nationalgrid

National Grid Gas plc
Annual Report and Accounts 2019/20

Company number 2006000

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National Grid Gas plc Annual Report and Accounts 2019/20

Overview

About National Grid Gas plc

National Grid Gas plc (National Grid Gas) is a subsidiary of National Grid plc (National Grid), based in the UK. We own and operate the regulated gas National Transmission System (NTS) in Great Britain, with day-to-day responsibility for balancing supply and demand in real time, and provide gas metering services. Our transmission network comprises approximately 7,630 kilometres of high pressure pipe and 24 compressor stations connecting to 8 distribution networks and other third-party independent systems. We play a vital role in connecting millions of people safely, reliably and efficiently to the energy they use.

The overall management and governance of National Grid Gas is the responsibility of its Board of Directors. Strategic direction is determined by our ultimate parent company, National Grid plc. Our Directors are listed on page 41 to 42.

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

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

Financial highlights

	2019/20 £m	2018/19 £m	Percentage change
Revenue	**1,186**	1,209	(2%)
Operating profit before exceptional items	**475**	471	1%
Exceptional items	**0**	(36)	(100)%
Total operating profit[1]	**475**	435	9%
Profit before tax	**356**	287	24%
Cash generated from operations	**675**	401	68%
Regulated assets[2]	**6,298**	6,155	2 %

1 See page 31 for further details.

2 See page 34 for further details.

	2019/20 £m	2018/19 £m
Return on equity:		
Gas Transmission	**9.8%**	9.5%

Non-financial highlights

	2019/20	2018/19
Number of employees	**2,136**	1,945
Network reliability:		
Gas Transmission	**99.999589%**	99.989632%

What we do – Gas

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

The UK gas industry has four main sectors.

1. Production and importation

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

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

2. Transmission

The transmission system includes pipes and compressor stations. They connect production and storage through terminals to the distribution systems.

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

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

3. Distribution

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

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

4. Supply

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

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

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

What we do – Regulation

Gas Transmission

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

The purpose of the regulatory regime

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

How we manage our regulated assets

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

Our licenced activities are regulated by Ofgem, which has a statutory duty under the Acts to protect the interests of consumers. Ofgem also have responsibility to enable competition and innovation to drive down prices and introduce new products and services; and deliver a net zero economy at lowest cost to consumers. To protect consumers Ofgem has established price controls that limit the amount of revenue such regulated businesses can earn. In setting price controls, Ofgem must also have regard to the need to secure that licence holders are able to finance their obligations under the Acts. Licensees and other affected parties can appeal licence modifications which have errors, including in respect of financeability. This should give us a level of revenue for the duration of the price control that is sufficient to meet our statutory duties and licence obligations with a reasonable return on our investments.

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

- efficiently deliver by investing and maintaining the network outputs that customers and stakeholders require, including reliable supplies, new connections and infrastructure capacity;
- innovate in order to continuously improve the services we give our customers, stakeholders and communities; and
- efficiently balance the transmission networks to support the wholesale markets.

The main price controls for our gas transmission networks came into effect on 1 April 2013 for the eight-year period until 31 March 2021. They follow the RIIO (revenue = incentives + innovation + outputs) framework established by Ofgem.

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

RIIO Price Controls

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

How is revenue calculated?

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

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

Safety - ensuring the provision of a safe energy network.

Reliability (and availability) - promoting networks capable of delivering long-term reliability, minimising the number and duration of interruptions experienced during the price control period and ensuring adaptation to climate change.

Environmental impact - encouraging companies to play their role in achieving broader environmental objectives, specifically, facilitating the reduction of carbon emissions, as well as minimising their own carbon footprint.

Customer and stakeholder satisfaction - maintaining high levels of customer satisfaction and stakeholder engagement, and improving service levels.

Customer connections - encouraging networks to connect customers quickly and efficiently.

Within each of these output categories are a number of primary and secondary deliverables that reflect what our stakeholders want us to deliver over the remaining price control period and in preparation for future periods. The nature and number of these deliverables vary according to the output category. Some are linked directly to our allowed revenue and some to legislation, while others have 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 this is known as 'totex', which is a component of total allowable expenditure and is broadly the sum of what was defined in previous price controls as operating expenditure (opex) and capital expenditure (capex).

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

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

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

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

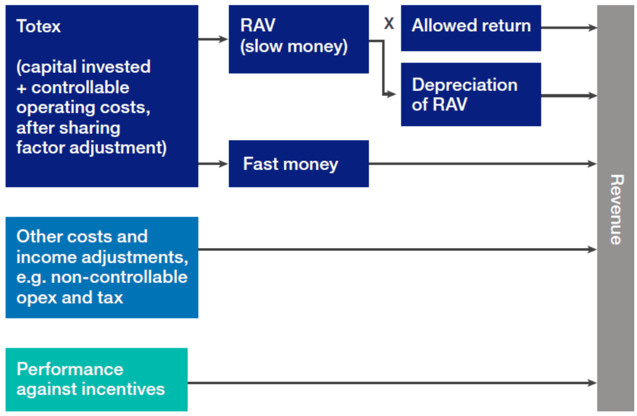
In addition to fast money, we are allowed to recover a portion of the RAV (regulatory depreciation) and a return on the outstanding RAV balance each year. Regulatory depreciation permits recovery of RAV consistent with each addition bringing equal real benefit to consumers for a period of up to 45 years. We are also allowed to collect additional revenues related to non-controllable costs and incentives. In addition to totex sharing, RIIO incentive mechanisms can increase or decrease our allowed revenue to reflect our performance against various other measures related to our outputs. For example, performance against our customer and stakeholder satisfaction targets can have a positive or negative effect of up to 1% of allowed annual revenues. Most of our incentives affect our revenues two years after the year of performance.

During the eight-year period of the price control our regulator included a provision for a mid-period review, with scope driven by:

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

The RIIO-T1 price controls for transmission also included a 're-opener mechanism'. This covered specific cost categories where there was uncertainty about expenditure requirements at the time of setting allowances. The mechanism specifies two windows during which networks could propose adjustments to allowances, May 2015 and May 2018. NGG requested additional funding under this mechanism in May 2018, leading to some changes to the allowed revenues.

Simplified illustration of RIIO regulatory building blocks:



Allowed returns

The cost of capital allowed under our current RIIO price controls is as follows:

	Gas Transmission
Cost of equity (post-tax real)	6.8%
Cost of debt (pre-tax real)	iBoxx 10 year simple trailing average index (1.58% for 2019/20)
Notional gearing	62.5%
Vanilla WACC*	3.54%

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

Sharing factors and fast money

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

Sharing factors applicable to GT under RIIO are as follows:

Gas Transmission	Transmission Operator	System Operator
Fast[1]	Baseline 35.6%, Uncertainty 10%[3]	62.60%
Slow[2]	Baseline 64.4%, Uncertainty 90%[3]	37.40%
Sharing[3]	44.36%	44.36%

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

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

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

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

RIIO-T2

Ofgem has started work on the next round of RIIO price controls, (RIIO-T2) for the energy network sectors it regulates, including both gas and electricity transmission. It has consulted on a wide range of topics, including incentives, outputs, the cost of capital and other financial parameters. Decisions that have already been taken include reducing the default price control duration back to five years from eight years; extending the role of competition where appropriate; and moving away from RPI to CPIH for inflation measurement when calculating RAV and allowed returns. In addition, Ofgem has proposed a methodology to baseline allowed cost of equity which it said, based on evidence available in May 2019, points to a value that is lower than under the current RIIO price controls.

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

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

Metering

Regulation and Contracts

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

- New and replacement metering service agreement (N&R MSA) contracts covering meters that have been installed since 2004 in properties provided by a supplier who is party to a New & Replacement metering contract;
- Legacy MSA contracts covering meters that were installed prior to 2004 in properties provided by a supplier who is party to the legacy MSA contract and;
- Regulated contracts covering meters in properties provided by suppliers who are not signatories to either of the MSA contracts.

As at March 2020, Metering's 8.5m domestic meters were aligned to the contracts as follows (note: Metering also had 0.4m commercial meters at March 2020).

Contract	N&R MSA	Legacy MSA	Regulated
Number of domestic meters (in millions)	1.5	3.5	3.5
Early termination charge on removal	Yes	Yes	No

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

- included a modest reduction to domestic rental tariff caps coupled with new obligations for National Grid to facilitate an effective rundown of traditional metering;
- considered the anticipated early replacement of domestic meters and recognises the accelerated depreciation; and,
- provided domestic rental tariff caps, £17.08 and £42.72 for the provision, installation and maintenance of domestic sized credit and prepayment meters respectively in 2019/20. These prices increase each year with RPI inflation.

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

Principal operations - Gas Transmission

What we do

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

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

We play a pivotal role in connecting millions of people safely, reliably and efficiently to the energy they use. Our network comprises approximately 7,630 kilometres of high-pressure pipe, 24 compressor stations connecting to 8 distribution networks and also other third-party independent systems.

Market Context

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

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

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

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

Optimise Performance

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

As at 31 March 2020, our LTIFR (lost time injury frequency rate) was 0.06. This is better than our UK target of <0.08, and is ***our best ever LTIFR performance.***

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

Our underlying operating profit was higher in 2019/20 reflecting the re-opener allowances for cyber and data centres. 2019/20 delivered an improved level of returns to 9.8%, though still below the allowed level.

We have ***committed to reduce our direct emissions to net zero*** by 2050 and to increase our influence to support the overall industry-wide transition to a low-carbon future. We are working in partnership with industry to develop Carbon Capture and Storage (CCS) solutions. The Chancellor announced at least £800 million for a CCS Infrastructure Fund which will support CCS in at least two sites.

Customer first

We work with our customers to meet their needs and deliver successful outcomes for all parties. We were pleased to see continued improvement in our CSAT scores achieving a score of 8.0 (2018/19: 7.8).

We have continued to provide reliable services. This year our ***network reliability*** score for Gas Transmission was 99.999589%.

Grow core business

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

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

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

A particular highlight has been the ***completion of the tunnelling for Feeder 9*** under the Humber estuary, a critical reinforcement of the gas network.

Evolve for the future

The Board noted the progress we are making on our strategic priorities. Against the background of delivering on our priority of optimising operational performance, discussions continued with Ofgem on the RIIO-T2 price control. We published and submitted our business plans to Ofgem in December 2019 for the 2021–2026 RIIO-2 price control period. These plans have been developed following our largest ever engagement exercise to date, with customers, industry stakeholders, businesses and households across the country. Our plans include investment to maintain network reliability and provide flexibility and optionality for the UK to achieve net zero greenhouse gas emissions by 2050, while being protected against new threats:

Our GT plan has a baseline total expenditure spend of £2.8 billion over the five-year period. Our GT business, which comprises GB gas system operator and gas transmission, includes an increase in asset health and cyber resilience investment, as well as a programme of work to test and prove hydrogen conversion options. The baseline spend for GT, under our proposed financial plan, would see consumer bills reduce slightly in real terms.

These plans will deliver a safer, cleaner, greener and more affordable energy system. We have challenged ourselves to ensure our business plans deliver at the lowest cost and create optionality as we develop the pathway to net zero.

On 9 July 2020 Ofgem issued draft determinations of the RIIO-2 price control which, amongst other things, proposes a significant reduction in allowed capital expenditure and returns. The Company is extremely disappointed with the draft determinations and the proposal leaves us concerned as to our ability to deliver resilient and reliable networks, and jeopardises the delivery of the energy transition. The Company has until 4 September 2020 to state its case for changes to be made and fully intends on actively engaging with Ofgem to this effect, pressing the regulator to come forward with a regulatory framework that both incentivises investment and protects consumers.

The UK cost efficiency programme that we announced in 2018 continues to deliver a more efficient and agile business ahead of RIIO-2. Through this initiative we have simplified ways of working with a leaner organisation and more efficient IT and back office activities. In 2019/20, the programme enabled us to deliver efficiency savings of £19 million.

Our GSO became part of the GT business with effect from 1 January 2020, providing even greater transparency and clarity around the management of Great Britain’s gas and electricity networks. A unified GSO and GT structure is a better way to be organised, offering greater alignment, simplified governance, clearer accountability, and better coordination between system operator and gas asset management.

In our GT business we are reviewing the potential to decarbonise the gas network through a ***transition to carbon-free hydrogen***. Working with the UK gas networks on the Gas Goes Green programme, we are identifying the steps required to repurpose our assets to carry hydrogen either as a blend or up to 100%.

Principal Operations - Metering

What we do

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

The asset base that Metering manages is 8.9 million domestic and commercial meters at March 2020, down from 9.9 million in March 2019.

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

Market Context

The traditional metering business is changing as the Department for Business, Energy and Industrial Strategy (BEIS) has mandated that '...energy suppliers must have taken all reasonable steps to install smart meters...' by the end of 2024. The Department for Business, Energy and Industrial Strategy issued a consultation in Autumn 2019 proposing an acceptable tolerance level of 85% average smart coverage in the domestic market.

Delays in the development of the required technical solution and issues around connectivity with the Data and Communications Company (DCC) have resulted in delays to the smart rollout in recent years. However, these issues have largely been overcome. The delivery of smart meters across Great Britain has continued throughout 2019/20, with SMETS2 (interoperable) credit meters now being installed. Trials of SMETS2 prepayment meters are taking place as a viable product is sought.

The impact of the Covid 19 pandemic on the smart rollout programme is likely to be very few new smart installations for several months from April 2020, with a subsequent phased return to previous volumes. There may be an additional impact if suppliers encounter further difficulty persuading customers to accept installations.

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

Operational and Financial Performance

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

- Standards of Service - In the year to 31 March 2020, 15 out of 20 standards of service targets were achieved (2019: 19 out of 20). The target measure varied from 80 to 98%. These covered complaints, domestic meter work and industrial and commercial meter works. There have been performance issues during the year with some key service providers due to a variety of system and de-mobilisation resourcing issues which will not recur as the business transitions to alternative service partners.
- Efficiency - Efficiency is driven by continuous review of installation, running and overhead costs, whilst maintaining the required level of operational and safety performance. Cost efficiency is ensured through robust tendering of meter work services and products in line with National Grid Procurement's Category Management process. Operational efficiency is monitored and driven through proactive contract management, whereby key performance indicators are tracked and supported by both incentive and liability payments.
- Safety, Health and Environment - We continue to measure safety performance in line with National Grid leading and lagging measures. The safety performance measures look at visual safety leadership, hazards and near misses that have occurred, behaviours, effective safety discussions, process safety, and driver safety. We continue to focus on behavioural safety and human factors encouraging staff and contractors alike to recognise hazards, reporting and sharing lessons learnt. We have had a huge focus and drive on Mental Health and Wellbeing and rolled out Mental Health first aid awareness sessions, managing work related stress and highlighted the importance of healthy eating. In 2020/21 the business will continue to drive best in class safety performance.

Evolve for the future

Customer satisfaction scores for Metering remain positive. Metering continues to strive to find better ways of working to maintain an appropriately sized business, aligned with its portfolio.

Metering shares National Grid's vision and has set out the following aim;

Our aim is to deliver efficiently for our customers, continue to grow our organisational capability and empower our people to deliver great performance.

Our purpose, vision, strategy and values

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

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

Our purpose

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

Our purpose is to bring energy to life

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

Our vision

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

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

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

Our strategy

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

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

Our priorities

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

Enable the energy transition for all

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

Deliver for customers efficiently

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

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.

Empower colleagues for great performance

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

Our values

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

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

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

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

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

Our strategic objectives

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

	Optimise performance	Grow core business	Evolve for the future
Why it's important	Our customers want us to be more efficient to make their energy more affordable, so we must find ways to improve how we run our business.	Delivering strong operational performance provides a foundation from which we can invest in our core business and pursue other opportunities.	We need to future-proof our business against the effects of a changing energy landscape. Our networks are already managing changes to the generation mix, while the needs and expectations of our customers are evolving.
What this means	We need to enhance the customer experience and our productivity through more efficient and customer-focused processes. Given the scale of our business, even small improvements will have a huge impact on our overall performance. Finding new ways of optimising operations will be an important factor in our ability to compete and grow.	We continue to pursue business development opportunities that are close to our core business.	We are looking to develop new capabilities that are essential for long-term success.
Performance in 2019-20	• Continued the transition begun through our programmes to leaner and more efficient operating models throughout the business; • Submitted price controls as part of RIIO-2; and • Continued embedding our Business Management System (BMS) across the National Grid Group by publishing BMS standards through the employee handbook, the National Grid Book, in order to increase standardisation across business activities.	• Capital investment of £249m; and • In January 2020 we celebrated the completion of the new, three-mile (five-kilometre) Humber Tunnel that will house a key gas pipeline between Yorkshire and North Lincolnshire.	• With the Gas Goes Green programme, we are identifying the steps required to repurpose our assets to carry hydrogen either as a blend or up to 100%.
	The below metrics underpin all of our strategic priorities: **Employee engagement; Workforce diversity**		

Progress against objectives – key performance indicators (KPIs)

Strategic objective	KPI and definition	Performance
Find new ways of optimising our operational performance	**Safety – Employee lost time frequency rate (IFR)** Injuries resulting in employees taking time off work per 100,000 hours worked on a 12 month basis.	**2019/20: 0.06 (UK Group target 0.08)** 2018/19: 0.07 (UK Group target 0.1)
	Network reliability Reliability of gas network as a percentage against the target set by Ofgem	**2019/20: 99.999589% (Target 100%)** 2018/19: 99.989632% (Target 100%)
	Customer satisfaction scores Our score in customer satisfaction surveys. Ofgem set a baseline.	**2019/20: 8.0 out of 10 (Target 6.9)** 2018/19: 7.8 out of 10 (Target 6.9) Figures represent our baseline targets set by Ofgem for reward or penalty under RIIO.
	Greenhouse gas emissions Percentage reduction in greenhouse gas emissions. National Grid target: 80% by 2030, 90% by 2040, net zero by 2050, compared to 1990 emissions of 21.6 million tonnes.	**Tonnes carbon dioxide** **2019/20: 224 KTCO2e** 2018/19: 341 KTCO2e National Grid plc has achieved 70% reduction on 1990 baseline; new interim target to achieve 80% by 2030
Look for opportunities to grow our core business	**Regulated asset base growth** Maintaining efficient growth in our regulated assets ensures we are well positioned to provide consistently high levels of service to our customers and increases our future revenue allowances.	**2019/20: 2.3% (UK Group target 3-5%)** 2018/19: 3.3% **(UK Group target 3-5%)**
	Capital investment Our aim is to maintain a high level of investment within Property, Plant and Equipment and Intangible Assets in support of our regulated asset growth targets.	**2019/20: £249 million** 2018/19: £308 million
Underpin all three strategic priorities	**Employee engagement index** Employee engagement index calculated using responses to National Grid's annual employee survey. Target is to increase the level of engagement compared with previous year.	**2019/20: 78%** 2018/19: 66% Index represents performance for National Grid UK entities
	Workforce diversity We measure the percentage of women and ethnic minorities in our workforce. We aim to develop and operate a business that has an inclusive and diverse culture. See pages 17 and 18 for the actions we are taking.	**Workforce diversity %** **2019/20: Women: 34.7%** **Ethnic minority: 13.6%** 2018/19: Women: 33.9% Ethnic minority: 12.3%

Greenhouse gas emissions

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

Make sure National Grid is better equipped for the future

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

Managing assets – looking for innovative ways to manage asset life

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

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

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

Strategic Report

Operating environment

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

Net Zero

Commentary

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

Our own net zero commitment is to reduce our own greenhouse gas emissions to net zero by 2050.

In the absence of both clear technology roadmaps and public policy frameworks that underpin the decarbonisation of heat by 2050, we currently continue to believe that our gas assets will have useful purposes beyond 2050. In common with the Committee on Climate Change's Net Zero report in May 2019, we believe that the future of heat is one reliant on multiple technologies and fuels, with an enduring role for natural gas. However, the scale and purpose for which the networks will be used is dependent on technological developments and, crucially, policy choices of governments and regulators.

2019/20 developments

The UK became the first major economy to commit to a legally binding target of net zero emissions by 2050.

2019 was the cleanest year on record for the UK as, for the first time, the amount of zero carbon electricity used by the UK's homes and businesses outstripped that from fossil fuels for a full 12 months.

Our response

We are taking important steps to address the future of heat, engaging across the industry and with government and regulatory bodies. We've conducted three feasibility studies on the potential role of hydrogen and how our networks could facilitate its uptake.

We believe our gas businesses can facilitate the transition to a decarbonised gas system and are investing in solutions such as renewable natural gas and blending hydrogen in our network.

Fairness and Affordability - Impact on consumer bills

Commentary

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

2019/20 developments

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

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

Our response

Our regulated business is pushing for greater affordability and innovative ways to minimise the total cost of energy to consumers.

In response to the COVID-19 crisis, we worked with Ofgem to introduce UNC 726 in June, allowing shippers to defer the payment of some gas transportation invoices for the months of July, August and September to support our customers through this period.

Decentralisation – Energy Security

Commentary

The energy system continues its transition from high to low carbon. This change coincides with a shift to more decentralised generation, from renewables to 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.

Decentralised gas-fired generation represents the level of power generation that is connected to the electricity network, but not the gas transmission system. Depending on the energy pathway taken, we could see a significant increase in this form of gas-fired generation, which could lead to a significant change in our demand environment.

2019/20 developments

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

Our response

As electricity generation becomes more weather dependent, we anticipate that gas-fired generation demand will become more variable both day to day and within a given day. To understand what impacts this could have on our gas network, we are forecasting how individual gas-fired power station behaviour could change out to 2027, for each Future Energy Scenario.

Using our network analysis software (SIMONE), we can use these forecasts to assess the capability of our system to operate safely, and provide gas-fired power stations with the optionality they need to run effectively for the whole energy system.

Digitisation

Commentary

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

2019/20 developments

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

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

Our response

We are harnessing advances in digital technology and innovation to improve business performance.

For our digital transformation, we are adopting a Group-wide centralised hub model supported by regional delivery. Strategy for the transformation is formed centrally with regional autonomy.

Our response to COVID-19

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

Impact on our workforce

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

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

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

Some of our work, requires contact with members of the public. To safeguard our employees and the public we are following Government requirements and recommendations for social distancing. This includes our meter installations and shut off arrangements while continuing to provide a safe and reliable network.

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

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

Supporting our customers

We have also been working with Ofgem and customers on support mechanisms. On 23 June UNC 726 was approved by Ofgem allowing shippers to defer the payment of some gas transportation invoices for the months of July, August and September until later in the financial year.

Financial impact on our business

As lockdown measures began to take hold towards the end of 2019/20, incremental costs due to COVID-19 were limited. There will be more impacts for financial year 2020/21. We expect some reduction in headline revenue collections from lower volumes, though regulatory mechanisms give certainty on recoverability and so this will not affect underlying operating profits. The extended credit terms being offered may lead to an increase level of bad debts, but Ofgem have provided a level of certainty that these will be recoverable in the future.

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

Our commitment to being a responsible business

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

Responsibility at National Grid

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

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

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

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

Environmental: The path to net zero

We are embracing our role at the heart of the energy system and understand the critical role we play in tackling climate change. The markets in which we operate have announced ambitious carbon reduction targets and further legislative actions are anticipated in all our markets. These targets will be challenging and we embrace the opportunity to support the delivery of these goals.

While the biggest impact we can have is supporting the economy-wide clean energy transition, it is important we also reduce our own direct impact on the environment.

In 2012, we developed our environmental sustainability strategy, “Our Contribution”, to set a framework for embedding sustainable decision-making into our business operations. We focused on three key areas – climate change, responsible use of natural resources and caring for the natural environment – and set targets to deliver progress through the end of 2020. In 2019/20, we have continued to advance our work.

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

We also have programmes in place to ensure that we are making improvements to the natural environment. One such programme focuses us on finding better ways to deliver an increase in environmental benefits on non-operational land, while working with local partners and communities. Work under this programme prioritises local environmental benefits, for example increasing pollination, community access to green space and bio-diversity.

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

Our Further Commitments to Reducing our Impact and Achieving Net Zero

We recognise that natural gas has an important role to play in supporting the transition to a low-carbon future. Natural gas, hydrogen and biomethane can help to decarbonise heat, the biggest source of UK carbon emissions. Our business plans cover a period where developing options and understanding choices is key. We will focus on leading the development of options associated with gas transmission, specifically hydrogen, to facilitate the decarbonisation of heat, industry and transport.

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

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

To achieve these targets, we will also progress our emission reductions by continuing, and accelerating, current emissions reduction programmes, and by looking for new, innovative ways to reduce our emissions. We are piloting using parts of our gas network for the distribution of hydrogen and RNG.

Energy efficiency is one of our key focus areas. We have ongoing energy reduction targets in our UK core office facilities. As an example of our progress, we have exceeded our target by reducing energy consumption by 11% from a 2015/16 baseline.

Our colleagues

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

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

Preparing our colleagues for the clean energy transition

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

Investing in our colleagues

Our people and our communities will benefit from the time and financial investments we are making in ensuring that the future skills needed for National Grid, and the broader energy industry, are available. We are developing national and local skills development partnerships and initiatives, with a focus on the lower-income communities we serve. We aim to give access to 45,000 young people from these communities over the next five years, tracking their progress from first interaction right through to employment at National Grid, our partners and suppliers, or adjacent companies and industries. Our employees are expected to play a critical role in these programmes.

Keeping our colleagues safe

The safety of all our employees, contractors and the general public is of prime importance to us. We measure the safety of our employees and contractors and this is reflected in our KPIs. To ensure we maintain our high standards of safety performance, we have effective policies, procedures and training in place so we can continue to perform at the level we and our stakeholders expect.

Delivering energy every second of every day is critical to the functioning of the economies and communities we serve. The reliability of our energy networks is one of the highest priorities after safety. Our networks continue to provide reliability running at more than 99.9% availability.

Engaging with our colleagues

Through a third-party partner, we carry out an annual EES to measure engagement levels and to help us address areas employees believe we need to improve. Employee engagement forms one of our KPIs.

Living wage

In the UK, we are accredited by the Living Wage Foundation. Our commitment to our direct employees extends to our contractors and the work they do on behalf of National Grid. We believe that everyone should be appropriately rewarded for their time and effort. We also go above the Living Wage requirements and voluntarily pay our trainees the Living Wage.

We undertake a Living Wage review each year to ensure continued alignment. We also increase individual salaries as required.

Our culture

The culture we strive for stems from embracing our values: every day we do the right thing, find a better way and make it happen. You can read more about our values on page 9. We also know that building sufficient capability and leadership capacity (including effective succession planning) is an important factor in delivering our vision and strategy.

Health and wellbeing

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

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

Gender pay gap

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

Promoting an inclusive and diverse workforce

National Grid is dedicated to building a workforce which is representative of the communities we serve, in all aspects of diversity. We also continue to provide an inclusive culture across each stage of our colleague journey. Our inclusion and diversity policies demonstrate our commitment to providing an inclusive, equal and fair working environment by:

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

We are committed to transparency and reporting annually on our progress on BAME and female representation on our Board, at manager level, among new joiners and our workforce as a whole. We remain focused on bringing the best diverse talent into our organisation and supporting them to reach their full potential.

We also adopt this approach to our future talent, with our Apprenticeship and Graduate programmes actively encouraging applications from diverse candidates. Our UK Graduate Programme attracted 25% female applicants and 57% ethnically and racially diverse applicants. Our UK Industrial Placement and Student Internship programmes attracted 28% female applicants and 45% ethnically and racially diverse applicants.

A total of 18.3% of our workforce (National Grid Group) have declared themselves to be of ‘minority’ racial or ethnic heritage and we currently have 24.7% females across our total workforce. We are very much aware, however, of the number of “declined to state” responses we have across all diverse characteristics and as a result in 2019/20 we launched our #thisisme campaign, not only to increase our disclosure rates, but also to demonstrate our commitment to a culture of openness and security for colleagues to share who they are. This year also saw a number of our most senior leaders participate in reverse mentoring. This allowed them to get a different perspective on life, not only at National Grid but also more generally. This has provided a mutual knowledge share and dialogue between senior individuals from our organisation and more junior individuals from a diverse range of background with fantastic feedback from all parties.

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

We continue to participate in numerous awards and benchmarks to recognise the great work of our colleagues including Disability Confident, The Times Top 50 Employers for Women and Top 100 Employers for Race. These also offer us the opportunity to learn, focus our strategy and continually improve our approach to inclusion and diversity. We have close partnerships with external best practice organisations and are active members of sector and industry-wide groups which ensure we are sharing best practice and campaigning at a sector-wide level for greater inclusion for all.

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

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

We have included information relating to subsidiary directors, as this is required by the Companies Act 2006 (Strategic Report and Directors’ Reports) Regulations 2013.

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

Gender demographic as at 31 March 2020 - NGG

	Male	Female	Total	% Male	% Female
Our Board	5	4	9	56	44
Senior Management	29	20	49	59	41
Whole Company	1,392	741	2,133	65	35

Ethnicity demographic as at 31 March 2020 - NGG

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

White	1,696
Minority	267
Total	**1,963**
White (%)	86%
Minority (%)	14%

The economy

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

We help national and regional governments formulate and deliver their energy policies and commitments. Our approach to regulatory consultation is to seek a framework that puts consumers at the centre of our price control, while enabling the clean energy transition. Evolving that partnership to help enable the clean energy transition and slow the pace of climate change before it can be reversed, will also be key in protecting future economic growth, and safety and wellbeing in society.

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

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

This includes alignment to the United Nations Compact Guiding Principles, the International Labour Organisation standards and the Ethical Trade Initiative Base Code as a reference standard.

Governance

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

Human rights

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

Anti-bribery and corruption

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

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

Governance and oversight

We review and update our framework regularly so we can make sure our procedures remain proportionate to the principal risks we have identified.

Our Ethics and Compliance Committee (ECC) oversee the Code of Ethical Business Conduct and associated awareness programmes. Any cases alleging bribery are required to be referred immediately to the relevant ECC so the members can satisfy themselves that cases are investigated promptly and, where appropriate, acted upon, including ensuring any lessons learnt are communicated across the business.

The Audit Committee receives an annual report on the procedures currently in place to prevent and detect fraud and bribery. None of our investigations over the last 12 months have identified cases of bribery.

Anti-financial crimes policy

We have launched a new Anti-Financial Crimes policy which applies to all employees and those working on our behalf. It sets out our zero-tolerance approach to bribery, fraud, money laundering, tax evasion and other corrupt business practices.

To ensure compliance with the UK Bribery Act 2010 and other relevant legislation, we operate an anti-financial crime risk assessment process across the Company to identify higher-risk areas and make sure adequate procedures are in place to address them. Fraud and bribery risk assessments are conducted annually across the business. As part of our global training strategy, we introduced an e-learning course for all employees so they can adequately understand the Company's zero-tolerance approach to fraud, bribery or corruption of any kind.

Ethical business conduct

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

Compliance framework

Each of our business areas is required to consider its specific risks and maintain a compliance framework, setting out the controls it has in place to detect and prevent bribery. As part of our compliance procedure, the business is asked to self-assess the effectiveness of its controls and provide evidence that supports its compliance.

Each year, all function heads are asked to certify the compliance in their area, and to provide details of any exceptions. This culminates in presentation of a Certificate of Assurance from the Chief Executive to the Board (following consideration by the Audit Committee).

Working with our supply chain

Our GSCoC is issued to our suppliers annually and sets out our expectations and fundamental principles, including preventing and detecting bribery and corruption, which should extend into the supply chain. All our suppliers must comply with all laws relating to their business which includes human rights, business ethics, resilience, supplier diversity, skills development and environmental sustainability, as well as adherence to the principles of the UK Bribery Act 2010. We provide specific guidance and briefings for high-risk areas, so contractors, agents and others who are acting on behalf of National Grid do not engage in any illegal or improper conduct.

Whistleblowing

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

Preventing modern slavery

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

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

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

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

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

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

Our communities

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

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

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

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

Engaging with our communities

We regularly seek feedback from our customers to find out what they think of us and the services we provide, and take the appropriate action to improve and exceed customer satisfaction.

Supporting communities to thrive

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

Part of our responsibility is to serve society fairly and affordably. In response to the COVID-19 crisis, we have expanded customer support, paused late payment collections activities, and placed a freeze on related service cutoffs.

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

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

Internal control and risk management

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

Managing our risks

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

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

Risk management process

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

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

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

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

Changes during the year

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

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

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

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

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

The UK Regional risk profile as it relates to Gas Transmission and Gas System Operator is presented in table:

Our most important risks and uncertainties

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

Operational risks

Operational risks relate to the losses resulting from inadequate or failed internal processes, people and systems, or due to external events. These risks normally fall within our low-risk appetite level as there is no strategic benefit from accepting the risk, as it will not be in line with our vision and values. Our operational principal risks have a low likelihood of occurring. However, should an event occur, without effective prevention or mitigation controls, it would be likely to have a high level of impact. The risk owners, executive leaders, and their teams develop and monitor actions to control the risks.

Operational risks are managed through policy, standards, procedure-based controls, active prevention and monitoring. The operational risks link to our strategic priority to 'Optimise Performance'.

Risks	Actions taken by management
Failure to prepare and respond to significant disruptive factors caused by the COVID-19 pandemic because of poor development and execution of our response plans resulting in an impact on our ability to maintain our networks, provide service, support our people and meet our liquidity/financial targets, as well as reputational and regulatory obligations. Risk Trend: New Risk	The COVID-19 pandemic impacts multiple areas of our business, therefore our response plan to this risk involves a comprehensive plan, to support the safety of our workforce and customers, that is frequently revised and adjusted due to the dynamic profile of this risk. This includes: • People: monitoring of absence and wellbeing, and monitoring of current working practices; employee 360- degree communications planning. • Stakeholders: frequent engagement with internal and external stakeholders, including customers, shareholders and regulators. • Finance: monitoring of cash flow levels, review and where necessary suspension of customer collection arrangements; access to short- and long-term debt facilities. • Operations: prioritisation of critical processes, redeployment of workforce, assessment of our supply chain resilience and analysis of network availability and reliability.
Catastrophic asset failure on the Gas Transmission System leading to a significant public safety event. Risk Trend: Neutral	This year, we continued to focus on risk mitigation actions designed to reduce the risk and help meet our business objectives. We incorporated monitoring action status into various business processes and senior leadership including: • Putting our Group-wide process safety management system in place to make sure a robust and consistent framework of risk management exists across our higher hazard asset portfolio, with safety critical assets clearly identified on the asset register • Implementing asset management and data management standards with supporting guidelines to provide clarity around what is expected, with a strong focus on what we need in place to keep us safe, secure and legally compliant; and • In support of this, we developed a capability framework to make sure our people have the appropriate skills and expertise to meet the performance requirements in these standards.

<table>
<tr><td>CNI and/or Enterprise IT systems fail with a full scale outage leading to the potential of regulatory fines, loss of licence and loss of customer / regulator trust.

Risk Trend: Neutral</td><td rowspan="2">We continue to commit significant resources and financial investment to maintain the integrity and security of our systems and our data by continually investing in strategies that are commensurate with the changing nature of the security landscape. This includes:

• Collaborative working with UK Government agencies including the Department for Business, Energy and Industrial Strategy (BEIS), the Centre for Protection of National Infrastructure (CPNI) and the Department for Homeland Security on key cyber risks.
• Development of an enhanced critical national infrastructure security strategy.
• Our involvement in the development of Cyberspace Security Frameworks
• Awareness and training and control self-assessments; and
• Cyber response incident procedures and contingency planning.</td></tr>
<tr><td>Abuse of digital systems such that the confidentiality, availability or integrity of systems and/or operational data is compromised.

Risk Trend: Increasing</td></tr>
<tr><td>We fail to predict and respond to a significant disruption of gas this Winter that adversely impacts our customers and/or the public. (GT)

Risk Trend: Neutral</td><td rowspan="2">We continue to apply a holistic approach encompassing preventative and mitigating actions including pre-emptive measures to maintain network reliability such as:

• System operator supply and demand forecasting.
• Our UK GT Winter Preparedness Plan.

Should energy flow disruptions occur:

• Business continuity and emergency plans are in place and practised, including black start testing; and
• Critical spares are maintained to ensure we can quickly and effectively respond to a variety of incidents - storms, physical and cyber-related attacks, environmental incidents and asset failures.</td></tr>
<tr><td>There is a risk that we fail to predict and respond to a significant disruption of energy that adversely impacts our customers and/or the public. (GSO)

Risk Trend: Neutral</td></tr>
<tr><td>Our workers, contractors or members of the public experiences an occupational safety incident that results in a fatal or life-changing injury.

Risk Trend: Neutral</td><td>This year the risk mitigation included:

• Implementation of new Business Management System standard Implementation of 20/21 SHE plan (incl safety culture survey action.
• Safety Leadership Visit programme.
• UK-level safety good practice sharing process.
• Improved incident reporting & follow up processes.
• Review of lone working in operational & non-operational areas Rollout/embed SHS back to basics (basic safety competence) for operational and non-operational areas.
• Further embedded learning from historic incidents into our projects.</td></tr>
<tr><td>Failure to anticipate, respond and take advantage of disruptive forces such as technology and innovation on our business.

Risk Trend: Neutral</td><td>NGP, National Grid's central innovation function, is developing our strategy with regards to new technology and monitoring disruptive technology and business model trends, acting as a bridge for emerging technology into the core regulated businesses and business development teams.
In addition, NGP is investing in emerging start-up companies and in venture funds.</td></tr>
</table>

Failure to adequately identify, collect, utilise and keep private the physical and IT data required to support company operations and future growth. Risk Trend: Neutral	Controls for our IT processes have been redefined and are aligned to the Network Information and System Regulations in the UK. • We continue to progress and improve our data management processes including: • Implementation of our data and other related business management standards. • Data governance councils for UK region; and • Increased levels of data leadership and capability with the recruitment of a chief data officer and establishment of the chief data officer function.
Failure to deliver the investment programme Risk Trend: Reducing	Risk mitigations that have been targeted: • Ensure we have the sufficient regulatory allowances and defendable needs cases, in place to proceed with projects • Establish our approach to using early Technology Readiness Level (TRL) on projects • Ensure project scope locked down before tendering commencing and reframe from scope changes post contract award • Review project life cycle and gate processes, establish decision making frameworks and ensure sufficient time & resources for the end to end life cycle • Deliver to programme, ensuring we start on time and knowing when to intervene and how we will recover delays • Establish T2 contact and commercial framework, with appropriate contract types and liability regimes • Implement strategy for managing stakeholders, development and consenting to increase scrutiny of needs cases & external drivers
Unfavourable cost, programme and/or quality performance to complete the Peterborough & Huntingdon compressor project and may impact UK gas supplies. Risk Trend: Neutral	Risk Mitigation in place include: • Monthly reporting and review process in place including PRMs, HOC & DRMs covers e.g. Programme, Finance & Safety. • Agreed Strategic approach with continuation of Director level involvement and engagement • We continue to identify cost saving initiatives at monthly DRMs • Implemented monitoring for any signs of financial instability e.g. sub-contractors not being paid
National Grid is not set up to deliver on RIIO -2 outcome. Risk Trend: Neutral	This is a recently added risk, mitigations include: • Creation and exercise of transition plan. • Build performance plan and underlying business cases. • Scope and create transformation programme to bridge the gap between the performance plan baseline and required performance.

<table>
<tr><td colspan="2">People risks
It is through the high-quality work of our employees that we will achieve our vision, respond to the changing needs of our stakeholders and create a competitive advantage. Building and fostering an engaged and talented team that has the knowledge, training, skills and experience to deliver our strategic objectives is vital to our success. We must attract, integrate and retain the talent we need at all levels of the business.</td></tr>
<tr><th>Risks</th><th>Actions taken by management</th></tr>
<tr><td>We cannot attract, recruit, develop or retain people with the right skills, capabilities and engagement to deliver our strategy and UK priorities

Risk Trend: Neutral</td><td rowspan="2">We have embedded strategic workforce planning in our UK organisation. This process helps to effectively inform financial and business planning, as well as human resourcing needs.
Our entry-level talent development schemes (graduate training and apprenticeships) are a potential source of competitive advantage in the market place. We are involved in a number of initiatives to help secure the future engineering talent we require, including the UK annual residential work experience week.
We also continue to develop the rigour of our succession planning and development planning process, particularly at senior levels. It is now being applied deeper into the organisation as well as continued attention in relation to the ethnic diversity of both our management and field force population.
There are multiple activities underway to drive this agenda, including ‘blind’ talent and selection processes, development interventions and a global review of our inclusion and diversity strategy and resources.
During the year in the UK a three-year labour agreement was reached with our trade unions, introducing revised terms and conditions.</td></tr>
<tr><td>UK business will not deliver the actions needed quickly enough in order to achieve the UK enablement target, resulting in frustrated employees unable to deliver strategic objectives or respond appropriately to external pressures

Risk Trend: Neutral</td></tr>
</table>

<table>
<tr><td colspan="2">Finance Risks
While all risks have a financial liability, financial risks are those which relate to financial controls and performance. Financial risk management is a critical process used to make investment decisions and aims to maximise investment returns and earnings for a given level of risk.
Our key financial risks, which are incorporated within the notes to our consolidated financial statements</td></tr>
<tr><th>Risks</th><th>Actions taken by management</th></tr>
<tr><td>We are unable to achieve the internal and external financial commitments that the UK business have made for RIIO-T1

Risk Trend: Neutral</td><td>Risk mitigation includes:

• Collective leadership discipline of delivering to commitments.
• Using the benefits tracking tool to ensure we understand business progress.
• QRF / QPR Drumbeat process to capture financial threats and opportunities.
• Initiation of profit challenge group meetings
• Continued focus on forecasting and monitoring cash flow and funding requirements.</td></tr>
</table>

<table>
<tr><td colspan="2">Strategic and Regulatory risks
Strategic risk is the risk of failing to achieve the Company’s overall strategic business plans and objectives, as well as failing to have the ‘right’ strategic plan. We voluntarily accept some risk so we can generate the desired returns from our strategy. Management of strategic risks focuses on reducing the probability that the assumed risk would materialise, while improving the Company’s ability to effectively respond to the risk should it occur. The risk owners, executive leaders, and their teams develop and monitor actions to control the risks. The political climate and policy decisions of our regulators in 2019/20 were key considerations in assessing our risks.
As referred to above, the new climate change related risk is classed as a strategic and regulatory risk but is also an operational risk, i.e. the impact of rising temperatures and widening temperature ranges on the performance and operation of our networks.</td></tr>
<tr><th>Risks</th><th>Actions taken by management</th></tr>
<tr><td>Failure to identify and/or deliver actions necessary to ensure our business model, strategy, asset management and operability respond to the physical and transition impacts of climate change, and enable the UK to transition to net zero

Risk Trend: New Risk</td><td>Putting in place measures to develop:
• Evolution of our environmental sustainability metrics to better reflect our strategy, measure our impact and track our progress.
• Organisational design changes appropriate to meet this challenge with a single point of contact for all climate change actions and activities.
• Approval of a revised environmental sustainability strategy, including our strategy for heating and gas, with granular actions identified to achieve net zero.
• Note that a number of the above measures also address the physical impacts of climate change on our operations.
• We have committed to full compliance with the Task Force on Climate-related Financial Disclosures (TCFD) requirements including physical and transitional scenario analysis.
Ongoing work to address transition risks and opportunities includes:
• Facilitating decarbonisation in the UK.
• Continuing work to develop programmes to develop skills in our current and future workforce.
• Working with regulators and industry parties in the UK on the future of heat and the role of gas in the long term.</td></tr>
<tr><td>By the end of RIIO -1 we have failed to defend existing allowances or failed to secure adequate new revenues to fund the efficient cost of providing the outcomes our customers want and a reasonable return for shareholders.

Risk Trend: Neutral</td><td rowspan="3">We strive to maintain a good understanding of the regulatory agenda and emerging issues, so that robust, public interest aligned responses can be selected and developed in good time. Our reputation as a competent operator of important national infrastructure is critical to our ability to do this. We have plans and governance structures in place to address specific issues such as RIIO-2.

Ongoing work to support our regulatory relationships includes:

• Our internal teams focused on messaging around gas capacity, large-scale renewables, utilities of the future and electric vehicles.
• Establishment of UK Regulatory Steering Committees; and
• Increased focus on understanding the needs and expectations of all our stakeholders through regulatory relationship surveys, investor surveys and review of media sentiment.</td></tr>
<tr><td>We are unable to secure an acceptable RIIO-T2 regulated settlement

Risk Trend: Increasing</td></tr>
<tr><td>Competitively Appointed Transmission Owners not passed into legislation in the next couple of years.

Risk Trend: Neutral</td></tr>
</table>

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

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 36 to 40.

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 Gas. The business is responsible for identifying compliance issues, continuous monitoring, and developing actions to improve compliance performance. We monitor and address compliance issues, through several means including reviews leadership meetings and a bi-annual review by the Audit Committee.

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

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

Internal control over financial reporting

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

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

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

Viability statement

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

National Grid Gas plc (NGG) is a wholly owned subsidiary of National Grid plc which performed a group wide business plan that was reviewed and approved by the National Grid plc Board and which included detail of the NGG operating segment. Details of the National Grid viability statements can be found in the National Grid plc Annual Report and Accounts 2019/20 on pages 26 to 27, which details the worst case scenarios considered.

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

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 uncertainty and dynamic COVID-19 events, including reviewing the fast-changing external factors and their cumulative impact in the medium and long term, and other considerations including: our long-term business model, high-quality, long-term assets and stable regulatory arrangements; the Board's stewardship responsibilities; and the Company's ability to model a range of severe but plausible reasonable worst-case scenarios, the Board concluded that it remains appropriate to consider a five-year timeframe over which we should assess the long-term viability of the Company.

The business plan considers the significant solvency and liquidity risks involved in delivering our business model in light of our strategic priorities. We have set out the details of the principal risks facing our Company on pages 22 to 27, described in relation to our ability to deliver our strategic objectives. We identify our principal risks through a robust assessment that includes a continuous cycle of bottom up reporting and review, and top down feedback.

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

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

In assessing the impact of the principal risks on the Company, including our two new principal risks of Climate Change and Response to COVID-19 the Board has considered the fact that we operate in stable markets and the robust financial position of the Company, including the ability to raise capital and suspend or reduce the payment of dividends. It has also considered Ofgem's legal duty to have regard to the need to fund the licensed activities of NGG.

Each Director was satisfied that they had sufficient information to judge the viability of the Company. Based on the assessment described above and on pages 41 to 42 the Directors have a reasonable expectation that the Company will be able to continue operating and meet its liabilities over the period to July 2025.

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

Alistair Todd

UK CFO

Financial review

Revenue decreased by £23 million to £1,186 million driven by the return of Fleetwood allowances, and operating profit increased by £40 million to £475 million. Adjusted Profit was slightly higher in 2019/20 reflecting the re-opener allowances for cyber and data centres and the impact of prior year allowance clawback for Avonmouth, lower operating costs driven by efficiency savings initiatives and a lower environmental provision. This was offset by lower metering income as a result of the lower volumes of meters.

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

In our Transmission business, the COVID-19 pandemic resulted in an initial pause to some capex work and although some adaptations to the new environment have been required, there has been no significant cost increase in 2019/20.

For 2020/21, we expect some reduction in headline revenue collections from lower volumes as the pandemic impacts our customers and the wider economy. Regulatory mechanisms allow for future recovery of these potential reduced revenue collections. We have also been working with Ofgem and customers on support mechanisms. On 23 June UNC 726 was approved by Ofgem allowing shippers to defer the payment of some gas transportation invoices for the months of July, August and September. Full repayment is required by 31 March 2021. Ofgem's direction gives additional protection to the Company over increased bad debt exposure and for the financing of the scheme.

We also expect some reduction to our capital programme as we adapt to movement restrictions and more limited access to sites. This may result in increased reported operating costs associated with employee and contractor costs that would otherwise have been capitalised. We also expect some increases in operating costs associated with operations during the pandemic (e.g. IT costs, cleaning, accommodation for operationally critical employees) although these may be partly offset by mitigating actions. Therefore whilst COVID-19 will impact earnings and cash flow in the short term, we currently anticipate limited economic impact longer term. However, there could be a range of impacts on cash flows and earnings, which could be different from our current assessment.

New accounting standards

The adoption of IFRS 16 'Leases' during the year increased our net debt by £20 million, with a corresponding increase in 'right of use' assets recorded on the balance sheet. This standard has resulted in lower operating rental costs within our businesses, offset by a higher depreciation charge and a higher interest cost.

Peterborough and Huntingdon contract

The Company has previously entered into a target cost contract with Costain Plc ('the contractor'), for the construction of a variable speed drive (VSD) compressor unit at each of its sites in Peterborough and Huntingdon. These compressors are required for emissions compliance. The Comapny has previously entered into a contract with Costain Oil, Process & Gas Limited ('the contractor') for the contractor to upgrade its gas compressor stations at sites in Peterborough and Huntingdon. These works were required for emissions legislation compliance. As at the balance sheet date (31 March 2020) the Company accounted for all costs it believed was owed to the contractor under its contract with the Contractor ('the Contract'). The contractor did not concur with this assessment and negotiations took place between the parties. This has culminated in a decision, on 27 June 2020, whereby both parties have mutually agreed to exit the contract and release the contractor from its contractual obligations to complete the works. The termination agreement entered into by the parties includes an agreed scope of work to be completed after termination and the commercial matters to be resolved through a continuing commercial resolution process. As part of the agreement, Costain are to fully demobilise all of their remaining activity relating to the Contract. The demobilisation is expected to be complete by the end of August 2020. The Company is confident of a positive outcome from the commercial resolution process. An adverse outcome could result in a material addition to the capital spend associated with the project compared to that recorded at the balance sheet date.

The Company expect to appoint a replacement contractor before the end of the calendar year and remain committed to completing the project and reduce emissions by the deadline of 2023.

Brexit

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

Use of adjusted profit measures

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

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

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

The presentation of these two components of financial performance is additional to, and not a substitute for, the comparable total profit measures presented. Management uses adjusted profit measures as the basis for monitoring financial performance. These measures are also used by National Grid in communicating financial performance to its investors in external presentations and announcements of financial results.

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

Reconciliations of adjusted profit measures

Reconciliation of adjusted operating profit to total operating profit

There were no exceptional items included within operating profit for the year ended 31 March 2020.

There were exceptional items included within operating profit for the year ended 31 March 2019, these related to restructuring programmes. Unadjusted and adjusted profit figures are provided below.

	Years ended 31 March	
	2020	2019
	£m	£m
Adjusted operating profit	**475**	471
Exceptional items[1]	**—**	(36)
Total operating profit	**475**	435

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

Reconciliation of adjusted operating profit to adjusted earnings

	Years ended 31 March	
	2020	2019
	£m	£m
Adjusted operating profit	**475**	471
Adjusted net finance costs	**(92)**	(131)
Adjusted profit before tax	**383**	340
Adjusted taxation	**(73)**	(79)
Adjusted profit after tax	**310**	261
Adjusted earnings	**310**	261
Exceptional items after tax	**—**	(29)
Remeasurements after tax	**(66)**	(14)
Earnings	**244**	218

Reconciliation of adjusted profit excluding timing differences to total operating profit

Adjusted profit excluding timing differences is presented below. Timing differences relate to the over or under recovery of revenue in year, this is explained in detail on page 34.

	Years ended 31 March	
	2020	2019
	£m	£m
Adjusted operating profit excluding timing differences	**529**	509
Timing differences[1]	**(54)**	(38)
Adjusted operating profit	**475**	471
Exceptional items[2]	**—**	(36)
Total operating profit	**475**	435

1 In year under-recovery of £54 million compared with an under-recovery in the prior year of £38 million.

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

Consolidated income statement

The commentary below describes the continuing business results for the year ending 31 March 2020.

	Years ended 31 March	
	2020	2019
	£m	£m
Revenue	**1,186**	1,209
Operating costs	**(711)**	(738)
Adjusted operating profit	**475**	471
Exceptional items	**—**	(36)
Finance income	**35**	24
Finance costs:		
Before exceptional items and remeasurements	**(127)**	(155)
Exceptional items and remeasurements	**(27)**	(17)
Profit before tax	**356**	287
Taxation:		
Before exceptional items and remeasurements	**(73)**	(79)
Exceptional items and remeasurements	**(39)**	10
Profit after tax	**244**	218

Revenue

Revenue for the year ended 31 March 2020 decreased by £23 million to £1,186 million. The reduction in revenue is reflective of the return of allowances for Fleetwood connection point expenditure not undertaken and declining meter income, partially offset by the re-opener allowances for cyber and data centres and the impact of prior year allowance clawback for Avonmouth pipeline expenditure not undertaken. Declining meter population has also lowered meter revenues.

Operating profit

Adjusted operating profit for the year ended 31 March 2020 of £475 million represents an increase against last year of £4 million. Lower revenues were offset by reduced operating costs. This is driven by efficiency saving initiatives, the impact of environmental provision release, and lower depreciation following a detailed review of asset lives. Post retirement costs were lower in the current year mainly related to 2018/19's Guaranteed Minimum Pension (GMP) ruling.

Net finance costs

For the year ended 31 March 2020, net finance costs before exceptional items and remeasurements decreased by £39 million to £92 million. This reflects lower interest on borrowings (RPI) and increased finance income on the loan to the immediate parent undertaking which became a contractual interest bearing loan during the year.

Exceptional finance costs increased by £10 million to £27 million loss for the year ended 31 March 2020. This increase was driven by lower gains on derivative financial instruments than 2018/19.

Taxation

The tax charge on profits before exceptional items and remeasurements, £73 million, was £6 million lower than 2018/19. This is driven by a reduction in overall taxable profits before exceptional items.

Taxation on exceptional items was £49 million higher than the prior year with a £39 million charge in the year ended 31 March 2020. This change is primarily driven by the reversal of the reduction in the headline corporation tax rate from 1 April 2020.

Consolidated statement of financial position

	Year ended 31 March	
	2020	2019
	£m	£m
Non-current assets	**9,505**	9,222
Current assets	**1,090**	1,676
Total assets	**10,595**	10,898
Current liabilities	**(1,142)**	(1,213)
Non-current liabilities	**(5,449)**	(4,912)
Total liabilities	**(6,591)**	(6,125)
Net assets	**4,004**	4,773

Property, plant and equipment

Property, plant and equipment increased by £89 million to £4,608 million as at 31 March 2020. This was primarily due to capital expenditure of £262 million, offset by £178 million of depreciation and impairments in the year, and disposals of £14 million.

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

Financial and other investments

Financial and other investments comprise a contractual interest-bearing loan to our immediate parent company National Grid Gas Holdings Limited of £3,427 million. In 2019, this loan was included within Other non-current assets and has been reclassified to Financial and other investments in 2020 when the loan became a contractual arrangement.

Other non-current assets

Other non-current assets comprise non-current prepayments which reduced by £14 million to £62 million reflecting gas holder demolition expenditure.

Trade and other receivables

Trade and other receivables have increased by £71 million to £381 million at 31 March 2020. This increase is principally due to an increase in trade receivables of £36 million and an increase in amounts owed by fellow subsidiaries of £16 million.

Trade and other payables

Trade and other payables was maintained at £328 million. There has been a decrease in amounts owed to fellow subsidiaries of National Grid plc of £48 million, offset by an increase in other payables.

Current and deferred tax liabilities

Current and deferred tax liabilities have increased by £87 million to £580 million. The reversal of the reduction in the headline corporation tax rates from 1 April 2020 resulted in a net increase of £44 million in deferred tax liabilities. The remaining differences mainly related to increases in the pension assets and accelerated tax depreciation increases.

Net debt

Net debt has increased by £965 million driven by the dividend payment in the year to closer align net debt to the notional regulatory gearing level. For detailed movements see cashflow statement commentary.

Provisions

Total provisions reduced by £27 million. The reduction reflects £19 million utilisation of the gas holder demolition provision, £9 million utilisation of the restructuring provision relating to the cost-efficiency and restructuring programme undertaken in 2019, and utilisation of the provision recognised on the sale of the Gas Distribution business. Release of unused provisions are associated with the environmental provision representing changes in estimated remediation costs on a number of sites, culminating in a release of £11 million. This was partially offset by additions for claims relating to the former Gas Distribution business of £15 million, and Crop and Quarry additions of £3 million.

Other non-current liabilities

Other non-current liabilities decreased by £5 million to £12 million.

Contract Liabilities

Contract liabilities increased by £4 million to £136 million.

Net pensions obligations

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

Net scheme (liability)/asset	**£m**
As at 1 April 2019	442
Current service cost	(12)
Past service costs:	—
Special termination benefit cost - redundancies	(1)
Net interest credit	11
Administration and other	(4)
Actuarial gains/(losses)	
on plan assets	(352)
on plan liabilities	410
Employer contributions	60
Other movements	(1)
As at 31 March 2019	553

The principal movements in the pension asset during the year include net actuarial gains of £58 million and employer contributions of £60 million. The overall obligation moved by £111 million to a closing asset of £553 million.

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

Off balance sheet items

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

Cash flow statement

The commentary below describes business results for the year ending 31 March 2020.

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

Reconciliation of cash flow to net debt

	2020	2019
	£m	£m
Cash generated from operations	**675**	401
Net capital expenditure	**(311)**	(333)
Business net cash flow	**364**	68
Net interest paid	**(85)**	(80)
Tax paid	**(107)**	(67)
Movement in short-term financial investments	**644**	210
Repayments of loans and short term borrowings	**224**	(403)
Dividends paid to shareholders	**(1,047)**	—
Decrease in cash and cash equivalents	**(7)**	(272)
Decrease in financial investments	**(649)**	(219)
Decrease in borrowings and related derivatives	**(224)**	403
Net interest paid on the components of net debt	**90**	91
Changes in fair value of financial assets and liabilities and exchange movements	**(32)**	(5)
Net interest charge on the components of net debt	**(123)**	(157)
Impact of transition to IFRS 16 (2019: IFRS 9)	**(20)**	(32)
Net debt increase	**(965)**	(191)
Opening net debt	(3,010)	(2,819)
Closing net debt	**(3,975)**	(3,010)

Cash generated from operations

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

For the year ended 31 March 2020, cash flow from operations increased by £277 million to £675 million. This is due to a cash inflow in the prior year resulting from a one-off change in the working capital cycle.

Net capital cash expenditure

Net capital expenditure in the year decreased by £22 million to £311 million driven by a reduction in property, plant & equipment expenditure.

Dividends paid

A dividend of £1,047 million was declared and subsequently paid in July 2019 in respect of the year ending 31 March 2019. No interim dividends have been paid. In July 2020, the board agreed and approved the declaration of the final dividend of £137 million in respect of the year ending 31 March 2020.

Regulated financial performance

Timing and Regulated Revenue Adjustments

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

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

The amounts calculated as timing differences are estimates and subject to change until the variables that determine allowed revenues are finalised. Our operating profit for the year includes a total estimated in year under recovery of £54 million (2018/19: £38 million under-recovery). Our closing balance at 31 March 2020 was £5 million over-recovery (2018/19: over-recovery of £59 million (adjusted)).

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, using a long-run inflation rate of 3%, was 9.8% compared with a regulatory assumption, used in calculating the original revenue allowance, of 10.0%. The principal components are shown in the table below.

Year ended 31 March	**2020**	2019
Base return (including avg. 3% long-run inflation)	**10.0**	10.0
Totex incentive mechanism	**(0.7)**	(1.1)
Other revenue incentives	**1.1**	1.2
Return including in year incentive performance	**10.4**	10.1
Pre-determined additional allowances	**(0.6)**	(0.6)
Return on Equity	**9.8**	9.5

RoE increased 30 bps year on year, mainly reflecting improved totex performance from the cost control measures that have been put in place. Other revenue incentives were slightly lower than prior year at 110 bps. We met our customer satisfaction targets, where we achieved a score of 8 against a baseline target of 6.9 which is set by Ofgem for reward or penalty under RIIO. We continue to work to identify opportunities for future out-performance across these incentives.

Regulated Financial Position

RAV increased by 2.3% in the year, the reduction in growth, from prior year's 3.3%, reflects a decrease in capex and opex spend. The capex reduction is due to no new major projects commencing in the year, and lower spend on Feeder 9 and Peterborough & Huntingdon compressor projects.

£m	**2020**	2019
Opening Regulated Asset Value (RAV)[1]	**6,155**	5,960
Asset additions (aka slow money) (actual)	**253**	302
Performance RAV or assets created	**(24)**	(30)
Inflation adjustment (actual RPI)	**162**	146
Depreciation	**(248)**	(223)
Closing RAV	**6,298**	6,155
Opening balance of other regulated assets and (liabilities)[1]	**(59)**	(111)
Movement	**54**	68
Closing balance	**(5)**	(43)
Closing Regulated Financial Position	**6,293**	6,112

1 2019/20 opening balances adjusted to correspond with 2018/19 regulatory filings and calculations

Our stakeholders

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

Section 172 Statement

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

How our Board keeps up to date with stakeholder interests

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

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

Section 172	Overview
The likely consequence of any decision in the long term	The Board receives an annual update on the Company's forward business plan and how this aligns to the National Grid Group's purpose, vision, strategy and values. During the reporting period, the Board has held a Strategy Day outside of the regular Board meeting calendar to focus on the longer-term risks and opportunities facing the Company.
The interests of the Company's employees	The Directors understand the importance of the Company's employees and the wider National Grid Group workforce providing support to the Company's business and operations to the long-term success of the business. The health, safety and wellbeing of employees remains a main priority. Details on our commitment to creating a Generative Safety Culture can be found on page 17. During the year, the Board has received briefings in relation to effective workforce engagement and has an action plan in place to map out its current workforce engagement activities. This in turn will inform the future development of the Board's consideration of the interests of the Company's employees. Further details can be found under 'Workforce Engagement' within the Corporate Governance Statement on page 40.
The need to foster the Company's business relationships with suppliers, customers and others	The Board regularly reviews the relationships the business maintains with all of its stakeholders, including suppliers, customers and others. The Board receives regular updates on our Customer Satisfaction scores and the interactions between our Directors and key stakeholders, including Government, Ofgem, the HSE, customers and suppliers. During the year, we also established an Independent User Group to enhance our stakeholder engagement - further details of this important activity can be found on page 40.
The impact of the Company's operations on the community and the environment	The Board is focused on the wider societal context within which the business operates, including those issues related to climate change. The Board is committed to reducing the Company's environmental impact and achieving net zero. To support this work, the Board receives regular updates on environmental performance. Further details on our commitment to being a responsible business can be found on page 13.
The desirability of the Company maintaining a reputation for high standards of business conduct	The Board is committed to the National Grid values of 'do the right thing', 'find a better way', and 'make it happen' providing a framework for reporting business conduct matters, educating employees and promoting a culture of integrity at all levels of the business. Further details of our policies and procedures in this area can be found on page 9. Through its Audit Committee, the Board monitors and addresses the Company's business conduct and has oversight of the compliance strategy, policy and frameworks set out at National Grid Group level and implemented by the Company's Gas Transmission and Gas System Operator businesses. 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 38.
The need to act fairly as between members of the Company	The Company's ultimate shareholder is National Grid plc. The Board has developed a robust corporate governance framework which allows the Directors to understand the views of the shareholder and to report constructively to it. Further details can be found in the Corporate Governance Statement where we explain the role of our Chair, Nicola Shaw CBE, and the annual activities of our SIDs.

Further details on how the Board has given this consideration to the issues, factors and stakeholders relevant in complying with section 172 can be found within the Corporate Governance Statement, and in particular, on page 40 where we explain our approach to 'Stakeholder Relationships and Engagement'.

Corporate Governance

Corporate Governance Statement

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

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

1. Purpose and Leadership

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

Our purpose is to Bring Energy to Life. As described on page 9, we work within the purpose, vision, strategy and values of the National Grid Group to ensure we are well positioned to respond to changes in the operating environment. The Board is responsible for oversight of the Company's strategy and has considered its development during the reporting period. In December 2019, the Board took part in a Strategy Day outside of the usual Board meeting calendar. This allowed for focus on key strategic matters and to consider views of both internal and external stakeholders.

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

2. Board Composition

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

Balance and Diversity

Reinforcing its commitment to sound corporate governance the Board has continued to strengthen and develop both its composition and governance framework, implementing, as applicable, many of the best practice governance principles in operation at the National Grid plc level. During the year, the Board consisted of seven executive directors and two Sufficiently Independent Directors (SIDs) who between them provide a broad and diverse range of experience and technical skills from both within and external to the organisation, from the energy sector, other regulated industries and external bodies. Full details of the Directors who were in office during the year and up to the date of signing the financial statements can be found in the Directors' Report on pages 41 to 42.

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

The National Grid Group promotes diversity – further details of the Group policy can be found publicly in the group accounts, details are available on page 53. Whilst there is no requirement for an individual policy on Board diversity for the Company, the Board is pleased to report that as at 31 March 2020 the gender balance on the Board was 56% male and 44% female.

Chair

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

Sufficiently Independent Directors

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

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

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

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

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

Executive Directors

For the reporting period, the executive director membership of the Board consisted of the senior managers of the gas transmission business, the gas system operator business, regulatory, finance, treasury and change functions. Dawn Childs, UK Change Director, was appointed to the Board on 10 December 2019. On 1 January 2020, Fintan Slye resigned from the Board in line with the reorganisation of the Gas System Operator function which became part of the Gas Transmission business to further simplify our structure. Following the year end, Alistair Todd, the newly appointed UK Chief Financial Officer, was appointed to the Board with effect from 30 April 2020. Alan Foster will step down following the signing of these accounts as he moves to a new role within the National Grid Group.

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

Director induction and development

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

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

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

3. Director Responsibilities

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

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

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

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

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

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

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

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

Committees

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

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

The Company does not have a Nominations Committee or Remuneration Committee as these functions are provided by National Grid plc – see the Annual Report and Accounts of National Grid plc for further information about these committees – page 84 for the work of the Nominations Committee and pages 88 to 107 for the work of the Remuneration Committee.

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

Gas Transmission Executive Committee

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

The Committee comprises the senior management of the GT and GSO business and is chaired by Phil Sheppard, a Director of the Board.

System Operator Executive Team

The System Operator Executive Team acts within National Grid's overall corporate governance framework and delegated authorities and is responsible for the strategic direction of Great Britain Gas System Operator activities and RIIO incentive and output performance measures. Following the internal reorganisation of the GSO business, the SOET ceased to be a sub-committee of the Board on 1 January 2020, with all duties transferring to the Gas Transmission Executive Committee.

Business Separation Compliance Committee

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

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

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

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

Finance Committee

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

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

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

Sanction Committee

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

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

Audit Committee

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

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

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

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

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

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

Areas of focus

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

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

Significant issues

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

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

External audit

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

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

Internal (corporate) audit

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

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

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

Auditor's independence and objectivity

The independence of the external auditor is essential to the provision of an objective opinion on the true and fair view presented in the financial statements. We remain satisfied that Deloitte remain sufficiently independent of National Grid Gas plc; the audit report presents the results of Deloitte's own independence assessment on page 46.

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

4. Opportunity and Risk

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

Risk Management is fundamental to delivering the long-term success of the Company and for that reason a separate section of the Annual Report and Accounts has been dedicated to describing our internal controls and risk management on pages 21 to 28.

5. Remuneration

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

Executive remuneration is controlled by the ultimate parent company, National Grid plc. Further information on this is available within the Remuneration Report of National Grid plc's Annual Report and Accounts on pages 88 to 107.

6. Stakeholder Relationships and Engagement

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

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

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

RIIO-2 Stakeholder Engagement

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

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

Workforce Engagement

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

Directors' Report

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

Directors

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

Catherine Bell CB (SID*)	Resigned 21 June 2019
Chris Bennett	
Dawn Childs	Appointed 10 December 2019
Clive Elphick (SID*)	
Alan Foster	
Alexandra Lewis	
Cathryn Ross (SID*)	Appointed 21 June 2019
Nicola Shaw CBE	
Phil Sheppard	
Fintan Slye	Resigned 1 January 2020
Alistair Todd	Appointed 30 April 2020

*Sufficiently Independent Director

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

Principal activities and business review

A full description of the Company's principal activities, businesses, key performance indicators and principal risks and uncertainties is contained in the Strategic Report on pages 13 to 40, which are incorporated by reference into this report.

Parent company transition to FRS 101

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

The transitional adjustments made are a reversal of previous adjustments needed in order to align the accounts to FRS 102 from IFRS (since the underlying general ledger is based on the IFRS framework). The adjustment made to Creditors (amounts falling due within one year) relates to capital contributions and this was made previously due to FRS 102 being based off of a different set of accounting standards relating to revenue recognition (whereas IFRS applies IFRS 15 Revenue from Contracts with Customers as of 1 January 2018). The other adjustments are reversals of deferred tax amounts due to the differing accounting policies on capital contributions and on the unwind of historic industrial buildings allowances. These have now been reversed upon transition to FRS 101 since this framework adopts all requirements of EU-adopted IFRS. This results in a net decrease to shareholders' equity of £39 million. Further detail of this transition can be found in note 23 to the parent company financial statements.

Material interests in shares

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

Dividends

A final dividend of £137 million was declared after the year end on 21 July 2020 (2018/19: £1,047 million final dividend).

Share capital

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

Research and development

Expenditure on research and development was £5 million during the year (2018/19: £5 million).

Financial instruments

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

Future developments

Details of future developments are contained in the Strategic Report.

Employee involvement

Details of how the Company involves its employees are contained in the Strategic Report on pages 17 and 18, which are incorporated by reference into this report.

Diversity

Details of how the Company approaches diversity can be found on pages 17 and 18 which is incorporated by reference to this report.

Audit information

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

Annual General Meeting

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

Going concern

Having made enquiries and reviewed management's assessment of the going concern assumption, the Directors consider it appropriate to prepare the financial statements on a going concern basis. The going concern basis presumes that the Company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements are signed. More detail on our financial risks, including liquidity and solvency, is provided in note 29 to the consolidated financial statements.

There have been no major changes to the liquidity and solvency risks in the year. Although not assessed over the same period, the viability has been assessed on page 29.

By order of the Board

Alistair Todd

UK CFO

21 July 2020

National Grid Gas plc

1-3 Strand, London WC2N 5EH

Registered in England and Wales Number 2006000

Introduction to the financial statements

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

Notes

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

Statement of Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 Reduced Disclosure Framework. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

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

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

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

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

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

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

On behalf of the Board

Alistair Todd

UK CFO

21 July 2020

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

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of National Grid Gas plc (the 'parent company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, which comprise:

Group:

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

Parent Company:

- the company balance sheet;
- the company statement of changes in equity; and
- the related notes 1 to 23 to the parent company financial statements.

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

2. Basis for opinion

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

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

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

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • *Impact of COVID-19;* • *Impact of climate change on property, plant and equipment;* • *Net pension obligations; and* • *Treasury derivative transactions* Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the Group financial statements was £18.5 million, which represents 5% of adjusted profit before tax (profit before tax excluding the impact of reported exceptional items and remeasurements) and considered in the context of statutory profit before tax.
Scoping	We focused our group audit scope on the Parent Company and this accounts for 99% of the Group's revenue and 94% of the Group's profit before tax.
Changes in our key audit matters since the prior year	The key audit matters are consistent with those we identified in the prior year except that: • As a consequence of the COVID-19 outbreak, which has severely affected the UK economy, there are financial reporting impacts particularly with respect to key judgments, estimates and disclosures within the financial statements. In addition, there are potential financial control impacts as a consequence of remote working. This caused us to perform an updated audit risk assessment. Accordingly we have identified this as a key audit matter; and • The impact of climate change on property, plant and equipment has been identified as a new key audit matter due to the increase in shareholder focus and legislation enacted during the year in relation to "net-zero" carbon by 2050 commitments by the UK government in which the Group operates. This has a potentially significant impact on the Group's gas businesses and accordingly the estimated useful lives of its assets. These key audit matters identified in the previous year and described in our report for the year ended 31 March 2019 are not included in our report for the year ended 31 March 2020. These are: • classification of exceptional items – our current year audit procedures identified that exceptional items involved no judgment in terms of classification; and • IT user access controls – The 'access deficiencies' were remediated in the prior year and there were no significant recurring access deficiencies identified in the current year. Accordingly, we have not identified this as a key audit matter in the current year.

4. Conclusions relating to going concern

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

5. Key audit matters

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

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

5.1. Impact of COVID-19

Key audit matter description	**The COVID-19 pandemic has had a significant impact on the UK economy with consequences to the judgements and estimates made by the Group, principally in relation to the valuation of certain pension assets. Refer to note 1A and 1D.** **Account balance: Pensions and other post-retirement benefits. Refer to note 22 to the financial statements.** In March 2020 the COVID-19 pandemic resulted in the UK government in which the Group operates imposing lockdowns of their populations in order to stop the spread of the disease. This had a direct and severe impact on those economies as consumer spending decreased and unemployment rose at unprecedented rates, in turn severely impacting global demand and world financial markets. This has impacted the results of the Group for the 2020 financial year and is expected to continue to impact the Group for the remainder of FY21. Management reassessed their controls framework, which encompassed a review of the ability to operate existing controls remotely and consideration of whether existing controls were suitable for addressing areas of new or increased risk. Further, whilst there could be a potential impact upon a number of financial statement line items, management's assessment determined that the primary risks that arose from the COVID-19 pandemic related to the valuation of unquoted pension assets, particularly alternative investment portfolios which are subject to increased valuation uncertainties. The key judgements related to the valuation of certain unquoted pension assets are discussed in the 'net pension obligations' key audit matter. A risk was also identified in relation to the impact of the pandemic on the Group's cash flows and liquidity and accordingly its going concern analysis. Management performed a detailed analysis of the potential impact of the COVID-19 pandemic on revenue, profit and cash flows. Possible cost mitigations were also considered. This detailed analysis also included consideration of a number of downside scenarios as to the duration of the lockdown measures, and concluded that no reasonably possible downside scenario existed wherein the Group would be unable to continue as a going concern.

	Related disclosure of management's and the Board's assessment of the ability to continue as a going concern, inclusive of the impact of the pandemic as a principal risk has been made in the Annual Report on page 21.
How the scope of our audit responded to the key audit matter	At year end, we assessed the controls on areas of heightened risk whether management appropriately considered the related impact on existing controls. Further, we held discussions with management, with our internal treasury, pensions and tax specialists and within the wider Deloitte network to identify the areas of risk to the financial statements as a result of the wider impacts of the pandemic. We used the outcome of these discussions to update our audit risk assessment and challenge management's impact assessment. Our responses in respect of specific areas identified as risks related to COVID-19 are outlined below. For these areas we also reviewed management's disclosures in relation to the key judgements and estimates made in assessing the impact of COVID-19, inclusive of sensitivity disclosures related to the areas of estimation uncertainty. Valuation of unquoted pension assets: We have described the procedures performed on the valuation of these pension assets in our 'net pension obligation' key audit matter. Liquidity and ability to continue as a going concern: We have assessed the going concern model prepared by management, which considered the impact of COVID-19. We assessed and challenged the underlying assumptions, inclusive of mitigating cost actions being taken based on our understanding of the business and knowledge of the industry in which the Group operates. Where impacts were significant such as lower revenue and delayed capital spending, we were also involved in a more granular challenge of management's forecasts. Further, we assessed management's evaluation of liquidity and loan covenant compliance over the period of assessment that no breaches are anticipated over this timeframe.
Key observations	Our conclusion on the valuation of certain pension assets is set out in our 'net pension obligation' key audit matter. We concluded that management's assessment included in Note 1A to the financial statements in respect of going concern is appropriate.

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

Key audit matter description	**Account balance: Property, plant and equipment. Refer to note 1D and 10 financial statements** The UK government have enacted legislation and established targets in respect of net zero carbon emissions by 2050. Accordingly climate change represents a strategic challenge for the Group, which has also set targets for reducing direct greenhouse gas emissions by the same date. Natural gas, when burned, emits carbon dioxide and is considered a greenhouse gas. Therefore, the strategic challenge relates to the potential future use of the Group's assets used to facilitate gas transmission services in the period approaching 2050 and beyond. The remaining useful economic life of the Group's gas assets is up to 50 years, extending well beyond the 2050 "net zero" commitment date. As described in note 10 to the financial statements, the impact of changing the useful economic lives of all of the Group's gas assets, such that they would be fully depreciated by 2050, would be an increase in the annual depreciation expense of £37 million, and such that they would be fully depreciated by 2060, would be an increase in the annual depreciation expense of £13 million.

As the continued use of natural gas as a primary energy source beyond 2050 appears to be in conflict with net zero targets and the impact of shortening the useful lives of the gas assets to 2050 has a material impact on annual depreciation, we identified a risk related to the financial statement impact of those commitments, specifically pinpointed to management's judgement in determining the useful lives of gas assets in the context of the net zero commitments.

As described in note 10 to the financial statements (page 79), management performed a detailed assessment of the potential uses for the Group's gas assets as part of their consideration around whether developments in the UK towards binding carbon reduction targets should trigger any changes to National Grid's estimates, judgements or disclosures, especially regarding gas asset lives. Management's assessment included an overview of the legislative changes in the UK, and an evaluation of the possible future use of National Grid's networks in a net zero energy system.

National Grid Gas Transmission (NGGT) owns and operates the UK gas transmission network (NTS). Pipelines represent the vast majority of the value that will be undepreciated by 2050. Having analysed the potential decarbonisation pathways, management has identified numerous potential uses for the Group's gas pipeline assets in a net zero energy system including for the continued transmission of natural gas as a back-up fuel or in order for blue hydrogen to be produced alongside carbon capture and storage; and the transmission of hydrogen or other low or zero carbon gases.

Management concluded that their best estimate for the useful economic life of the National Transmission System (NTS) pipeline assets in the UK is 50 years (or until 2070) as this best represents when the assets will continue to support business operations in the UK.

Management and the Audit Committee determined that in light of the evolving legislative developments and increasing investor attention, disclosure of a key judgement in relation to the potential future use of the Group's gas assets post-2050 and disclosure of the gas asset lives as a key estimate (note 1D to the financial statements), with appropriate sensitivity analysis (note 10 to the financial statements) were appropriate.

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

We tested management's internal control over the accounting for and disclosure of the potential impacts associated with the energy transition and climate change.

We challenged management's judgement that the useful lives of the Group's gas assets extend beyond 2050 in light of the different goals, commitments and legislation relating to net zero by:

- reviewing potential strategic pathways to achieve net zero targets;
- obtaining and reviewing government plans for achieving net zero which we compared to the potential strategic pathways;
- reviewing information from the regulators, including price controls, to consider whether they presented any contradictory evidence;
- performing an assessment of the likelihood of occurrence of alternative scenarios for achieving net zero targets;
- considering the potential for re-purposing the Group's gas networks for alternative uses, and in particular for transporting hydrogen; and
- reviewing a number of external reports including: *the UK's draft integrated National Energy and Climate Plan (NECP)* produced by the Department for Business, Energy & Industrial Strategy; and searching for contradictory evidence in respect of management's judgements.

We utilised our sustainability specialists to review management's key assumptions and to challenge the viability of some of the technological advances presented within the strategic pathways. We also consulted with Deloitte specialists in other countries regarding the suitability of existing gas infrastructure for transporting hydrogen.

	We also reviewed the disclosures set out in note 1 to the financial statements and the sensitivity analysis set out in note 10 to the financial statements regarding the carrying value of the useful economic lives of the Group's gas assets.
Key observations	We observe that whilst some indicators do exist suggesting that the useful economic lives of the Group's gas assets may be limited to 2050, these are mitigated by other statements by governments and advisory bodies which suggest gas, and therefore gas transmission and distribution assets, will continue to have a role beyond 2050. We note that there is no alignment between the useful lives of the Group's gas assets for IFRS depreciation purposes, and the period of recovery of the regulatory asset value under regulation. Nevertheless, we conclude that it is reasonable to assume that there will be a valuable use for these assets until 2070. We consider the disclosures in note 1D to the financial statements and the sensitivity analysis in note 10 to the financial statements to be appropriate. We are satisfied that management's other disclosures in the Annual Report relating to the uncertainty surrounding the future use of the Group's gas assets are consistent with the financial statements and our understanding of the business.

5.3. Net pension obligations

Key audit matter description	**Account balance: Pensions and other post-retirement benefit obligations. Refer to note 1D and 22 to the financial statements.** Substantially all of the Group's employees are members of one of a number of pension schemes. These pension schemes include both defined benefit and defined contribution schemes. There are significant assumptions used in the valuations of the defined benefit obligations, which as at 31 March 2020 represent a liability of £4.8 billion (2019: £5.3 billion), and valuations of unquoted pension assets ('unquoted assets'), which as at 31 March 2020 make up £2.2 billion (2019: £994 million) out of scheme assets of £5.3 billion (2019: £5.8 billion). The critical judgements relating to the pension obligations include inflation assumptions, discount rates, mortality assumptions and future salary changes applied to active members. The setting of these assumptions is complex and changes to them can have a material impact on the value of pension obligations. Management uses external actuaries to assist in determining these assumptions. Accordingly, we have identified certain of these assumptions to be a risk. Unlike the fair value of other assets that are readily observable and therefore more easily independently corroborated, the valuation of unquoted pension assets classified is inherently subjective. As such there is significant judgement in determining the fair value of these assets including the selection of the valuation methodology and other critical assumptions. The COVID-19 pandemic has resulted in the valuation of certain property assets being subject to increased uncertainty. In addition, the valuation of certain unquoted investments are subject to an unusually high level of uncertainty due to the most recent valuations on them being performed prior to the significant economic impacts of the COVID-19 pandemic. For these investments, management engaged external experts to assess the economic impact of COVID-19 on the asset valuations as at year end, including property specialists who assessed the value of the property portfolio held within pension assets. Accordingly, we have identified this as an area of risk. Additionally, the Group entered into buy-in policies in the year. The Section B policy completing in November 2019. The transactions involve the transfer of certain pension assets in the form of gilts and cash, valued at £1.6 billion in return for bulk annuity policies, with the intention of mitigating

	longevity risk. The transaction represents part of the Group's long term de-risking strategy, of a similar nature to the longevity swap entered into in 2018. Under a buy-in transaction the ultimate obligation to pay the members remains with the scheme and is hence retained within the Group's pension obligations; the bulk annuity is considered a qualifying insurance policy and is recognised at the valuation of the obligation it covers as an asset to the scheme. At the time of the transaction, the member obligation to which the policies relate was valued at £1.3 billion for Section B resulting in the recognition of actuarial losses of £300 million being recognised in Other Comprehensive Income, as disclosed in note 22 to the financial statements.
How the scope of our audit responded to the key audit matter	We tested the controls over the valuation of unquoted pension assets and over the critical assumptions used in determining the valuation of the pension obligations. We engaged internal actuarial experts to assist in testing the discount rates used in calculating the pension obligations. We independently calculated appropriate discount rates and compared these to management's rates. Our actuarial experts also assisted us in benchmarking and challenging the other assumptions used by management in determining the value of pension obligations particularly focusing on inflation, salary growth and mortality rates; this included comparing the inputs and assumptions used in determining the valuation of the Group's schemes to those used in comparable pension plans and/or our internal benchmarks. Additionally, we considered the competence, capability and objectivity of the independent actuary engaged by the Group to perform valuations of the relevant schemes and where applicable, of unquoted assets. We engaged internal specialists to challenge management's valuation of certain unquoted scheme assets. Our work included assessing the reasonableness of the valuation methodologies applied, reviewing publically available information on these assets, comparing the valuations to internal benchmarks and confirmation of inputs used by management to determine the asset values. Further, our actuarial experts assisted us with the assessment of management's assumptions and valuation methodology related to the buy-ins and we consulted with technical experts as to the correct accounting treatment.
Key observations	We judge the discount rates and other key actuarial assumptions used by management to be within our internally developed reasonable range or consistent with our internally developed assumptions. We note that the recognition of the actuarial loss on the buy-in transactions, representing the difference between the price paid and the value of the obligations covered by the buy-in policies is appropriately recognised in OCI as it is treated as a change in the fair value of plan assets. We assessed the appropriateness of the related disclosures in note 22 to the financial statements and consider them to be reasonable. We consider management's valuations of the unquoted investments to be reasonable and the disclosures in note 22 to the financial statements.,

5.4. Treasury derivative transactions

Key audit matter description	**Account balances: Derivative financial assets and derivative financial liabilities. Refer to note 13 and 29 to the financial statements.** The Group mitigates the exposure to interest rate and foreign exchange rate risks with risk management activities including the use of derivatives such as cross-currency and interest rate swaps. The Group designates derivatives in hedge relationships where they judge this to meet the requirements of IFRS 9. Due to the technical nature of this assessment, we have identified it as a key audit matter. At 31 March 2020 the Group had derivative financial assets of £737 million (31 March 2019: £672 million) and derivative financial liabilities of £163 million (31 March 2019: £164 million). The valuation of the derivative portfolio requires management to make certain assumptions and judgements in particular around the valuation methodologies adopted and the discount rate to be applied to forecast cash flows. The portfolio also includes 'level 3' derivative financial liabilities for which unobservable inputs that are significant to the fair value measurement must be used in the valuation models. This results in management having to make estimates in relation to unobservable inputs, which increase the complexity and level of estimation uncertainty, and there is judgement involved in determining the methodology used to fair value these derivatives. Accordingly, we have identified this as an area of risk.
How the scope of our audit responded to the key audit matter	We have tested the controls over the recording and valuation of derivative financial instruments. This has included testing of the review controls performed by management over the valuations and its challenge of the estimates made. In conjunction with our treasury specialists we have tested a sample of the valuation models used by management, including a challenge of the assumptions therein, to confirm the appropriateness of the valuation methodology adopted and the assumptions applied. We have obtained third party confirmations to test the completeness and accuracy of the information held within the Group's treasury management system. We have assessed the appropriateness of the hedge documentation, eligibility of designations and hedge effectiveness testing performed by management and tested the disclosures within the financial statements. We assessed whether the representation of items in the cash flow statement to reflect the change in accounting policy have been appropriately disclosed.
Key observations	We conclude that the valuation of derivatives and the Group's use of hedge accounting is appropriate.

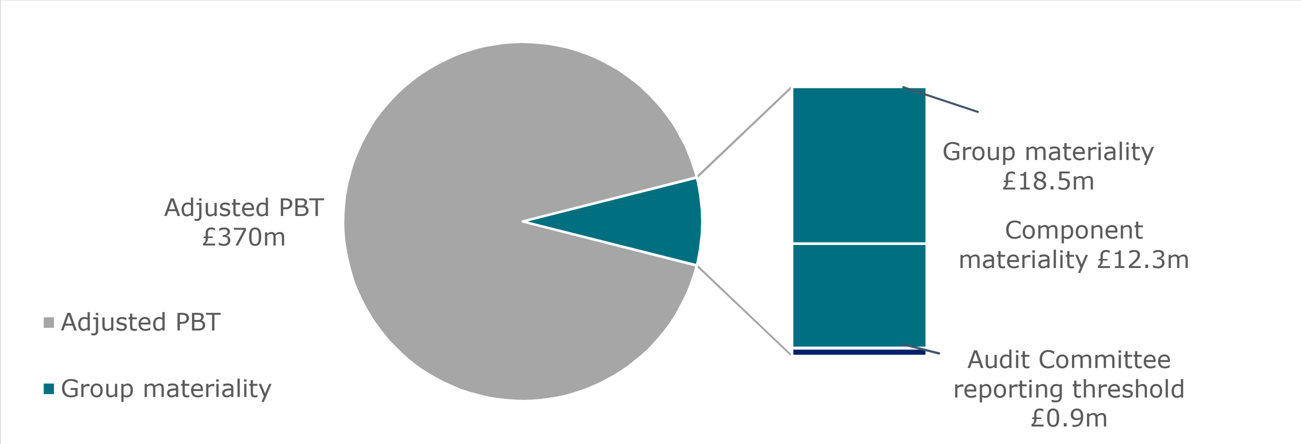
6. Our application of materiality

6.1. Materiality

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

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

	Group financial statements	Parent company financial statements
Materiality	£18.5 million (2019: £16.3 million).	£12.3 million (2019: £15.9 million).
Basis for determining materiality	Our determined materiality represents 5% of adjusted profit before tax and considered in the context of statutory profit before tax. Adjusted profit before tax is profit before tax, certain exceptional items and remeasurements as disclosed in the consolidated income statement. Prior year materiality was determined on a similar basis.	Our determined materiality represents 3.3% (2019: 5%) of adjusted profit before tax and considered in the context of statutory profit before tax. Adjusted profit before tax is profit before tax, certain exceptional items and remeasurements as disclosed in the income statement.
Rationale for the benchmark applied	We consider adjusted profit before tax to be an important benchmark of the performance of the Group. We consider it appropriate to adjust for certain exceptional items and remeasurements as these items are volatile and not reflective of the underlying performance of the Group. We conducted an assessment of which line items we understand to be the most important to investors and analysts by reviewing analyst reports and National Grid's communications to shareholders and lenders, as well as the communications of peer companies. This assessment resulted in us considering the financial statement line items above. Profit before tax is the benchmark ordinarily considered by us when auditing listed entities. It provides comparability against other companies across all sectors, but has limitations when auditing companies whose earnings are impacted by items which can be volatile from one period to the next, and therefore may not be representative of the volume of transactions and the overall size of the business in a given year, or where the impact of volatility may result in the recognition of material income or charges in a particular year. Whilst not an IFRS measure, adjusted profit is one of the key metrics communicated by management in National Grid's results announcements. It excludes some of the volatility arising from changes in fair values of financial assets and liabilities as well as "exceptional items" and this was the key measure applied in the prior year.	We consider adjusted profit before tax to be an important benchmark of the performance of the parent company. We consider it appropriate to adjust for certain exceptional items and remeasurements as these items are volatile and not reflective of the underlying performance of the parent company. We conducted an assessment of which line items we understand to be the most important to investors and analysts by reviewing analyst reports and National Grid's communications to shareholders and lenders, as well as the communications of peer companies. This assessment resulted in us considering the financial statement line items above. Profit before tax is the benchmark ordinarily considered by us when auditing listed entities. It provides comparability against other companies across all sectors, but has limitations when auditing companies whose earnings are impacted by items which can be volatile from one period to the next, and therefore may not be representative of the volume of transactions and the overall size of the business in a given year, or where the impact of volatility may result in the recognition of material income or charges in a particular year. Whilst not an IFRS measure, adjusted profit is one of the key metrics communicated by management in National Grid's results announcements. It excludes some of the volatility arising from changes in fair values of financial assets and liabilities as well as "exceptional items" and this was the key measure applied in the prior year.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at £13.0 million for the 2020 audit (2019: £11.4 million), or 70% of Group materiality (2019: 70%). In determining performance materiality, we considered the following factors:

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

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.9 million (2019: £0.8 million), as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

The group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. We focused our group audit scope on the parent company which was subject to a full scope audit and was executed at a component materiality of £12.3 million. This accounts for 99% of the group's revenue and 94% of the group's profit before tax .

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

8. Other information

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

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

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

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

We have nothing to report in respect of these matters.

9. Responsibilities of directors

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

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

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

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

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

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

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

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

11.1. Identifying and assessing potential risks related to irregularities

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

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

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

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

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

11.2. Audit response to risks identified

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

Our procedures to respond to risks identified included the following:

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

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

Report on other legal and regulatory requirements

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

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

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

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

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

13.1. Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

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

We have nothing to report in respect of this matter.

14. Other matters

14.1. Auditor tenure

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

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

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

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

15. Use of our report

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

Jane Whitlock ACA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Birmingham, United Kingdom

21 July 2020

Consolidated income statement

for the years ended 31 March

	Notes	2020 £m	2020 £m	2019 £m	2019 £m
Revenue	2 (a)		**1,186**		1,209
Operating costs	4		**(711)**		(738)
Operating profit					
Before exceptional items	2 (b)	**475**		471	
Exceptional items	5	**—**		(36)	
Total Operating Profit	2 (b)		**475**		435
Finance income	6		**35**		24
Finance costs					
Before exceptional items and remeasurements	6	**(127)**		(155)	
Exceptional items and remeasurements	5, 6	**(27)**		(17)	
Total finance costs	6		**(154)**		(172)
Profit before tax					
Before exceptional items and remeasurements		**383**		340	
Exceptional items and remeasurements	5	**(27)**		(53)	
Total profit before tax			**356**		287
Tax					
Before exceptional items and remeasurements	7	**(73)**		(79)	
Exceptional items and remeasurements	5, 7	**(39)**		10	
Total tax	7		**(112)**		(69)
Profit after tax					
Before exceptional items and remeasurements		**310**		261	
Exceptional items and remeasurements	5	**(66)**		(43)	
Profit after tax			**244**		218
Total profit for the year attributable to owners of the parent			**244**		218

Consolidated statement of comprehensive income

for the years ended 31 March

	Notes	2020 £m	2019 £m
Profit for the year		**244**	218
Other comprehensive income:			
Items that will never be reclassified to profit or loss			
Remeasurement gains on pension assets and post-retirement benefit obligations	22	**58**	9
Net gains on financial liability designated at fair value through profit and loss attributable to changes in own credit risk		**(3)**	7
Tax on items that will never be reclassified to profit or loss	7	**(20)**	(1)
Total items that will never be reclassified to profit or loss		**35**	15
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Net (losses)/gains in respect of cash flow hedges and cost of hedging		**(5)**	2
Tax on items that may be reclassified subsequently to profit or loss		**1**	—
Total items that may be reclassified subsequently to profit or loss		**(4)**	2
Other comprehensive income for the year, net of tax		**31**	17
Total comprehensive income for the year attributable to owners of the parent		**275**	235

Consolidated statement of changes in equity

for the years ended 31 March

	Share capital £m	Share premium account £m	Retained earnings £m	Other reserves[1] £m	Shareholders' equity £m
At 1 April 2018	45	204	2,950	1,336	4,535
Profit for the year	—	—	218	—	218
Total other comprehensive income for the year	—	—	9	8	17
Total comprehensive income for the year	—	—	227	8	235
Share-based payments	—	—	3	—	3
At 1 April 2019	**45**	**204**	**3,180**	**1,344**	**4,773**
Profit for the year	**—**	**—**	**244**	**—**	**244**
Total other comprehensive income for the year	**—**	**—**	**38**	**(7)**	**31**
Total comprehensive income for the year	**—**	**—**	**282**	**(7)**	**275**
Equity dividends	**—**	**—**	**(1,047)**	**—**	**(1,047)**
Share-based payments	**—**	**—**	**3**	**—**	**3**
At 31 March 2020	**45**	**204**	**2,418**	**1,337**	**4,004**

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

Consolidated statement of financial position

as at 31 March

	Notes	2020 £m	2019 £m
Non-current assets			
Intangible assets	9	**118**	119
Property, plant and equipment	10	**4,608**	4,519
Other non-current assets	11	**62**	3,503
Financial and other investments	12	**3,427**	—
Derivative financial assets	13	**737**	639
Pensions asset	22	**553**	442
Total non-current assets		**9,505**	9,222
Current assets			
Inventories and current intangible assets	14	**16**	14
Trade and other receivables	15	**381**	310
Financial and other investments	16	**693**	1,319
Derivative financial assets	13	**—**	33
Total current assets		**1,090**	1,676
Total assets		**10,595**	10,898
Current liabilities			
Borrowings	18	**(657)**	(716)
Derivative financial liabilities	13	**(31)**	(48)
Trade and other payables	19	**(328)**	(325)
Contract liabilities	20	**(33)**	(33)
Current tax liabilities	7	**(31)**	(34)
Provisions	23	**(62)**	(57)
Total current liabilities		**(1,142)**	(1,213)
Non-current liabilities			
Borrowings	18	**(4,585)**	(4,121)
Derivative financial liabilities	13	**(132)**	(116)
Other non-current liabilities	21	**(12)**	(17)
Contract liabilities	20	**(103)**	(99)
Deferred tax liabilities	7	**(549)**	(459)
Provisions	23	**(68)**	(100)
Total non-current liabilities		**(5,449)**	(4,912)
Total liabilities		**(6,591)**	(6,125)
Net assets		**4,004**	4,773
Equity			
Share capital	24	**45**	45
Share premium account		**204**	204
Retained earnings		**2,418**	3,180
Other reserves	25	**1,337**	1,344
Shareholders' equity		**4,004**	4,773

The consolidated financial statements set out on pages 58 to 116 were approved by the Board of Directors and authorised for issue on **21 July 2020**. They were signed on its behalf by:

Nicola Shaw Chair

Alistair Todd Director

National Grid Gas plc

Registered number: 2006000

Consolidated cash flow statement

for the years ended 31 March

	Notes	2020 £m	2019 £m
Cash flows from operating activities			
Total operating profit	2 (b)	**475**	435
Adjustments for:			
Exceptional items	5	**—**	36
Depreciation, amortisation and impairment		**205**	208
Share-based payment charge		**3**	3
Changes in working capital		**52**	(212)
Changes in provisions		**(14)**	(30)
Loss on disposal of property, plant and equipment and intangible assets		**12**	17
Changes in pensions and other post-retirement benefit obligations		**(34)**	(22)
Cash flows relating to exceptional items		**(24)**	(37)
Cash generated from operations		**675**	398
Tax paid		**(107)**	(67)
Net cash inflow from operating activities		**568**	331
Cash flows from investing activities			
Purchases of intangible assets		**(22)**	(27)
Purchases of property, plant and equipment		**(291)**	(310)
Disposals of property, plant and equipment		**2**	4
Interest received		**5**	11
Movement in short-term financial investments		**644**	210
Net cash flow from/(used in) investing activities		**338**	(112)
Cash flows from financing activities			
Proceeds from loans		**296**	—
Repayment of loans		**(216)**	(456)
Net settlement in short-term borrowings and derivatives		**144**	53
Interest paid		**(90)**	(91)
Dividends paid to shareholders		**(1,047)**	—
Net cash flow used in financing activities		**(913)**	(494)
Net decrease in cash and cash equivalents		**(7)**	(275)
Net cash and cash equivalents at the start of the year		**—**	275
Net cash and cash equivalents at the end of the year	17	**(7)**	—

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

1. Basis of preparation and recent accounting developments

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

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

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

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

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

The consolidated financial statements have been prepared on a historical cost basis, except for the recording of pension assets and liabilities, and the revaluation of derivative financial instruments.

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

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

- a reduction in cash collections over an extended twelve-month period driven by lower demand;
- a reduction in capital expenditure driven by increased absenteeism, supply chain issues and difficulty in accessing sites;
- a reduction in discretionary spend across all areas (e.g. recruitment, travel and consultancy spend); and
- one-off increases in other costs such as cleaning and IT.

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

- further changes in the phasing of the capital programme with elements of non-essential works and programmes delayed beyond June 2021;
- a number of further reductions in operating expenditure across the Group primarily related to workforce cost options; and
- the payment of dividends to shareholders

Having considered the reasonable worst-scenario and further levers at the Board's discretion, the Group continues to have headroom against its external committed facilities identified in note 18 to the financial statements.

In addition to the above, the ability to raise new financing was separately noted in the analysis and the Directors noted the National Grid Group had nearly £2 billion debt issuances completed in April and July as evidence of the Company's ability to continue to have access to the debt capital markets if needed. Other factors considered by the Board as part of their Going Concern assessment included the on-going price control determinations, inherent uncertainties in cash flow forecasts and the potential impact of Brexit trade talks.

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

Based on the above, the Directors have concluded the Group is well placed to manage its financing and other business risks satisfactorily, and have reasonable expectation that the Group will have adequate resources to continue in operation for at least 12 months from the signing date of these consolidated financial statements. They therefore consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

B. Basis of consolidation

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

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

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

C. Foreign currencies

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

Gains and losses arising on the retranslation of monetary assets and liabilities are included in the income statement, except where the application of hedge accounting requires inclusion in other comprehensive income (see note 29).

D. Areas of judgement and key sources of estimation uncertainty

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

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

- review of residual lives, carrying values and impairment charges for other intangible assets and property, plant and equipment – notes 9 and 10.
- estimation of liabilities for pensions and other post-retirement benefits – note 22.
- valuation of financial instruments - note 26.

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

In light of the current ongoing impact of the COVID-19 pandemic, valuations of certain assets and liabilities are necessarily more subjective. In particular, one further area of estimation uncertainty impacting the position as at 31 March 2020 has been identified:

• the valuation of certain pension assets, in particular unquoted equities, properties and diversified alternatives, in light of the volatile economic markets (see note 22).

In addition, we also highlight the estimates made regarding the useful economic lives of our gas network assets due to the length over which they are being depreciated and the potential for significant technological change over that period (see note 10 for details).

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, profit before tax and profit after tax, together with additional subtotals excluding exceptional items. Exceptional items and remeasurements are presented separately on the face of the income statement.
- Financial instruments: we normally opt to apply hedge accounting in most circumstances where this is permitted (see note 29(e)).

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

F. New IFRS accounting standards and interpretations effective for the year ended 31 March 2020

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

The UK’s Financial Conduct Authority announced that LIBOR will cease to exist by the end of 2021, and will be replaced by alternative reference rates. In September 2019, the IASB amended IFRS 9 and IFRS 7 by issuing Interest Rate Benchmark Reform, which provides exceptions to specific hedge accounting requirements to ensure that hedging relationships are not considered to be modified as a result of the change in the reference rate. The amendments were endorsed in January 2020 for adoption in the EU. The Group early-adopted these changes to IFRS 7 and IFRS 9 with effect from 1 April 2019. There were no transition adjustments on adoption. Refer to note 29(e) for further details of the impact in the current period.

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

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

G. New IFRS accounting standards and interpretations not yet adopted

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

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

Effective dates remain subject to the EU endorsement process.

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

2. Segmental analysis

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

Revenue also includes income arising from the provision of transitional services to Cadent Gas Limited as part of the separation process of the businesses.

Revenue and the results of the business are analysed by operating segment, based on the information the Board of Directors uses internally for the purposes of evaluating the performance of each operating segment and determining resource allocation between them. The Board is National Grid Gas plc's chief operating decision maker (as defined by IFRS 8 'Operating Segments') and assesses the profitability of operations principally on the basis of operating profit before exceptional items and remeasurements (see note 5).

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

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

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

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

(a) Revenue

	2020			2019		
	Total sales	**Sales between segments**	**Sales to third parties**	Total sales	Sales between segments	Sales to third parties
	£m	**£m**	**£m**	£m	£m	£m
Operating segment:						
Gas Transmission	**927**	**(8)**	**919**	896	(7)	889
Other activities	**272**	**(5)**	**267**	324	(4)	320
Total revenue	**1,199**	**(13)**	**1,186**	1,220	(11)	1,209

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

	2020	2019
	£m	£m
Customer A	**140**	190
Customer B	**82**	129

No other single customer contributed 10% or more to the Group's revenue in either 2020 or 2019.

2. Segmental analysis (continued)

(b) Operating profit

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

	Before exceptional items and remeasurements		After exceptional items and remeasurements	
	2020	2019	**2020**	2019
	£m	£m	**£m**	£m
Operating segment:				
Gas Transmission	**348**	303	**348**	267
Other activities	**127**	168	**127**	168
Total operating profit	**475**	471	**475**	435
Reconciliation to profit before tax:				
Operating profit	**475**	471	**475**	435
Finance income	**35**	24	**35**	24
Finance costs	**(127)**	(155)	**(154)**	(172)
Profit before tax	**383**	340	**356**	287

(c) Capital expenditure

	Net book value of property, plant and equipment and intangible assets		Capital expenditure		Depreciation, impairment and amortisation	
	2020	2019	**2020**	2019	**2020**	2019
	£m	£m	**£m**	£m	**£m**	£m
Operating segment:						
Gas Transmission	**4,514**	4,417	**249**	308	**172**	181
Other activities	**212**	221	**38**	32	**33**	27
Total	**4,726**	4,638	**287**	340	**205**	208
Asset type:						
Property, plant and equipment	**4,608**	4,519	**262**	313	**178**	179
Intangible assets	**118**	119	**25**	27	**27**	29
Total	**4,726**	4,638	**287**	340	**205**	208

3. Revenue

Revenue arises in the course of the ordinary activities and principally comprises of transmission services. Transmission services and certain other services (excluding rental income but including metering) fall within the scope of IFRS 15 'Revenue from Contracts with Customers'. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties and value added tax. The Group recognises revenue when it transfers control over a product or service to a customer. It excludes value added tax and intra-group sales.

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

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

UK Gas Transmission

The UK Gas Transmission segment principally generates revenue by providing gas transmission services to our customers (both as transmission owner and system operator) in Great Britain. The business operates as a monopoly regulated by Ofgem which has established price control mechanisms that determines our annual allowed returns our business can earn. We work with our regulators to obtain robust regulatory agreements that balance the risks we face with the opportunity to deliver reasonable returns for our investors. Our regulated businesses earn revenue for the transmission services they have provided during the year. In any one year, the revenue recognised may differ from the revenue allowed under our regulatory agreements and any such timing differences are adjusted against future prices.

The IFRS revenues we report are principally a function of volumes and price. Price is determined prior to our financial year end with reference to the regulated allowed returns and estimated annual volumes. The sales value for the transmission of gas is largely determined from the amount of system capacity sold for the year, and the amount of gas transported for the year, evaluated at contractual prices on a monthly basis. Where revenue received or receivable exceeds the maximum amount permitted by the regulatory agreement, adjustments will be made to the future prices to reflect this over-recovery. No liability is recognised as such an adjustment to future prices relates to the provision of future services. Similarly no asset is recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery. As part of our regulatory agreements we are entitled to recover certain costs directly from customers (pass-through costs). These amounts are included in the overall calculation of allowed revenue as stipulated by regulatory agreements.

The transmission of gas encompasses the following principal activities:

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

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

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

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

3. Revenue (continued)

Other activities

This segment has two principal sources of revenues:

1 Revenues for our Metering business. The sales value for the provision of gas metering services is largely derived from monthly charges for the provision of individual meters under contractual arrangements; and

2 Provision of services to Cadent under a transitional services agreements (TSA) as part of the separation of the GD business. This largely relates to IT and property services.

Revenue for the year ended 31 March 2020	UK Gas Transmission £m	Other £m	Total £m
Revenue under IFRS 15:			
Gas Transmission	**886**	**244**	**1,130**
Other revenue:			
Other	**33**	**23**	**56**
Total revenue	**919**	**267**	**1,186**

Revenue for the year ended 31 March 2019	UK Gas Transmission £m	Other £m	Total £m
Revenue under IFRS 15:			
Gas Transmission	838	258	1,096
Other revenue:			
Other	51	62	113
Total revenue	**889**	**320**	**1,209**

Revenue to be recognised in future periods, presented as contract liabilities of £136 million (see note 20). £74m relates to contributions in aid of construction for which revenue will be recognised over the weighted average remaining life of the assets, being 38 years.

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

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

4. Operating costs

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

	Before exceptional items and remeasurements		Exceptional items and remeasurements		Total	
	2020	2019	**2020**	2019	**2020**	2019
	£m	£m	**£m**	£m	**£m**	£m
Depreciation, impairment and amortisation	**206**	208	**—**	—	**206**	208
Payroll costs	**126**	139	**—**	32	**126**	171
Purchases of gas	**83**	75	**—**	—	**83**	75
Rates	**91**	93	**—**	—	**91**	93
Inventory consumed	**13**	10	**—**	—	**13**	10
Operating leases	**—**	6	**—**	—	**—**	6
Research and development expenditure	**5**	5	**—**	—	**5**	5
Other	**187**	202	**—**	4	**187**	206
	711	738	**—**	36	**711**	**774**

(a) Payroll costs

	2020	2019
	£m	£m
Wages and salaries	**107**	109
Social security costs	**16**	16
Defined contribution scheme costs	**13**	12
Defined benefit pension costs	**7**	41
Charges to other group defined benefit schemes	**3**	2
Share-based payments	**3**	3
Severance costs (excluding pension costs)	**—**	12
	149	195
Less: payroll costs capitalised	**(23)**	(24)
Total payroll costs	**126**	171

(b) Number of employees, including Directors

	31 March 2020 Number	31 March 2019 Number	**Monthly average 2020 Number**	Monthly average 2019 Number
Gas Transmission and Other [1]	**2,136**	1,945	**2,056**	2,084

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

(c) Key management compensation

	2020	2019
	£m	£m
Salary and short-term employee benefits	**1**	1
Share-based payment	**1**	1
	2	2

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

4. Operating costs (continued)

(d) Directors' emoluments

The aggregate amount of emoluments (excluding social security, pensions and share-based payment) paid to the Directors of the company in respect of qualifying services for 2020 was £1,371,654 (2019: £1,356,031).

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

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

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

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

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

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

(e) Auditors' remuneration

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

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

5. Exceptional items and remeasurements

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

Exceptional items and remeasurements

	2020 £m	2019 £m
Included within operating profit:		
Exceptional items:		
Cost efficiency and restructuring programmes	**—**	(36)
	—	(36)
Included within finance income and costs:		
Remeasurements:		
Net gains on derivative financial instruments	**22**	34
Net loss on financial liabilities held at fair value through profit and loss	**(49)**	(51)
	(27)	(17)
Total included within profit before tax	**(27)**	(53)
Included within taxation:		
Exceptional charge arising on items not included in profit before tax:		
Tax on exceptional items	**—**	7
Deferred tax arising on the reversal of the reduction in UK corporation tax rate	**(44)**	—
Tax on remeasurements	**5**	3
	(39)	10
Total exceptional items and remeasurements after tax	**(66)**	(43)
Analysis of total exceptional items and remeasurements after tax:		
Total exceptional items after tax	**—**	(29)
Total remeasurements after tax	**(66)**	(14)
Total exceptional items and remeasurements	**(66)**	(43)

Exceptional items

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

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

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

5. Exceptional items and remeasurements (continued)

Further detail of exceptional items specific to 2020:

Remeasurements

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

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

i. Net gains/(losses) on derivative financial instruments comprise gains/(losses) arising on derivative financial instruments reported in the consolidated income statement in relation to our debt financing. These exclude gains and losses for which hedge accounting has been effective, and have been recognised directly in other comprehensive income or are offset by adjustments to the carrying value of debt (see notes 13 and 29).

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

Items included within tax

The Finance Act 2016 which was enacted on 15 September 2016 reduced the main UK corporation tax rate to 17% with effect from 1 April 2020. Deferred tax balances were calculated at this rate for the years ended 31 March 2017 to 2019. On 17 March 2020, the UK government utilised the Provisional Collection of Taxes Act 1968 to substantively enact that the main corporation tax rate will remain at 19%. Deferred taxes at reporting date have been measured using enacted tax rates and reflected in these financial statements, resulting in a £44 million deferred tax charge, principally due to the remeasurement of deferred tax liabilities. The treatment of this charge as exceptional is consistent with the treatment for the year ended 31 March 2017 when the original reduction in the tax rate was substantively enacted, resulting in the recognition of an exceptional tax credit of £18 million.

6. Finance income and costs

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

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

	2020 £m	2019 £m
Finance income		
Interest income on financial instruments:		
Bank deposits and other financial assets	**24**	13
Net interest on pension asset	**11**	11
	35	24
Finance costs		
Interest expense on financial liabilities held at amortised cost:		
Bank loans and overdrafts	**(28)**	(30)
Other borrowings	**(148)**	(171)
Interest expense on financial liabilities held at fair value through profit and loss	**(22)**	(20)
Derivatives	**53**	51
Unwinding of discount on provisions	**(2)**	(2)
Less: interest capitalised [1]	**20**	17
	(127)	(155)
Remeasurements - Finance costs		
Net loss on financial liabilities held at fair value through profit and loss	**(49)**	(51)
Net gains/(losses) on derivative financial instruments:[2]		
Derivatives designated as hedges for hedge accounting	**1**	—
Derivatives not designated as hedges or ineligible for hedge accounting	**21**	34
	(27)	(17)
Total remeasurements - Finance income and costs	**(119)**	(148)
Finance income	**35**	24
Finance costs	**(154)**	(172)
Net finance costs	**(119)**	(148)

1 Interest on funding attributable to assets in the course of construction was capitalised during the year at a rate of 3.5% (2019: 4.2%). Capitalised interest qualifies for a current year tax deduction with tax relief claimed of £4 million (2019: £3 million).

2 Includes a net foreign exchange loss on financing activities of £48 million (2019: £73 million loss) offset by foreign exchange losses and gains on derivative financial instruments measured at fair value.

7. Taxation

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

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

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

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

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

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

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

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

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

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

Tax charged to the income statement

	2020	2019
	£m	£m
Tax before exceptional items and remeasurements	**(73)**	(79)
Tax on total exceptional items and remeasurements (note 5)	**(39)**	10
Total tax charge	**(112)**	(69)

Tax as a percentage of profit before tax

	2020	2019
	%	%
Before exceptional items and remeasurements	**19.1**	23.2
After exceptional items and remeasurements	**31.5**	24.0

7. Taxation (continued)

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

	2020 £m	2019 £m
Current tax:		
Corporation tax at 19% (2019: 19%)	**50**	62
Corporation tax adjustment in respect of prior years	**(10)**	1
Total current tax	**40**	63
Deferred tax:		
UK deferred tax	**62**	6
UK deferred tax adjustment in respect of prior years	**10**	—
Total deferred tax	**72**	6
Total tax charge	**112**	69

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

	2020 £m	2019 £m
Current tax:		
Share-based payments	**—**	—
Deferred tax:		
Share-based payments	**(1)**	—
Movement in Cash Flow Hedges, Cost of Hedging and Own Credit Reserves	**(1)**	—
Remeasurements of net retirement benefit obligations	**20**	1
Total tax recognised in the statement of other comprehensive income	**18**	1

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

	Before exceptional items and remeasurements 2020 £m	After exceptional items and remeasurements 2020 £m	Before exceptional items and remeasurements 2019 £m	After exceptional items and remeasurements 2019 £m
Profit before tax				
Before exceptional items and remeasurements	**383**	**383**	340	340
Exceptional items and remeasurements	**—**	**(27)**	—	(53)
Profit before tax	**383**	**356**	340	287
Profit before tax multiplied by UK corporation tax rate of 19% (2019: 19%)	**73**	**67**	65	55
Effect of:				
Adjustments in respect of prior years	**—**	**—**	1	1
Expenses not deductible for tax purposes	**4**	**5**	15	15
Non taxable income	**(4)**	**(4)**	(1)	(1)
Deferred tax impact of change in UK tax rate	**—**	**44**	(1)	(1)
Total tax	**73**	**112**	79	69
	%	**%**	%	%
Effective tax rate	**19.1**	**31.5**	23.2	24.0

7. Taxation (continued)

Factors that may affect future tax charges

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

We 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, we do not expect this to have any material impact on our future tax charges. Governments across the world including the UK and the US have introduced various stimulus / reliefs for businesses to cope with the impact of COVID 19 pandemic. We will monitor as the details become available for any that may materially impact our future tax charges.

Deferred tax (assets)/liabilities

Tax included within the statement of financial position

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

	Pensions	Accelerated tax depreciation	Share based payment	Financial instruments	Other net temporary differences	Total
	£m	£m	£m	£m	£m	£m
Deferred tax assets at 31 March 2018	—	—	(1)	—	(6)	(7)
Deferred tax liabilities at 31 March 2018	69	371	—	—	4	444
At 31 March 2018 (as previously reported)	69	371	(1)	—	(2)	437
Impact of transition to IFRS15 and IFRS9	—	13	—	(5)	—	8
1 April 2018 (as restated)	69	384	(1)	(5)	(2)	445
Charged/(credited) to income statement	4	9	—	—	(7)	6
Charged to other comprehensive income and equity	1	—	—	7	—	8
31 March 2019	74	393	(1)	2	(9)	459
Deferred tax assets at 31 March 2019	—	—	(1)	—	(13)	(14)
Deferred tax liabilities at 31 March 2019	74	393	—	2	4	473
1 April 2019	74	393	(1)	2	(9)	459
Charged/(credited) to income statement	10	52	—	—	10	72
Charged to other comprehensive income and equity	20	—	(1)	(1)	—	18
31 March 2020	**104**	**445**	**(2)**	**1**	**1**	**549**
Deferred tax assets at 31 March 2020	—	—	(2)	—	(3)	(5)
Deferred tax liabilities at 31 March 2020	104	445	—	1	4	554
31 March 2020	**104**	**445**	**(2)**	**1**	**1**	**549**

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net. The deferred tax balances (after offset) for statement of financial position purposes consist solely of deferred tax liabilities of £549 million (2019: £459 million). At the balance sheet date there were no material current deferred tax assets or liabilities (2019: £nil).

8. Dividends

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

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

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

	2020		2019	
	pence (per ordinary share)	**£m**	pence (per ordinary share)	£m
Ordinary dividends				
Final dividend in respect of the prior year	—	—	26.55	1,047

The Directors are proposing a final dividend for the year ended 31 March 2020 of 3.47p per share that will absorb approximately £137 million of shareholders' equity (assuming all amounts are settled in cash). This was declared after the year end during the 21 July 2020 board meeting, as a result this was not included within the financial statements.

9. Intangible assets

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

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

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

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

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

	Software
	£m
Cost at 1 April 2018	336
Additions	27
Reclassifications[1]	8
Cost at 31 March 2019	371
Additions	25
Reclassifications[1]	1
Cost at 31 March 2020	397
Accumulated amortisation at 1 April 2018	(223)
Amortisation charge for the year	(29)
Accumulated amortisation at 31 March 2019	(252)
Amortisation charge for the year	(27)
Accumulated amortisation at 31 March 2020	(279)
Net book value at 31 March 2020	**118**
Net book value at 31 March 2019	119

1 Reclassifications represents amounts transferred from property, plant and equipment, see note 10.

10. Property, plant and equipment

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

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

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

Property, plant and equipment includes assets in which the Group's interest comprises legally protected statutory or contractual rights of use. Additions represent the purchase or construction of new assets, including capital expenditure for safety and environmental assets, and extensions to, enhancements to, or replacement of, existing assets. All costs associated with projects or activities which have not been fully commissioned at the period end are classified within assets in the course of construction. No depreciation is provided on freehold land or assets in the course of construction.

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

Other items of property, plant and equipment are depreciated, on a straight-line basis, at rates estimated to write off their book values over their estimated useful economic lives. In assessing estimated useful economic lives, consideration is given to any contractual arrangements and operational requirements relating to particular assets. The assessments of estimated useful economic lives and residual values of assets are performed annually.

Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of property, plant and equipment are, in general, as shown in the table below:

	Years
Freehold and Leasehold buildings	5 to 50
Plant and Machinery	
- mains, services and regulating equipment	10 to 65
- NTS gas pipelines	up to 50
Motor vehicles and office equipment	3 to 10

Gas asset lives

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

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

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

	Increase in depreciation expense
	£m
UELs limited to 2050	37
UELs limited to 2060	13

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

10. Property, plant and equipment (continued)

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

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

	Land and buildings	Plant and machinery	Assets in the course of construction	Motor vehicles and office equipments	Total
	£m	£m	£m	£m	£m
Cost at 1 April 2018	293	8,207	402	225	9,127
Additions	2	86	207	18	313
Disposals	—	(102)	—	—	(102)
Reclassifications[1]	38	67	(105)	(8)	(8)
Cost at 1 April 2019 (as previously reported)	333	8,258	504	235	9,330
Right-of-use assets recognised on transition to IFRS 16[3]	17	—	—	3	20
Cost at 1 April 2019 (as restated)	350	8,258	504	238	9,350
Additions	2	75	167	18	262
Disposals[2]	(33)	(233)	(1)	(15)	(282)
Reclassifications[1]	—	117	(123)	5	(1)
Cost at 31 March 2020	319	8,217	547	246	9,329
Accumulated depreciation at 1 April 2018	(183)	(4,334)	—	(194)	(4,711)
Depreciation charge for the year	(20)	(139)	—	(11)	(170)
Disposals[2]	—	79	—	—	79
Reclassifications[1]	(11)	11	—	—	—
Impairment	—	(9)	—	—	(9)
Accumulated depreciation at 01 April 2019	(214)	(4,392)	—	(205)	(4,811)
Depreciation charge for the year	(9)	(149)	—	(14)	(172)
Disposals[2]	32	221	—	15	268
Impairment	—	—	(6)	—	(6)
Accumulated depreciation at 31 March 2020	(191)	(4,320)	(6)	(204)	(4,721)
Net book value at 31 March 2020	**128**	**3,897**	**541**	**42**	**4,608**
Net book value at 31 March 2019	119	3,866	504	30	4,519

1 Represents amounts transferred between categories, (to)/from other intangible assets (see note 9).

2 Cost disposal of £88 million relating to Meter disposals for displacement of Smart meters, and £143m disposal relating to LNG Storage Avonmouth assets due to site sold - all LNG Storage Avonmouth assets had been depreciated to nil.

3 £20 million of additional right-of-use assets were recognised on transition to IFRS 16 on 1 April 2019. See note 33 for details.

Right-of-use assets

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

10. Property, plant and equipment (continued)

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

	Land and Buildings £m	Motor vehicles and office equipment £m	Total £m
Net book value at 31 March 2020	13	2	15
Additions	—	1	1
Depreciation charge for the year ended 31 March 2020	(4)	(2)	(6)

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

	Total £m
Included within net finance income and costs:	
Interest expense on lease liabilities	—
Included within revenue:	
Lease income	1
Included within operating expenses:	
Expenses relating to low value leases	—

The associated lease liabilities are disclosed in note 18.

	2020 £m	2019 £m
Information in relation to property, plant and equipment:		
Contributions to cost of property, plant and equipment included within:		
Contract liabilities - current (2019: Trade and other payables)	**2**	2
Contract liabilities - non-current (2019: Non-current liabilities)	**72**	69

11. Other non-current assets

Other non-current assets include assets that do not fall into any other non-current asset category (such as property, plant and equipment) where the benefit to be received from the asset is not due to be received until after 31 March 2021.

	2020 £m	2019 £m
Loans and receivables - amounts owed by parent undertaking[1]	—	3,427
Prepayments[2]	62	76
	62	3,503

1 The amount owed by parent undertaking was non-contractual in 2019. In the current year, this loan is contractual and reported as a non-current financial and other investment (see note 12). Its fair value is approximate to book value.

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

12. Non-current financial and other investments

	2020 £m	2019 £m
Loans and receivables - amounts owed by parent undertaking[1]	3,427	—
	3,427	—

1 The amount owed by parent undertaking became contractual in 2020. In 2019, the loan was reported as an Other non-current asset (see note 11). Its fair value is approximate to book value.

13. Derivative financial instruments

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

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

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

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

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

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

	2020			2019		
	Asset £m	Liabilities £m	Total £m	Asset £m	Liabilities £m	Total £m
Interest rate swaps	272	(68)	204	278	(79)	199
Cross-currency interest rate swaps	465	(10)	455	394	(8)	386
Inflation linked swaps	—	(85)	(85)	—	(77)	(77)
	737	(163)	574	672	(164)	508

13. Derivative financial instruments (continued)

The maturity profile of derivative financial instruments is as follows:

	2020			2019		
	Assets	**Liabilities**	**Total**	Assets	Liabilities	Total
	£m	**£m**	**£m**	£m	£m	£m
Current						
Less than 1 year	**—**	**(31)**	**(31)**	33	(48)	(15)
	—	**(31)**	**(31)**	33	(48)	(15)
Non-current						
In 1 - 2 years	**478**	**(9)**	**469**	—	(1)	(1)
In 2 - 3 years	**11**	**—**	**11**	408	—	408
In 3 - 4 years	**—**	**—**	**—**	9	—	9
In 4 - 5 years	**21**	**(19)**	**2**	—	—	—
More than 5 years	**227**	**(104)**	**123**	222	(115)	107
	737	**(132)**	**605**	639	(116)	523
	737	**(163)**	**574**	672	(164)	508

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

	2020	2019
	£m	£m
Interest rate swaps	**(971)**	(2,186)
Cross-currency interest rate swaps	**(543)**	(575)
Foreign exchange forward contracts	**—**	(1)
Inflation linked swaps	**(200)**	(200)
	(1,714)	(2,962)

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

14. Inventories and current intangible assets

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

Inventories are stated at the lower of weighted average cost and net realisable value. Where applicable, cost comprises direct materials and direct labour costs as well as those overheads that have been incurred in bringing the inventories to their present location and condition.

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

	2020	2019
	£m	£m
Raw materials, spares and consumables	**14**	14
Current intangible assets - emission allowances	**2**	—
	16	14

Raw materials, spares and consumables includes £4 million (2019: £4 million) of gas stocks to support network flows and shrinkage losses on the network.

There is a provision for obsolescence of £3m against inventories as at 31 March 2020 (2019: £3m).

15. Trade and other receivables

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

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

	2020	2019
	£m	£m
Trade receivables	**113**	77
Amounts owed by fellow subsidiaries of National Grid plc	**75**	59
Accrued income	**122**	114
Prepayments	**35**	32
Other receivables	**36**	28
	381	310

Trade receivables are non-interest bearing and generally have a 30 to 90 day term. Due to their short maturities, the fair value of trade and other receivables approximates their carrying value. The maximum exposure of trade receivables to credit risk is the gross carrying amount of £113 million (2019: £77 million).

Provision for impairment of receivables

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

A provision matrix is not used to assess expected loss rates as an assessment is performed on individual debtors.

	2020	2019
	£m	£m
At 1 April	**1**	—
Charge for the year, net of recoveries	**3**	1
At 31 March	**4**	1

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

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

16. Financial and other investments

The financial and other Investments balance of £693 million primarily comprises collateral receivable, representing cash pledged against derivative holdings and other borrowings; it also includes current loans to fellow group undertakings.

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

Loans and other receivables are initially recognised at fair value plus transaction costs and subsequently held at amortised cost using the effective interest method. Interest income, together with gains and losses when the loans and receivables are derecognised or impaired, is recognised in the income statement.

	2020	2019
	£m	£m
Current		
Financial assets at amortised cost	**693**	1,319
	693	1,319
Financial assets at amortised cost comprise the following:		
Loans and receivables - amounts due from fellow subsidiaries[1]	**603**	1,234
Restricted balances:		
Collateral[2]	**90**	85
	693	1,319

1 Includes an overnight facility between the Company and National Grid plc for £565 million (2019: £1,213 million).

2 Includes collateral placed with counterparties with whom we have entered into a credit support annex to the ISDA Master Agreement £90 million (2019: £85 million).

The carrying value of current loans financial assets at amortised cost approximates their fair values, primarily due due to short-dated maturities. The exposure to credit risk at the reporting date is the fair value of the financial investments. For further information on our credit risk, refer to note 29(a).

For the purposes of impairment assessment, all financial assets at amortised cost are investment grade and are therefore considered to have low credit risk. Therefore, they have a loss allowance equal to the lesser of lifetime or 12-month expected credit losses.

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

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

17. Cash and cash equivalents

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

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

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

Net cash and cash equivalents held in currencies other than sterling have been converted into sterling at year-end exchange rates. For further information on currency exposures, refer to note 29(c).

	2020	2019
	£m	£m
Cash at bank and short-term deposits	**—**	—
Cash and cash equivalents excluding bank overdrafts	**—**	—
Bank overdrafts	**(7)**	—
Net cash and cash equivalents less bank overdrafts	**(7)**	—

18. Borrowings

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

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

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

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

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

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

18. Borrowings (continued)

	2020 £m	2019 £m
Current		
Bank loans and overdrafts	**619**	474
Bonds	**32**	241
Lease liabilities	**5**	—
Other loans	**1**	1
	657	716
Non-current		
Bank loans	**538**	524
Bonds[1]	**3,850**	3,421
Lease liabilities	**11**	—
Other loans	**186**	176
	4,585	4,121
Total borrowings	**5,242**	4,837

1 In 2020 this includes a liability held at fair value through profit and loss of £741 million (2019: £667 million).

Total borrowings are repayable as follows:

	2020 £m	2019 £m
Less than 1 year	**657**	716
In 1 - 2 years	**1,006**	7
In 2 - 3 years	**778**	922
In 3 - 4 years	**2**	760
In 4 - 5 years	**94**	—
More than 5 years:		
By instalments	**50**	52
Other than by instalments	**2,655**	2,380
	5,242	4,837

The fair value of borrowings at 31 March 2020 was £6,447 million (2019: £6,123 million). Where market values were available, fair value of borrowings (Level 1) was £885 million (2019: £1,497 million). Where market values were not available, the fair value of borrowings (Level 2) was £5,562 million (2019: £4,626 million), calculated by discounting cash flows at prevailing interest rates. The notional amount outstanding of the debt portfolio at 31 March 2020 was £5,178 million (2019: £4,812 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 £610 million (2019: £472 million) in respect of cash received under collateral agreements.

At 31 March 2020, we had committed credit facilities of £350 million (2019: £350 million) of which £350 million was undrawn (2019: £350 million undrawn). All of the facilities at 31 March 2020 and at 31 March 2019 are available for liquidity purposes.

Of the £350 million of undrawn committed borrowings facilities £25 million was renegotiated before 31 March 2020, with the expiry extended by a further year, with effect from 1 June 2020.

Financial liability at fair value through profit and loss

The financial liability designated at fair value through profit and loss is analysed as follows:

i. the fair value of the liability was £741 million (2019: £667 million), which includes cumulative change in fair value attributable to changes in credit risk recognised in other comprehensive income, post tax of £10 million (2019: £13 million);

ii. the amount repayable at maturity in November 2021 is £759 million (2019: £724 million); and

iii. the difference between carrying amount and contractual amount at maturity is £18 million (2019: £57million)

This liability has been reclassified in order to eliminate a measurement mismatch with derivatives which provide an economic hedge. The associated derivatives are collateralised and do not contain significant exposure to our own credit risk. The presentation of credit risk in other comprehensive income does not, therefore, create or enlarge an accounting mismatch in profit or loss.

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

18. Borrowings (continued)

Lease liabilities

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

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

	2020 £m
Gross lease liabilities are repayable as follows:	
Less than 1 year	**(5)**
1 to 5 years	**(10)**
More than 5 years	**(2)**
	(17)
Less: finance charges allocated to future periods	**1**
	(16)
The present value of lease liabilities are as follows:	
Less than 1 year	**(5)**
1 to 5 years	**(9)**
More than 5 years	**(2)**
	(16)

19. Trade and other payables

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

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

	2020 £m	2019 £m
Trade payables	**138**	151
Amounts owed to fellow subsidiaries of National Grid plc	**21**	69
Deferred income	**1**	1
Social security and other taxes	**54**	44
Other payables	**114**	60
	328	325

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

20. Contract liabilities

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

	2020 £m	2019 £m
Current	**33**	33
Non-current	**103**	99
	136	132

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

	2020 £m	2019 £m
As at 1 April 2019	**132**	134
Revenue recognised that was included in the contract liability balance at the beginning of the period	**(33)**	(23)
Increase due to cash received, excluding amounts recognised as revenue during the period	**37**	26
Changes due to amounts recognised as revenue	**—**	(5)
At 31 March 2020	**136**	132

21. Other non-current liabilities

Other non-current liabilities include deferred income which will not be recognised as income until after 31 March 2021. It also includes payables that are not due until after that date.

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

	2020 £m	2019 £m
Other payables	**12**	17
	12	17

22. Pensions and other post-retirement benefits

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

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

YouPlan

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

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

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

Defined benefit scheme

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

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

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

The National Grid UK Pension Scheme (NGUKPS) consists of three legally and actuarially separate sections and National Grid Gas sponsors Section B of NGUKPS. The section is subject to an independent actuarial funding valuation at least every three years and following consultation and agreement with us, the qualified actuary certifies the employers' contributions, which, together with the specified contributions payable by the employees and proceeds from the plan assets, are expected to be sufficient to fund the benefits payable.

The results of the most recent actuarial valuations are shown below. See page 91 for the assumptions used for IAS 19 (revised) purposes. The next actuarial valuation will be performed as at 31 March 2022.

	Section B of NGUKPS
Latest full actuarial valuation	31 March 2019
Actuary	Willis Towers Watson
Market value of plan assets at latest valuation	£5,765 million
Actuarial value of benefits due to members	£5,831 million
Market value as percentage of benefits	99%
Funding deficit	(£66 million)
Funding deficit net of tax	(£55 million)

The latest full actuarial valuation at 31 March 2019 determined that Section B was in deficit. In addition to a £34 million payment already made in September 2019, The Company and the Trustees agreed that an additional payment of approximately £32 million will be made by September 2020 to eliminate the funding deficit. In addition, the employers contribute 51.4% of pensionable salary, less member contributions, in respect of future benefit accrual.

National Grid Gas is also responsible for the costs of administration and the Pension Protection Fund (PPF) levies for Section B of NGUKPS.

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

Pensions buy-ins

During the year, the Trustees of the NGUKPS entered into a buy-in arrangement in order to manage various risks. The policy provides bulk annuities in respect of some pensioner and dependant members of Section B of NGUKPS and were funded by existing assets. £1.6 billion of gilts were exchanged for a buy-in policy with Legal & General. The policy is held by the Trustee. For the transaction, the pricing of the policy was highly competitive; however, under IAS 19 the methodology for calculating the value of the buy-ins (as an asset held by the pension plan) differs from the price paid. This resulted in the recognition of an actuarial loss of £0.3 billion on purchase, recorded within the consolidated statement of other comprehensive income.

The COVID-19 pandemic

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

Security arrangements

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

Value of security arrangements at 31 March 2020	£180 million
Additional amounts payable at 31 March 2020[1]	A maximum of £280 million

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

Following the completion of the March 2019 valuation, the Company and the Trustee agreed that the security arrangements were no longer required.

Actuarial assumptions

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

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

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

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

Assumed life expectations for a retiree age 65.

	2020	2019
	Years	Years
As at 31 March:		
Males	**21.4**	22.0
Females	**23.3**	23.6
In 20 years:		
Males	**22.8**	23.3
Females	**24.9**	25.2

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

As at the reporting date, the present value of the funded obligations split according to member status, was approximately 7% active members (2019: 9%); 15% deferred members (2019: 17%) and 78% pensioner members (2019: 74%).

For sensitivity analysis see note 30.

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

Amounts recognised in the consolidated statement of financial position

	2020 £m	2019 £m
Present value of funded obligations	**(4,770)**	(5,324)
Fair value of scheme assets	**5,323**	5,766
Net defined benefit asset	**553**	442
Represented by:		
Asset	**553**	442
	553	442

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

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

	2020 £m	2019 £m
Included within operating costs		
Administration costs	**4**	3
Included within payroll costs		
Defined benefit scheme costs:		
Current service cost	**12**	14
Past service cost - augmentations	**—**	1
Past service cost - redundancies	**—**	2
Past service cost - plan amendments	**—**	12
Special termination benefit cost - redundancies	**1**	18
	13	47
Amounts paid by other fellow group undertakings	**(6)**	(6)
Total amount included within payroll costs	**7**	41
Total of operating costs	**11**	44
Included within finance income and costs		
Interest credit	**(11)**	(11)
Total included in the consolidated income statement	**—**	33
Actuarial gains on defined benefit obligations [1]	**(410)**	(153)
Return on assets less than discount rate	**352**	162
Total included in the consolidated statement of other comprehensive income	**(58)**	9

[1] For the year ended 31 March 2020, this includes an actuarial loss from the purchase of buy-in policies of £0.3 billion.

Reconciliation of the net defined benefit asset

	2020 £m	2019 £m
Opening defined benefit asset	**442**	412
Net cost recognised in the consolidated income statement	**—**	(33)
Amounts paid by other fellow group undertakings	**(6)**	(6)
Remeasurement effects recognised in the consolidated statement of other comprehensive income	**58**	9
Employer contributions	**60**	61
Other movements	**(1)**	(1)
Closing net defined benefit asset	**553**	442

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

Changes in the present value of defined benefit obligations

	2020 £m	2019 £m
Opening defined benefit obligations	**(5,324)**	(5,321)
Current service cost	**(12)**	(14)
Interest cost	**(125)**	(134)
Actuarial gains/(losses) - experience	**33**	(16)
Actuarial gains - demographic assumptions	**57**	84
Actuarial gains/(losses) - financial assumptions	**320**	(221)
Past service cost - augmentations	**—**	(1)
Past service cost - redundancies	**—**	(2)
Past service cost - plan amendments	**—**	(12)
Special termination benefit cost – redundancies	**(1)**	(18)
Benefits paid	**282**	331
Closing defined benefit obligations	**(4,770)**	(5,324)

Changes in the fair value of scheme assets

	2020 £m	2019 £m
Opening fair value of scheme assets	**5,766**	5,733
Interest on assets	**136**	145
Return on assets (less)/greater than assumed[1]	**(352)**	162
Administration costs	**(4)**	(3)
Employer contributions	**60**	61
Benefits paid	**(283)**	(332)
Closing fair value of scheme assets	**5,323**	5,766
Actual return on scheme assets	(216)	307
Expected contributions to defined benefit scheme in the following year	**51**	56

[1] For the year ended 31 March 2020, this includes an actuarial loss from the purchase of buy-in policies of £0.3 billion.

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

Asset allocation strategy

The section's investment strategy is formulated in order to target specific asset allocations and returns, and to manage risk. The asset allocation of the scheme as at 31 March 2020 is as follows:

	2020 Section B NGUKPS %	2019 Section B NGUKPS %
Equities	**9.9**	14.1
Corporate bonds	**33.5**	27.1
Government securities	**19.1**	45.2
Property	**4.3**	5.3
Diversified alternatives	**8.0**	5.9
Liability matching assets	**23.5**	—
Cash and cash equivalents	**1.7**	2.3
Other	**—**	0.1
	100.0	100.0

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

Defined benefit investment strategies and risks

The DB pension scheme can pose a significant risk to future cash flows, as the Company underwrites the financial and demographic risks associated with the scheme. Although the Trustee of NGUKPS 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 scheme and to ensure that the scheme is funded to meet its obligations.

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

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

Investments are usually grouped into:

- Return-seeking assets: equities, property and diversified funds where the objective is to achieve growth within the constraints of the scheme's risk profiles. These assets should produce returns greater than the liability increase, so improving the funding position, and are assessed by reference to benchmarks and performance targets agreed with the investment managers; and
- Liability matching assets: liability driven investments (LDI) funds, buy-ins, government securities, corporate bonds and swaps, where the objective is to secure fixed or inflation adjusted cash flows in future. These investments are generally expected to match the change in liability valuation, so protecting the funding position. Bonds and securities are also measured against certain market benchmarks.

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

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

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

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

The NGUKPS have Responsible Investment (RI) Policies, which take into account Environmental, Social and Governance (ESG) areas. The NGUKPS RI also incorporates the six UN-backed Principles for Responsible Investment (UNPRI). The Trustees believe that ESG factors can be material to financial outcomes and therefore these should and will be considered alongside other factors. The Trustees 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, the Trustees also recognise the increasing materiality of ESG factors and that they have a fiduciary and regulatory duty to consider RI, including ESG factors and the potential impact on the quality and sustainability of long-term investment returns and therefore on the Trustees’ primary fiduciary duty.

The most significant risks associated with the DB scheme are:

- Asset volatility – the scheme invests in a variety of asset classes, but principally in government securities, bulk annuities, corporate bonds, equities and property. Consequently, actual returns will differ from the underlying discount rate adopted, impacting on the funding position of the plan through the net balance sheet asset or liability. Each section seeks to balance the level of investment return required with the risk that it can afford to take, to design the most appropriate investment portfolio. Volatility will be controlled through using liability-matching asset strategies including bulk annuities, as well as interest rate hedging and management of foreign exchange exposure, and diversification of the return-seeking assets;
- Changes in bond yields – liabilities are calculated using discount rates set with reference to the yields in high-quality corporate bonds prevailing in the UK debt markets and will fluctuate as yields change;

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

- Member longevity – longevity is a key driver of liabilities and changes in life expectancy have a direct impact on liabilities. The section holds a buy-in policy which covers exposure to improvement in longevity, providing long-term protection in the event that members live longer than expected;
- Counterparty risk – is managed by having a diverse range of counterparties and through having a strong collateralisation process. Measurement and management of counterparty risk is delegated to the relevant investment managers. For our bulk annuity policies, various termination provisions were introduced in the contract, managing our exposure to counterparty risk. The insurers' operational performance and financial strength is monitored on a regular basis;
- Deficit risk – the risk that the increase in the liability will outpace the growth in assets is managed through assessing the progress of the actual growth of the liabilities relative to the selected investment policy and adjusting the policy as required;
- Manager risk – expected deviation of the return, relative to the benchmark, is carefully monitored, as is the process, team and expertise of the manager. Where appropriate, the Trustee will move assets under management to a more robust manager, whom they consider will have a better expectation of performing well in the future;
- Currency risk – fluctuations in the value of foreign denominated assets due to exposure to currency exchange rates is managed through a combination of segregated currency hedging overlay and currency hedging carried out by some of the investment managers;
- Interest rate and inflation risk – changes in inflation will affect the current and future pensions but are partially mitigated through investing in inflation-matching assets and hedging instruments as well as bulk annuity buy-in policies;

  Investment funds – the credit risk arising from investing in investment funds is mitigated by the underlying assets of the investment funds being ring-fenced from the fund managers, the regulatory environments in which the fund managers operate and diversification of investments among investment fund arrangements;
- Political risk – an adverse influence on asset values arising from political intervention in a specific country or region is managed through regular review of the asset distribution and through ensuring geographical diversification of investments within the managers; and
- Custodian risk – the creditworthiness and ability of the custodians to settle trades on time and provide secure safekeeping of the assets under custody is managed by ongoing monitoring of the custodial arrangements against pre-agreed service levels and credit ratings.

Asset allocations:

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

	2020 Quoted £m	**2020 Unquoted £m**	**2020 Total £m**	2019 Quoted £m	2019 Unquoted £m	2019 Total £m
Equities	**323**	**203**	**526**	604	210	814
Corporate bonds	**1,783**	**—**	**1,783**	1,560	—	1,560
Government securities	**1,017**	**—**	**1,017**	2,608	—	2,608
Property	**—**	**230**	**230**	—	306	306
Diversified alternatives	**—**	**428**	**428**	—	342	342
Liability matching assets		**1,249**	**1,249**	—	—	—
Cash and cash equivalents	**—**	**93**	**93**	—	133	133
Other	**—**	**(3)**	**(3)**	—	3	3
	3,123	**2,200**	**5,323**	4,772	994	5,766

23. Provisions

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

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

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

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

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

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

	Decommissioning £m	Environmental £m	Restructuring	Other £m	Total provisions £m
At 1 April 2018	104	23	5	67	199
Additions	—	—	17	10	27
Unused amounts reversed	(2)	(2)	—	(15)	(19)
Unwinding of discount	1	1	—	—	2
Utilised	(13)	(1)	(10)	(28)	(52)
At 31 March 2019	90	21	12	34	157
Additions	1	1	—	22	24
Unused amounts reversed	—	(11)	(1)	(1)	(13)
Unwinding of discount	1	1	—	—	2
Utilised	(19)	—	(9)	(11)	(39)
Transfers	—	—	(1)		(1)
At 31 March 2020	**73**	**12**	**1**	**44**	**130**

	2020 £m	2019 £m
Current	**62**	57
Non-current	**68**	100
	130	157

Decommissioning provision

The decommissioning provision represents expenditure relating to the demolition of gas-holders expected to be incurred until 2026. Unused amounts reversed in 2019 of £2 million represent the impact of a change in the spend profile.

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

The undiscounted provision based on 0.5% real discount rate was £75 million (2019: £93 million based on 1% real discount rate).

23. Provisions (continued)

Environmental provision

The environmental provision represents the estimated restoration and remediation costs relating to operational sites owned by the Company. Cash flows are expected to be incurred until 2075, with £4 million expected to be incurred in the next 10 years.

A number of estimation uncertainties affect the calculation of the provision, including the impact of regulation, the accuracy of site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and changes in the real discount rate. This provision incorporates our best estimate of the financial effect of these uncertainties, but future changes in any of the assumptions could materially impact the calculation of the provision. The undiscounted amount is the undiscounted best estimate of the liability having regard to these uncertainties.

The undiscounted provision based on 0.5% real discount rate was £13 million (2019: £26 million based on 1% real discount rate). Unused amounts reversed in 2020 of £11 million represents changes in estimated remediation costs on a number of sites.

Restructuring provision

In 2019, a cost-efficiency and restructuring programme was undertaken in the gas transmission business, as detailed in note 5. This resulted in the recognition of a £17 million charge in the year and a closing provision of £12 million. The majority of the provision was utilised in the current year and we expect the remaining provision to be utilised within one year.

Other provisions

Other provisions at 31 March 2020 include £12 million (2019: £20 million) in respect of legacy provisions recognised following the sale of the Gas Distribution (GD) business. We expect the majority of this provision to be utilised within one year. Additions include £3m Crop & Quarry additions and additional amounts for claims relating to the former GD business. Amounts utilised of £11 million principally relates to the utilisation of provisions recognised following the sale of GD business (£8 million).

24. Share capital

Ordinary share capital represents the total number of shares issued.

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

	Number of shares 2020 millions	Number of shares 2019 millions	**2020 £m**	2019 £m
At 31 March - ordinary shares of 1 2/15 p each				
Allotted, called-up and fully paid	**3,944**	3,944	**45**	45

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

25. Other equity reserves

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

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

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

	Cash flow hedge	Cost of hedging	Own credit	Capital redemption	Other equity
	£m	£m	£m	£m	£m
At 1 April 2019	(3)	2	13	1,332	1,344
Net (losses)/gains taken to equity	(4)	2	(3)	—	(5)
Transferred to profit or loss	(3)	—	—	—	(3)
Tax	1	—	—	—	1
At 31 March 2020	**(9)**	**4**	**10**	**1,332**	**1,337**

26. Net debt

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

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

The primary objective of the treasury function is to manage our funding and liquidity requirements. A further important objective is to manage the associated financial risks, in the form of interest rate risk and foreign exchange risk, to within pre-authorised parameters. Details of the main risks arising from our financing activities can be found in note 29 to the consolidated financial statements.

Investment of surplus funds, usually in short-term fixed deposits is subject to our counterparty risk management policy.

(a) Reconciliation of net cash flow to movement in net debt

	2020	2019
	£m	£m
Decrease in cash and cash equivalents	**(7)**	(272)
Decrease in financial investments	**(649)**	(219)
(Increase)/decrease in borrowings and related derivatives	**(224)**	403
Net interest paid on the components of net debt	**90**	91
Change in net debt resulting from cash flows	**(790)**	3
Changes in fair value of financial assets and liabilities and exchange movements	**(32)**	(5)
Net interest charge on the components of net debt	**(123)**	(157)
Movement in net debt (net of related derivative financial instruments) in the year	**(945)**	(159)
Net debt (net of related derivative financial instruments) at the start of the year	**(3,010)**	(2,819)
Impact of transition to IFRS 16 (2019: IFRS 9)	**(20)**	(32)
Net debt (net of related derivative financial instruments) at the end of the year	**(3,975)**	(3,010)

26. Net debt (continued)

Composition of net debt

Net debt as follows:

	2020	2019
	£m	£m
Cash, cash equivalents and financial investments	**693**	1,319
Borrowings and bank overdrafts	**(5,242)**	(4,837)
Derivatives	**574**	508
	(3,975)	(3,010)

	Cash and cash equivalents	Financial investments	Borrowings	financial derivatives	Total debt
	£m	£m	£m	£m	£m
At 1 April 2018	272	1,529	(5,064)	412	(2,851)
Cash flow	(272)	(220)	505	(10)	3
Fair value gains and losses and exchange movements	—	—	(62)	57	(5)
Interest income/(charges)	—	10	(216)	49	(157)
Other non-cash movements	—	—	—	—	—
At 31 March 2019 (as previously reported)	—	1,319	(4,837)	508	(3,010)
Impact of transition to IFRS 16	—	—	(20)	—	(20)
At 31 March 2019 (as restated)	—	1,319	(4,857)	508	(3,030)
Cash flow	(7)	(649)	(110)	(24)	(790)
Fair value gains and losses and exchange movements	—	—	(69)	37	(32)
Interest income/(charges)	—	23	(196)	53	(120)
Other non-cash movements	—	—	(3)	—	(3)
At 31 March 2020	**(7)**	**693**	**(5,235)**	**574**	**(3,975)**
Balances at 31 March 2020 comprise:					
Non-current assets	—	—	—	737	737
Current assets	—	693	—	—	693
Current liabilities	(7)	—	(650)	(31)	(688)
Non-current liabilities	—	—	(4,585)	(132)	(4,717)
	(7)	**693**	**(5,235)**	**574**	**(3,975)**

27. Commitments and contingencies

Commitments are those amounts that we are contractually required to pay in the future as long as the other party meets its obligations. These commitments primarily relate to energy purchase agreements and contracts for the purchase of assets which, in many cases, extend over a long period of time. 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 10) and lease liabilities (see note 18). Therefore, only low-value leases and short-term leases are off-balance sheet commitments, both of which are immaterial. We also disclose any contingencies, which include guarantees that companies have given, where we pledge assets against current obligations that will remain for a specific period.

Future capital expenditure

	2020	2019
	£m	£m
Future capital expenditure		
Contracted for but not provided	**82**	196

	2020	2019
	£m	£m
Operating lease commitments		
Less than 1 year	—	5
In 1 - 2 years	—	4
In 2 - 3 years	—	3
In 3 - 4 years	—	3
In 4 - 5 years	—	1
More than 5 years	—	3
	—	19

Other commitments, contingencies and guarantees

The value of other commitments and guarantees at 31 March 2020 amounted to £69 million (2019: £122 million), including energy purchase commitments amounting to £19 million (2019: £22 million). Energy purchase commitments relate to contractual commitments to purchase electricity or gas that are used to satisfy physical delivery requirements to our customers or for energy that we use ourselves (i.e. normal purchase, sale or usage) and hence are accounted for as ordinary purchase contracts.

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

Parent Company loan guarantees on behalf of subsidiaries

The Company has guaranteed the repayment of principal sums, any associated premium and interest on specific loans due from its subsidiaries to third parties. At 31 March 2020, the sterling equivalent amounted to £759 million (2019: £724 million).

Litigation and claims

Through the ordinary course of our operations, we are party to various litigation, claims and investigations. We do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on our results of operations, cash flows or financial position and claims.

28. Related party transactions

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

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

	2020	2019
	£m	£m
Income:		
Goods and services supplied	**39**	192
Expenditure:		
Services received	**36**	49
Corporate services received	**11**	8
Charges in respect of pensions costs	**15**	26
	62	83
Outstanding balances at 31 March in respect of income, expenditure and settlement of corporation tax:		
Amounts receivable	**75**	74
Amounts payable	**75**	173
Advances to parent (due within one year)	**21**	21
Advances to ultimate parent (due within one year)	**565**	1,213
At 31 March	**586**	1,234
Advances to parent company (due after more than one year):[1]	3,427	3,427
At 31 March	**3,427**	3,427

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

There were no advances to other related parties at 31 March 2020 (2019: £nil).

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

No amounts have been provided at 31 March 2020 (2019: £nil) and no expense has been recognised during the year (2019: £nil) in respect of bad or doubtful debts for related party transactions.

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

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

29. Financial risk management

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

Risk management related to financing activities is carried out by the National Grid plc central treasury department under policies approved by the Finance Committee of the National Grid plc Board, these policies have been deemed applicable at NGG by their respective boards of directors. The objective of the treasury department is to manage funding and liquidity requirements, including managing associated financial risks, to within acceptable boundaries. The National Grid plc Finance Committee provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, liquidity risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

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

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

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

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

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

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

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

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

(a) Credit risk

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

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

As at 31 March 2019 and 2020, we had a number of exposures to individual counterparties. In accordance with our treasury policies, counterparty credit exposure utilisations are monitored daily against the counterparty credit limits. Counterparty credit ratings and market conditions are reviewed continually with limits being revised and utilisation adjusted, if appropriate. Management does not expect any significant losses from non-performance by these counterparties.

Wholesale

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

29. Financial risk management (continued)

Offsetting financial assets and liabilities

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

Financial assets and liabilities on different transactions are only reported net if the transactions are with the same counterparty, a legal right of offset exists and the cash flows are intended to be settled on a net basis.

Amounts which do not meet the criteria for offsetting on the statement of financial position but could be settled net in certain circumstances principally relate to derivative transactions under ISDA (International Swaps and Derivatives Association) agreements where each party has the option to settle amounts on a net basis in the event of default of the other party.

For bank account balances and bank overdrafts, the 'Gross amounts offset' under cash pooling arrangements is £1 million as at March 2020 (£2 million as at March 2019). Our UK bank accounts for National Grid Gas subsidiaries participate in GBP, EUR and USD Composite Accounting System overdraft facilities subject to offsetting gross and net overdraft limits.

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***	**Net amount presented in statement of financial position**	**Financial instruments**	**Cash collateral received/ pledged**	**Net amount**
As at 31 March 2020	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Assets						
Derivative financial instruments	***737***	**—**	**737**	**(72)**	**(557)**	**108**
	737	**—**	**737**	**(72)**	**(557)**	**108**
Liabilities						
Derivative financial instruments	***(163)***	**—**	**(163)**	**72**	**89**	**(2)**
	(163)	**—**	**(163)**	**72**	**89**	**(2)**
Total	***574***	**—**	**574**	**—**	**(468)**	**106**

			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 2019	£m	£m	£m	£m	£m	£m
Assets						
Derivative financial instruments	*672*	—	672	(79)	(470)	123
	672	—	672	(79)	(470)	123
Liabilities						
Derivative financial instruments	*(164)*	—	(164)	79	83	(2)
	(164)	—	(164)	79	83	(2)
Total	*508*	—	508	—	(387)	121

(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.

29. Financial risk management (continued)

We believe our contractual obligations, including those shown in commitments and contingencies in note 27 can be met from existing cash and investments, operating cash flows and internal or external financing that we reasonably expect to be able to secure in the future, together with the use of committed facilities if required.

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

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

At 31 March 2020	**Due within 1 year £m**	**Due between 1 and 2 years £m**	**Due between 2 and 3 years £m**	**Due 3 years and beyond £m**	**Total £m**
Non-derivative financial liabilities					
Borrowings, excluding finance lease liabilities	**(624)**	**(1,022)**	**(773)**	**(2,743)**	**(5,162)**
Interest payments on borrowings[1]	**(93)**	**(94)**	**(80)**	**(972)**	**(1,239)**
Lease liabilities	**(5)**	**(3)**	**(3)**	**(5)**	**(16)**
Other non-interest bearing liabilities	**(273)**	**—**	**—**	**—**	**(273)**
Derivative financial liabilities					
Derivative contracts - receipts[2]	**13**	**59**	**2**	**5**	**79**
Derivative contracts - payments[2]	**(50)**	**(85)**	**(7)**	**(111)**	**(253)**
Derivative financial assets					
Derivative contracts - receipts[2]	**257**	**931**	**86**	**345**	**1,619**
Derivative contracts - payments[2]	**(164)**	**(440)**	**(45)**	**(235)**	**(884)**
Total at 31 March 2020	**(939)**	**(654)**	**(820)**	**(3,716)**	**(6,129)**

At 31 March 2019	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due 3 years and beyond £m	Total £m
Non-derivative financial liabilities					
Borrowings, excluding finance lease liabilities	(685)	(7)	(980)	(3,140)	(4,812)
Interest payments on borrowings[1]	(99)	(90)	(92)	(1,057)	(1,338)
Other non-interest bearing liabilities	(221)	(1)	—	—	(222)
Derivative financial liabilities					
Derivative contract - receipts[2]	46	11	51	3	111
Derivative contract - payments[2]	(100)	(39)	(53)	(120)	(312)
Derivative financial assets					
Derivative contract - receipts[2]	1,184	234	79	137	1,634
Derivative contract - payments[2]	(727)	(162)	(3)	(65)	(957)
Total at 31 March 2019	(602)	(54)	(998)	(4,242)	(5,896)

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).

29. Financial risk management (continued)

(c) Currency risk

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

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

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

As at 31 March 2020 and 2019, derivative financial instruments were used to manage foreign currency risk as follows:

	2020				
	Sterling £m	**Euro £m**	**Dollar £m**	**Other £m**	**Total £m**
Cash and cash equivalents	—	—	—	—	—
Financial investments	**693**	—	—	—	**693**
Borrowings	**(4,248)**	—	**(741)**	**(253)**	**(5,242)**
Pre-derivative position	**(3,555)**	—	**(741)**	**(253)**	**(4,549)**
Derivative effect	**(420)**	—	**741**	**253**	**574**
Net debt position	**(3,975)**	—	—	—	**(3,975)**

	2019				
	Sterling £m	Euro £m	Dollar £m	Other £m	Total £m
Cash and cash equivalents	—	—	—	—	—
Financial investments	1,319	—	—	—	1,319
Borrowings	(3,856)	—	(667)	(314)	(4,837)
Pre-derivative position	(2,537)	—	(667)	(314)	(3,518)
Derivative effect	(466)	1	660	313	508
Net debt position	(3,003)	1	(7)	(1)	(3,010)

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

Hedge accounting for currency risk

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

Cash flow hedging of currency risk of capital expenditure is designated as hedging the exposure to movements in the spot translation rates only; the timing of forecasted transactions is not designated as a hedged risk. Gains and losses on hedging instruments arising from forward points and foreign currency basis spreads are excluded from designation and are recognised immediately in profit or loss, along with any hedge ineffectiveness. Where a non-financial asset or a non-financial liability results from a forecast transaction or firm commitment being hedged, the amounts deferred in reserves are released directly to the initial measurement of that asset or liability.

Hedges of foreign currency funding are designated as cash flow hedges or fair value hedges of forward exchange risk (hedging both currency and interest rate risk together, where applicable). Hedge accounting for funding is described further in the interest rate risk section below.

29. Financial risk management (continued)

(d) Interest rate risk

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

Libor is being replaced as an interest rate benchmark by alternative reference rates in certain currencies including GBP, USD and other foreign currencies in which we operate. This impacts contracts including financial liabilities that pay Libor-based cash flows, and derivatives that receive or pay Libor-based cash flows. The change in benchmark also affects discount rates which can impact valuations. We are managing the risk by planning to replace Libor cash flows with alternative reference rates on our affected contracts.

We also consider inflation risk and hold some inflation-linked borrowings. We believe that these provide a partial economic offset to the inflation risk associated with our UK inflation linked revenues.

The table in note 18 (Borrowings) sets out the carrying amount, by contractual maturity, of borrowings that are exposed to interest rate risk before taking into account interest rate swaps.

As at 31 March 2020 and 2019, net debt was managed using derivative instruments to hedge interest rate risk as follows:

	2020				
	Fixed rate £m	**Floating rate £m**	**RPI £m**	**Other[1] £m**	**Total £m**
Financial investments	**—**	**672**	**—**	**21**	**693**
Borrowings	**(1,532)**	**(617)**	**(3,093)**	**—**	**(5,242)**
Pre-derivative position	**(1,532)**	**55**	**(3,093)**	**21**	**(4,549)**
Derivative effect	**1,014**	**(356)**	**(84)**	**—**	**574**
Net debt position	**(518)**	**(301)**	**(3,177)**	**21**	**(3,975)**

	2019				
	Fixed rate £m	Floating rate £m	RPI £m	Other[1] £m	Total £m
Financial investments	—	1,298	—	21	1,319
Borrowings	(1,343)	(472)	(3,022)	—	(4,837)
Pre-derivative position	(1,343)	826	(3,022)	21	(3,518)
Derivative effect	992	(407)	(77)	—	508
Net debt	(351)	419	(3,099)	21	(3,010)

1 Represents financial instruments which are not directly affected by interest rate risk, including investments in equity or other non-interest bearing instruments.

Hedge accounting for interest rate risk

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

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

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.

29. Financial risk management (continued)

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

The Group early-adopted IFRS Interest Rate Benchmark Reform amendments related to hedge accounting, with effect from 1 April 2019. The amendments allow existing hedge designations to continue unchanged during the period of uncertainty relating to the timing and method of benchmark migrations.

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

The IFRS amendments impact fair value and cash flow hedges of interest rate risk and related hedging instruments. The notional values of hedging instruments, for each type of hedging relationship impacted, are shown in the hedge accounting tables in note 29 (e). These amounts also correspond to the exposures designated as hedged.

(e) Hedge accounting

In accordance with the requirements of IFRS 9, certain additional information about hedge accounting is disaggregated by risk type and hedge designation type in the tables below:

Year ended 31 March 2020	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	—	(4)	—
Cost of hedging	1	—	—
Transferred to profit or loss in respect of:			
Cash flow hedges	—	(3)	—
Cost of hedging	1	1	—
Consolidated statement of changes in equity			
Other equity reserves - cost of edging balances	2	4	—
Consolidated statement of financial position			
Derivatives - carrying value of hedging instruments[1]			
Assets - current	—	—	—
Assets - non-current	107	39	—
Liabilities - current	(1)	(13)	—
Liabilities - non-current	—	(7)	—
Profiles of the significant timing, price and rate information of hedging instruments			
Maturity range	May 2020 - May 2038	Jul 2020 - Nov 2029	_
Spot FX range			
GBP USD	1.64	1.65 - 1.66	n/a
GBP EUR	n/a	n/a	n/a
Interest rate range			
GBP	Libor +30bps/+409bps	1.795% - 5.8450%	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.

29. Financial risk management (continued)

Year ended 31 March 2019	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	—	1	—
Cost of hedging	—	—	—
Transferred to profit or loss in respect of:			
Cash flow hedges	—	—	—
Cost of hedging	1	1	—
Consolidated statement of changes in equity			
Other equity reserves - cost of edging balances	1	3	—
Consolidated statement of financial position			
Derivatives - carrying value of hedging instruments[1]			
Assets - current	16	—	—
Assets - non-current	98	27	—
Liabilities - current	—	—	—
Liabilities - non-current	(1)	(15)	—
Profiles of the significant timing, price and rate information of hedging instruments			
Maturity range	Nov 2019 - Mar 2038	Mar 2019 - Nov 2019	June 2019
Spot FX range			
GBP USD	1.64 - 1.65	1.66	n/a
GBP EUR	n/a	n/a	—
Interest rate range			
GBP	Libor +30bps/+424bps	1.795% - 5.850%	n/a

1 Following a review in the year, we have changed our presentation of spot foreign exchange movements on derivatives designated in cash flow hedges of foreign currency risk and interest rates. This has no net impact on the consolidated statement of comprehensive income. It has resulted in a prior year gross up £3million to 'Net losses taken to equity' with an equal and offsetting gross up to 'Transferred to profit or loss'.

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

(i) Fair value hedges of foreign currency and interest rate risk on recognised borrowings as at 31 March 2020:

As at 31 March 2020		Balance of fair value hedge adjustments in borrowings		Change in value used for calculating ineffectiveness		
	Hedging instrument nominal [2]	Continuing hedges	Discontinued hedges	Hedged item	Hedging instrument	Hedge ineffectiveness
Hedge type	£m	£m	£m	£m	£m	£m
Foreign currency and interest rate risk on borrowings[1]	(202)	(27)	(45)	(17)	18	1

1 The carrying value of the hedged borrowings is £274 million, of which £7 million is current and £267 million is non-current.

2 Included within the hedging instrument notional balance is £126 million impacted by Interest Rate Benchmark Reform amendments.

As at 31 March 2019		Balance of fair value hedge adjustments in borrowings		Change in value used for calculating ineffectiveness		
	Hedging instrument nominal [1]	Continuing hedges	Discontinued hedges	Hedged item	Hedging instrument	Hedge ineffectiveness
Hedge type	£m	£m	£m	£m	£m	£m
Foreign currency and interest rate risk on borrowings	(271)	(12)	(64)	(13)	14	1

1 The carrying value of the hedged borrowings was £305 million, of which £112 million was current and £193 million was non-current. Following a review in the year, we have changed our presentation of spot foreign exchange movements on derivatives designated in fair value hedges of foreign currency risk and interest rates. It has resulted in a prior year equal and offsetting impact of £1 million to the balances used for the 'Change in value used for calculating ineffectiveness'.

29. Financial risk management (continued)

(ii) Cash flow hedges of foreign currency and interest rate risk as at 31 March 2020:

		Balance in cash flow hedge reserve		Change in value used for calculating ineffectiveness		
	Hedging instrument nominal [1]	Continuing hedges	Discontinued hedges	Hedged item	Hedging instrument	Hedge ineffectiveness
Hedge type	£m	£m	£m	£m	£m	£m
Foreign currency and interest rate risk on borrowings	(145)	(4)	(8)	4	(4)	—
Foreign currency risk on forecasted cash flows	—	—	—	—	—	—

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

As at 31 March 2019		Balance in cash flow hedge reserve		Change in value used for calculating ineffectiveness		
	Hedging instrument nominal [1]	Continuing hedges	Discontinued hedges	Hedged item	Hedging instrument	Hedge ineffectiveness
Hedge type	£m	£m	£m	£m	£m	£m
Foreign currency and interest rate risk on borrowings	(137)	1	(5)	(1)	1	—
Foreign currency risk on forecasted cash flows	(1)	—	—	—	—	—

1. Following a review in the year, we have changed our presentation of spot foreign exchange movements on derivatives designated in cash flow hedges of foreign currency risk and interest rates. This has no net impact on the consolidated statement of comprehensive income. It has resulted in a prior year equal and offsetting impact of £3 million to the balances used for the 'Change in value used for calculating ineffectiveness'.

(f) Fair value analysis

Included in the statement of financial position are financial instruments which have been measured at fair value. These fair values can be categorised into hierarchy levels that are representative of the inputs used in measuring the fair value. The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used.

	2020				2019			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Assets								
Derivative financial instruments	**—**	**737**	**—**	**737**	—	672	—	672
	—	**737**	**—**	**737**	—	672	—	672
Liabilities								
Derivative financial instruments	**—**	**(78)**	**(85)**	**(163)**	—	(87)	(77)	(164)
Liabilities held at fair value	**(741)**	**—**	**—**	**(741)**	**(667)**	—	—	(667)
	(741)	**(78)**	**(85)**	**(904)**	**(667)**	(87)	(77)	(831)
	(741)	**659**	**(85)**	**(167)**	(667)	585	(77)	(159)

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

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

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

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

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

Our level 3 derivative financial instruments include inflation linked swaps where the inflation curve is illiquid. In valuing these instruments we use in-house valuation models and obtain external valuations to support each reported fair value.

29. Financial risk management (continued)

In light of the current ongoing impact of the COVID-19 pandemic, the valuations of certain assets and liabilities can be more subjective. While there have been significant movements in market indices, all of our financial instruments are traded in markets that continue to be active and therefore, we are satisfied that there has been no significant impact on the fair values of our financial instruments measured at fair value, and that any impact is reflected in the fair values in the table above.

(f) Fair value analysis (continued)

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

	Financing derivatives	
	2020	**2019**
	£m	£m
At 1 April	**(77)**	(81)
Net gain for the year[1]	**(7)**	3
Settlements	**(1)**	1
At 31 March	**(85)**	(77)

1 Loss of £7 million (2019: £3 million gain) is attributable to derivative financial instruments held at the end of the reporting period and has been recognised in finance costs in the income statement.

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

	Financing derivatives	
	2020	2019
	£m	£m
+20 basis points change in LPI (Limited Price Inflation) market curve[1]	**(36)**	(33)
-20 basis points change in LPI market curve[1]	**34**	32

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.

29. Financial risk management (continued)

(g) Capital Risk Management

The capital structure of the Group consists of shareholders' equity, as disclosed in the consolidated statement of changes in equity, and net debt (note 26). Our objectives when managing capital are: to safeguard our ability to continue as a going concern, to remain within regulatory constraints of our regulated operating company and to maintain an efficient mix of debt and equity funding thus achieving an optimal capital structure and cost of capital. We regularly review and manage the capital structure as appropriate in order to achieve these objectives.

Maintaining appropriate credit ratings for our regulated company is an important aspect of our capital risk management strategy and balance sheet efficiency. We monitor our balance sheet efficiency by regulatory asset value (RAV) gearing calculated as net debt expressed as a percentage of RAV, which indicates the level of debt employed to fund our regulated business. It is compared with the level of RAV gearing indicated by Ofgem as being appropriate for our business, at around 62.5% - 65%. The RAV gearing ratio at 31 March 2020 was 63% (2019: 49%).

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

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

These restrictions are subject to alteration in the normal licence review process.

As most of our business is regulated, at 31 March 2020 the majority of our net assets are subject to some of the restrictions noted above. These restrictions are not considered to be significantly onerous, nor do we currently expect they will prevent the planned payment of dividends in future in line with our dividend policy.

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

30. Sensitivities

In order to give a clearer picture of the impact on our results or financial position of potential changes in significant estimates and assumptions, the following sensitivities are presented. These sensitivities are hypothetical, as they 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 table below show the potential impact in the income statement (and consequential impact on net assets) for a 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 table below all 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 material adjustments to the carrying values of assets and liabilities in the next year.

	2020		2019	
	Income statement £m	**Net assets £m**	Income statement £m	Net assets £m
Pensions obligations benefit (pre-tax)[1]				
Discount rate increase of 0.5%[2]	**2**	**376**	2	376
RPI rate increase of 0.5%[3]	**2**	**359**	2	359
Long-term rate of increase in salaries change of 0.5%[4]	**—**	**20**	—	20
Increase of one year to life expectancy at age 65	**1**	**228**	1	228

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

2 A change in the discount rate is likely to occur as a result of changes in bond yields and as such would be expected to be offset to a significant degree by a change in the value of the bond assets held by the plans.

3 The projected impact resulting from a change in RPI reflects the underlying effect on pensions in payment, pensions in deferment and resultant increases in salary assumptions.

4 This change has been applied to both the pre 1 April 2014 and post 1 April 2014 rate of increase in salary assumption.

Pensions and post retirement benefits assumptions

Sensitivities have been prepared to show how the DB obligations and annual service costs could potentially be impacted by changes in the relevant actuarial assumption that were reasonably possible as at 31 March 2020. In preparing sensitivities the potential impact has been calculated by applying the change to each assumption in isolation and assuming all other assumptions remain unchanged. This is with the exception of RPI in the UK where the corresponding change to increases to pensions in payment, increases to pensions in deferment and increases in salary is recognised.

(b) Sensitivities on financial instruments

We are further required to show additional sensitivity analysis under IFRS 7 and these are shown separately in the subsequent table due to the additional assumptions that are made in order to produce meaningful sensitivity disclosures.

Our net debt as presented in note 26 financial instruments is sensitive to changes in market variables, being UK interest rates and the UK RPI. These impact the valuation of our borrowings, deposits and derivative financial instruments. The analysis illustrates the sensitivity of our financial instruments to reasonably possible changes in these market variables.

30. Sensitivities (continued)

(b) Sensitivities on financial instruments (continued)

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

- the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio, and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 March 2020 and 2019 respectively;
- the statement of financial position sensitivity to interest rates relates to items presented at their fair values namely, derivative financial instruments. Further debt and other are carried at amortised cost and so their carrying value does not change as interest rates move;
- the sensitivity of interest to movements in interest rates is calculated on net floating rate exposures on debt, deposits and derivative instruments; and
- changes in the carrying value of derivatives from movements in interest rates of designated cash flow hedges are assumed to be recorded fully within equity.

	2020		2019	
	Income statement £m	**Other equity reserves £m**	Income statement £m	Other equity reserves £m
Financial risk (post-tax)				
UK RPI rate change of 0.5% 1[1]	**12**	**—**	12	—
UK Interest rate changes of 0.5%	**3**	**4**	—	5

1 Excludes sensitivities to LPI curve. Further details on sensitivities are provided in note 29.

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

	2020		2019	
Assets and liabilities carried at fair value (post-tax):	**Income statement £m**	**Net assets £m**	**Income statement[2]** £m	**Net assets[2]** £m
10% fair value change in derivative financial instruments[1]	**46**	**46**	41	41

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

2 March 2019 comparative figures have been restated to show post-tax figures.

31. Ultimate parent company

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

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

32. Subsidiary undertakings, joint ventures and associates

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

Subsidiary undertakings

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

	Principal activity		Holding
British Transco Capital Inc. (incorporated in the US)	Financing	Direct	100%
Corporation Service Company, 251 Little Falls Drive, Wilmington, DE 19808			
British Transco Finance Inc. (incorporated in the US)	Financing	Direct	100%
Corporation Service Company, 251 Little Falls Drive, Wilmington, DE 19808			
British Transco International Finance BV (incorporated in the Netherlands)	Financing	Direct	100%
Westblaak 89, 3012 KG Rotterdam, P.O. Box 21153, 3001 AD, Rotterdam, Netherlands			
National Grid Metering Limited (incorporated in England and Wales)	Gas metering services	Direct	100%
1 - 3 Strand, London, WC2N 5EH			

Joint ventures

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

	Principal activity	Holding
Joint Radio Company Limited (incorporated in England and Wales)	Consultancy services	50%

Joint Radio Company Limited is based at 52 Dean Bradley House, Horseferry Road, London, SW1P 2AF.

33. Transition to IFRS 16

The Group has adopted IFRS 16 'Leases', with effect from 1 April 2019. IFRS 16 introduces a single lease accounting model for lessees (rather than the current distinction between operating and finance leases). A contract is, or contains, a lease, if it provides the right to control the use of an identified asset for a specific period of time in exchange for consideration. The new standard results in our operating leases being accounted for in the consolidated statement of financial position as 'right-of-use' assets with corresponding lease liabilities also recognised. It therefore increases both our assets and liabilities (including net debt). It also changes the timing and presentation in the consolidated income statement as it results in an increase in finance costs and depreciation largely offset by a reduction in the previously straight-line operating costs.

Transition options

We have applied IFRS 16 using the modified retrospective approach. Comparatives have not been restated on adoption. Instead, on the opening balance sheet date, right-of-use assets (net of accrued rent or rent-free periods, and reported within property, plant and equipment), additional lease liabilities (reported within borrowings) and any associated deferred tax have been recognised, with no cumulative transition adjustment to reflect through retained earnings. For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as computers), the Group continues to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

We elected to apply the practical expedient to grandfather our previous assessments of whether contracts were previously accounted for as a lease, as permitted by the standard, instead of reassessing all significant contracts as at the date of initial application to determine whether they met the IFRS 16 definition of a lease.

We have elected to apply the practical expedient on transition, which permits right-of-use assets to be measured at an amount equal to the lease liability on adoption of the standard (adjusted for any prepaid or accrued lease expenses).

Impact of transition

At 31 March 2019, National Grid Gas plc disclosed non-cancellable operating lease commitments of £19 million. A further £2 million of lease liabilities were recognised due to the requirement in IFRS 16 to recognise lease liabilities for the term that we are reasonably certain to exercise lease extension or lease termination options for, rather than only for the period of the minimum contractual term that was used in determining our lease liability commitments. This was partially offset by the £1 million impact of discounting our lease liabilities at the incremental borrowing rate for each lease. The weighted average discount rate applied to lease liabilities recognised on the transition date was 1.42%.There were some immaterial short term and low value leases, which will be recognised on a straight-line basis as an expense in the consolidated income statement over the remaining lease term.

As a result, National Grid Gas plc has recognised additional right-of-use assets of £20 million and lease liabilities (which are included within net debt) of £20 million at 1 April 2019. No additional net deferred tax has arisen. There has been no impact on net assets as shown in the table below, which shows the impacted balances from the consolidated statement of financial position.

Impact of transition	**31 March 2019 As previously reported £m**	**IFRS 16 transition adjustments £m**	**1 April 2019 As restated £m**
Property, plant and equipment – Right-of-use assets			
Land and buildings	119	17	136
Plant and machinery	3,866	—	3,866
Assets in the course of construction	504	—	504
Motor vehicles and office equipment	30	3	33
Total property, plant and equipment	4,519	20	4,539
Borrowings - Lease liabilities			
Current	—	(4)	(4)
Non-current	—	(16)	(16)
Total lease liabilities	—	(20)	(20)
Other liabilities			
Trade and other payables	325	—	325
Other non-current liabilities	17	—	17
Net assets	**4,773**	**—**	**4,773**
Equity			
Total equity	**4,773**	**—**	**4,773**

33. Transition to IFRS 16 (continued)

The impact of IFRS 16 on profit after tax as a result of adopting the new standard is not material. However, it has resulted in an increase in operating profit due to the operating costs now being replaced with depreciation and interest charges.

The impact on the cash flow statement has also not been material, although there has been an increase in operating cash flows and decrease in financing cash flows, because repayment of the principal portion of the lease liabilities is now classified as cash flows from financing activities rather than operating cash flows.

Ongoing accounting policy

With effect from 1 April 2019, new lease arrangements entered into are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. The right of use asset and associated lease liability arising from a lease are initially measured at the present value of the lease payments expected over the lease term, plus any other costs. The discount rate applied is the rate implicit in the lease or if that is not available, then the incremental rate of borrowing for a similar term and similar security.

The lease term takes account of exercising any extension options that are at our option if we are reasonably certain to exercise the option and any lease termination options unless we are reasonably certain not to exercise the option.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period using the effective interest rate method. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as computers), the Group continues to recognise a lease expense on a straight-line basis.

Company balance sheet

as at 31 March

	Notes	2020 £m	2019 £m
Fixed assets			
Intangible assets	5	**118**	117
Property, plant and equipment	6	**4,610**	4,538
Investments	7	**17**	17
		4,745	4,672
Current assets			
Cash at bank and in hand		**—**	—
Stocks and other current assets	8	**16**	14
Debtors (amounts falling due within one year)	9	**945**	1,539
Debtors (amounts falling due after more than one year)	9	**3,490**	3,503
Derivative financial instruments (amounts falling due within one year)	10	**—**	33
Derivative financial instruments (amounts falling due after more than one year)	10	**737**	639
Investments	11	**108**	85
Post employment benefits pension asset	15	**553**	442
		5,849	6,255
Creditors (amounts falling due within one year)	12	**(1,194)**	(1,278)
Net current assets		**4,655**	4,977
Total assets less current liabilities		**9,400**	9,649
Creditors (amounts falling due after more than one year)	13	**(4,832)**	(4,353)
Provisions for liabilities	16	**(680)**	(618)
Net assets		**3,888**	4,678
Equity			
Share capital	17	**45**	45
Share premium account		**204**	204
Other equity reserve	18	**1,337**	1,344
Profit and loss account		**2,302**	3,085
Total shareholders' equity		**3,888**	4,678

The Company financial statements set out on pages 117 to 131 were approved by the Board of Directors and authorised for issue on 21 July 2020. They were signed on its behalf by:

Nicola Shaw Chair

Alistair Todd Director

National Grid Gas plc

Registered number: 2006000

Company statement of changes in equity

for the years ended 31 March

	Share capital	Share premium account	Retained earnings	Other reserves[1]	Shareholders' equity
	£m	£m	£m	£m	£m
As 1 April 2018	45	204	2,907	1,336	4,492
Profit for the year	—	—	206	—	206
Total other comprehensive loss for the year	—	—	8	8	16
Total comprehensive income/(loss) for the year	—	—	214	8	222
Share-based payments	—	—	3	—	3
At 31 March 2019 (as previously reported)	45	204	3,124	1,344	4,717
Impact of transition to FRS101			(39)		(39)
At 31 March 2019 (as restated)	45	204	3,085	1,344	4,678
Profit for the year		—	223	—	223
Total other comprehensive income for the year	—	—	38	(7)	31
Total comprehensive income for the year	—	—	261	(7)	254
Equity dividends	—	—	(1,047)	—	(1,047)
Share-based payments	—	—	3	—	3
At 31 March 2020	**45**	**204**	**2,302**	**1,337**	**3,888**

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

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

The Company has not presented its own profit and loss account and related notes as permitted by section 408 of the Companies Act 2006. The Company's profit after taxation was £223 million (2019: £206 million).

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 Gas plc, under the Companies Act 2006. The following disclosures provide additional information to users of these financial statements.

A. Basis of preparation of individual financial statements under FRS101

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

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

In accordance with the exemption permitted by section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account or statement of comprehensive income.

As permitted by FRS 101, the company has taken advantage of exemptions from the requirements of IFRS in relation to the following elements:

- presentation of a cashflow statement and related notes;
- disclosures in respect of share based payment;
- disclosures in respect of capital management;
- disclosures required by IFRS 13 '*Fair Value Measurement';*
- disclosures required by IFRS 7 '*Financial Instruments: Disclosures';*
- presentation of comparative information in respect of certain assets;
- the effect of standards not yet effective; and
- related party transactions.

Where required, equivalent disclosures are given in the Group financial statements of National Grid Plc, which are available to the public and can be obtained as set out in note 31 to the consolidated financial statements.

These individual financial statements of the Company have been prepared on an historical cost basis, except for the revaluation of financial instruments, and are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates. The 2019 comparative financial information has also been prepared on this basis.

The individual financial statements have been prepared on a going concern basis following the assessment made by the Directors as set on pages 41 to 42.

The Company has adopted IFRS 16 with effect from 1 April 2019. Refer to note 22 for full details of the impact and transition adjustments arising on adoption.

First time adoption of FRS 101

During the current financial year, management chose to transition from FRS 102 to FRS 101 so as to ensure all companies within the National Grid UK group of companies report using the same basis of accounting.

The last financial statements prepared under the previous UK accounting framework were for the year ended 31 March 2019, thus, the date of transition to FRS 101 was 1 April 2018. All comparative information in the financial statements has been restated to reflect the company's adoption of FRS 101, except where otherwise required or permitted by paragraphs 6 to 33 of IFRS 1 'First-time Adoption of International Financial Reporting Standards'. Details of this transition can be found in note 23.

The company is included within the consolidated financial statements of its ultimate parent company, National Grid Gas plc. In accordance with IFRS 1, the company has measured its assets and liabilities at the carrying amounts that would be included in the National Grid Gas plc consolidated financial statements.

2. Auditors' remuneration

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

	2020 **£m**	2019 £m
Audit services		
Audit fee of Company	**0.4**	0.4
Other services		
Fees payable to the Company's auditors for audit related assurance services[1]	**0.5**	0.4

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

3. Number of employees, including Directors

	2020 **Monthly Average** **number**	2019 Monthly average number
Gas Transmission	**1,832**	1,853

4. Key management compensation

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

5. Intangible assets

	Software £m
Cost at 1 April 2019	348
Additions	25
Reclassifications	1
Cost at 31 March 2020	374
Accumulated amortisation at 1 April 2019	(231)
Amortisation charge for the year	(25)
Accumulated amortisation at 31 March 2020	(256)
Net book value at 31 March 2020	**118**
Net book value at 31 March 2019	117

6. Property, plant and equipment

	Land and buildings	Plant and machinery	Assets in the course of construction	Motor vehicles and office equipment	Total
	£m	£m	£m	£m	£m
Cost at 1 April 2019	331	8,294	506	235	9,366
Right-of-use assets recognised on transition to IFRS 16[3]	17	—	—	2	19
Additions	2	76	165	18	261
Disposals[2]	(32)	(266)	(2)	(15)	(315)
Reclassifications[1]	—	117	(123)	5	(1)
Cost at 31 March 2020	318	8,221	546	245	9,330
Accumulated depreciation at 1 April 2019	(213)	(4,411)	—	(204)	(4,828)
Depreciation charge for the year	(8)	(151)	—	(14)	(173)
Disposals	31	241	—	15	287
Impairment	—	—	(6)	—	(6)
Accumulated depreciation at 31 March 2020	(190)	(4,321)	(6)	(203)	(4,720)
Net book value at 31 March 2020	**128**	**3,900**	**540**	**42**	**4,610**
Net book value at 31 March 2019	118	3,883	506	31	4,538

1 Represents amounts transferred between categories, (to)/from other intangible assets (see note 5).

2 Cost disposal of £88 million relating to Meter disposals for displacement of Smart meters, and £143m disposal relating to LNG Storage Avonmouth assets due to site sold - all LNG Storage Avonmouth assets had been depreciated to nil.

3 £19 million of additional right-of-use assets were recognised on transition to IFRS 16 on 1 April 2019. See note 22 for details.

The net book value of land and buildings comprised:

	2020	2019
	£m	£m
Freehold	68	68
Short leasehold (under 50 years)	60	50
	128	118

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 £2m (2019: £33) and £72m (2019: £99m) respectively.

Right-of-use assets

National Grid Gas plc leases various properties, equipment and cars. With effect from 1 April 2019, new lease arrangements entered into are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the company (see note 22). The right-of-use asset and associated lease liability arising from a lease are initially measured at the present value of the lease payments expected over the lease term, plus any other costs. The discount rate applied is the rate implicit in the lease or if that is not available, then the incremental rate of borrowing for a similar term and similar security. The lease term takes account of exercising any extension options that are at our option if we are reasonably certain to exercise the option and any lease termination options unless we are reasonably certain not to exercise the option. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period using the effective interest rate method. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as computers), National Grid Gas plc continues to recognise a lease expense on a straight-line basis.

6. Property, plant and equipment (continued)

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

	Land and buildings	Motor vehicles and office equipment	Total
	£m	£m	£m
Net book value at 31 March 2020	13	2	15
Additions	—	1	1
Depreciation charge for the year ended 31 March 2020	(4)	(2)	(6)

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

	Total
	£m
Included within net finance income and costs:	
Interest expense on lease liabilities	—
Included within revenue:	
Lease income	—
Included within operating expenses:	
Expenses relating to low value leases	—

The associated lease liabilities are disclosed in note 14.

7. Investments

	Shares in subsidiary undertakings
	£m
Cost and net book value at 31 March 2019 and 31 March 2020	17

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

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

8. Stocks and other current assets

	2020	2019
	£m	£m
Raw materials and consumables	**14**	14
Other current assets - emission allowances	**2**	—
	16	14

There is a provision for obsolescence of £3m against inventories as at 31 March 2020 (2019: £3m).

9. Debtors

	2020 £m	2019 £m
Amounts falling due within one year:		
Trade debtors	**112**	76
Amounts owed by fellow subsidiary undertakings	**643**	1,293
Other debtors	**33**	24
Accrued income	**122**	114
Prepayments	**35**	32
	945	1,539
Amounts falling due after one year:		
Amounts owed by immediate parent undertaking[1]	**3,427**	3,427
Other debtors	**63**	76
	3,490	3,503
Total debtors	**4,435**	5,042

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

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

10. Derivative financial instruments

The fair values of derivative financial instruments are:

	2020			2019		
	Assets £m	**Liabilities £m**	**Total £m**	Assets £m	Liabilities £m	Total £m
Amounts falling due within one year	**—**	**(31)**	**(31)**	33	(48)	(15)
Amounts falling due after more than one year	**737**	**(132)**	**605**	639	(116)	523
	737	**(163)**	**574**	672	(164)	508

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

	2020 £m	2019 £m
Interest rate swaps	**(971)**	(2,186)
Cross-currency interest rate swaps	**(543)**	(575)
Foreign exchange forward currency	**—**	(1)
Inflation linked swaps	**(200)**	(200)
	(1,714)	(2,962)

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

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

11. Current investments

	2020 £m	2019 £m
Collateral[1]	**90**	85
Amounts due from fellow subsidiaries	**18**	—
	108	85

[1] Includes collateral placed with counterparties with whom we have entered into a credit support annex to the ISDA Master Agreement £90 million (2019: £85 million).

12. Creditors (amounts falling due within one year)

	2020 £m	2019 £m
Derivative financial instruments (note 10)	**31**	48
Borrowings (note 14)	**778**	845
Trade creditors	**103**	102
Amounts owed to fellow subsidiary undertakings	**32**	80
Corporation tax	**31**	34
Other taxation and social security	**55**	46
Other creditors	**137**	87
Deferred income	**27**	36
	1,194	1,278

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

	2020 £m	2019 £m
Derivative financial instruments (note 10)	**132**	116
Borrowings (note 14)	**4,586**	4,120
Other creditors	**11**	17
Accruals and deferred income	**103**	100
	4,832	4,353

14. Borrowings

The following table analyses the Company's total borrowings:

	2020 £m	2019 £m
Amounts falling due within one year:		
Bank loans and overdrafts	**620**	474
Bonds	**32**	241
Lease liabilities	**5**	—
Borrowings from fellow subsidiary undertakings	**120**	129
Other loans	**1**	1
	778	845
Amounts falling due after more than one year:		
Bank loans	**538**	524
Bonds	**3,185**	2,835
Lease liabilities	**11**	—
Borrowings from fellow subsidiary undertakings	**666**	585
Other loans	**186**	176
	4,586	4,120
Total borrowings	**5,364**	4,965

Total borrowings are repayable as follows:		
Less than 1 year	**778**	845
In 1 - 2 years	**1,006**	7
In 2 - 3 years	**778**	922
In 3 - 4 years	**2**	760
In 4 - 5 years	**94**	—
More than 5 years by instalments	**50**	52
More than 5 years, other than by instalments	**2,656**	2,379
	5,364	4,965

14. Borrowings (continued)

The notional amount outstanding of the Company's debt portfolio at 31 March 2020 was £4,801m (2019: £4,997m).

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

Lease liabilities

The Group adopted IFRS 16 on 1 April 2019, which resulted in the recognition of £20 million of additional lease liabilities. As we applied the modified retrospective approach to transition, comparatives were not restated. Refer to note 22 for details.

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

	2020 £m
Gross lease liabilities are repayables as follows:	
Less than 1 year	**(5)**
1 to 5 years	**(10)**
More than 5 years	**(2)**
	(17)
Less: finance charges allocated to future periods	**1**
	(16)
The present value of lease liabilities are as follows:	
Less than 1 year	**(5)**
1 to 5 years	**(9)**
More than 5 years	**(2)**
	(16)

15. Pensions

National Grid Gas plc's employees are members of either the defined benefit National Grid UK (Section B) pension scheme or the National Grid YouPlan defined contribution trust. Further details of the Scheme and the actuarial assumptions used to value the associated assets and pension obligations are provided in note 22 to the consolidated financial statements.

Amounts recognised in the balance sheet of the Company are as follows:

	2020	2019
	£m	£m
Present value of funded obligations	**(4,770)**	(5,324)
Fair value of scheme assets	**5,323**	5,766
Net pension asset	**553**	442
Changes in the present value of defined benefit obligations		
Opening defined benefit obligations	**(5,324)**	(5,321)
Current service cost	**(12)**	(14)
Interest cost	**(125)**	(134)
Actuarial gains/(losses) - experience	**33**	(16)
Actuarial gains - demographic assumptions	**57**	84
Actuarial gains/(losses) - financial assumptions	**320**	(221)
Past service cost - augmentations	**—**	(1)
Past service cost - redundancies	**—**	(2)
Past service cost - plan amendments	**—**	(12)
Special termination benefit cost – redundancies	**(1)**	(18)
Benefits paid	**282**	331
Closing defined benefit obligations	**(4,770)**	(5,324)
Changes in the fair value of scheme assets		
Opening fair value of scheme assets	**5,766**	5,733
Interest income	**136**	145
Return on assets (less)/greater than assumed	**(352)**	162
Administration costs	**(4)**	(3)
Employer contributions	**60**	61
Benefits paid	**(283)**	(332)
Closing fair value of scheme assets	**5,323**	5,766

16. Provisions for liabilities

	Decommissioning £m	Environmental £m	Restructuring £m	Deferred taxation £m	Other £m	Total £m
At 1 April 2019 (as previously reported)	90	21	12	457	33	613
Transition to FRS101				5		5
At 1 April 2019 (as restated)	90	21	12	462	33	618
Additions	1	1	—	71	22	95
Transferred to reserves	—	—	—	18	—	18
Utilised	(19)	—	(9)	—	(11)	(39)
Unused amounts reversed	—	(11)	(1)	—	(1)	(13)
Unwinding of discount	1	1	—	—	—	2
Transfers	—	—	(1)	—	—	(1)
At 31 March 2020	**73**	**12**	**1**	**551**	**43**	**680**

Decommissioning provision

The decommissioning provision represents expenditure relating to the demolition of gas-holders expected to be incurred until 2026. Unused amounts reversed in 2019 of £2 million represent the impact of a change in the spend profile.

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

The undiscounted provision based on 0.5% real discount rate was £75 million (2019: £93 million based on 1% real discount rate).

Environmental provision

The environmental provision represents the estimated restoration and remediation costs relating to operational sites owned by the Company. Cash flows are expected to be incurred until 2075, with £4 million expected to be incurred in the next 10 years.

A number of estimation uncertainties affect the calculation of the provision, including the impact of regulation, the accuracy of site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and changes in the real discount rate. This provision incorporates our best estimate of the financial effect of these uncertainties, but future changes in any of the assumptions could materially impact the calculation of the provision. The undiscounted amount is the undiscounted best estimate of the liability having regard to these uncertainties.

The undiscounted provision based on 0.5% real discount rate was £13 million (2019: £26 million based on 1% real discount rate). Unused amounts reversed in 2020 of £11 million represents changes in estimated remediation costs on a number of sites.

Restructuring provision

In 2019, a cost-efficiency and restructuring programme was undertaken in the gas transmission business. This resulted in the recognition of a £17 million charge in the year and a closing provision of £12 million. The remaining provision was utilised in the current year.

Deferred tax (as restated)

Deferred taxation comprises:

	2020 £m	2019 £m
Accelerated capital allowances	**447**	390
Other timing differences	**104**	67
	551	457

Other provisions

Other provisions at 31 March 2020 include £12 million (2019: £20 million) in respect of legacy provisions recognised following the sale of the Gas Distribution (GD) business. We expect the majority of this provision to be utilised within one year. Additions include £3m Crop & Quarry additions and additional amounts for claims relating to the former GD business. Amounts utilised of £11 million principally relates to the utilisation of provisions recognised following the sale of GD business (£8 million).

17. Share capital

	Number of shares 2020 millions	Number of shares 2019 millions	**2020 £m**	2019 £m
At 31 March - ordinary shares of 1 2/15 p each at				
Allotted, called-up and fully paid	**3,944**	3,944	**45**	45

18. Other equity reserves

	Capital Redemption £m	Own credit £m	Cash flow hedge £m	Cost of hedging £m	Total £m
At 31 March 2019	1,332	13	(3)	2	1,344
Transferred to reserves	—	(3)	(7)	2	(8)
Tax	—	—	1	—	1
At 31 March 2020	**1,332**	**10**	**(9)**	**4**	**1,337**

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

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

19. Capital and other commitments

Commitments are those amounts that we are contractually required to pay in the future as long as the other party meets its obligations. These commitments primarily relate to energy purchase agreements and contracts for the purchase of assets which, in many cases, extend over a long period of time. Commitments previously included operating lease commitments but on transition to IFRS 16, which was effective from 1 April 2019, substantially all lease commitments are included on the balance sheet as right-of-use assets (see note 6) and lease liabilities (see note 14). Therefore, only low-value leases and short-term leases are off-balance sheet commitments, both of which are immaterial. We also disclose any contingencies, which include guarantees that companies have given, where we pledge assets against current obligations that will remain for a specific period.

(a) Future capital expenditure

	2020 £m	2019 £m
Contracted for but not provided	**78**	193

(b) Operating lease commitments

The Company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2020 £m	2019 £m
Amounts due:		
Less than 1 year	**—**	5
In 1 to 5 years	**—**	10
More than 5 years	**—**	3
	—	18

20. Contingent liabilities

(a) Other commitments, contingencies and guarantees

The value of other commitments and guarantees at 31 March 2020 amounted to £69 million (2019: £122 million), including energy purchase commitments amounting to £19 million (2019: £22 million). Energy purchase commitments relate to contractual commitments to purchase electricity or gas that are used to satisfy physical delivery requirements to our customers or for energy that we use ourselves (i.e. normal purchase, sale or usage) and hence are accounted for as ordinary purchase contracts.

Security arrangements in favour of NGUKPS Trustees are disclosed separately in note 22 to the consolidated financial statements.

(b) Parent Company loan guarantees on behalf of subsidiaries

The Company has guaranteed the repayment of principal sums, any associated premium and interest on specific loans due from its subsidiaries to third parties. At 31 March 2020, the sterling equivalent amounted to £759 million (2019: £724 million).

(c) Litigation and claims

Through the ordinary course of our operations, we are party to various litigation, claims and investigations. We do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on our results of operations, cash flows or financial position and claims.

21. Related parties

The following transactions are with joint ventures and a former subsidiary of the Company which are not wholly owned by National Grid plc and are in the normal course of business. Other related party transactions are not disclosed in accordance with the exemptions available under FRS 101.

	2020	2019
	£m	£m
Goods and services supplied	**39**	192
Services received	**47**	49
Amounts receivable at 31 March	**54**	71
Amounts payable at 31 March	**86**	183

Amounts payable or receivable are ordinarily settled one month in arrears. No amounts have been provided at 31 March 2020 (2019: £nil) and no expense has been recognised during the year (2019: £nil) in respect of bad or doubtful debts from the above related party transactions.

22. Transition to IFRS 16

The Company has adopted IFRS 16 'Leases', with effect from 1 April 2019. IFRS 16 introduces a single lease accounting model for lessees (rather than the current distinction between operating and finance leases). A contract is, or contains, a lease, if it provides the right to control the use of an identified asset for a specific period of time in exchange for consideration. The new standard results in our operating leases being accounted for in the consolidated statement of financial position as 'right-of-use' assets with corresponding lease liabilities also recognised. It therefore increases both our assets and liabilities (including net debt). It also changes the timing and presentation in the consolidated income statement as it results in an increase in finance costs and depreciation largely offset by a reduction in the previously straight-line operating costs.

Transition options

We have applied IFRS 16 using the modified retrospective approach. Comparatives have not been restated on adoption. Instead, on the opening balance sheet date, right-of-use assets (net of accrued rent or rent-free periods, and reported within property, plant and equipment), additional lease liabilities (reported within borrowings) and any associated deferred tax have been recognised, with no cumulative transition adjustment to reflect through retained earnings. For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as computers), the Company continues to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

We elected to apply the practical expedient to grandfather our previous assessments of whether contracts were previously accounted for as a lease, as permitted by the standard, instead of reassessing all significant contracts as at the date of initial application to determine whether they met the IFRS 16 definition of a lease.

We have elected to apply the practical expedient on transition, which permits right-of-use assets to be measured at an amount equal to the lease liability on adoption of the standard (adjusted for any prepaid or accrued lease expenses).

Impact of transition

At 31 March 2019, National Grid Gas plc disclosed non-cancellable operating lease commitments of £19 million. A further £2 million of lease liabilities were recognised due to the requirement in IFRS 16 to recognise lease liabilities for the term that we are reasonably certain to exercise lease extension or lease termination options for, rather than only for the period of the minimum contractual term that was used in determining our lease liability commitments. This was partially offset by the £1 million impact of discounting our lease liabilities at the incremental borrowing rate for each lease. The weighted average discount rate applied to lease liabilities recognised on the transition date was 1.42%.There were some immaterial short term and low value leases, which will be recognised on a straight-line basis as an expense in the consolidated income statement over the remaining lease term.

As a result, National Grid Gas plc has recognised additional right-of-use assets of £20 million and lease liabilities (which are included within net debt) of £20 million at 1 April 2019. No additional net deferred tax has arisen. There has been no impact on net assets as shown in the table below, which shows the impacted balances from the consolidated statement of financial position.

Impact of transition	**31 March 2019 As previously reported £m**	**IFRS 16 transition adjustments £m**	**1 April 2019 As restated £m**
Property, plant and equipment – Right-of-use assets			
Land and buildings	118	17	135
Plant and machinery	3,883	—	3,883
Assets in the course of construction	506	—	506
Motor vehicles and office equipment	31	2	33
Total property, plant and equipment	4,538	19	4,557
Borrowings - Lease liabilities			
Current	—	(4)	(4)
Non-current	—	(16)	(16)
Total lease liabilities	—	(20)	(20)
Other liabilities			
Trade and other payables	262	1	263
Other non-current liabilities	17	—	17
Net assets	**4,678**	**—**	**4,678**
Equity			
Total equity	**4,678**	**—**	**4,678**

23. Transition to FRS101

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

In accordance with the exemption permitted by section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account or statement of comprehensive income. For the year ended 31 March 2020, profit for the year under FRS 102 would have been £226 million. Total comprehensive income for the same period, under FRS 101, is £261 million. Of this £35 million variance, £(3) million relates to a difference in revenue recognition between FRS 102 and FRS 101 concerning income in respect of diversions and connections. £38m of the variance relates to items that go through comprehensive income rather than profit or loss and are noted below:

- £58 million - remeasurement of retirement benefit obligations; and
- £(20) million - tax on items that will never be reclassified to profit or loss

The last financial statements prepared under the previous UK accounting framework (being FRS 102) were for the year ending 31 March 2019, thus, the date of transition to FRS 101 was 1 April 2018. All comparative information in the financial statements has been restated to reflect the company's adoption of FRS 101 and those adjustments are shown below.

The transitional adjustments made below are a reversal of previous adjustments needed in order to align the accounts to FRS102 from IFRS (since the underlying general ledger is based on the IFRS framework). The adjustment made to Creditors (amounts falling due within one year) relates to capital contributions and this was made previously due to FRS 102 being based off of a different set of accounting standards relating to revenue recognition (whereas IFRS applies IFRS 15 Revenue from Contracts with Customers as of 1 January 2018). The other adjustments are reversals of deferred tax amounts due to the differing accounting policies on capital contributions and on the unwind of historic industrial buildings allowances. These have now been reversed upon transition to FRS 101 since this framework adopts all requirements of EU-adopted IFRS. This results in a net decrease to shareholders' equity of £39 million.

	31 March 2019 as previously reported	FRS101 Transition adjustment	1 April 2019 as restated
	£m	£m	£m
Non-current assets			
Intangible assets	117	—	117
Property, plant and equipment	4,538	—	4,538
Investments	17		17
	4,672	—	4,672
Current assets			
Cash at bank and in hand	—	—	—
Stocks and other current assets	14	—	14
Debtors (amounts falling due within one year)	1,539	—	1,539
Debtors (amounts falling due after more than one year)	3,503	—	3,503
Derivative financial instruments (amounts falling due within one year)	33	—	33
Derivative financial instruments (amounts falling due after more than one year)	639	—	639
Investments	85	—	85
Post employment benefits pension asset	442	—	442
Total current assets	6,255	—	6,255
Creditors (amounts falling due within one year)	(1,246)	(32)	(1,278)
Net current assets	5,009	(32)	4,977
Total assets less current liabilities	9,681	(32)	9,649
Creditors (amounts falling due after more than one year)	(4,351)	(2)	(4,353)
Provisions for liabilities	(613)	(5)	(618)
Net assets	4,717	(39)	4,678
Equity			
Share capital	45	—	45
Share premium account	204	—	204
Other equity reserve	1,344	—	1,344
Profit and loss account	3,124	(39)	3,085
Total shareholders' equity	4,717	(39)	4,678

Glossary and definitions

References to the 'Company', 'we', 'our', and 'us', refer to National Grid Gas plc itself or to National Grid Gas plc and its subsidiaries collectively, depending on context.

EU

European Union

FRS

UK Financial Reporting Standard

GAAP

Generally accepted accounting principles

GHG

Greenhouse Gas

GW

Gigawatt, 10^9 watts

GWh

Gigawatt hours

HSE

Health and Safety Executive

IAS

International Accounting Standard

IASB

International Accounting Standards Board

IFRIC

International Financial Reporting Standard Interpretations Committee

IFRS

International Financial Reporting Standard

KPI

Key Performance Indicators

LNG

Liquefied natural gas

Lost time injury

A work-related injury which causes a person to be away from work for at least one normal shift after the shift on which the injury occurs, because the person is unfit to perform his or her duties

National Grid

National Grid plc, the ultimate parent Company of National Grid Gas plc and its controlling party

Ofgem

The Office of Gas and Electricity Markets

tonnes CO_2 equivalent

Measure of greenhouse gas emissions in relation to the impact of carbon dioxide

regulated controllable operating costs

Total operating costs under IFRS less depreciation and certain regulatory costs where, under our regulatory agreements, mechanism are in place to recover such costs in current or future periods

regulatory asset value (RAV)

The value ascribed by Ofgem to the capital employed in the relevant licensed business. It is an estimate of the initial market value of the regulated asset base at privatisation, plus subsequent allowed additions at historical cost, less than deduction of annual regulatory depreciation. Deductions are also made to reflect the value realised from the disposal of certain assets that formed part of the regulatory asset base. It is also indexed to the RPI to allow for effects of inflation.

RIIO

The revised regulatory framework issued by Ofgem which was implemented in the eight year price controls which started on 1 April 2013

RoE

A performance metric measuring returns from the investment of shareholders' funds. It is a financial ratio of a measure of earnings divided by an equity base.

UK regulated return on equity is a measure of how a business is performing operationally against the assumptions used by Ofgem. These returns are calculated using the assumption that the businesses are financed in line with the regulatory adjudicated capital structure, at the assumed cost of debt and that UK taxation paid is at the level assumed by Ofgem.

RPI

UK Retail Prices Index

STEM

Science, Technology, Engineering & Mathematics

TW

Terawatt, 10^{12} watts

TWh

Terawatt hours