adjusted earnings	444	607
Exceptional items after tax	87	(318)
Earnings from continuing operations	531	289

Reconciliation of adjusted profit excluding timing differences to total operating profit

Adjusted profit excluding timing differences is presented below. Timing differences relate to the over or under collection of revenue in year, this is explained in detail on page 31.

	Years ended 31 March	
	2023	2022
	£m	£m
Adjusted operating profit excluding timing differences	1,095	1,143
Timing differences ¹	(112)	(85)
Adjusted operating profit	983	1,058
Exceptional items ²	26	(12)
Total operating profit	1,009	1,046

¹ In year under-recovery of £112 million compared with an under-recovery in the prior year of £85 million.

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

Consolidated income statement

	Years ended 31 March	
	2023	2022
	£m	£m
Revenue	1,987	2,036
Operating costs	(1,004)	(978)
Adjusted operating profit	983	1,058
Exceptional items	26	(12)
Total operating profit	1,009	1,046
Finance income	47	4
Finance costs:		
Before exceptional items and remeasurements	(449)	(284)
Exceptional items and remeasurements	84	37
Profit before tax	691	803
Taxation:		
Before exceptional items and remeasurements	(137)	(171)
Exceptional items and remeasurements	(23)	(343)
Profit after tax	531	289

Revenue

Revenue for the year ended 31 March 2023 decreased by £49 million to £1,987 million. This movement reflects the return of £147 million of liquidated damages relating to the Western Link HVDC line to consumers via price control mechanisms, reduced revenues for tax allowance deductions, and lower customer funded works, partially offset by the impact of inflation.

Operating costs

Operating costs for the year ended 31 March 2023 of £1,004 million were £26 million higher than the prior year, mainly driven by inflationary pressures on energy and increased payroll due to National Grid's UK shared services personnel employment contracts moving to NGET due to changes in the UK Group structure. This increase was partially offset by lower impairments in the year of £4m (2022: £48 million).

Adjusted operating profit

Adjusted operating profit decreased by £75 million to £983 million, the net impact of the movements in revenue and operating costs described above.

Exceptional operating items

Net exceptional operating income of £26 million in the year ended 31 March 2023 included £35 million for gains on settlement of a defined benefit pension obligation, and £9 million of expenses in relation to restructuring programmes classified as exceptional in line with our exceptional items policy to ensure that the costs are treated in a consistent manner with similar costs incurred previously.

Net finance costs

For the year ended 31 March 2023, net finance costs before exceptional items and remeasurements increased by £122 million to £402 million. This is an impact of higher interest on our RPI-linked debt and new debt issuances.

Remeasurements

Remeasurements increased by £47 million to an £84 million gain for the year ended 31 March 2023. This is due to net gains on derivative financial instruments.

Taxation

The tax charge on profit before exceptional items and remeasurements was £34 million lower. This is driven by a drop in profit before exceptional items and remeasurements.

Taxation was £354 million lower than the prior year. This is largely driven by the impact in the prior year of a £337 million rate change on opening deferred tax balances at the increased substantively enacted rate of 25% from 19%.

Consolidated statement of financial position

	Year ended 31 March	
	2023	2022
	£m	£m
Non-current assets	16,195	15,554
Current assets	1,686	1,249
Total assets	17,881	16,803
Current liabilities	(1,024)	(904)
Non-current liabilities	(12,404)	(11,523)
Total liabilities	(13,428)	(12,427)
Net assets	4,453	4,376

Non-current assets

Non-current assets increased by £641 million to £16,195 million as at 31 March 2023. This was principally due to an increase of £799 million in property, plant and equipment (PPE). The most significant projects included within capital expenditure of £1,251 million remained Hinckley Seabank and London Power Tunnels 2. The increase in PPE was partly offset by other movements, primarily a decrease of £172 million in pension assets.

Current assets

Current assets increased by £437 million to £1,686 million at 31 March 2023, driven primarily by an increase of £391 million in financial investments, which comprise of an overnight facility loan with National Grid plc in addition to collateral pledged against derivative holdings and other borrowings.

Trade and other receivables have increased by £54 million to £271 million at 31 March 2023 as a result of movements in external debtors.

Current liabilities

Current liabilities increased by £120 million to £1,024 million at 31 March 2023, mainly driven by an increase of £101 million in Trade and other payables. This is largely due to an increase in purchase ledger and operating cost accruals.

Non-current liabilities

Non-current liabilities increased by £881 million to £12,404 million at 31 March 2023, principally driven by an increase in borrowings due after more than twelve months of £814 million.

The net deferred tax liability increased by £37 million to £1,604 million. This is predominantly driven by advanced capital allowances movements in the year.

Net debt

Net debt has increased by £506 million as detailed below.

Provisions

Total provisions decreased by £20 million, driven by a change to the discount rate applied to long-term cashflow projections.

Net pensions asset

A summary of the movements of the IAS 19 accounting net pension asset is shown below:

Net scheme asset	£m
As at 1 April 2022	633
Current service cost	(17)
Settlement credit	35
Special termination benefit cost - redundancies	(3)
Net interest credit	17
Administration costs and other	(3)
<i>Actuarial gains/(losses)</i>	
Remeasurement gains/(losses) of pension assets and post-retirement benefit obligations	(277)
Employer contributions	87
Other movements	1
As at 31 March 2023	473

The principal movement during the year was net actuarial losses of £277 million, comprising return on plan assets of £956 million less than interest, partially offset by net actuarial gains on plan obligations of £679 million. Employer contributions totalled £87 million. The overall movement in the net asset was a decrease of £160 million to show a net closing pension asset of £473 million.

Further information on our pensions benefit obligations can be found in note 20 of the consolidated financial statements.

Off balance sheet items

There were no significant off balance sheet items other than the contractual obligations shown in note 27 (b) to the consolidated financial statements, and the commitments and contingencies discussed in note 25.

Cash flow statement

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

Reconciliation of cash flow to net debt

	2023	2022
	£m	£m
Cash generated from operations	1,407	1,556
Net capital expenditure	(1,169)	(1,062)
Net cash flow from operations	238	494
Net interest paid	(175)	(150)
Tax paid	(48)	(134)
Net disposals/(acquisition) of short term financial investments	(390)	(178)
Net proceeds from loans	647	661
Settlement of short term borrowings and derivatives	17	(306)
Dividends paid to shareholders	(300)	(371)
Increase/(decrease) in cash and cash equivalents	(11)	16
Increase/(decrease) in financial investments	390	178
Increase in borrowings and related derivatives	(666)	(355)
Net interest paid on the components of net debt	176	150
Changes in fair value of financial assets and liabilities and exchange movements	147	(3)
Net interest charge on the components of net debt	(541)	(334)
Other non-cash movements	(1)	(5)
Net debt increase	(506)	(353)
Opening net debt	(8,584)	(8,233)
Closing net debt	(9,090)	(8,584)

For the year ended 31 March 2023 cash generated from operations decreased by £149 million to £1,407 million. The decrease was driven primarily by unfavourable movements in operating profit and less favourable movements in working capital than in the prior year.

Net capital cash expenditure

Net capital cash investment increased by £107 million to £1,169 million in the year to date 31 March 2023, in line with the increase in fixed asset additions, and driven by a ramp up in NGET's capital expenditure programme.

Dividends paid

Dividends of £300 million were declared and paid in July 2022 in respect of the year ending 31 March 2022. No interim dividends have been paid. It was agreed at the 14 July 2023 board meeting that £300 million will be allocated for the 2022/23 dividend.

Other

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

Regulated financial performance

Timing and Regulated Revenue Adjustments

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

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

The amounts calculated as timing differences are estimates and subject to change until the variables that determine allowed revenue are finalised. Our operating profit for the year includes a total estimated in-year under-recovery of £112 million (2021/22: £85 million under-recovery). This will be collected from customers in subsequent years. Opening balances include true ups and adjustments for the time value of money.

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

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

Return on Equity

Return on Equity for the year, normalised for a long-run CPIH inflation rate of 2%, was 7.5% (2022: 7.7%).

RoE performance above base return was driven by the completion of some key investments spanning the RIIO-T1 and T2 price controls. Positive T2 performance was partly offset by the impact of adverse Quality of Connections incentive performance.

The principal components of the differences are shown in the table below:

Year ended 31 March	2023	2022
Base return ¹	6.3 %	6.3 %
Totex incentive mechanism	1.1 %	1.4 %
Other revenue incentives	0.1 %	0.1 %
Return including in year incentive performance	7.5 %	7.8 %
Pre-determined additional allowances and other income	0.0 %	(0.1)%
Return on Equity	7.5 %	7.7 %

¹ Normalised for a long-run CPIH inflation rate of 2%

Totex incentives contributed 120 basis points largely reflecting completion of final RIIO-T1 straddling projects and efficient cost control on first years of RIIO-T2 projects.

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

We continued to deliver good performance on reliability and continue to work to identify opportunities for future outperformance.

Regulated Financial Position

In the year, RAV grew by 10%, up on last year's growth rate due to higher RAV indexation (8.9% in 2022/23 versus 6.2% in 2021/22) coupled with investment increasing in the second year of RIIO-T2.

£m	2023	2022
Opening Regulated Asset Value (RAV) ¹	15,471	14,328
Asset additions (slow money) (actual)	1,180	1,130
Performance RAV or assets created	68	75
Inflation adjustment (actual CPIH)	1,373	894
Depreciation and amortisation	(1,020)	(941)
Closing RAV	17,072	15,486

£m	2023	2022
Opening balance of other regulated liabilities ²	(229)	(278)
Movement	69	66
Closing balance	(160)	(212)
Closing Regulated Financial Position	16,912	15,274

¹ The FY23 opening balance has been restated by £15 million in order to align to regulatory returns.

² The FY23 opening balance has been restated by £17 million in order to align to regulatory returns.

The Strategic Report was approved by the NGET plc Board of Directors on **14 July 2023** and signed on its behalf by:

DocuSigned by:

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Alice Delahunty

Director

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 the section 172(1) (a)-(f) of the Companies Act 2006 in the decisions taken during the year ended 31 March 2023. Examples of how Directors have had regard to these matters during the year are set out on page 33, which together with this page forms our section 172(1) statement.

As the Board of Directors, we prioritise our responsibilities for monitoring and upholding the culture, values, standards, ethics and reputation of the Company to ensure that our obligations to our shareholders, stakeholders and wider society are met. 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 below:

Section 172	Overview
The likely consequence of any decision in the long term	<p>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 2022 to ensure the forward business plan allocated sufficient time to those matters of long-term importance to the Company.</p> <p>Following extensive engagement with Ofgem and DESNZ, the UK Government asked the Company to deliver 17 major new projects to connect low-carbon power to the network. The Board has considered updates on these projects that are a vital part of achieving the Government's ambition of connecting 50 GW of offshore wind by 20230. National Grid has established a new business unit for the delivery of this work – Strategic Infrastructure (SI). The Board has provided input on the set up of SI and will continue to oversee its work under the Company's licence.</p>
Interests of our colleagues	<p>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.</p> <p>The health, safety and wellbeing of employees remains a main priority and updates on performance in this area are standing items at Board meetings.</p> <p>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 38.</p>
Fostering business relationships with suppliers, customers, regulators and others	<p>The Board regularly reviews the relationships the business maintains with all of its stakeholders, including suppliers, customers and others.</p> <p>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.</p> <p>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 38.</p>
Communities, government and environment	<p>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 15.</p> <p>The Executive Directors and other members of senior leadership have met 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. The Board has also considered focused sessions on major projects such as the delivery of Ofgem's revised regulatory framework, Accelerating Strategic Onshore Transmission Investment (ASTI). In March the Board heard from The Visual Impact Provision (VIP) Stakeholder Advisory Group to discuss lessons learnt from our approach to delivering VIP projects and seizing the opportunity to shape and enhance the future of both our business and our natural environment.</p>
Maintaining a reputation for high standards of business conduct	<p>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 pages 8 to 9.</p> <p>Through its Audit Committee, the Board monitors and addresses the Company's business conduct and has oversight of the compliance strategy, policy and frameworks set out at National Grid Group level and implemented by the Company's Electricity Transmission business.</p> <p>The Board has also established a Business Separation Compliance Committee which is responsible for overseeing the duties and task of the Compliance Officer and compliance with our licence conditions for business separation. Further details can be found on page 39.</p>
The need to act fairly as between members	<p>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.</p>

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 38 where we explain our approach to 'Stakeholder Relationships and Engagement'.

Corporate Governance

Corporate Governance Statement

National Grid Electricity Transmission plc (the Company) aims to achieve high standards of leadership and governance. At National Grid plc level, the Company's ultimate shareholder, its board considers that it complied in full with the provisions of the UK Corporate Governance Code 2018 (the Code) during the year being reported on. The Company's Board applied the Wates Corporate Governance Principles for Large Private Companies (the Wates Principles) for the year ended 31 March 2023. 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 ensures that its values, strategy and culture align with that purpose.

Our purpose is to Bring Energy to Life. As described on page 6, 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 Electricity Transmission Licence. To facilitate this, a comprehensive governance framework has been established. This governance framework forms part of the wider National Grid plc governance framework and is aligned, as required and is applicable, to the Company. The framework is described in further detail below.

2. Board Composition

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

Balance and Diversity

Reinforcing its commitment to sound corporate governance, the Board has continued to strengthen and develop both its composition and governance framework, implementing, as

applicable, many of the best practice governance principles in operation at the National Grid plc level. At the year end, the Board consisted of two executive directors, two National Grid Group-appointed Non-executive directors, two Sufficiently Independent Directors (SIDs) and one Non-executive Director, who between them provide a broad and diverse range of experience and technical skills from both within and external to the organisation, from the energy sector, other regulated industries and external bodies. Full details of the Directors who were in office during the year and up to the date of signing the financial statements can be found in the Directors' Report on page 40.

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, equity and inclusion (DEI). DEI is a vital part of the Group's efforts in building the talent and capabilities we need for the future to deliver on our purpose and strategic priorities. Our vision is to build and develop an inclusive culture and diverse workforce that is representative of the communities we serve. Further details of the Group policy can be found publicly in the National Grid plc Annual Report & Accounts (page 81). At the year end, the Board consisted of four female Directors and three male Directors.

Chair

Ben Wilson stepped down as Chair with effect from 1 February 2023 due to an internal move within the National Grid Group. The Board appointed Alice Delahunty, President of Electricity Transmission, as the new Chair of the Board. Alice has been a member of the Board since December 2020 and is a member of the Group Executive Committee. The Board gave consideration to separating the roles of Chair and President as per the Wates Principles' guidance, however, it determined that through her participation at a National Grid Group level as well as her role as President of Electricity Transmission and as Chair of the Company's Board, she 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.

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. Jeremy Long was appointed to the Board as a SID on 17 March 2022. Cathryn and Jeremy fulfil the independence requirements of a SID set out in the Company's licence.

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, as Chair of the Audit Committee, Jeremy Long holds 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.

Non-executive Director

Phil Sheppard was appointed as a Non-executive Director of the Board on 1 August 2021. Phil brings a wealth of experience from the energy sector and in relation to his engineering expertise. Phil is a former employee of the National Grid Group and therefore is not deemed to be independent for the purposes of Condition B22 of the Company's Transmission licence.

Executive Directors

For the reporting period, the executive director membership of the Board consisted of three members of the Electricity Transmission Executive Team: Alice Delahunty, Chris Bennett and Darren Pettifer. Following an internal move within the National Grid Group, Darren Pettifer resigned from the Board with effect from 1 August 2022.

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 resigned from the Board on 1 February 2023. The Board appointed Justine Campbell, Group General Counsel & Company Secretary on 24 February 2023. Justine is one of the Group-appointed Non-executive Directors alongside Alexandra Lewis, bringing a Group perspective to the Boardroom. 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.

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. Jeremy Long received a comprehensive induction in which he met and heard from key personnel responsible for the delivery of the NGET strategy, key operations and matters specific to his role as Audit Committee Chair. The induction was tailored to his 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 for Energy Security and Net Zero (DESNZ) 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 Delegations of Authority (DoA). Further detail on the work of the Committees can be found below.

The Board's accountability for financial business reporting and risk management and internal control is undertaken within the wider Group governance framework and processes. As a regulated entity, the Board has responsibility for annual regulatory financial reporting requirements which it applies the same rigorous governance processes as that of the statutory accounts, and it involves the work of the Audit Committee. Reporting on the regulatory regime is overseen by the Board, and further detail can be found on pages 3 to 5.

Regular Board meetings are generally scheduled and communicated approximately six to twelve months 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 DoA from National Grid plc. The Board's supervision of the Company's operations is fulfilled through standing agenda items on safety matters, business overviews from the transmission owner and financial performance. The Board's consideration of health and safety matters covers all parts of the operational business and considers the health and safety of the workforce and members of the public. In addition to this the Board receives a suite of management reports, in line with Group reporting, providing updates on different aspects of the business.

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

the dynamics of the meeting, enabling a process of continuous improvement for the operation of future Board meetings.

Six regular Board meetings were scheduled during the year. In addition, in June 2022 the Board held a Strategy Day, allowing Directors to focus on internal and external factors which influence the strategy, including the political environment, building new network capacity to meet the UK Government's Net Zero targets, customer connections, network reliability and the importance of the Company's role in the wider energy industry.

Committees

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

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

The Company does not have a Nomination 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 80 to 82 for the work of the People & Governance Committee (which covers the responsibilities of a typical Nomination Committee) and pages 90 to 106 for the work of the Remuneration Committee.

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

Electricity Transmission Executive Committee

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

The Committee comprises the senior management of the ET business and is chaired by Alice Delahunty, the Chair of the Board.

Business Separation Compliance Committee

The Business Separation Compliance Committee of the Board is responsible for overseeing the duties and tasks of the

Business Separation Compliance Officer and for overseeing compliance with the business separation licence conditions. Membership of the Committee is by appointment of the Board and comprises all directors of the licensee. For the reporting period, the Committee was chaired by Cathryn Ross, SID, providing independent leadership of the Committee.

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

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

Finance Committee

The Finance Committee of the Board is responsible for setting policy and grants authority for financing decisions, credit exposure, hedging and foreign exchange transactions, guarantees and indemnities, all subject to the risk appetite of the Board. It also approves other treasury, taxation, insurance 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 three times.

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

Audit and Risk Committee

The Audit and Risk 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, Alexandra Lewis. During the year, the Committee was chaired by Jeremy Long, SID, providing independent leadership. Relevant 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 ET Chief Financial Officer (CFO), Head of UK Audit, UK Chief Risk Officer, other representatives of the finance function 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 and Risk 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 and Risk Committee.

The preparation and management of the Audit and Risk Committee's annual meeting schedule follows the same governance processes as those for the Board. Technical briefings and meetings with the ET 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.

Areas of focus

The Audit and Risk 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 Audit and Risk Committee considered during the year were matters relating to internal controls and processes and judgements made in the preparation of the year-end financial statements.

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

External audit

The Audit and Risk 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 SHS 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 NGET, 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 43.

A resolution to re-appoint Deloitte and giving authority to the Directors to determine their remuneration will be submitted to shareholders at the 2023 AGM.

4. Opportunity and Risk.

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

Risk Management is fundamental to delivering the long-term success of the Company and for that reason a separate section of the Annual Report and Accounts has been dedicated to describing our internal controls and risk management on pages 26.

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 90 to 106.

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 current level of engagement and incorporation of its views into decision-making. During the year, the Board took the opportunity to review stakeholder 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, DESNZ and the Health and Safety Executive. The Company also organises stakeholder forums and consultations with stakeholders, including members of the public, our suppliers and customer around specific projects. 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-T2 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.

Stakeholder Advisory Group

In 2012, Ofgem introduced a funding framework for mitigating the visual impact of existing infrastructure in designated landscapes. National Grid's Visual Impact Provision (VIP) projects range from overhead line removal and replacement to smaller landscape improvement projects and are led by the VIP Stakeholder Advisory Group (SAG). This group is comprised of senior representatives from national organisations dedicated to conserving and enhancing the landscape throughout England

and Wales. Ofgem remain committed to the benefits being delivered and have agreed to continue the funding into RIIO-T2. In March 2023 the Chair of the SAG attended the Board meeting, the Board discussed the learnings from the current VIP approach, and how the work completed on the VIP projects assisted with the creation of new wildlife habitats from disturbance through clear research and following advice from SAG. The Board supported the proposal to continue the current approach to VIP, including ensuring the role of the VIP SAG continues. The Board further supported the principles of the VIP projects to be extended for all future major projects to include conservation bodies given the strong stakeholder relationships already formed which have proven successful in delivering significant benefits to the environment and communities. National Grid and Ofgem's nine-year investment in VIP has resulted in shared learning, increasing mutual trust and professional respect across the SAG. To aid the continuation of building these vitally important relationships the Board nominated a Board member to champion and guide the future approach. The continued collaboration of the Company and SAG will provide a strong basis for sustainable success in the future and presents an opportunity that aligns to our values and commitments as a responsible business.

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. The Board will continue to review and adapt its approach during the 2023/24 financial year, considering new ways to engage with the workforce effectively. 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. The Board receives People and Culture updates including employee health and wellbeing as well as updates regarding talent and succession planning. During the year, Directors have held a series of workforce engagement events, including town halls, smaller engagement events and leadership briefings.

Business separation

Business Separation Compliance Committee

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

Special Condition [9.18] (Business separation requirements and compliance obligations) of our electricity transmission licence requires the Company to maintain business separation sufficient to ensure that no commercial advantage is given to any of the National Grid competitive businesses operating or bidding for activities in carbon capture and storage, interconnectors or offshore transmission. This Condition also requires NGET, in carrying out its licensed activities, to have in place and maintain systems of control and governance arrangements to ensure the Company complies with several licence conditions covering the prohibition of cross subsidies, Financial Ringfencing, prohibited activities and business conduct.

Our policy in respect of compliance with Special Condition 20 is set out in the Company's Compliance Statement. We have taken the following specific actions to comply with the requirements of Special Condition 9.18: We have taken the following specific actions to comply with the requirements of Special Condition 9.18 Part C:

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

Directors' Report

The Directors present their report and the audited consolidated financial statements of the Company for the year ended 31 March 2023. 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	
Justine Campbell***	Appointed 24 February 2023
Alice Delahunty	
Alexandra Lewis ***	
Jeremy Long *	
Darren Pettifer	Resigned 1st August 2022
Cathryn Ross *	
Philip Sheppard **	
Carl Trowell	Appointed 29 May 2023
Benjamin Wilson ***	Resigned 1 February 2023

*Sufficiently Independent Director

** Non-executive Director

*** 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 2023. 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 2022/23. Further details on pages 34 to 38.

Principal activities and business review

A full description of the Company's principal activities, business, key performance indicators and principal risks and uncertainties is contained in the Strategic Report on pages 13 to 31 which is incorporated by reference into this report.

Material interests in shares

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

Dividends

A final dividend of £300 million was declared after the year end on 14 July 2023 (2021/22: £300 million final dividend).

Share capital

Share capital remains unchanged. See note 22 to the consolidated financial statement for further details.

Research and development

Expenditure on research and development was £6.7 million during the year (2021/22: £3.4 million).

Financial instruments

Details on the use of financial instruments and financial risk management are included in note 12 to the consolidated financial statements.

Future developments

Details of future developments are noted in the Strategic Report.

Employee involvement

Details of how the Company involves its employees are contained in the Key Performance Indicators on page 15 which is incorporated by reference into this report.

Diversity

Details of how the Company approaches diversity can be found on page 12 which is incorporated by reference into 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 2023 will be issued separately to the shareholder.

Going concern

Having made enquiries and reviewed management's assessment of the going concern assumption, as detailed within Note 1(a) of the financial statements, 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 27 to the consolidated financial statements. There have been no major changes to the liquidity and solvency risks in the year. Although not assessed over the same period, the viability of National Grid Electricity Transmission plc has been assessed on page 27.

By order of the Board

DocuSigned by:

 19AE9830455A4DD...
 Alice Delahunty
 Director

14 July 2023

National Grid Electricity Transmission plc
 1-3 Strand, London WC2N 5EH
 Registered in England and Wales Number 2366977

Introduction to the financial statements

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

Notes

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

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with UK adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRS). 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 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 Group 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 Group enabling 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:

 19AE9630455A4DD...
Alice Delahunty

Director

14 July 2023

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

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of National Grid Electricity Transmission plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2023 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 Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

Group:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated statement of financial position;
- the consolidated statement of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 31 to the consolidated financial statements.

Parent Company:

- the company balance sheet;
- the company statement of changes in equity; and
- the related notes 1 to 19 to the company financial statements

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law, United Kingdom adopted international accounting standards 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).

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	The key audit matter that we identified in the current year was treasury derivative transactions.
Materiality	The materiality that we used for the group financial statements was £39m which was determined on the basis of 5% of three-year average 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 all of the Group's revenue, profit before tax and 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 including committed but undrawn facilities amounting to £965m disclosed in note 1(a);
- 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.

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.a. Treasury Derivative Transactions

Key audit matter description

Account balances: Level 3 derivative financial assets and liabilities. Refer to note 27 to the consolidated financial statements.

The group holds Level 3 derivatives which are Inflation swaps (Limited Price Inflation and Consumer Prices Index) to hedge inflation risk. The derivatives are valued using in-house valuation models and external valuations are obtained to support each reported fair value. There is a risk that the valuation methodology is not appropriate or that the significant assumptions or underlying data, including the methodology and inputs used, are inappropriate or lack sufficient basis or support. There is a heightened risk in relation to these derivatives as the valuation is more subjective due to the use of complex valuation models and/or unobservable inputs such as forward CPI assumptions.

Due to the judgemental nature of this assessment, there is a much higher risk involved in determining an accurate valuation.

The value of Level 3 derivative financial liabilities and assets (being those where unobservable inputs are significant to the measurement) was £122 million (2022: £187 million) and £22m (2022: £0m) respectively. The note also includes key estimates and judgements made in relation to valuation of Level 3 derivative financial liabilities and assets.

How the scope of our audit responded to the key audit matter

We have tested the relevant controls over the valuation of derivative financial instruments, including management review controls where on an annual basis an independent valuation of the entire population of Level 3 derivative valuations is compared to counterparty valuations.

To address the complexities associated with auditing such instruments, the engagement team involved valuation specialists with quantitative and modelling expertise to assist in performing our audit procedures.

Our valuation specialists performed an independent valuation of a sample of these Level 3 derivative instruments to test that the valuation recorded in the financial statements is accurate.

As part of this valuation, we considered management's key inputs, assumptions and methodologies. Our independent valuations were established using independently sourced inputs (where available). We evaluated whether the differences between our independent valuations and management's valuations were within a reasonable range.

We have obtained third party confirmations to test the completeness and accuracy of the information held within the treasury management system.

Key observations

We conclude that the valuation of the level 3 derivatives is appropriate.

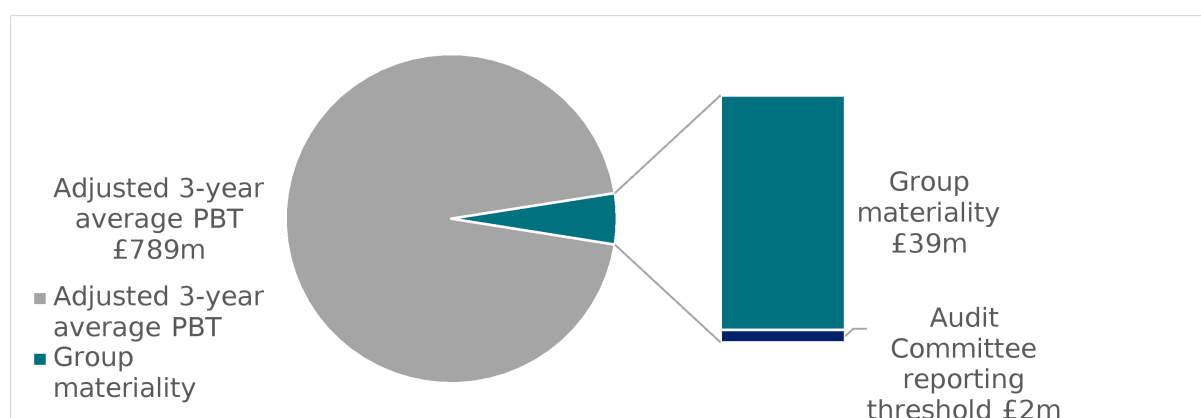
6. Our application of materiality

6.1 Materiality

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

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

	Group financial statements	Parent company financial statements
Materiality	£39m (2022: £44m)	£39m (2022: £44m)
Basis for determining materiality	<p>Our determined materiality represents 5% (2022: 5%) of adjusted profit before tax on a three-year average basis.</p> <p>Adjusted profit before tax is profit before tax, certain exceptional items and remeasurements as disclosed in the note 5 in the notes to the consolidated financial statements.</p>	<p>Materiality was determined on the same basis as the group materiality, being 5% of adjusted profit before tax, which is profit before tax, certain exceptional items and remeasurements as disclosed in the note 5 in the notes to the consolidated financial statements. The parent company financial statements are derived by deconsolidating from the group financial statements the 100% holding in National Grid Electricity Group Trustee Limited, which is a pension nominee company and has no transactional activity.</p>
Rationale for the benchmark applied	<p>We assessed 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 adjusted profit before tax to be an important benchmark of the performance of the Group.</p> <p>Profit before tax is the benchmark ordinarily considered when auditing listed entities. Whilst it provides comparability against other companies across all sectors, it 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. Therefore we have used average of three years' profit before tax as the benchmark.</p> <p>We consider it appropriate to adjust the profit before tax for items which management have defined as exceptional items as these items are volatile and not reflective of the underlying performance of the Group. 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. It was also the key measure applied in the prior year.</p>	



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

Parent company financial statements

Performance materiality	70% (2022: 70%) of group materiality	70% (2022: 70%) of parent company materiality
Basis and rationale for determining performance materiality	<p>In determining performance materiality, we considered the following factors:</p> <ul style="list-style-type: none"> • 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. <p>We also considered the level of change in the business from the prior year. There were no changes identified which would have led to using a lower performance materiality.</p>	

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £2.0m (2022: £2.2m), 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, as the single subsidiary, National Grid Electricity Group Trustee Limited has no transactional activity. Full scope audit procedures therefore provided coverage of 100% of the Group profit before tax and net assets.

We used data analytics tools and specialists to help inform our understanding of the business, identify key risk areas and evaluate the level of audit coverage required.

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.

There were no circumstances where we had planned to take controls reliance but controls were deficient and there were not sufficient mitigating or alternative controls we could rely on, leading to adoption of a non-controls reliance approach. All control deficiencies which we considered to be significant were communicated to the Audit 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 eleven IT systems as relevant to the audit. These systems are all directly or indirectly relevant to the entity's financial reporting process.

We relied 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 Net Zero section in the strategic report on page 15 of the Annual Report. It represents a key strategic consideration of management.

As a part of our audit procedures we have reviewed management's climate change risk assessment and evaluated the completeness of identified risks and the impact on the financial statements, including key developments post COP26, and have read the disclosures in the strategic report to consider whether they are materially consistent with the financial statements and our

knowledge obtained in the audit. We also considered the impact of climate change in our own risk assessment procedures. For National Grid Electricity Transmission plc, we have not identified any key audit risks as a result of climate change.

8. Other information

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

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.

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, the directors and the audit committee about their own identification and assessment of the risks of irregularities, including those that are specific to the group's sector;
- 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 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.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for 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, pensions and tax legislation.

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 licence and environmental regulations.

11.2 Audit response to risks identified

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

Our procedures to respond to risks identified included the following:

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

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

Report on other legal and regulatory requirements

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

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

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

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

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

13.1 Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

13.2 Directors' remuneration

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

We have nothing to report in respect of this matter.

14. Other matters which we are required to address

14.1 Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Shareholders at the Annual General Meeting on 31 July 2017 to audit the financial statements for the year ending 31 March 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is six years, covering the years ending 31 March 2018 to 31 March 2023.

14.2 Consistency of the audit report with the additional report to the audit committee

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

15. Use of our report

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

DocuSigned by:

Kate Hadley

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Kate Hadley FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Birmingham, United Kingdom

14th July 2023

Consolidated income statement

for the years ended 31 March

	Notes	2023 £m	2023 £m	2022 £m	2022 £m
Revenue	2 (a) / 3		1,987		2,036
Operating costs	4		(1,004)		(978)
Operating profit					
Before exceptional items	2 (b)	983		1,058	
Exceptional items	5	26		(12)	
Total Operating Profit	2 (b)		1,009		1,046
Finance income	6		47		4
Finance costs					
Before exceptional items and remeasurements	6	(449)		(284)	
Remeasurements	5	84		37	
Total finance costs	6		(365)		(247)
Profit before tax					
Before exceptional items and remeasurements		581		778	
Exceptional items and remeasurements	5	110		25	
Total profit before tax			691		803
Tax					
Before exceptional items and remeasurements	7	(137)		(171)	
Exceptional items and remeasurements	5	(23)		(343)	
Total tax	7		(160)		(514)
Profit after tax					
Before exceptional items and remeasurements		444		607	
Exceptional items and remeasurements	5	87		(318)	
Profit for the year attributable to owners of the parent			531		289

Consolidated statement of comprehensive income

for the years ended 31 March

	Notes	2023 £m	2022 £m
Profit for the year		531	289
Other comprehensive (loss)/income:			
Items that will never be reclassified to profit or loss			
Remeasurement (losses)/gains on net pension asset	20	(277)	219
Net gains in respect of cash flow hedging of capital expenditure	23	4	1
Tax on items that will never be reclassified to profit or loss	7	69	(67)
Total items that will never be reclassified to profit or loss		(204)	153
Other comprehensive (loss)/income:			
Items that may be reclassified subsequently to profit or loss			
Net gains/(losses) in respect of cash flow hedges and cost of hedging	23	61	(33)
Tax on items that may be reclassified subsequently to profit or loss	7, 23	(16)	9
Total items that may be reclassified subsequently to profit or loss		45	(24)
Other comprehensive (loss)/income for the year, net of tax		(159)	129
Total comprehensive income for the year		372	418

Consolidated statement of financial position

as at 31 March

	Notes	2023 £m	2022 £m
Non-current assets			
Intangible assets	9	210	211
Property, plant and equipment	10	15,312	14,513
Prepayments	14	18	10
Pension asset	20	505	677
Derivative financial assets	12	150	143
Total non-current assets		16,195	15,554
Current assets			
Inventories	13	39	36
Trade and other receivables	14	271	217
Financial and other investments	11	1,373	982
Derivative financial assets	12	3	1
Cash and cash equivalents	15	—	13
Total current assets		1,686	1,249
Total assets		17,881	16,803
Current liabilities			
Borrowings	16	(380)	(332)
Derivative financial liabilities	12	(12)	(39)
Trade and other payables	17	(612)	(511)
Contract liabilities	18	(12)	(13)
Provisions	21	(8)	(9)
Total current liabilities		(1,024)	(904)
Non-current liabilities			
Borrowings	16	(9,667)	(8,853)
Derivative financial liabilities	12	(557)	(499)
Other non-current liabilities	19	(55)	(59)
Deferred tax liabilities	7	(1,604)	(1,567)
Pension obligations	20	(32)	(44)
Provisions	21	(60)	(79)
Contract liabilities	18	(429)	(422)
Total non-current liabilities		(12,404)	(11,523)
Total liabilities		(13,428)	(12,427)
Net assets		4,453	4,376
Equity			
Share capital	22	44	44
Retained earnings		4,393	4,365
Other reserves	23	16	(33)
Total equity		4,453	4,376

The consolidated financial statements set out on pages 52 to 104 were approved by the Board of Directors and authorised for issue on 14 July 2023. They were signed on its behalf by:

DocuSigned by:

Chris Bennett

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Chris Bennett Director

DocuSigned by:

Alice Delahunty

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Alice Delahunty Director

National Grid Electricity Transmission plc

Registered number: 2366977

Consolidated statement of changes in equity

	Note	Called up share capital £m	Retained earnings £m	Other equity reserves ¹ £m	Total equity £m
At 1 April 2021		44	4,289	(10)	4,323
Profit for the year		—	289	—	289
Total other comprehensive income/(loss) for the year		—	152	(23)	129
Total comprehensive income/(loss) for the year		—	441	(23)	418
Equity dividends	8	—	(371)	—	(371)
Share-based payments		—	3	—	3
Tax on share based payments		—	3	—	3
At 31 March 2022		44	4,365	(33)	4,376
Profit for the year		—	531	—	531
Total other comprehensive income/(loss) for the year		—	(208)	49	(159)
Total comprehensive income/(loss) for the year		—	323	49	372
Equity dividends	8	—	(300)	—	(300)
Share-based payments		—	5	—	5
At 31 March 2023		44	4,393	16	4,453

¹ Analysis of other equity reserves is provided within note 23.

Consolidated cash flow statement

for the years ended 31 March

	Notes	2023 £m	2022 £m
Cash flows from operating activities			
Operating profit	2 (b)	1,009	1,046
Adjustments for:			
Exceptional items	5	(26)	—
Depreciation, amortisation & impairment		490	513
Share-based payment charge		5	3
Changes in working capital		11	55
Changes in pension obligations		(65)	(50)
Changes in provisions		(5)	(10)
(Gain)/Loss on disposal of property, plant and equipment		(3)	13
Cash flow from exceptional items		(9)	(14)
Cash generated from operations		1,407	1,556
Tax paid ¹		(48)	(134)
Net cash inflow from operating activities		1,359	1,422
Cash flows from investing activities			
Purchases of intangible assets		(49)	(52)
Purchases of property, plant and equipment		(1,129)	(1,014)
Disposals of property, plant and equipment		9	4
Interest received		23	2
Increase in short-term financial investments		(390)	(178)
Net cash flow used in investing activities		(1,536)	(1,238)
Cash flows from financing activities			
Proceeds from loans received		875	737
Repayment of loans		(220)	(66)
Payments of lease liabilities		(8)	(10)
Net movements in short-term borrowings		19	(382)
Cash inflows on derivatives		1	77
Cash outflows on derivatives		(3)	(1)
Interest paid		(198)	(152)
Dividends paid to shareholders		(300)	(371)
Net cash flow (used)/generated in financing activities		166	(168)
Net increase / (decrease) in cash and cash equivalents	24 (a)	(11)	16
Cash and cash equivalents at the start of the year		11	(5)
Net cash and cash equivalents at the end of the year	15	—	11

¹Refer to Note 7. Tax in the consolidated financial statements

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), amendments and interpretations and whether these are effective for this year end or in later years, explaining how significant changes are expected to affect our reported results.

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

These consolidated financial statements were approved for issue by the Board of Directors on 14 July 2023.

These consolidated financial statements have been prepared in accordance with UK adopted International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and related interpretations as issued by the IASB and IFRS. They are prepared on the basis of all IFRS accounting standards and interpretations that are mandatory for periods ended 31 March 2023 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, the revaluation of derivative financial instruments and certain commodity contracts, share-based payments 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 Executive Committee, and assists users of the financial statements to understand the results. The inclusion of total profit for the period before exceptional items and remeasurements forms part of the incentive target set annually for remunerating certain Executive Directors and accordingly we believe it is important for users of the financial statements to understand how this compares to our results on a statutory basis and period on period.

a) Going concern

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 and treasury management activities. 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 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 of inflation impacting the revenue we can collect;
- adverse impact in volumes reducing collectible revenue; and
- controllable cost risks as a result of an unprecedented increase in electricity prices and inflation; and;

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;
- 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 Company, including committed but undrawn facilities of £965 million (see Note 16). The Board determined that the Company and Group have adequate resources to meet its liabilities as they fall due for the 12 months following the approval of these financial statements.

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

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

b) Basis of consolidation

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

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

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

c) Foreign currencies

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

Gains and losses arising on the retranslation of monetary assets and liabilities are included in the income statement, except where the application of hedge accounting requires inclusion in other comprehensive income - note 23.

d) Areas of judgement and key sources of estimation uncertainty

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

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

- categorisation of certain items as exceptional items or remeasurements and the definition of adjusted earnings. In applying the Company's exceptional items framework, we have considered a number of key matters, as detailed in note 5;
- application and categorisation of asset useful economic lives (UELEs) as detailed in notes 9 and 10.

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

- the valuation of liabilities for pensions and other post-retirement benefits – note 20; and
- valuation of financial instruments - note 27.

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 28.

e) Accounting policy choices

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

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

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

f) New IFRS accounting standards effective for the year ended 31 March 2023

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

- Amendments to IFRS 3 'Business Combinations'; and
- Amendments to IAS 16 'Property, Plant and Equipment'.
- Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'; and
- Annual improvements to IFRS standards 2018-2020.

g) New IFRS accounting standards and interpretations not yet adopted

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

- IFRS 17 'Insurance Contracts';
- amendments to IAS 12 'Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction';
- amendments to IAS 1 'Presentation of Financial Statements' on classification of liabilities as current or non-current;
- amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'; and
- amendments to IAS 1 and 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

2. Segmental analysis

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

Revenue and the results of the business are analysed by operating segment, based on the information the Board of Directors uses internally for the purposes of evaluating the performance of each operating segment and determining resource allocation between them. The Board of Directors is National Grid Electricity Transmission plc's chief operating decision-making body (as defined by IFRS 8 'Operating Segments') and assesses the profitability of operations principally on the basis of operating profit before exceptional items and remeasurements (see note 5). The main activity for the operating segment is electricity transmission. Other activities not included within the above segment relate to other commercial operations and corporate activities. There have been no changes to our reporting structure for the year ended 31 March 2023.

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

(a) Revenue

	2023			2022		
	Total sales £m	Sales between segments £m	Sales to third parties £m	Total sales £m	Sales between segments £m	Sales to third parties £m
Operating segment:						
Electricity Transmission	1,987	—	1,987	2,034	—	2,034
Other activities	—	—	—	2	—	2
Total revenue from operations	1,987	—	1,987	2,036	—	2,036

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

Since the legal separation of National Grid Electricity System Operator Ltd (NGESO) in 2019, the principle revenues for NGET, being Transmission Network Use of System (TNUoS) charges and post vesting connection charges, have all been invoiced to and collected from that company. Amounts are invoiced and settled equally each month of the financial year. The ESO acts as agent for the collection of such charges for all GB Transmission Owners.

No other single customer contributed 10% or more to the Group's revenue in either 2023 or 2022.

(b) Operating profit

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

	Before exceptional items and remeasurements		After exceptional items and remeasurements	
	2023 £m	2022 £m	2023 £m	2022 £m
Operating segment:				
Electricity Transmission	983	1,057	1,009	1,045
Other activities	—	1	—	1
Operating profit	983	1,058	1,009	1,046
Reconciliation to profit before tax:				
Finance income	47	4	47	4
Finance costs	(449)	(284)	(365)	(247)
Profit before tax	581	778	691	803

2. Segmental analysis (continued)

(c) Capital expenditure and depreciation

	Net book value of property, plant and equipment and intangible assets		Capital expenditure ¹		Depreciation, impairment and amortisation	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
Operating segment:						
Electricity Transmission	15,522	14,724	1,303	1,194	490	513
Total	15,522	14,724	1,303	1,194	490	513
By asset type						
Property, plant and equipment	15,312	14,513	1,250	1,121	452	476
Intangible assets	210	211	53	73	37	37
Total	15,522	14,724	1,303	1,194	489	513

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

3. Revenue

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

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

Revenue in respect of regulated activities is determined by regulatory agreements that set the price to be charged for services in a given period based on pre-determined allowed revenues. Variances in service usage can result in actual revenue collected exceeding (over-recoveries) or falling short (under-recoveries) of allowed revenues. Where regulatory agreements allow the recovery of under-recoveries or require the return of over-recoveries, the allowed revenue for future periods is typically adjusted. In these instances, no assets or liabilities are recognised for under- or over-recoveries respectively, because the adjustment relates to future services that have not yet been delivered.

The UK Electricity Transmission segment principally generates revenue by providing electricity transmission services.

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

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

- the supply of high-voltage electricity – revenue is recognised based on usage. Our performance obligation is satisfied over time as our customers make use of our network. We bill monthly in arrears and our payment terms are up to 60 days. Price is determined prior to our financial year end with reference to the regulated allowed returns and estimated annual volumes; and
- construction work (principally for connections) – revenue is recognised over time, as we provide access to our network. Customers can either pay over the useful life of the connection or upfront. Where the customer pays upfront, revenues are deferred as a contract liability and released over the life of the asset.

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

Contract liabilities of £441 million are recorded on the balance sheet (see note 18). These relate to revenue to be recognised in future periods. Of this balance, £440 million relates to contributions in aid of construction for which revenue will be recognised over the weighted average remaining life of the assets, being 40 years. The remaining balance relates to application fees.

Future revenues in relation to unfulfilled performance obligations not yet received in cash amount to £1.9 billion (2022: £1.6 billion) relating to connection contracts which will be recognised as revenue over 25 years.

The amount of revenue recognised for the year ended 31 March 2023 from performance obligations satisfied (or partially satisfied) in previous periods, mainly due to the changes in the estimate of the stage of completion, is £nil (2022: £nil).

Total revenue is generated from operations based in the UK.

4. Operating costs

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

	Before exceptional items and remeasurements		Exceptional items and remeasurements		After exceptional items and remeasurements	
	2023	2022	2023	2022	2023	2022
	£m	£m	£m	£m	£m	£m
Depreciation, impairment and amortisation	490	514	—	—	490	514
Payroll costs	149	94	(35)	4	114	98
Rates and property taxes	125	125	—	—	125	125
Other	240	245	9	8	249	253
	1,004	978	(26)	12	978	990

Operating costs include:

Research and development expenditure	7	3
Inventory consumed	5	2

(a) Payroll costs

	2023	2022
	£m	£m
Wages and salaries	212	152
Social security costs	30	22
Defined contribution scheme costs	23	14
Defined benefit pension costs	(20)	16
Charges from other group defined benefit schemes	5	2
Share-based payments	5	3
	255	209
Less: payroll costs capitalised	(141)	(110)
Total payroll costs	114	98

(b) Number of employees, including Directors

	31 March 2023	31 March 2022	Monthly average 2023	Monthly average 2022
	Number	Number	Number	Number
Electricity Transmission	3,940	2,888	3,733	2,895

The vast majority of employees are either directly or indirectly employed in the transmission of electricity.

(c) Key management compensation

	2023	2022
	£m	£m
Salaries and short-term employee benefits	1	2
Share-based payments	—	2
	1	4

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

4. Operating costs (continued)

(d) Directors' emoluments

The aggregate amount of emoluments paid (excluding social security, pensions and share-based payments) to Directors of the Company in respect of qualifying services for 2023 was £1,307,778 (2022: £2,173,418).

During 2023 seven Directors including the highest paid Director exercised share options (2022: 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 2023, retirement benefits were accruing to one Director (2022: two Directors), under a defined benefit scheme.

The aggregate emoluments for the highest paid Director (excluding social security, pensions and share-based payments) were £358,063 for 2023 (2022: £538,604); and total accrued annual pension at 31 March 2023 for the highest paid Director was nil (2022: nil).

The aggregate amount of loss of office payments to Directors for 2023 was £nil (2022: £nil).

The Sufficiently Independent Directors each receive a director fee of £40,000 (2022: £20,000) per annum.

(e) Auditor's remuneration

	2023	2022
	£m	£m
Audit services		
Audit of the parent Company's individual and consolidated financial statements	0.4	0.5
Other services supplied		
Fees payable to the Company's auditors for audit related assurance services ¹	1.6	1.1

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 National Grid 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. Prior year included fees for reports in relation to the Euro Medium Term Note (EMTN) funding programme, and assurance fees in relation to grant claims.

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

	2023	2022
	£m	£m
(Income) / expense included within operating profit:		
Profit on disposal of Gas pension scheme	(35)	—
Cost efficiency and restructuring programmes	9	12
	(26)	12
Included within finance income and costs:		
Remeasurements:		
Net gains on derivative financial instruments	(84)	(37)
	(84)	(37)
Total included within profit before tax	(110)	(25)
Included within tax		
Tax charge on exceptional items and remeasurements	23	6
Deferred tax charge arising as a result of UK tax rate change	—	337
	23	343
Total exceptional items and remeasurements after tax	(87)	318
Analysis of total exceptional items and remeasurements after tax:		
Total exceptional items after tax	(19)	355
Total remeasurements after tax	(68)	(37)
Total exceptional items and remeasurements after tax	(87)	318

Exceptional items

Management uses an exceptional items framework that has been discussed and approved by the National Grid Electricity Transmission 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.

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

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

Further detail of exceptional items specific to 2023:

Gain on disposal of Pension Scheme

As part of the disposal of Gas Transmission business from the National Grid group, a number of defined benefit members were moved between Group pension schemes, and given the option of transferring their accumulated benefits with them. This resulted in a transfer of pension assets and liabilities between the schemes, the value of each being determined by actuarial calculations.

New operating model implementation costs

A further £9 million was incurred in relation to the design and implementation of our new operating model and the major cost efficiency programmes announced in November 2021. The costs recognised in the year ended 31 March 2023 primarily relate to professional fees incurred and redundancy provisions. 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. We expect that remaining costs in respect of this restructuring project should not exceed £3 million, and that the project should be completed in the year ended 31st March 2024.

Remeasurements

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

Net gains/(losses) arising on derivative financial instruments are reported in the consolidated income statement in relation to our debt financing. These exclude gains and losses for which hedge accounting has been effective, and have been recognised directly in other comprehensive income or are offset by adjustments to the carrying value of debt (see notes 12 and 27).

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.

6. Finance income and costs

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

Finance income and costs remeasurements include certain unrealised gains and losses on certain assets and liabilities now treated at fair value through profit and loss (FVTPL). The interest income and interest expense on these items are included in finance income and finance costs before remeasurements, respectively.

	2023	2022
	£m	£m
<i>Finance income</i>		
Interest income on financial instruments:		
Bank deposits and other financial assets	24	2
Net interest on pension asset	17	2
	41	4
<i>Finance costs</i>		
Interest expense on financial liabilities held at amortised cost:		
Bank loans and overdrafts	(133)	(88)
Other borrowings	(422)	(256)
Lease liability interest	(1)	(1)
Derivatives	(9)	8
Unwinding of discount on provisions	(2)	(2)
Less: interest capitalised ¹	118	55
	(449)	(284)
<i>Remeasurements - Finance income</i>		
Change in discount rate on environmental provision	6	—
	6	—
<i>Remeasurements - Finance costs</i>		
Net gains on derivative financial instruments ²		
Derivatives designated as hedges	3	35
Derivatives not designated as hedges or ineligible for hedge accounting	81	2
	84	37
Total remeasurements - Finance income and costs	(318)	(243)
Finance income	47	4
Finance costs³	(365)	(247)
Net finance costs	(318)	(243)

¹ Interest on funding attributable to assets in the course of construction in the current year was capitalised at a rate of 5.5% (2022: 3.0%). Capitalised interest qualifies for a current year tax deduction with tax relief claimed of £22 million (2022: £11 million).

² Includes a net foreign exchange loss on financing activities of £18 million (2022: £29 million loss) offset by foreign exchange gains and losses on derivative financial instruments measured at fair value.

³ Finance costs include principle accretion on inflation linked liabilities of £358 million (2022: £182 million).

7. Tax

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

The tax charge for the period is recognised in the income statement, the statement of comprehensive income or directly in equity, according to the accounting treatment of the related transaction. The tax charge comprises both current and deferred tax. Cash taxes are paid via another group company.

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

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

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

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

Deferred tax liabilities are recognised on taxable temporary differences arising on investments in subsidiaries and jointly controlled entities except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

The current and deferred tax charge includes £23 million (2022: £343 million) that relates to exceptional items and/or remeasurements.

Tax charged to the income statement.

	2023	2022
	£m	£m
Tax before exceptional items and remeasurements	(137)	(171)
Tax on total exceptional items and remeasurements (note 5)	(23)	(343)
Total tax charge	(160)	(514)

Tax as a percentage of profit before tax

	2023	2022
Before exceptional items and remeasurements	23.8%	22.0%
After exceptional items and remeasurements	23.2%	64.0%

7. Tax (continued)

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

	2023	2022
	£m	£m
<i>Current tax</i>		
Corporation tax at 19% (2022: 19%)	61	113
Corporation tax adjustment in respect of prior years	9	(6)
Total current tax	70	107
<i>Deferred tax</i>		
Deferred tax	96	399
Deferred tax adjustment in respect of prior years	(6)	8
Total deferred tax	90	407
Total tax charge	160	514

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

	2023	2022
	£m	£m
<i>Current tax</i>		
Share-based payments	(1)	—
<i>Deferred tax</i>		
Cash flow hedges	16	9
Share-based payments	1	3
Remeasurements of net retirement benefit obligations	(69)	(61)
	(53)	(49)
Analysed as:		
Total tax recognised in the statement of other comprehensive income	(53)	(52)
Total tax relating to share-based payments recognised directly in equity	—	3
	(53)	(49)

The tax charge for the year after exceptional items and remeasurements is higher than (2022: higher than) the standard rate of corporation tax in the UK of 19% (2022: 19%):

	Before exceptional items and remeasurements	After exceptional items and remeasurements	Before exceptional items and remeasurements	After exceptional items and remeasurements
	2023	2023	2022	2022
	£m	£m	£m	£m
Profit before tax				
Before exceptional items and remeasurements	581	581	778	778
Exceptional items and remeasurements (note 5)	—	110	—	25
Profit before tax after exceptional items and remeasurements	581	691	778	803
Profit before tax multiplied by UK corporation				
Tax rate of 19% (2021: 19%)	110	131	148	153
Effect of:				
Adjustments in respect of prior years	3	3	2	2
Expenses not deductible for tax purposes	7	7	9	9
Non taxable income	(1)	(2)	(3)	(3)
Impact of share-based payments	—	—	(1)	(1)
Deferred tax impact of change in UK tax rate	20	22	16	354
Total tax charge	138	160	171	514
Effective tax rate	23.8%	23.2%	22.0%	64.0%

7. Tax (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 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.

Tax included within the statement of financial position

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

Deferred tax liabilities/(assets)

	Accelerated tax depreciation	Share- based payments	Pensions	Financial instruments	Other net temporary differences	Total
	£m	£m	£m	£m	£m	£m
Deferred tax assets at 01 April 2021	—	(4)	—	(2)	(3)	(9)
Deferred tax liabilities at 01 April 2021	1,048	—	66	—	—	1,114
At 1 April 2021	1,048	(4)	66	(2)	(3)	1,105
Charged/(credited) to income statement	382	—	28	—	1	411
Charged/(credited) to other comprehensive income	—	(4)	64	(9)	—	51
At 31 March 2021	1,430	(8)	158	(11)	(2)	1,567
Deferred tax assets at 31 March 2022	—	(8)	—	(11)	(2)	(21)
Deferred tax liabilities at 31 March 2022	1,430	—	158	—	—	1,588
At 1 April 2022	1,430	(8)	158	(11)	(2)	1,567
Charged/(credited) to income statement	57	—	31	—	2	90
Charged to other comprehensive income and equity	—	1	(70)	16	—	(53)
At 31 March 2023	1,487	(7)	119	5	—	1,604
Deferred tax assets at 31 March 2023	—	(7)	—	—	—	(7)
Deferred tax liabilities at 31 March 2023	1,487	—	119	5	—	1,611
At 31 March 2023	1,487	(7)	119	5	—	1,604

The deferred tax balances (after offset) for statement of financial position purposes consist solely of deferred tax liabilities of £1,604 million (2022: £1,567 million).

8. Dividends

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

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

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

	2023		2022	
	pence (per ordinary share)	£m	pence (per ordinary share)	£m
Ordinary dividends				
Final dividend paid in respect of the prior year	68.64	300	84.90	371

The Directors are proposing a final dividend for the year ended 31 March 2023 of 68.64p per share that will absorb approximately £300 million of shareholders' equity (assuming all amounts are settled in cash). This was declared after the year end during the 14 July 2023 board meeting, as a result this was not included within the financial statements.

9. Intangible assets

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

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

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

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

Cloud computing arrangements are reviewed to determine who has control of the software intangible asset. Control is considered to exist where the Company 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 Company 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 Company 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, 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 represented 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 were expensed in the prior year.

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.

9. Intangible assets (continued)

	Software	Assets in the course of construction	Total
	£m	£m	£m
Cost at 1 April 2021	226	123	349
Additions	—	73	73
Reclassifications	115	(115)	—
Transfers ¹	6	—	6
Cost at 31 March 2022	347	81	428
Additions	—	54	54
Disposals	(5)	—	(5)
Reclassifications ²	61	(66)	(5)
Cost at 31 March 2023	403	69	472
Accumulated amortisation at 1 April 2021	(181)	—	(181)
Amortisation charge for the year	(36)	—	(36)
Impairment	(1)	—	(1)
Accumulated amortisation at 31 March 2022	(217)	—	(217)
Amortisation charge for the year	(37)	—	(37)
Disposals	4	—	4
Reclassifications ²	(12)	—	(12)
Accumulated amortisation at 31 March 2023	(262)	—	(262)
Net book value at 31 March 2023	141	69	210
Net book value at 31 March 2022	130	81	211

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

² The amounts include adjustments to reflect reclassifications between cost and accumulated depreciation, and between Intangible Assets and Property, Plant and Equipment (Note 10) identified during the implementation of the Group's new SAP S4 Hana General Ledger system in the UK

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. A depreciation expense is charged to the income statement to reflect annual wear and tear and the reduced value of the asset over time. Depreciation is calculated by estimating the number of years we expect the asset to be used (useful economic life) and charging the cost of the asset to the income statement equally over this period.

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

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

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 except maintenance costs which are expensed.

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

	Years
Freehold and Leasehold buildings	Up to 50
Plant and Machinery	
- Electricity Transmission plant	15 to 100
Motor vehicles and office equipment	Up to 10

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

Items within property, plant and equipment are tested for impairment only if there is some indication that the carrying value of the assets may have been impaired. Impairments of assets are calculated as the difference between the carrying value of the asset and the recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash-generating unit to which that asset belongs is estimated. Impairments are recognised in the income statement and if immaterial are included within depreciation charge for the year. Any assets which suffered impairment in a previous period are reviewed for possible reversal of the impairment at each reporting date.

10. Property, plant and equipment (continued)

	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 April 2021	1,123	17,072	1,757	89	20,041
Additions	8	1	1,105	7	1,121
Disposals	(2)	(65)	—	(2)	(69)
Reclassifications	30	582	(631)	19	—
Transfers ¹	—	—	(6)	—	(6)
Cost at 31 March 2022	1,159	17,590	2,225	113	21,087
Additions	1	3	1,240	7	1,251
Disposals	(1)	(25)	(4)	(5)	(35)
Reclassifications ²	132	713	(957)	13	(99)
Impact of change in discount rate on decommissioning provision (Note 21)	—	(9)	—	—	(9)
Cost at 31 March 2023	1,291	18,272	2,504	128	22,195
Accumulated depreciation at 1 April 2021	(138)	(5,931)	(22)	(58)	(6,149)
Depreciation charge for the year	(22)	(394)	—	(14)	(430)
Disposals	—	50	—	2	52
Reclassifications	—	(5)	5	—	—
Impairment	—	1	(48)	—	(47)
Accumulated depreciation at 31 March 2022	(160)	(6,279)	(65)	(70)	(6,574)
Depreciation charge for the year	(23)	(408)	—	(17)	(448)
Disposals	1	21	2	4	28
Reclassifications ²	(2)	121	4	(8)	115
Impairment	—	(4)	—	—	(4)
Accumulated depreciation at 31 March 2023	(184)	(6,549)	(59)	(91)	(6,883)
Net book value at 31 March 2023	1,107	11,723	2,445	37	15,312
Net book value at 31 March 2022	999	11,311	2,160	43	14,513

¹ Transfers represents amounts transferred (to)/from intangible assets (see note 9).

² The amounts include adjustments to reflect reclassifications between cost and accumulated depreciation, and between Intangible Assets (Note 9) and Property, Plant and Equipment identified during the implementation of the Group's new SAP S4 Hana General Ledger system in the UK

Right-of-use assets

National Grid Electricity Transmission leases various properties, land, 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. 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. The lease payments include fixed payments, any variable lease payments dependent on an index or a rate, and any break fees or renewal option costs that we are reasonably certain to incur. The discount rate applied is the rate implicit in the lease or, if that is not available, then the incremental rate of borrowing for a similar term and similar security. The lease term takes account of exercising any extension options that are at our option if we are reasonably certain to exercise the option and any lease termination options unless we are reasonably certain not to exercise the option. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period using the effective interest rate method. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. For short term leases (lease term of 12 months or less) and leases of low-value assets (such as computers), National Grid Electricity Transmission continues to recognise a lease expense on a straight-line basis.

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 2023 and 31 March 2022, split by category. The associated lease liabilities are disclosed in note 16.

10. Property, plant and equipment (continued)

	Land and Buildings £m	Motor vehicles and office equipment £m	Total £m
Net book value at 1 April 2021	62	7	69
Additions	—	7	7
Depreciation charge for the year ended 31 March 2022	(7)	(6)	(13)
Net book value at 31 March 2022	55	8	63
Additions	3	7	10
Depreciation charge for the year ended 31 March 2023	(7)	(6)	(13)
Net book value at 31 March 2023	51	9	60

The following balances have been included in the income statement in respect of right-of-use assets:

	2023 £m	2022 £m
<i>Included within net finance income and costs:</i>		
Interest expense on lease liabilities	(1)	(1)

National Grid Electricity Transmission receives financial contributions from customers towards the cost of construction of certain assets. Liabilities in relation to such contributions received in advance for the construction of property, plant and equipment are presented in the table below. These liabilities are reported in Note 18.

	2023 £m	2022 £m
Contributions to cost of property, plant and equipment included within:		
<i>Non-current liabilities</i>		
Contract liabilities - current	12	13
Contract liabilities - non-current	429	422

11. Financial and other investments

The Financial and other investments balance of £1,373 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 and restricted cash balances in relation to Network Innovation Competition (NIC) projects.

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

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

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

	2023	2022
	£m	£m
Current		
Financial assets at amortised cost	1,350	960
Restricted cash	23	22
	1,373	982
Financial assets at amortised cost comprise the following:		
Loans and receivables - amounts due from ultimate parent	882	482
Restricted balances:		
Collateral ¹	468	478
NIC restricted cash deposits	23	22
	1,373	982

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

The carrying value of current financial assets at amortised cost approximates their fair values, primarily due to short-dated maturities. The exposure to credit risk at the reporting date is the fair value of the financial investments. For further information on our credit risk, refer to note 27(a).

For the purposes of impairment assessment, collateral receivable and other financial assets at amortised cost are investment grade. All financial assets held at fair value through other comprehensive income or amortised cost are therefore considered to have low credit risk and have an immaterial impairment loss allowance equal to 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 fair value through other comprehensive income or 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.

12. 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 NGET by their respective board of directors. Derivatives are transacted by NGET generally to manage our exposure to fluctuations in interest rates and foreign exchange rates. Specifically we use these derivatives to manage our financing portfolio, and contractual operational cash flows.

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

12. Derivative financial instruments (continued)

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

Further information on how derivatives are valued and used for risk management purposes is presented in note 27.

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

	2023			2022		
	Asset	Liabilities	Total	Asset	Liabilities	Total
	£m	£m	£m	£m	£m	£m
Interest rate swaps	49	(98)	(49)	89	(97)	(8)
Cross-currency interest rate swaps	79	(347)	(268)	53	(250)	(197)
Foreign exchange forward contracts ¹	3	(2)	1	2	(4)	(2)
Inflation linked swaps	22	(122)	(100)	—	(187)	(187)
	153	(569)	(416)	144	(538)	(394)

¹ Included within the foreign exchange forward contracts balance is £1 million (2022: £(2) million) of derivatives in relation to capital expenditure.

The maturity profile of derivative financial instruments is as follows:

	2023			2022		
	Assets	Liabilities	Total	Assets	Liabilities	Total
	£m	£m	£m	£m	£m	£m
Current						
Less than 1 year	3	(12)	(9)	1	(39)	(38)
	3	(12)	(9)	1	(39)	(38)
Non-current						
In 1 - 2 years	13	(44)	(31)	6	(3)	3
In 2 - 3 years	—	—	—	—	(4)	(4)
In 3 - 4 years	16	(9)	7	—	—	—
In 4 - 5 years	14	(5)	9	8	(6)	2
More than 5 years	107	(499)	(392)	129	(486)	(357)
	150	(557)	(407)	143	(499)	(356)
	153	(569)	(416)	144	(538)	(394)

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

	2023	2022
	£m	£m
Interest rate swaps	(1,727)	(1,607)
Cross-currency interest rate swaps	(3,588)	(3,163)
Foreign exchange forward contracts	(148)	(170)
Inflation linked swaps	(2,387)	(500)
	(7,850)	(5,440)

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. In the prior year we transitioned all derivatives which pay or receive cash flows that referenced GBP LIBOR to alternative reference rates.

In the year NGET undertook £1.9bn of inflation swaps which converted existing RPI debt into CPI linked exposure.

13. Inventories

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

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

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

	2023	2022
	£m	£m
Raw materials, spares and consumables	31	30
Work in progress	8	6
	39	36

The closing balance includes a £1 million provision for obsolescence against raw materials, spares and consumables at 31 March 2023 (2022: £1 million).

14. Trade and other receivables

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

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

Trade receivables and amounts owed by fellow subsidiary undertakings are non-interest-bearing. Trade receivables generally have a 30 to 90 days term. Due to their short maturities, the fair value of trade and other receivables approximates their carrying value. All other receivables are recorded at amortised cost. The provision as at 31 March 2023 was £2m (2022: £1m).

	2023	2022
	£m	£m
Current		
Trade receivables	73	19
Amounts owed by fellow subsidiary undertakings	76	82
Social security and other taxes	50	34
Contract assets	29	20
Prepayments	36	59
Other receivables	7	2
	271	217
	2023	2022
	£m	£m
Non-current		
Prepayments	18	10
	18	10

Provision for impairment of receivables

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

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

	2023	2022
	£m	£m
At 1 April	1	1
Charge for the year	1	—
At 31 March	2	1

For further information on our wholesales and retail credit risk, refer to note 27(a).

15. 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 27(c).

	2023 £m	2022 £m
Cash at bank and short-term deposits	—	13
Bank overdrafts	—	(2)
	—	11

16. Borrowings

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

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

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

Further information on how we manage the rates and currency risk of our borrowings portfolio is presented in note 27. Information on our net debt is presented in note 24.

	2023 £m	2022 £m
Current		
Bank loans and overdrafts	155	257
Bonds	211	63
Lease liabilities	14	12
	380	332
Non-current		
Bank loans	1,381	1,363
Bonds	8,239	7,437
Lease liabilities	47	53
	9,667	8,853
Total borrowings	10,047	9,185

16. Borrowings (continued)

Total borrowings are repayable as follows:

	2023	2022
	£m	£m
Less than 1 year	380	332
In 1 - 2 years	530	148
In 2 - 3 years	—	521
In 3 - 4 years	915	—
In 4 - 5 years	397	918
More than 5 years:		
by instalments	781	764
other than by instalments	7,044	6,502
	10,047	9,185

The fair value of borrowings at 31 March 2023 was £9,195 million (2022: £10,050 million). Where market values were available, fair value of borrowings (Level 1) was £6,406 million (2022: £4,138 million). Where market values are not available, fair value of borrowings (Level 2) was £2,789 million (2022: £5,912 million), calculated by discounting cash flows at prevailing interest rates. The notional amount outstanding of the debt portfolio as at 31 March 2023 was £10,385million (2022: £9,338 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 £40m (2022: £47m) in respect of cash received under collateral agreements.

Certain borrowings, primarily some of our bank loans were linked to LIBOR. LIBOR has been replaced as an interest rate benchmark by alternative reference rates and therefore we have transitioned LIBOR cash flows on our affected contracts in line with the relevant jurisdictions. The migration project has been completed, with all affected contracts where we previously paid or received GBP LIBOR amended in the year to 31 March 2023. In the prior year £300 million cash flows affected by GBP LIBOR were transitioned to alternative reference rates.

At 31 March 2023, we had committed credit facilities of £1,645m (2022: £1,645m) of which £1,645m was undrawn (2022: £1,645m undrawn). All of the facilities at 31 March 2023 and at 31 March 2022 are available for liquidity purposes.

£750m of the undrawn committed credit facilities were cancelled and not replaced. £895m of the undrawn committed credit facilities was replaced on 3 April 2023 with a new £965m syndicated facility with an expiry date of 3 April 2028.

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

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.

	2023	2022
	£m	£m
Gross lease liabilities are repayable as follows:		
Less than 1 year	14	12
1 to 5 years	27	31
More than 5 years	50	50
	91	93
Less: finance charges allocated to future periods	(30)	(28)
	61	65
The present value of lease liabilities are as follows:		
Less than 1 year	14	12
1 to 5 years	24	29
More than 5 years	23	24
	61	65

17. Trade and other payables

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

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

	2023	2022
	£m	£m
Trade payables	517	447
Amounts owed to fellow subsidiaries of National Grid plc	40	11
Deferred income	30	29
Other payables	25	23
	612	511

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

18. 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.

	2023	2022
	£m	£m
Current	12	13
Non-current	429	422
	441	435

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

	2023	2022
	£m	£m
As at 1 April	435	411
Revenue recognised that was included in the contract liability balance at the beginning of the period	(15)	(11)
Increase due to cash received, excluding amounts recognised as revenue during the period	21	35
At 31 March	441	435

19. Other non-current liabilities

Other non-current liabilities include deferred income which will not be recognised as income until after 31 March 2024. 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.

	2023	2022
	£m	£m
Deferred income	1	1
Other payables	54	58
	55	59

20. Pensions and other post-retirement benefits

All of our employees are eligible to participate in a pension scheme. We have defined benefit (DB) and defined contribution (DC) 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 a maximum Company contribution of 12% of salary.

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 Electricity Transmission plc is a participating employer in the National Grid Electricity Group of the Electricity Supply Pension Scheme (NGEG of ESPS), a defined benefit pension plan which is now closed to new members, except in very rare circumstances. The 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 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 for NGEG of ESPS was carried out at 31 March 2022 and disclosed a funding shortfalls of £60 million which was funded by a deficit payment in September 2022.

Separately, the Company continues to fund the cost of future benefit accrual in NGEG of ESPS (over and above member contributions). In the year to March 2023, the aggregate level of ongoing contributions (excluding recovery plan payments) was £30 million (2022: £28 million; 2021: £26 million). The Company has also paid contributions in respect of the costs of plan administration and the Pension Protection Fund (PPF) levies for the plan, however from 1 July 2023 these will be funded by pensions scheme assets.

In addition, the Company has agreed to provide additional security on specific trigger events linked to its credit rating, up to a maximum value of £500 million. This security will be paid to the plan in the event that the Company is subject to an insolvency event, fails to make the required contributions, or if NGET loses its licence to operate under relevant legislation.

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 separately for each DB plan 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.

The Company has applied the following financial assumptions in assessing DB liabilities:

	2023	2022
	%	%
Discount rate - past service	4.80	2.80
Discount rate - future service	4.80	2.85
Rate of increase in RPI - past service	3.15	3.50
Rate of increase in RPI - future service	3.05	3.30
Salary increases	3.15	3.55

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

Single equivalent financial assumptions are shown above 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 using a promotional scale where appropriate. The rates of increases stated are not indicative of historical increases awarded or a guarantee of future increase, but merely an appropriate assumption used in assessing DB liabilities. The NGE of ESPS provides for pension increases that are generally linked to Retail Price Index (RPI), subject to relevant caps and floors.

The table below sets out the projected life expectancies adopted for the UK pension arrangements:

	2023	2022
	Years	Years
Assumed life expectations for a retiree age 65:		
Males	22.9	23.3
Females	24.4	24.6
In 20 years:		
Males	23.9	24.3
Females	25.8	26.0

The weighted average duration of the DB obligation for NGE of ESPS is 13 years.

As at the reporting date, the present value of the funded obligations split according to member status, was approximately 18% active members (2022: 20%); 8% deferred members (2022: 9%); 74% pensioner members (2022: 72%);

For sensitivity analysis see note 28.

Amounts recognised in the consolidated statement of financial position

	2023	2022
	£m	£m
Present value of funded obligations	(2,095)	(2,753)
Fair value of scheme assets	2,600	3,430
	505	677
Present value of unfunded obligations	(32)	(44)
Net defined benefit asset	473	633
Represented by:		
Asset	505	677
Liability	(32)	(44)
	473	633

The recognition of the pension asset in the NGE of ESPS 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.

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

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

The expense or income arising from pension arrangements recognised in the income statements is shown below:

	2023	2022
	£m	£m
Included within operating costs		
Administration costs	3	2
Included within payroll costs		
Defined benefit scheme costs:		
Current service cost	17	18
Past service cost - augmentations	—	1
Past service credit - redundancies	—	(1)
Special termination benefit cost - redundancies	3	4
Gains on settlement	(35)	—
	(15)	22
Amounts charged to fellow National Grid group undertakings	(5)	(6)
Total amount included within payroll costs	(20)	16
Included within finance income and costs		
Net interest income	(17)	(2)
Total included in the consolidated income statement	(34)	16
Remeasurement (losses)/gains of pension assets and obligations	(277)	219
Total included in the consolidated statement of other comprehensive income	(277)	219

Reconciliation of the net defined benefit asset

	2023	2022
	£m	£m
Opening defined benefit asset	633	348
Income/(cost) recognised in the income statement	34	(16)
Amounts charged to National Grid group undertakings	(5)	(6)
Remeasurement effects recognised in the statement of other comprehensive income	(277)	219
Employer contributions	87	82
Other movements	1	6
Closing net defined benefit asset	473	633

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

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

The table below shows the movement in defined benefit obligations over the year.

	2023 £m	2022 £m
Opening defined benefit obligations	(2,797)	(3,007)
Current service cost	(17)	(18)
Interest cost	(65)	(14)
Actuarial losses - experience	(45)	(109)
Actuarial gains - demographic assumptions	23	19
Actuarial gains - financial assumptions	701	192
Past service credit - redundancies	—	1
Special termination benefit cost - redundancies	(3)	(4)
Past service cost - augmentations	—	(1)
Liabilities extinguished on settlements	(64)	—
Benefits paid	140	144
Closing defined benefit obligations	(2,127)	(2,797)

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

	2023 £m	2022 £m
Changes in the fair value of scheme assets		
Opening fair value of scheme assets	3,430	3,355
Interest income	82	16
Return on assets (less than)/in excess of interest	(948)	133
Change in longevity swap value	(8)	(16)
Administration costs	(3)	(2)
Employer contributions	87	82
Assets distributed on settlements	99	—
Benefits paid	(139)	(138)
Closing fair value of scheme assets	2,600	3,430
Actual return on scheme assets	(874)	133
Expected contributions to scheme in the following year	21	86

Asset allocations

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.

	2023 Quoted £m	2023 Unquoted £m	2023 Total £m	2022 Quoted £m	2022 Unquoted £m	2022 Total £m
Equities	—	—	—	126	277	403
Corporate bonds	198	—	198	337	—	337
Government securities	135	—	135	250	—	250
Property	23	79	102	122	123	245
Liability-matching assets ¹	1,808	—	1,808	1,945	—	1,945
Diversified alternatives ¹	—	300	300	—	2	2
Longevity swap	—	(88)	(88)	—	(80)	(80)
Cash and cash equivalents	139	—	139	308	—	308
Other	5	1	6	16	4	20
	2,308	292	2,600	3,104	326	3,430

¹ Included within liability-matching assets above is £380 million (2022: £1,090 million) of repurchase agreements. These are used to increase the market exposure of the liability-matching portfolios.

20. 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 on 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 will fluctuate as yields change. Volatility of the net balance sheet asset or liability is controlled through a liability-matching strategy. The investment strategy allows 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 current and future pensions but are partially mitigated through investing in inflation matching assets and hedging instruments. The investment strategies allow for the use of synthetic as well as physical assets to be used to hedge inflation risk.
- Member longevity – 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 the plan's decision to enter a longevity insurance contract (longevity swap);
- Counterparty risk – This is managed by having a diverse range of counterparties and through having a strong collateralisation process (including for the longevity swap held by the plan). Measurement and management of counterparty risk is delegated to the relevant investment managers;
- Liquidity risk - The pension plan holds sufficient cash to meet benefit requirements, with other investments being held in liquid or realisable assets to meet unexpected cash flow requirements. These could include collateral calls relating to the plan's liability-matching assets which could result from extreme market movements. Should the plan not have sufficient liquidity to meet cash flow requirements, they could be forced to take sub-optimal investment decisions such as selling assets at a reduced price. The plan does not borrow money, or act as guarantor, to provide liquidity to other parties (unless it is temporary).
- Default risk - Debt 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.
- Currency risk – Fluctuations in the value of foreign denominated assets due to exposure to currency exchange rates are managed through currency hedging overlay and currency hedging carried out by some of the investment managers.

Defined Benefit plan investment strategy

The Trustees, after taking advice from professional investment advisors and in consultation with the Company, 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. These strategies allocate investments between return-seeking assets such as equities and property, and liability-matching assets such as government securities and corporate bonds which are intended to protect the funding position.

The approximate investment allocations of our plan at 31 March 2023 are as follows:

	2023	2022
	%	%
Return - seeking assets	16	19
Liability - matching assets	84	81
	100	100

The Trustees 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 extreme volatility of the UK gilt market during 2022 led to significant liquidity pressures on DB pension schemes, with large collateral calls from Liability-Driven Investment (LDI) fund managers requiring some schemes to either sell illiquid assets at short notice or reduce their level of hedging. These collateral calls were met by the scheme and the Trustees continue to review its strategy for hedging interest rates and inflation to ensure it is not exposed to undue risk given further future market volatility.

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

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 NGUKRP 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.

21. Provisions

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

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

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

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

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

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

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

	Decommissioning	Environmental	Restructuring	Other	Total
	£m	£m	£m	£m	£m
At 1 April 2021	31	48	8	9	96
Additions	—	—	5	4	9
Unused amounts reversed	—	(3)	(5)	(2)	(10)
Unwinding of discount	—	2	—	—	2
Utilised	—	(2)	(6)	—	(8)
Other movements	—	—	—	(1)	(1)
At 31 March 2022	31	45	2	10	88
Additions	—	—	—	2	2
Unused amounts reversed	—	(5)	(1)	—	(6)
Unwinding of discount	—	2	—	—	2
Utilised	—	(2)	(1)	—	(3)
Adjustment for change in discount rate	(9)	(6)	—	—	(15)
At 31 March 2023	22	34	—	12	68

	2023	2022
	£m	£m
Current	(8)	(9)
Non-current	(60)	(79)
	(68)	(88)

21. Provisions (continued)

Restructuring provision

In 2023, we utilised the majority of the remaining provision in respect of design and implementation activities in respect of our new operating model and cost efficiency programme,

Environmental provision

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

The remediation expenditure relates to electricity transmission sites. Cash flows are expected to be incurred until 2069, with £17.5 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 best estimate of the liability, having regard to these uncertainties. The undiscounted cashflow projection at 31st March 2023 was £43.6 million (2022: £47.7 million). The provision has been booked based on a 1.5% real discount rate (2022: 0.5%).

Decommissioning provision

The decommissioning provision represents a present value of £22 million (2022: £31 million) of expenditure relating to asset retirement obligations estimated to be incurred in 2059 (discounted at a real rate of 1.5%). This relates to our share of the decommissioning of the Western Link HVDC cable laid on the seabed owned by the Crown estate.

Other provisions

The most significant other provision relates to employer liability claims of £3 million (2022: £3 million). In accordance with insurance industry practice, the estimate of employer liability claims is based on experience from previous years and there is therefore no identifiable payment date.

22. 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 2023 millions	Number of shares 2022 millions	2023 £m	2022 £m
At 31 March 2022 and 2023 - ordinary shares of 10p each				
Allotted, called-up and fully paid	437	437	44	44

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

23. Other equity reserves

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

Other equity reserves comprise the cash flow hedge reserve and the cost of hedging reserve. The cash flow hedge represents the Group's cash flow hedging activities (see note 27).

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.

23. Other equity reserves (continued)

	Cost of hedging £m	Cash flow hedge £m	Total £m
At 1 April 2022	(19)	(14)	(33)
Net gains taken to equity	3	87	90
Net gains in respect of cash flow hedging of capital expenditure	—	4	4
Transferred to profit or loss	—	(28)	(28)
Cash flow hedges transferred to the statement of financial position, net of tax	—	(1)	(1)
Tax	(1)	(15)	(16)
At 31 March 2023	(17)	33	16

24. Net debt

Net debt represents the amount of borrowings and overdrafts less cash, current financial investments and related derivative financial instruments.

Funding and liquidity risk management is carried out by the National Grid plc treasury function under policies and guidelines approved by the Finance Committee of the National Grid plc Board. These policies have been deemed applicable at NGET companies by their respective boards of directors. The Finance Committee is responsible for the regular review and monitoring of treasury activity and for the approval of specific transactions, the authority for which fall outside the delegation of authority to management.

The primary objective of the treasury function is to manage our funding and liquidity requirements. A further important objective is to manage the associated financial risks, in the form of interest rate risk and foreign exchange risk, to within pre-authorised parameters. Details of the main risks arising from our activities can be found in the risk factors discussion in note 27 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

	2023 £m	2022 £m
Increase/(decrease) in cash and cash equivalents	(11)	18
Increase in financial investments	390	178
(Increase) in borrowings and related derivatives	(666)	(355)
Net interest paid on the components of net debt	176	150
Change in net debt resulting from cash flows	(111)	(9)
Changes in fair value of financial assets and liabilities and exchange movements	147	(3)
Net interest charge on the components of net debt	(541)	(334)
Other non-cash movements	(1)	(5)
Movement in net debt (net of related derivative financial instruments) in the year	(506)	(351)
Net debt (net of related derivative financial instruments) at the start of the year	(8,584)	(8,233)
Net debt (net of related derivative financial instruments) at the end of the year	(9,090)	(8,584)

Composition of net debt

Net debt is summarised as follows:

	2023 £m	2022 £m
Cash, cash equivalents and financial investments	1,373	995
Borrowings and bank overdrafts	(10,047)	(9,185)
Derivatives	(416)	(394)
	(9,090)	(8,584)

24. Net debt (continued)

(b) Analysis of changes in net debt

	Cash and cash equivalents £m	Financial investments £m	Borrowings £m	Derivative financial instruments £m	Total debt £m
At 1 April 2021	(5)	806	(8,872)	(162)	(8,233)
Cash flow	18	176	(122)	(81)	(9)
Fair value gains and losses	—	—	185	(159)	26
Foreign exchange movements	—	—	(29)	—	(29)
Interest income/(charges)	—	—	(342)	8	(334)
Other non-cash	—	—	(5)	—	(5)
At 31 March 2022	13	982	(9,185)	(394)	(8,584)
Cash flow	(13)	367	(480)	15	(111)
Fair value gains and losses	—	—	194	(28)	166
Foreign exchange movements	—	—	(19)	—	(19)
Interest income/(charges)	—	24	(556)	(9)	(541)
Other non-cash	—	—	(1)	—	(1)
At 31 March 2023	—	1,373	(10,047)	(416)	(9,090)
Balances at 31 March 2023 comprise:					
Non-current assets	—	—	—	150	150
Current assets	—	1,373	—	3	1,376
Current liabilities	—	—	(380)	(12)	(392)
Non-current liabilities	—	—	(9,667)	(557)	(10,224)
	—	1,373	(10,047)	(416)	(9,090)

25. Commitments and contingencies

Commitments are those amounts that we are contractually required to pay in the future as long as the other party meets its obligations. These commitments primarily relate to operating lease rentals, energy purchase agreements and contracts for the purchase of assets which, in many cases, extend over a long period of time. We also disclose any contingencies, which include guarantees that companies have given, where we pledge assets against current obligations that will remain for a specific period.

	2023 £m	2022 £m
Future capital expenditure		
Contracted for but not provided	1,265	1,468

Other commitments, contingencies and guarantees

Guarantees in respect of a former associate amount to £13 million (2022: £13 million). These are open ended.

Other commitments, contingencies and guarantees in the normal course of business and entered into on normal commercial terms amounted to £7 million (2022: £92 million). There is an additional £17 million contingency for the portion of decommissioning costs of Western Link HVDC not recognised in the provision (see note 21).

Security arrangements in favour of NGEN Trustees are disclosed separately in note 20.

Through the ordinary course of our operations, we are party to various litigation, claims and investigations. We continue to engage with Ofgem in relation to its investigation into maintenance of the Harker electrical substation in Cumbria and as such, the outcome is uncertain. We do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on our reported results of operations or financial position for 2022/23.

26. Related party transactions

A related party is a company or individual who also has an interest in us, for example a company that provides a service to us with a director who holds a controlling stake in that company and who is also a Director of National Grid Electricity Transmission plc. The related parties identified include fellow subsidiaries, joint ventures, associated undertakings, investments and key management personnel.

The following significant transactions with related parties were in the normal course of business. Amounts receivable from and payable to related parties are due on normal commercial terms:

	2023	2022
	£m	£m
Income:		
Goods and services supplied ¹	1,904	1,958
	1,904	1,958
Expenditure:		
Services received ²	27	25
Corporate services received	25	22
Interest cost incurred on borrowings from the ultimate parent	—	3
	52	49
Outstanding balances at 31 March in respect of income, expenditure and settlement of corporation tax:		
Amounts receivable ³	76	82
Amounts payable ⁴	(40)	(11)
Borrowings from fellow subsidiary undertakings (amounts due within one year)	—	(2)
Borrowings to ultimate parent (amounts due within one year)	882	482
At 31 March	882	480
Borrowings from ultimate parent (amounts due after more than one year)		
At 31 March	—	—

¹ Includes £5 million in respect of joint ventures (2022: £7 million).

² Includes £Nil in respect of joint ventures (2022: £Nil million).

³ Includes £Nil in respect of joint ventures (2022: £Nil million).

⁴ Includes £Nil million in respect of joint ventures (2022: £Nil million).

Amounts receivable from or payable to related parties in respect of income and expenditure are ordinarily settled one month in arrears. Advances to and borrowings from fellow subsidiary undertakings are repayable on demand and bear interest at commercial rates.

Details of key management compensation are provided in note 4(c) and information relating to pension fund arrangements is disclosed in note 20.

27. Financial risk management

Our activities expose us to a variety of financial risks including credit risk, liquidity risk, capital risk, currency risk, interest rate risk and inflation risk. Our risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential volatility of financial performance from these risks. We use financial instruments, including derivative financial instruments, to manage these risks.

Risk management related to financing activities is carried out by the National Grid plc central treasury department under policies approved by the Finance Committee of the National Grid plc Board. These policies have been deemed applicable at NGET companies by their respective board of directors. The objective of the treasury department is to manage funding and liquidity requirements, including managing associated financial risks, to within acceptable boundaries. The Finance Committee provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, liquidity risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. Details of key activities in the current year are set out in the Finance Committee report on page 107 of National Grid plc Annual Report and Accounts.

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

- credit risk;
- liquidity risk;
- currency risk;
- interest rate risk; and
- capital risk.

Where appropriate, derivatives and other financial instruments used for hedging currency and interest rate risk exposures are formally designated as fair value or cash flow hedges as defined in IFRS 9. Hedge accounting allows the timing of the profit or loss impact of qualifying hedging instruments to be recognised in the same reporting period as the corresponding impact of hedged exposures. To qualify for hedge accounting, documentation is prepared specifying the risk management objective and strategy, the component transactions and methodology used for effectiveness measurement.

Hedge accounting relationships are designated in line with risk management activities further described below. Categories designated at NGET are:

- currency risk arising from our forecasted foreign currency transactions (capital expenditure) is designated in cash flow hedges;
- currency and interest rate risk arising from borrowings are designated in cash flow or fair value hedges.

Critical terms of hedging instruments and hedged items are transacted to match on a 1:1 ratio by notional values. Hedge ineffectiveness can nonetheless arise from inherent differences between derivatives and non-derivative instruments and other market factors including credit, correlations, supply and demand, and market volatilities. Ineffectiveness is recognised in the remeasurements component of finance income and costs (see note 6). Hedge accounting is discontinued when a hedging relationship no longer qualifies for hedge accounting.

Certain hedging instrument components are treated separately as costs of hedging with the gains and losses deferred in a component of other equity reserves, and released systematically into profit or loss to correspond with the timing and impact of hedged exposures, or released in full to finance costs upon an early discontinuation of a hedging relationship.

Refer to sections (c) currency risk and (d) interest rate risk below for further details about hedge accounting.

(a) Credit risk

We are exposed to the risk of loss resulting from counterparties' default on their commitments including failure to pay or make a delivery on a contract. This risk is inherent in our commercial business activities. Exposure arises from derivative financial instruments, deposits with banks and financial institutions, trade receivables and committed transactions with customers.

Treasury credit risk

Counterparty risk arises from the investment of surplus funds and from the use of derivative financial instruments.

The maximum limit applies to all transactions, including long-term transactions. The long-term limit applies to transactions which mature in more than 12 months' time.

27. Financial risk management (continued)

As at 31 March 2023 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. Further information on financial investments subject to impairment provisioning is included in note 11.

Offsetting financial assets and liabilities

The following tables set out financial assets and liabilities which are subject to offset and to enforceable master netting arrangements or similar agreements. The tables show the amounts which are offset and reported net in the statement of financial position. Amounts which cannot be offset under IFRS, but which could be settled net under terms of master netting agreements if certain conditions arise, and with collateral received or pledged, are shown to present NGET's net exposure.

Financial assets and liabilities on different transactions 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 as at March 2023 (£Nil as at March 2022). Our UK bank accounts previously participated in GBP, EUR and USD Composite Accounting System overdraft facilities subject to offsetting gross and net overdraft limits. EUR and USD offsetting arrangements were discontinued in the prior year and GBP offsetting arrangements have no impact as at 31 March 2023.

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

	Gross carrying amounts	Gross amounts offset	Related amounts available to be offset but not offset in statement of financial position			
			Net amount presented in statement of financial position	Financial instruments	Cash collateral received/pledged	Net amount
As at 31 March 2023	£m	£m	£m	£m	£m	£m
Assets						
Derivative financial instruments	153	—	153	(94)	(40)	19
	153	—	153	(94)	(40)	19
Liabilities						
Derivative financial instruments	(569)	—	(569)	94	460	(15)
	(569)	—	(569)	94	460	(15)
Total	(416)	—	(416)	—	420	4

27. Financial risk management (continued)

	Related amounts available to be offset but not offset in statement of financial position					
	Gross carrying amounts	Gross amounts offset	Net amount presented in statement of financial position	Financial instruments	Cash collateral received/pledged	Net amount
As at 31 March 2022	£m	£m	£m	£m	£m	£m
Assets						
Derivative financial instruments	144	—	144	(50)	(47)	47
	144	—	144	(50)	(47)	47
Liabilities						
Derivative financial instruments	(538)	—	(538)	50	474	(14)
	(538)	—	(538)	50	474	(14)
Total	(394)	—	(394)	—	427	33

(b) Liquidity risk

Our policy is to determine our liquidity requirements by the use of both short-term and long-term cash flow forecasts. These forecasts are supplemented by a financial headroom analysis which is used to assess funding requirements for at least a 24-month period and maintain adequate liquidity for a continuous 12-month period.

We believe our contractual obligations, including those shown in commitments and contingencies in note 25, can be met from existing cash and investments, operating cash flows and other financings that we reasonably expect to be able to secure in the future, together with the use of committed facilities if required.

Our debt agreements and banking facilities contain covenants, including those relating to the periodic and timely provision of financial information by the issuing entity, restrictions on disposal and financial covenants such as restrictions on the level of subsidiary indebtedness. Failure to comply with these covenants, or to obtain waivers of those requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of our debt and may restrict our ability to draw upon our facilities or access the capital markets.

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

	Due within 1 year	Due between 1 and 2 years	Due between 2 and 3 years	Due 3 years and beyond	Total
At 31 March 2023	£m	£m	£m	£m	£m
<i>Non-derivative financial liabilities</i>					
Borrowings, excluding finance lease liabilities	(268)	(531)	—	(9,500)	(10,299)
Interest payments on borrowings ¹	(225)	(223)	(216)	(2,474)	(3,138)
Lease liabilities	(14)	(10)	(8)	(59)	(91)
Other non-interest bearing liabilities	(590)	(54)	—	—	(644)
<i>Derivative financial liabilities</i>					
Derivative contracts - receipts ²	102	352	187	2,039	2,680
Derivative contracts - payments ²	(166)	(477)	(295)	(2,660)	(3,598)
<i>Derivative financial assets</i>					
Derivative contracts - receipts ²	107	554	288	893	1,842
Derivative contracts - payments ²	(103)	(529)	(255)	(840)	(1,727)
Total at 31 March 2023	(1,157)	(918)	(299)	(12,601)	(14,975)

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).

27. Financial risk management (continued)

	Due within 1 year	Due between 1 and 2 years	Due between 2 and 3 years	Due 3 years and beyond	Total
At 31 March 2022	£m	£m	£m	£m	£m
Non-derivative financial liabilities					
Borrowings, excluding finance lease liabilities	(253)	(146)	(524)	(8,349)	(9,272)
Interest payments on borrowings ¹	(182)	(187)	(178)	(2,026)	(2,573)
Lease liabilities	(12)	(10)	(8)	(63)	(93)
Other non-interest bearing liabilities	(490)	(58)	—	—	(548)
Derivative financial liabilities					
Derivative contracts - receipts ²	223	310	667	1,658	2,858
Derivative contracts - payments ²	(289)	(372)	(737)	(2,086)	(3,484)
Derivative financial assets					
Derivative contracts - receipts ²	351	111	217	417	1,096
Derivative contracts - payments ²	(306)	(74)	(176)	(368)	(924)
Total at 31 March 2022	(958)	(426)	(739)	(10,817)	(12,940)

¹ The interest on borrowings is calculated based on borrowings held at 31 March without taking account of future issues. Floating rate interest is estimated using a forward interest rate curve as at 31 March. Payments are included on the basis of the earliest date on which the Company can be required to settle.

² The receipts and payments line items for derivatives comprise gross undiscounted future cash flows, after considering any contractual netting that applies within individual contracts. Where cash receipts and payments within a derivative contract are settled net, and the amount to be received (paid) exceeds the amount to be paid (received), the net amount is presented within derivative receipts (payments).

(c) Currency risk

We are exposed to foreign exchange risk arising from non-sterling future commercial transactions and non-sterling recognised assets and liabilities. Currency risk arises from funding activities and capital investment. This risk is managed using financial instruments including derivatives as approved by policy, typically cross-currency interest rate swaps, foreign exchange swaps and forwards.

Funding activities - Our policy is to borrow in the most advantageous market available. Foreign currency funding gives rise to risk of volatility in the amount of functional currency cash to be repaid. This risk is reduced by swapping principal and interest back into the functional currency of the issuer. All foreign currency debt and transactions are hedged except where they provide a natural offset to assets elsewhere in the Group.

Capital investment - Capital projects often incur costs in a foreign currency, most often Euro transactions done by the UK business. Our policy for managing foreign exchange transaction risk is to hedge contractually committed foreign currency cash flows over a prescribed minimum size, typically by buying Euro forwards to hedge future expenditure. For hedges of forecast cash flows our policy is to hedge a proportion of highly probable cash flows.

As at 31 March 2023 and 2022, derivative financial instruments were used to manage foreign currency risk as follows:

	2023				Total
	Sterling £m	Euro £m	Dollar £m	Other £m	£m
Cash and cash equivalents	—	—	—	—	—
Financial investments	1,373	—	—	—	1,373
Borrowings	(6,773)	(1,805)	(69)	(1,400)	(10,047)
Pre-derivative position	(5,400)	(1,805)	(69)	(1,400)	(8,674)
Derivative effect	(3,741)	1,849	76	1,400	(416)
Net debt position	(9,141)	44	7	—	(9,090)

27. Financial risk management (continued)

	2022				Total £m
	Sterling £m	Euro £m	Dollar £m	Other £m	
Cash and cash equivalents	13	—	—	—	13
Financial investments	984	—	—	—	984
Borrowings	(6,235)	(1,829)	(65)	(1,056)	(9,185)
Pre-derivative position	(5,238)	(1,829)	(65)	(1,056)	(8,188)
Derivative effect	(3,380)	1,851	79	1,056	(394)
Net debt position	(8,618)	22	14	—	(8,582)

The exposure to euros largely relates to hedges for our future non-sterling capital expenditure.

Hedge accounting for currency risk

Where available, derivatives transacted for hedging are designated for hedge accounting. Economic offset is qualitatively determined because the critical terms (currency and volume) of the hedging instrument match the hedged exposure. If a forecast transaction was no longer expected to occur, the cumulative gain or loss previously reported in equity would be transferred to the income statement. This has not occurred in the current or comparative years.

Cash flow hedging of currency risk of capital expenditure is designated as hedging the exposure to movements in the spot translation rates only; the timing of forecasted transactions is not designated as a hedged risk. Gains and losses on hedging instruments arising from forward points and foreign currency basis spreads are excluded from designation and are recognised immediately in profit or loss, along with any hedge ineffectiveness. Where a non-financial asset or a non-financial liability results from a forecast transaction or firm commitment being hedged, the amounts deferred in reserves are released directly to the initial measurement of that asset or liability. Hedges of foreign currency funding are designated as cash flow hedges or fair value hedges of forward exchange risk (hedging both currency and interest rate risk together, where applicable). Hedge accounting for funding is described further in the interest rate risk section below.

(d) Interest rate risk

National Grid Electricity Transmission plc's interest rate risk arises from our long-term borrowings. Our interest rate risk management policy is to seek to minimise total financing costs (being interest costs and changes in the market value of debt). Hedging instruments principally consist of interest rate and cross-currency swaps that are used to translate foreign currency debt into functional currency and to adjust the proportion of fixed-rate and floating-rate in the borrowings portfolio to within a range set by the Finance Committee of the National Grid plc Board. The benchmark interest rates hedged are currently based on Overnight Index Average (SONIA) for GBP.

LIBOR is being replaced as an interest rate benchmark by alternative reference rates in certain currencies including our functional currency GBP 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 have managed the risk by transitioning LIBOR cash flows to alternative reference rates on our affected contracts in line with the relevant jurisdictions. The migration project has been completed, with all affected contracts where we previously paid or received GBP LIBOR amended in the year to 31 March 2023 (see note 16). The Finance Committee of the Board have delegated to the treasury department the authority to determine which benchmarks are the most appropriate. A combination of LIBOR and the successor benchmarks, primarily GBP Sterling Overnight Index Average (SONIA) has been 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 16 (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 2023 and 2022, net debt was managed using derivative instruments to hedge interest rate risk as follows:

	2023			Total £m
	Fixed rate £m	Floating rate £m	RPI £m	
Financial investments	—	1,373	—	1,373
Borrowings	(6,603)	(370)	(3,074)	(10,047)
Pre-derivative position	(6,603)	1,003	(3,074)	(8,674)
Derivative effect	1,455	(1,771)	(100)	(416)
Net debt position	(5,148)	(768)	(3,174)	(9,090)

27. Financial risk management (continued)

	2022			Total £m
	Fixed rate £m	Floating rate £m	RPI £m	
Cash and cash equivalents	—	13	—	13
Financial investments	—	984	—	984
Borrowings	(5,902)	(350)	(2,933)	(9,185)
Pre-derivative position	(5,902)	647	(2,933)	(8,188)
Derivative effect	1,271	(1,478)	(187)	(394)
Net debt	(4,631)	(831)	(3,120)	(8,582)

Hedge accounting for interest rate risk

Borrowings paying variable or floating rates expose National Grid Electricity Transmission to cash flow interest rate risk, partially offset by cash held at variable rates. Where a hedging instrument results in paying a fixed rate, it is designated as a cash flow hedge because it has reduced the cash flow volatility of the hedged borrowing. Changes in the fair value of the derivative are initially recognised in other comprehensive income as gains or losses in the cash flow hedge reserve, with any ineffective portion recognised immediately in the income statement.

Borrowings paying fixed rates expose National Grid Electricity Transmission to fair value interest rate risk. Where the hedging instrument pays a floating rate, it is designated as a fair value hedge because it has reduced the fair value volatility of the borrowing. Changes in the fair value of the derivative and changes in the fair value of the hedged item in relation to the risk being hedged are both adjusted on the balance sheet and offset in the income statement to the extent the fair value hedge is effective, with the residual difference remaining as ineffectiveness.

Both types of hedges are designated as hedging the currency and interest rate risk arising from changes in forward points. Amounts accumulated in the cash flow hedge reserve (cash flow hedges only) and the deferred cost of hedging reserve (both cash flow and fair value hedges) are reclassified from reserves to the income statement on a systematic basis as hedged interest expense is recognised. Adjustments made to the carrying value of hedged items in fair value hedges are similarly released to the income statement to match the timing of the hedged interest expense.

When hedge accounting is discontinued, any remaining cumulative hedge accounting balances continue to be released to the income statement to match the impact of outstanding hedged items. Any remaining amounts deferred in the cost of hedging reserve are released immediately to the income statement as finance costs.

The Group early-adopted 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 be 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.

The amendments will be applied until the earlier point in time where affected cash flows are amended, the relationship is formally discontinued, and any cash flow hedge reserve balance has been released, or formal market conventions ending uncertainty are published and widely adopted. If amended cash flows do not cause a hedging relationship to be discontinued, then the amendments will cease to be applied only when that relationship is discontinued under IFRS 9.

The IFRS amendments impact fair value and cash flow hedges of interest rate risk and related hedging instruments. The notional values of hedging instruments, for each type of hedging relationship impacted, are shown in the hedge accounting tables in note 27(e). These amounts also correspond to the exposures designated as hedged.

27. Financial risk management (continued)

(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 2023	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	—	87	4
Cost of hedging	4	(1)	—
Transferred to profit or loss in respect of:			
Cash flow hedges	—	(28)	—
Cost of hedging	—	—	—
Consolidated statement of changes in equity			
Other equity reserves - cost of hedging balances	(9)	(13)	—
Consolidated statement of financial position			
Derivatives - carrying value of hedging instruments ¹			
Assets - current	—	—	2
Assets - non-current	25	71	1
Liabilities - current	(1)	(10)	—
Liabilities - non-current	(331)	(77)	—
Profiles of the significant timing, price and rate information of hedging instruments			
Maturity range	Feb 2024 - Sep 2044	Jan 2025 - Nov 2040	Apr 2023 - May 2029
Spot FX range			
GBP USD	n/a	1.30	1.20 - 1.31
GBP EUR	1.11 - 1.20	1.10 - 1.24	1.11 - 1.20
Interest rate range			
GBP	SONIA +96bps/ +374bps	1.33% - 5.09%	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.

27. Financial risk management (continued)

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	—	(11)	1
Cost of hedging	(8)	(4)	—
Transferred to profit or loss in respect of:			
Cash flow hedges ¹	—	(15)	—
Cost of hedging	1	—	—
Consolidated statement of changes in equity			
Other equity reserves - cost of hedging balances	(13)	(12)	—
Consolidated statement of financial position			
Derivatives - carrying value of hedging instruments ²			
Assets - current	—	—	—
Assets - non-current	45	31	—
Liabilities - current	(13)	(18)	(1)
Liabilities - non-current	(181)	(91)	(1)

Profiles of the significant timing, price and rate information of hedging instruments

	Jan 2023 - Sep 2044	Jan 2023 - Nov 2040	May 2022 - Feb 2027
Maturity range			
Spot FX range			
GBP USD	n/a	1.3	1.35 - 1.39
GBP EUR	1.11 - 1.24	1.19 - 1.24	1.05 - 1.19
Interest rate range			
GBP	SONIA +96bps/ +374bps	1.33% - 4.02%	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.

The following tables show the effects of hedge accounting on financial position and year-to-date performance for each type of hedge. These tables also present notional values of hedging instruments (and equal hedged exposures) impacted by IFRS 9 Interest Rate Benchmark Reform amendments.

(i) Fair value hedges of foreign currency and interest rate risk on recognised borrowings:

As at 31 March 2023	Balance of fair value hedge adjustments in borrowings			Change in value used for calculating ineffectiveness		
Hedge type	Hedging instrument nominal ²	Continuing hedges	Discontinued hedges	Hedged item	Hedging instrument	Hedge ineffectiveness
	£m	£m	£m	£m	£m	£m
Foreign currency and interest rate risk on borrowings	(1,907)	444	(23)	213	(189)	24

¹ The carrying value of the hedged borrowings is £1,486 million, of which £79 million is current and £1,407 million is non-current.

² Included within the hedging instrument notional balance of £nil million (2022: £1,597 million) impacted by Interest Rate Benchmark Reform amendments.

27. Financial risk management (continued)

As at 31 March 2022	Hedging instrument nominal	Balance of fair value hedge adjustments in borrowings		Change in value used for calculating ineffectiveness		
		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	(1,597)	256	(33)	174	(147)	27

¹ The carrying value of the hedged borrowings was £1,371 million, all of which is non-current.

² Included within the hedging instrument notional balance of £1,597 million (2021: £1,321 million) impacted by Interest Rate Benchmark Reform amendments.

(ii) Cash flow hedges of foreign currency and interest rate risk:

As at 31 March 2023	Hedging instrument nominal	Balance in cash flow hedge reserve		Change in value used for calculating ineffectiveness		
		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	(2,504)	42	—	(46)	43	(3)
Foreign currency risk on forecasted cash flows	(66)	2	—	(3)	3	—

As at 31 March 2022	Hedging instrument nominal	Balance in cash flow hedge reserve		Change in value used for calculating ineffectiveness		
		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	(2,443)	(16)	—	11	(11)	—
Foreign currency risk on forecasted cash flows	(60)	(1)	—	(1)	1	—

¹ Included within the hedging instrument notional balance is £100 million (2021: £100million) 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.

	2023				2022			
	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	—	131	22	153	—	144	—	144
	—	131	22	153	—	144	—	144
Liabilities								
Derivative financial instruments	—	(447)	(122)	(569)	—	(351)	(187)	(538)
	—	(447)	(122)	(569)	—	(351)	(187)	(538)
	—	(316)	(100)	(416)	—	(207)	(187)	(394)

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

27. Financial risk management (continued)

Level 2: Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are based directly or indirectly on observable market data.

Level 3: Financial instruments valued using valuation techniques where one or more significant inputs are based on unobservable market data.

Our Level 2 derivative financial instruments include cross-currency, interest rate and foreign exchange derivatives. We value these derivatives by discounting all future cash flows by externally sourced market yield curves at the reporting date, taking into account the credit quality of both parties. These derivatives can be priced using liquidly traded interest rate curves and foreign exchange rates, therefore we classify our vanilla trades as Level 2 under the IFRS 13 framework.

Our level 3 derivative financial instruments include cross-currency swaps and 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.

While there have been significant movements in market indices, all of our financial instruments are traded in markets that continue to be active and therefore, we are satisfied that there has been no significant impact on the fair values of our financial instruments measured at fair value, and that any impact is reflected in the fair values in the table above.

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

	Derivative financial instruments	
	2023	2022
	£m	£m
At 1 April	(187)	(118)
Net gain/(loss) for the year	87	(69)
At 31 March	(100)	(187)

¹ Gain of £87 million (2022: £69 million loss) is attributable to Level 3 derivative financial liabilities held at the end of the reporting period and that has been recognised in finance costs in the income statement.

The impacts on a post-tax basis of reasonably possible changes in significant level 3 assumptions are as follows:

	Derivative financial instruments	
	2023	2022
	£m	£m
+20 basis points change in LPI (Limited Price Inflation) market curve ¹	(53)	(84)
-20 basis points change in LPI market curve ¹	51	82
+20 basis points increase between Retail Price Index & Consumer Price Index ¹	43	—
-20 basis points decrease between Retail Price Index & Consumer Price Index ¹	(38)	—

¹ A reasonably possible change in assumption of other level 3 derivative financial instruments is unlikely to result in a material change in fair values.

The impacts disclosed above were considered on a contract by contract basis with the most significant unobservable inputs identified.

(g) Capital Risk Management

The capital structure of the Group consists of shareholders' equity, as disclosed in the consolidated statement of changes in equity, and net debt (note 24). National Grid's objectives when managing capital are: to safeguard our ability to continue as a going concern; to remain within regulatory constraints of our regulated operating companies; and to maintain an efficient mix of debt and equity funding thus achieving an optimal capital structure and cost of capital. We regularly review and manage the capital structure as appropriate in order to achieve these objectives.

Maintaining appropriate credit ratings for our regulated company is an important aspect of our capital risk management strategy and balance sheet efficiency. We monitor our balance sheet efficiency by regulatory asset value (RAV) gearing calculated as net debt expressed as a percentage of RAV, which indicates the level of debt employed to fund our regulated business. It is compared with the level of RAV gearing indicated by Ofgem as being appropriate for our business, at around 55%. The RAV gearing ratio at 31 March 2023 was 53% (2022: 55%).

27. Financial risk management (continued)

The Company is subject to certain restrictions on the payment of dividends by administrative order, contract and/or licence. The types of restrictions that a company may have that would prevent a dividend being declared or paid unless they are met include:

- liquidity risk;
- the subsidiary must have at least two recognised rating agency credit ratings of at least investment grade;
- dividends must be limited to cumulative retained earnings, including pre-acquisition retained earnings;
- the securities of National Grid Electricity Transmission plc must maintain an investment grade credit rating and if that rating is the lowest investment grade bond rating it cannot have a negative watch/review for downgrade notice by a credit rating agency;
- the subsidiary must not carry on any activities other than those permitted by the licences;
- the subsidiary must not create any cross-default obligations or give or receive any intra-group cross-subsidies; and
- the percentage of equity compared with total capital of the subsidiary must remain above certain levels.

These restrictions are subject to the normal licence review process.

As most of our business is regulated, at 31 March 2023 the majority of our net assets are subject to some of the restrictions noted above. These restrictions are not considered to be significantly onerous, nor do we currently expect they will prevent the planned payment of dividends in future in line with our dividend policy.

All the above requirements are monitored on a regular basis in order to ensure compliance. The Company has complied with all externally imposed capital requirements to which it is subject.

28. Sensitivities

In order to give a clearer picture of the impact on our results or financial position of potential changes in significant estimates and assumptions, the following sensitivities are presented. These sensitivities are based on assumptions and conditions prevailing at the year-end and should be used with caution. The effects provided are not necessarily indicative of the actual effects that would be experienced because our actual exposures are constantly changing.

The sensitivities in the tables below show the potential impact in the income statement (and consequential impact on net assets) for a reasonably possible range of different variables each of which have been considered in isolation (i.e. with all other variables remaining constant). There are a number of these sensitivities which are mutually exclusive and therefore if one were to happen, another would not, meaning a total showing how sensitive our results are to these external factors is not meaningful.

The sensitivities included in the tables below broadly have an equal and opposite effect if the sensitivity increases or decreases by the same amount unless otherwise stated.

(a) Sensitivities on areas of judgement and key sources of estimation uncertainty

The table below sets out the sensitivity analysis for each of the areas of estimation uncertainty. These estimates are those that have a significant risk of resulting in a material adjustment to the carrying values of assets and liabilities in the next year.

	2023			2022		
	Assumptions used ¹	Income statement £m	Net assets £m	Assumptions used	Income statement £m	Net assets £m
Pensions obligations benefit (pre-tax) ²						
Discount rate change ³	1.0%	3	273	0.5%	2	196
RPI rate change ⁴	1.0%	2	192	0.5%	1	142
Long-term rate of increase in salaries change	1.0%	—	22	0.5%	—	17
Change of one year to life expectancy at age 65	One Year	—	77	One Year	—	113

¹ We have increased the assumption used in our sensitivity analysis this year from 0.5% to 1.0% in light of the recent quantum of market movements.

² The changes shown are a change in the annual pension or other post-retirement benefit service charge and change in the defined benefit obligations.

³ 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. Any such offset is not reflected in this table.

⁴ 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.

28. Sensitivities (continued)

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 2023. In preparing sensitivities the potential impact has been calculated by applying the change to each assumption in isolation and assuming all other assumptions remain unchanged. This is with the exception of RPI in the UK where the corresponding change to increases to pensions in payment, increases to pensions in deferment and increases in salary is recognised.

(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 24 financial instruments is sensitive to changes in market variables, being UK interest rates and the UK RPI. These impact the valuation of our borrowings, deposits and derivative financial instruments. The analysis illustrates the sensitivity of our financial instruments to reasonably possible changes in these market variables.

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

- the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio, and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 March 2023 and 2022 respectively;
- the statement of financial position sensitivity to interest rates relates to items presented at their fair values: derivative financial instruments and our investments measured at fair value through profit and loss (FVTPL) and fair value through other comprehensive income. 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.

	2023			2022		
	Assumptions Used ²	Income statement	Other equity reserves	Assumptions Used ²	Income statement	Other equity reserves
		£m	£m		£m	£m
Financial risk (post-tax)						
UK inflation change ¹	1 %	23	—	0.5 %	12	—
UK Interest rate changes of 1%	1 %	6	118	0.5 %	3	80

¹ Excludes sensitivities to LPI curve. Further details on sensitivities are provided in note 27.

² 1% has been used for sensitivity analysis this year as opposed to 0.5% in the prior year, due to the quantum of market rate movements during the year which mean it is considered that 1% is a more appropriate measure for the year ended 31 March 2023.

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

	2023		2022	
	Income statement	Net assets	Income statement	Net assets
	£m	£m	£m	£m
Assets and liabilities carried at fair value (post-tax):				
10% fair value change in derivative financial instruments ¹	(34)	(34)	(32)	(32)

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

29. Ultimate parent company

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

National Grid Electricity Transmission plc's immediate parent company is National Grid Holdings Limited. The ultimate parent company, and controlling party, is National Grid plc. Both companies are incorporated in Great Britain and are registered in England and Wales. National Grid plc consolidates the financial statements of National Grid Electricity Transmission plc. Copies of the consolidated financial statements of National Grid plc may be obtained from the Company Secretary, 1-3 Strand, London WC2N 5EH, or on our company website, <http://investors.nationalgrid.com>.

30. Subsidiary undertakings, joint ventures and associates

While we present consolidated results in these financial statements as if we were one company, our structure is such that there are a number of subsidiaries and joint ventures that contribute to the overall result.

Subsidiary undertakings

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

	Principal activity	Holding
National Grid Electricity Group Trustee Limited 1 - 3 Strand, London, WC2N 5EH	Pension nominee company	100 %

All subsidiaries are incorporated in England and Wales.

Joint ventures

The list below contains all joint ventures included within the National Grid Electricity Transmission plc Group.

	Principal activity	Holding
NGC Employee Shares Trustee Limited 1 - 3 Strand, London, WC2N 5EH	Trustee of the NGC profit sharing scheme and NGC Employee Trust	50 %
NGET/SPT Upgrades Limited 1 - 3 Strand, London, WC2N 5EH	Construction services for the England-Scotland interconnector	50 %

Other equity investments

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

	Principal activity	Holding
Joint Radio Company Limited (incorporated in England and Wales) Friars House, Manor House Drive, Coventry, CV1 2TE	Consultancy services	25 %

31. Events after the reporting period

There were no events after the reporting period.

Company balance sheet

as at 31 March

	Notes	2023 £m	2022 £m
Fixed assets			
Intangible assets	5	210	211
Tangible assets	6	15,312	14,513
		15,522	14,724
Current assets			
Cash and cash equivalents		—	13
Stocks	7	39	36
Debtors	8	289	226
Derivative financial instruments (amounts falling due within one year)	9	3	1
Derivative financial instruments (amounts falling due after more than one year)	9	150	143
Financial assets and other investments	10	1,373	982
Net pension asset	15	473	633
Total current assets		2,327	2,034
Borrowing	13	(380)	(332)
Derivative financial instruments	9	(12)	(39)
Other creditors	11	(624)	(523)
Creditors (amounts falling due within one year)	11	(1,016)	(894)
Net current assets		1,311	1,140
Total assets less current liabilities		16,833	15,864
Creditors (amounts falling due after more than one year)	12	(10,708)	(9,833)
Provisions for liabilities	14	(1,672)	(1,655)
Net assets		4,453	4,376
Capital and reserves			
Share capital	16	44	44
Other equity reserve	17	16	(33)
Profit and loss account		4,393	4,365
Total shareholders' equity		4,453	4,376

The notes on pages 105 to 115 form part of the individual financial statements of the Company, which were approved by the Board of Directors and authorised for issue on 14 July 2023 and were signed on its behalf by:

DocuSigned by:

Chris Bennett

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Chris Bennett Director

DocuSigned by:

Alice Delahunty

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Alice Delahunty Director

National Grid Electricity Transmission plc

Registered number: 2366977

Company statement of changes in equity

for the years ended 31 March

	Called up share capital	Other equity reserves	Profit and loss account	Total equity
	£m	£m	£m	£m
As at 1 April 2021	44	(10)	4,289	4,323
Profit for the year	—	—	289	289
Total other comprehensive income for the year	—	(23)	151	128
Total comprehensive income/(loss) for the year	—	(23)	440	417
Equity dividends	—	—	(371)	(371)
Share-based payments	—	—	3	3
Tax on share-based payments	—	—	3	3
As at 31 March 2022	44	(33)	4,365	4,376
Profit for the year	—	—	531	531
Total other comprehensive income for the year	—	49	(208)	(159)
Total comprehensive income for the year	—	49	323	372
Equity dividends	—	—	(300)	(300)
Share-based payments	—	—	5	5
Tax on share-based payments	—	—	—	—
As at 31 March 2023	44	16	4,393	4,453

The Company has not presented its own profit and loss account as permitted by section 408 of the Companies Act 2006.

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

Notes to the Company financial statements

1. Company accounting policies

We are required to include the stand-alone balance sheet of our parent Company, National Grid Electricity Transmission plc, under the Companies Act 2006. The following disclosures provide additional information to users of these financial statements.

Basis of preparation of individual financial statements under FRS 101

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

The company meets the definition of a qualifying entity under FRS 100 Application of Financial Reporting Requirements. Accordingly, the company has elected to apply FRS 101 Reduced Disclosure Framework. The recognition and measurements requirements of UK adopted IFRS have therefore been applied within these financial statements, with amendments where necessary in order to comply with the Companies Act 2006.

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 29 of the consolidated financial statements.

The individual financial statements of the Company have been prepared on a historical cost basis, except for the revaluation of financial instruments, and are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates. The comparative financial information has also been prepared on this basis.

The individual financial statements have been prepared on a going concern basis following the assessment made by the Directors as set out on page 40.

As described further in note 1 to the consolidated financial statements, the Directors have concluded that the Company will have adequate resources to continue in operation for at least 12 months from the signing date of these financial statements. Therefore, they continue to adopt the going concern basis of accounting in preparing the financial statements.

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.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements of the Company in accordance with FRS 101:

- a cash flow statement and related notes;
- disclosures in respect of transactions with wholly owned subsidiaries;
- disclosures in respect of capital management; and
- the effects of new but not yet effective IFRS standards.

The areas of judgement or key sources of estimation uncertainty that are considered to have a significant effect on the amounts recognised in the financial statements are shown in the consolidated financial statements on page 58.

The balance sheet has been prepared in accordance with the Company's accounting policies approved by the Board.

2. Auditor's remuneration

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

	2023	2022
	£m	£m
Audit services		
Audit of the parent Company's individual and consolidated financial statements	0.4	0.5
Other services supplied		
Fees payable to the Company's auditors for audit related assurance services ¹	1.6	1.1

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

	2023	2022
	Monthly Average	Monthly average
	number	number
Electricity Transmission	3,733	2,895

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 Electricity Transmission 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 under construction	Total
	£m	£m	£m
Cost at 1 April 2022	347	81	428
Additions	—	54	54
Disposals	(5)	—	(5)
Reclassifications ¹	61	(66)	(5)
Cost at 31 March 2023	403	69	472
Accumulated amortisation at 1 April 2022	(217)	—	(217)
Amortisation charge for the year	(37)	—	(37)
Disposal	4	—	4
Reclassifications ¹	(12)	—	(12)
Accumulated amortisation at 31 March 2023	(262)	—	(262)
Net book value at 31 March 2023	141	69	210
Net book value at 31 March 2022	130	81	211

¹ The amounts include adjustments to reflect reclassifications between cost and accumulated depreciation, and between Intangible Assets and Property, Plant and Equipment (Note 6) identified during the implementation of the Group's new SAP S4 Hana General Ledger system in the UK

6. Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 April 2022	1,159	17,590	2,225	113	21,087
Additions	1	3	1,240	7	1,251
Disposals	(1)	(25)	(4)	(5)	(35)
Reclassifications between categories ¹	132	713	(957)	13	(99)
Impact of change in discount rate on decommissioning provision (Note 14)	—	(9)	—	—	(9)
Cost at 31 March 2023	1,291	18,272	2,504	128	22,195
Accumulated depreciation at 1 April 2022	(160)	(6,279)	(65)	(70)	(6,574)
Depreciation charge for the year	(23)	(408)	—	(17)	(448)
Disposals	1	21	2	4	28
Reclassifications between categories ¹	(2)	121	4	(8)	115
Impairment	—	(4)	—	—	(4)
Accumulated depreciation at 31 March 2023	(184)	(6,549)	(59)	(91)	(6,883)
Net book value at 31 March 2023	1,107	11,723	2,445	37	15,312
Net book value at 31 March 2022	999	11,311	2,160	43	14,513

¹ The amounts include adjustments to reflect reclassifications between cost and accumulated depreciation and between Intangible Assets (Note 5) and Property, Plant and Equipment identified during the implementation of the Group's new SAP S4 Hana General Ledger system in the UK

Included within creditors (amounts falling due within one year) and creditors (amounts falling due after more than one year) are contributions to the cost of tangible fixed assets amounting to £12 million (2022: £13 million) and £429 million (2022: £423 million) respectively.

Right-of-use assets

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

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 £m	Motor vehicles and office equipment £m	Total £m
Net book value at 1 April 2021	62	7	69
Additions	—	7	7
Depreciation charge for the year ended 31 March 2022	(7)	(6)	(13)
Net book value at 31 March 2022	55	8	63
Additions	3	7	10
Depreciation charge for the year ended 31 March 2023	(7)	(6)	(13)
Net book value at 31 March 2023	51	9	60

6. Property, plant and equipment (continued)

The following balances have been included in the income statement for the year ended 31 March 2023 in respect of right-of-use assets:

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

The associated lease liabilities are disclosed in note 13.

7. Stocks

	2023 £m	2022 £m
Raw materials, spares and consumables	31	30
Work in progress	8	6
	39	36

Raw materials are stated after provisions for obsolescence of £0 million (2022: £1 million).

8. Debtors

	2023 £m	2022 £m
<i>Amounts falling due within one year:</i>		
Trade debtors	73	19
Amounts owed by fellow subsidiary undertakings	76	82
Other taxation and social security	50	34
Other debtors	7	2
Contract assets	29	20
Prepayments	36	59
	271	217
<i>Amounts falling due after one year:</i>		
Prepayments	18	10
	18	10
Total debtors	289	227

Debtors are stated after provisions for impairment of £2 million (2022: £1 million).

9. Derivative financial instruments

The fair values of derivative financial instruments are:

	2023			2022		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Amounts falling due within one year	3	(12)	(9)	1	(39)	(38)
Amounts falling due after more than one year	150	(557)	(407)	143	(499)	(356)
	153	(569)	(416)	144	(538)	(394)

Further information relating to the recognition and measurement of derivative financial instruments is included in note 12 of the consolidated financial statements.

9. Derivative financial instruments (continued)

For each class of derivative the notional contract amounts¹ are as follows:

	2023	2022
	£m	£m
Interest rate swaps	(1,727)	(1,607)
Cross-currency interest rate swaps	(3,588)	(3,163)
Foreign exchange forward currency	(148)	(170)
Inflation linked swaps	(2,387)	(500)
	(7,850)	(5,440)

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

10. Financial assets and other investments

	2023	2022
	£m	£m
Loans and receivables - amounts due from the ultimate parent ¹	882	482
Loans and receivables - restricted cash balances ²	468	478
Loans and receivables - NIC restricted cash deposits	23	22
	1,373	982

¹ Refers to overnight facility loan to National Grid Plc.

² Refers to collateral placed with counterparties with whom we have entered into a credit support annex to the ISDA Master Agreement.

The names of the subsidiary undertakings are included in note 30 to the consolidated financial statements.

11. Creditors (amounts falling due within one year)

	2023	2022
	£m	£m
Derivative financial instruments (note 9)	12	39
Borrowings (note 13)	380	332
Trade creditors	458	421
Amounts owed to fellow subsidiary undertakings	40	11
Other creditors	29	30
Accruals and deferred income	97	61
	1,016	894

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

	2023	2022
	£m	£m
Derivative financial instruments (note 9)	557	499
Borrowings (note 13)	9,667	8,853
Other creditors	55	58
Accruals and deferred income	429	423
	10,708	9,833

13. Borrowings

The following table analyses the company's total borrowings:

	2023	2022
	£m	£m
Bank loans and overdrafts	155	257
Bonds	211	63
Lease liabilities	14	12
Current	380	332
Bank loans	1,381	1,363
Bonds	8,239	7,437
Lease liabilities	47	53
Non-Current	9,667	8,853
Total borrowings	10,047	9,185
Less than 1 year	380	332
In 1 - 2 years	530	148
In 2 - 3 years	—	521
In 3 - 4 years	915	—
In 4 - 5 years	397	918
More than 5 years by instalments	781	764
More than 5 years, other than by instalments	7,044	6,502
	10,047	9,185

The notional amount outstanding of the Company's debt portfolio at 31 March 2023 was £10,386 (2022: £9,338m).

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.

	2023	2022
	£m	£m
Gross lease liabilities are repayable as follows:		
Less than 1 year	14	12
1 to 5 years	27	31
More than 5 years	50	50
	91	93
Less: finance charges allocated to future periods	(30)	(28)
	61	65
The present value of lease liabilities are as follows:		
Less than 1 year	14	12
1 to 5 years	24	29
More than 5 years	23	24
	61	65

14. Provisions for liabilities

	Decommissioning	Environmental	Restructuring	Deferred taxation	Other	Total
	£m	£m	£m	£m	£m	£m
At 1 April 2022	31	45	2	1,567	10	1,655
Charged to profit and loss	—	—	—	90	2	92
Transferred to reserves	—	—	—	(53)	—	(53)
Released	—	(5)	(1)	—	—	(6)
Utilised	—	(2)	(1)	—	—	(3)
Unwinding of discount	—	2	—	—	—	2
Adjustment for change in discount rate	(9)	(6)	—	—	—	(15)
At 31 March 2023	22	34	—	1,604	12	1,672

Details of the environmental provision and other provisions are shown in note 21 to the consolidated financial statements. Further details on deferred tax are shown in note 7 to the consolidated financial statements.

Deferred tax

Deferred tax provided in the financial statements comprises:

	2023 £m	2022 £m
Accelerated capital allowances	1,487	1,430
Other timing differences	(2)	(22)
Pensions liability (note 15)	119	158
	1,604	1,567

15. Pensions

National Grid Electricity Transmission plc's employees are members of either the National Grid Electricity Group of the Electricity Supply Pension Scheme (NGEG of ESPS), which is a defined benefit pension plan, or of a defined contribution plan.

Further details of the NGEG of ESPS and the actuarial assumptions used to value the associated assets and pension obligations are provided in note 20 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

	2023	2022
	£m	£m
Present value of funded obligations	(2,095)	(2,753)
Fair value of scheme assets	2,600	3,430
	505	677
Present value of unfunded obligations	(32)	(44)
Net defined benefit pension asset	473	633
Related deferred tax liability	(119)	(158)
Net pension asset	354	475
Changes in the present value of defined benefit obligations (including unfunded obligations)		
Opening defined benefit obligations	(2,797)	(3,007)
Current service cost	(17)	(18)
Interest cost	(65)	(14)
Actuarial losses - experience	(45)	(109)
Actuarial gains - demographic assumptions	23	19
Actuarial gains - financial assumptions	701	192
Past service credit - redundancies	—	1
Special termination benefit cost - redundancies	(3)	(4)
Past service cost - augmentations	—	(1)
Liabilities extinguished on settlements	(64)	—
Benefits paid	140	144
Closing defined benefit obligations	(2,127)	(2,797)
Changes in the fair value of scheme assets		
Opening fair value of scheme assets	3,430	3,355
Interest income	82	16
Return on assets greater than assumed	(948)	133
Change in longevity swap value	(8)	(16)
Administration costs	(3)	(2)
Employer contributions	87	82
Assets distributed on settlements	99	—
Benefits paid	(139)	(138)
Closing fair value of scheme assets	2,600	3,430

16. Share capital

	Number of shares 2023 millions	Number of shares 2022 millions	2023 £m	2022 £m
At 31 March 2022 and 2023 - ordinary shares of 10p each				
Allotted, called-up and fully paid	437	437	44	44

National Grid Electricity Transmission plc's immediate parent company is National Grid Holdings Limited. See note 29 of the consolidated accounts for further details.

17. Other equity reserves

	Cost of hedging £m	Cash flow hedge £m	Total £m
At 1 April 2022	(19)	(14)	(33)
Net gains taken to equity	3	87	90
Net gains in respect of cash flow hedging of capital expenditure	—	4	4
Transferred to/(from) profit or loss	—	(28)	(28)
Cash flow hedges transferred to the statement of financial position, net of tax	—	(1)	(1)
Tax	(1)	(15)	(16)
At 31 March 2023	(17)	33	16

18. Commitments and contingencies

(a) Future capital expenditure

	2023 £m	2022 £m
Contracted for but not provided	1,265	1,468

(b) Operating lease commitments

Commitments previously included operating lease commitments but on transition to IFRS 16, which was effective from 1 April 2019, substantially all lease commitments are included on the balance sheet as right-of-use assets (see note 6) and lease liabilities (see note 13). Therefore, only low-value leases and short-term leases are off-balance sheet commitments, both of which are immaterial.

(c) Other commitments, contingencies and guarantees

Guarantees in respect of a former associate amounting to £13 million (2022: £13 million). These are open ended.

Other commitments, contingencies and guarantees in the normal course of business and entered into on normal commercial terms amounted to £7 million (2022: £92 million). There is an additional £17 million contingency for the portion of decommissioning costs of Western Link HVDC not recognised in the provision (See note 22 of the consolidated financial statements).

Through the ordinary course of our operations, we are party to various litigation, claims and investigations. As explained on We continue to engage with Ofgem in relation to its investigation into maintenance of the Harker electrical substation in Cumbria and as such, the outcome is uncertain. We do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on our reported results of operations or financial position for 2022/23.

The company had no other off balance sheet commitments.

19. Related party transactions

The following transactions are with joint ventures and associates of ultimate parent company, and are in the normal course of business. Other related party transactions with wholly owned members of the National Grid Group are not disclosed, in accordance with the exemptions available under FRS 101.

	2023	2022
	£m	£m
Goods and services supplied	11	7

Amounts payable or receivable are ordinarily settled one month in arrears. £nil (2022: £nil) amounts have been provided at 31 March 2023 and £nil (2022: £nil) expense has been recognised during the year in respect of bad or doubtful debts from the above related party transactions.

Glossary and definitions

References to the 'Company', 'we', 'our' and 'us' IFRS refer to National Grid Electricity Transmission plc International Financial Reporting Standard, itself or to National Grid Electricity Transmission plc and its subsidiaries collectively, depending KPI on context.

ASTI

Accelerated Strategic Transmission Investment

CDP

Carbon Disclosure Project

CoA

Certificate of Assurance

CPIH

The UK Consumer Prices Index including Owner Occupiers' Housing Costs, as published by the Office for National Statistics.

DEI

Diversity, Equity and Inclusion

Delivery Body

Under the Energy Act 2013, and secondary legislation which came into force in August 2014, National Grid Electricity Transmission's system operator function became the EMR Delivery Body. In this role National Grid Electricity Transmission provides independent evidence and analysis to the UK Government to inform its decisions on the key rules and parameters to achieve the Government's policy objectives under EMR. National Grid Electricity Transmission also administers the capacity mechanism, including running the annual capacity auctions, manages the allocation of contracts for difference to low carbon generators and reports to the Government annually on performance against the Government's delivery plan.

DESNZ

Department for Energy Security and Net Zero

Diversity

Unless otherwise stated, when we use the term diversity in relation to our workforce, we are referring to the following characteristics - gender, disability, sexuality, and ethnic and racial background

DLR

Dynamic Line Rating

DNO

Distribution Network Operator

EAP

Environment Action Plan

ED

Electricity Distribution

ER

Emerging Risk

ERM

Enterprise Risk Management

EU

European Union

FRS

Financial Reporting Standard

FSO

Future System Operator

GAAP

Generally accepted accounting principles

GHG

Greenhouse gas

GPR

Group Principal Risk

GRI

Global Reporting Institute

GW

Gigawatt, 10⁹ watts

GWh

Gigawatt hours

HSE

Health and Safety Executive

IAS

International Accounting Standard

IASB

International Accounting Standards Board

IFRIC

The International Financial Reporting Interpretations Committee, which provides guidance on how to apply accounting standards.

IFRS

International Financial Reporting Standard.

IUG

Independent User Group

KPI

Key Performance Indicator.

KRI

Key Risk Indicator

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.

LTIFR

Lost time injury frequency rate

National Grid

National Grid plc, the ultimate parent company of National Grid Electricity Transmission plc and its controlling party.

NGESO

National Grid Electricity System Operator

Ofgem

The Office of Gas and Electricity Markets

PC26

Regulatory period due to commence in 2026.

PR

Principal Risk

RBC

Responsible Business Charter

RBR

Responsible Business Report

Regulatory asset value (RAV)

The value ascribed by Ofgem to the capital employed in the licensed business. It is an estimate of the initial market value of the regulated asset base at privatisation, plus subsequent allowed additions at historic costs, less the deduction of annual regulatory depreciation. Deductions are also made to reflect the value realised from the disposal of certain assets that formed part of the regulatory asset base. It is also indexed to the CPIH to allow for effects to inflation.

Regulated controllable operating costs

Total operating costs under IFRS less depreciation plus / minus certain regulatory costs where, under our regulatory agreements, mechanisms are in place to recover such costs in current or future periods.

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.

Regulated return on equity is a measure of how a business is performing operationally against the assumptions used by Ofgem. These returns are calculated using the assumption that the businesses are financed in line with the regulatory adjudicated capital structure, at the assumed cost of debt and that UK taxation paid is at the level assumed by Ofgem.

RPI

UK Retail Price Index

SASB

Sustainability Accounting Standards Board

SF6

Sulphur hexafluoride

SI

Strategic Investment

SOx

Sarbanes Oxley Act

tonnes CO2 equivalent

Measure of greenhouse gas emissions in relation to the impact of carbon dioxide

TW

Terawatt, 10^{12} watts

TWh

Terawatt hours