4.

Additional Information

Picture by
Leo Harry Jamieson
UK
Joint winner
Age group 12–16


RECHARGE
station

The business in detail

Key milestones

Some of the key dates and actions in the corporate history of National Grid are listed below. Our full history goes back much further.

1986

British Gas (BG) privatisation

1990

Electricity transmission network in England and Wales transfers to National Grid on electricity privatisation

1995

National Grid listed on the London Stock Exchange

1997

Centrica demerges from BG

Energis demerges from National Grid

2000

Lattice Group demerges from BG and is listed separately

New England Electric System and Eastern Utilities Associates acquired

2002

Niagara Mohawk Power Corporation merges with National Grid in US

National Grid and Lattice Group merge to form National Grid Transco

2004

UK wireless infrastructure network acquired from Crown Castle International Corp

2005

Four UK regional gas distribution networks sold and we adopt National Grid as our name

2006

Rhode Island gas distribution network acquired

2007

UK and US wireless infrastructure operations and the Basslink electricity interconnector in Australia sold

KeySpan Corporation acquired

2008

Ravenswood generation station sold

2010

Rights issue raises £3.2 billion

2012

New Hampshire electricity and gas distribution businesses sold

2016

National Grid separates the UK Gas Distribution business

2017

National Grid sells a 61% equity interest in the UK Gas Distribution business

2019

National Grid separates the UK Electricity System Operator business

National Grid sells its remaining 39% equity interest in UK Gas Distribution business

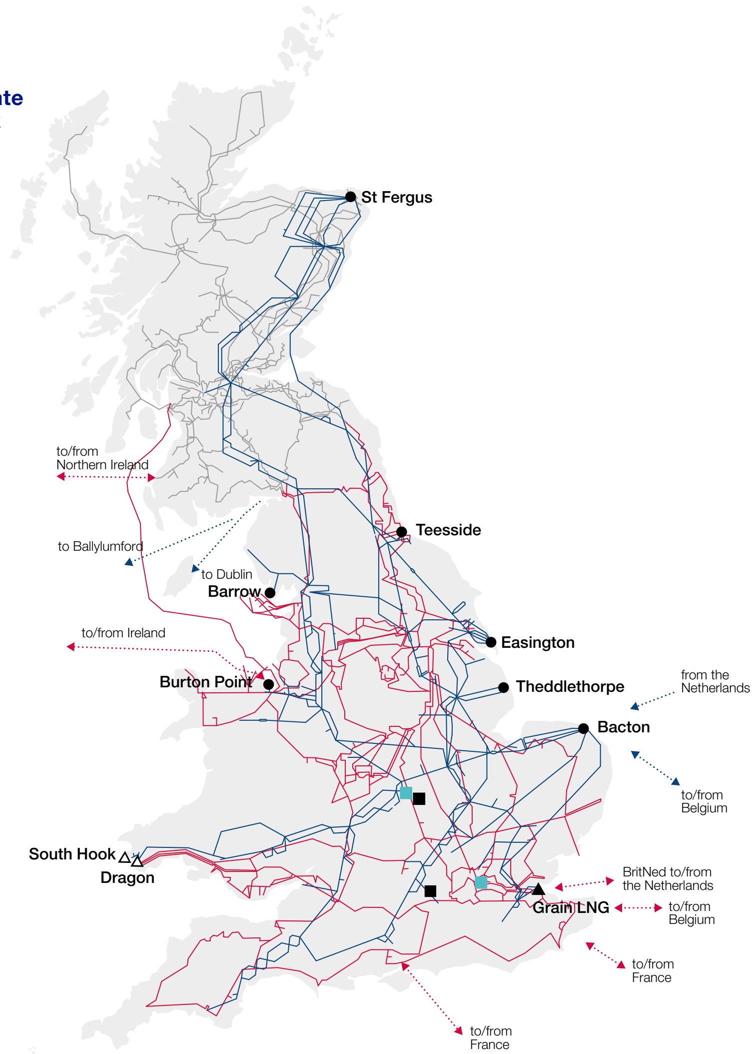
Acquisition of Geronimo

2021

National Grid agrees to buy WPD and, subject to the WPD Acquisition and certain regulatory approvals, to sell NECO, its Rhode Island gas and electricity business

National Grid announces its intention to commence a process for the sale of a majority equity interest in the UK GT Business

Where we operate
Our UK network



UK Transmission[1]

- Scottish electricity transmission system
- English and Welsh electricity transmission system

Approximately 4,496 miles (7,236 kilometres) of overhead line, 1,744 miles (2,806 kilometres) of the underground cable and 350 substations.

- Gas transmission system

Approximately 4,740 miles (7,627 kilometres) of high-pressure pipe and 23 compressor stations connecting to eight distribution networks and third-party independent systems.

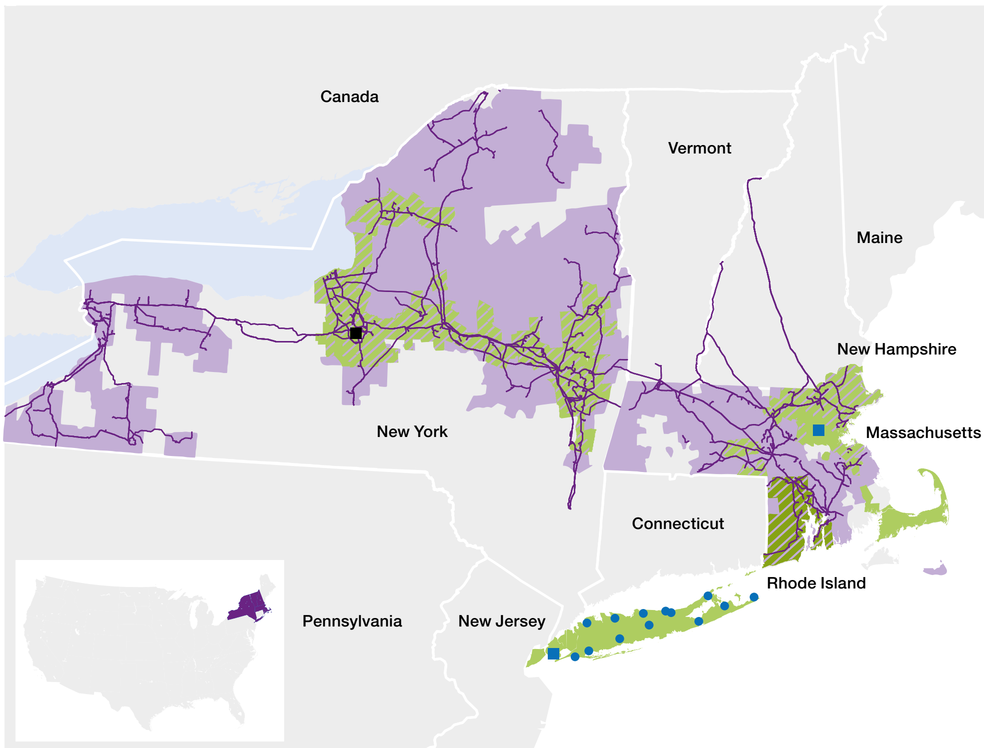
- Terminal
- LNG terminal owned by National Grid
- LNG terminal
- Electricity interconnector
- Gas interconnector

Principal offices

- Owned office space: Warwick and Wokingham
- Leased office space: Solihull and London

Leased office space totalling 105,771 square feet (9,827 square metres) with remaining terms two to five years.

Our US network



US regulated[1]

- Electricity transmission network
- Gas distribution operating area
- Electricity distribution area
- Gas and electricity distribution area overlap
- Gas and electricity distribution area overlap – Rhode Island[2]

An electricity transmission network of approximately 8,972 miles (14,439 kilometres) of overhead line, 105 miles (169 kilometres) of underground cable and 397 transmission substations. We own and operate 278.46 miles (448 kilometres) of High Voltage Electric Interconnectors in New England.

An electricity distribution network of approximately 73,010 circuit miles (117,498 kilometres) and 728 distribution substations in New England and upstate New York.

A network of approximately 35,761 miles (57,551 kilometres) of gas pipeline. Our network also consists of approximately 488 miles (785 kilometres) of gas transmission pipe, as defined by the US Department of Transportation.

- Generation

Principal offices

- Owned office space: Syracuse, New York
- Leased office space: Brooklyn, New York and Waltham, Massachusetts

Leased office space totalling approximately 721,000 square feet (66,404 square metres) with remaining terms of four to fifteen years. In August of 2020, the Company commenced its new lease at 2 Hanson Place, Downtown Brooklyn, New York. The existing One MetroTech lease terminates in February 2025 and will not be renewed; space anticipated to be vacated is being marketed for sub-lease.

At present, environmental issues are not preventing our UK and US businesses from utilising any material operating assets in the course of their operations.

1. Access to electricity and gas transmission assets on property owned by others is controlled through various agreements.
2. Conditional on completion of the WPD acquisition and certain regulatory approvals, we have agreed to sell our Rhode Island electricity transmission and distribution, and gas distribution business to PPL.

The business in detail continued

UK regulation

Our licences to participate in transmission and interconnection activities are established under the Gas Act 1986 and the Electricity Act 1989, as amended (the Acts). These require us to develop, maintain and operate economic and efficient networks and to facilitate competition in the supply of gas and electricity in Great Britain (GB). 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 licensed activities are regulated by Ofgem, which has a statutory duty under the Acts to protect the interests of consumers. To protect consumers from the ability of companies to set unduly high prices, Ofgem has established price controls that limit the amount of revenue such regulated businesses can earn. In setting price controls, Ofgem must have regard to the need to secure that licence holders are able to finance their obligations under the Acts. 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. Licensees and other affected parties can appeal price controls or within period licence modifications which have errors, including in respect of financeability.

The RIIO-T1 price controls for electricity and gas transmission networks came into effect on 1 April 2013 for the eight-year period until 31 March 2021. New price controls, called RIIO-2, came into effect on 1 April 2021 and will run for five years until 31 March 2026. Both RIIO-T1 and RIIO-2 follow the RIIO (revenue = incentives + innovation + outputs) framework established by Ofgem. While the RIIO-T1 period has finished, the confirmation of the delivered outputs and performance levels will be reported through the annual reporting process that takes place in July each year. For 2021, this annual process will review what was delivered throughout RIIO-T1 and make adjustments to allowed revenues as allowed in our licences. This process, known as close-out, is an integral part of the price control arrangements.

These price controls include a number of mechanisms designed to help achieve their objectives. These include financial incentives that encourage us to:

- efficiently deliver, through investment and maintenance, the network outputs that customers and stakeholders require, including reliable supplies, new connections and infrastructure capacity;
- innovate so we can continuously improve the services we give our customers, stakeholders and communities; and
- efficiently balance the transmission networks to support the wholesale markets.

Our UK gas and electricity transmission and system operator businesses operate under four separate price controls. These cover our roles as Transmission Owner (TO) and System Operator (SO) in both gas and electricity. In addition to these four regulated network price controls, there is also a tariff cap price control applied to certain elements of domestic-sized metering activities carried out by National Grid Metering and regulation of our electricity interconnector interests.

In 2017, Ofgem, the Department for Business, Energy and Industrial Strategy (BEIS) and National Grid plc agreed to create a legally separate business, the Electricity System Operator (ESO), within the National Grid Group. The ESO became a separate entity within the Group on 1 April 2019. In January 2021, Ofgem recommended to BEIS that the ESO should be fully separated from National Grid into an Independent System Operator. Ofgem suggested that this could also incorporate network planning functions for gas, but it has not recommended that the Gas System Operator (GSO) be separated from National Grid. Ofgem believes an industry structure that enables long-term thinking and allows the SOs to take on new roles as part of the energy transition is an important step in the market and regulatory reform necessary to deliver net zero. Significant further work is needed to determine the detail of that structure. BEIS have commented that it will consider Ofgem's recommendation thoroughly. If and when these changes will be taken forward will be decided at a government level and with further consultation.

More information on the regulation of the ESO and on interconnector regulation is given in separate sections below.

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.

Under RIIO, the outputs we deliver are explicitly articulated and our allowed revenues are linked to their delivery, although some outputs and deliverables have only a reputational impact or are linked to legislation. These outputs reflect what our stakeholders have told us they want us to deliver and were determined through an extensive consultation process, which gave stakeholders a greater opportunity to influence the decisions.

Using information we have submitted, along with independent assessments, including for RIIO-2 an independent user group report, Ofgem determines the efficient level of expected costs necessary for these deliverables to be achieved. Under RIIO this is known as 'totex', which is a component of total allowable expenditure and is broadly the sum of what was defined in previous price controls as operating expenditure (opex) and capital expenditure (capex).

A number of assumptions are necessary in setting allowances for the outputs that we will deliver, including the volumes of work that will be needed and the price of the various external inputs required to achieve them. Consequently, there are a number of uncertainty mechanisms within the RIIO framework designed to protect consumers and network companies by avoiding the need to set allowances when future needs and costs are uncertain.

Where we under- or over-spend the allowed totex for reasons that are not covered by uncertainty mechanisms, 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. Likewise, it provides a level of protection for us if we need to spend more than allowances. Alongside this, there are several specific areas where companies can submit further claims for new allowances within the period, for instance to enable net zero.

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

In addition to fast money, each year we are allowed to recover regulatory depreciation, i.e. a portion of the RAV, and a return on the outstanding RAV balance. The RAV is also indexed to a measure of inflation, using RPI in RIIO-T1 and CPIH in RIIO-2. In RIIO-T1 regulatory depreciation in electricity and gas transmission permitted recovery of RAV consistent with each addition bringing benefit to consumers for a period of up to 45 years. In RIIO-2, Electricity Transmission (ET) continues on a straight-line depreciation methodology, with Gas Transmission (GT) moving from straight line to sum-of-digit depreciation (so that depreciation is front loaded but then lower in the later years of the life of the asset). We are also allowed to collect additional revenues related to non-controllable costs and incentives. In addition to totex sharing, RIIO incentive mechanisms can increase or decrease our allowed revenue to reflect our performance against various other measures related to our outputs. For example, in RIIO-T1 performance against our customer and stakeholder satisfaction targets could have a positive or negative effect of up to 1% of allowed annual revenues. Many of our incentives affect our revenues two years after the year of performance.

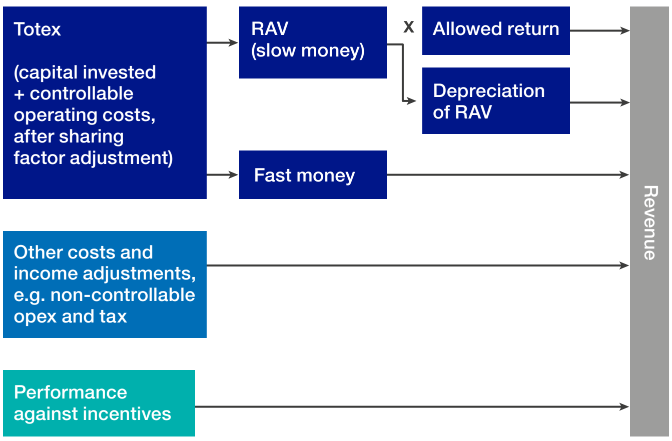
More information on RIIO-T1

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.

During the eight-year period of the RIIO-T1 price control, our regulator included a provision for a mid-period review, which was completed during 2017 and led to some changes in allowances relating to certain specific costs. Further to the mid-period review, National Grid volunteered that £480 million (in 2009/10 prices) of allowances for electricity transmission investments should be deferred. In August 2017, Ofgem determined how the RIIO allowances would be correspondingly adjusted.

In addition, the RIIO-T1 price controls for transmission included a 're-opener mechanism', in relation to specific cost categories where there was uncertainty about expenditure requirements at the time of setting allowances. Both our gas and electricity transmission businesses requested changes to funding under this mechanism in May 2018, leading to some changes to the allowed revenues. In Electricity Transmission, Ofgem has confirmed additional funding spanning both RIIO-T1 and RIIO-2 periods for reinforcements to connect the new Hinkley C power station. Additional funding has also been applied and granted for two visual amenity projects (VIP), in RIIO-T1, where existing overhead lines in national parks and areas of outstanding natural beauty are replaced by underground cables, and a third VIP investment was submitted under the RIIO-T1 arrangement and so will be treated as a RIIO-T1 scheme.

Simplified illustration of RIIO regulatory building blocks for RIIO-T1



Allowed returns

The cost of capital allowed under our RIIO-T1 price controls were as follows:

	Transmission	
	Gas	Electricity
Cost of equity (post-tax real[2])	6.8%	7.0%
Cost of debt (pre-tax real[2])	iBoxx 10-year simple trailing average index (1.09% for 2020/21)	
Notional gearing	62.5%	60.0%
Vanilla WACC (for 2020/21)[1]	3.23%	3.45%

1. Vanilla WACC = cost of debt × gearing + cost of equity × (1-gearing).
2. In RIIO-T1, real returns are relative to RPI.

Sharing factors and fast:slow money ratios under our RIIO-T1 price controls were as follows:

	Gas Transmission		Electricity Transmission	
	Transmission owner (TO)	System operator (SO)	Transmission owner	System operator
Fast[1]	Baseline[3] 35.6% Uncertainty 10%	62.60%	15.00%	72.10%
Slow[2]	Baseline[3] 64.4% Uncertainty 90%	37.40%	85.00%	27.90%
Sharing	44.36%		46.89%	

1. Fast money allows network companies to recover a percentage of totex within a one-year period.
2. Slow money is where costs are added to RAV and, therefore, revenues are recovered slowly (e.g. over up to 45 years) from both current and future customers.
3. The baseline was the expenditure that was funded through ex-ante allowances, whereas the uncertainty adjusted the allowed expenditure where the level of outputs delivered differed from the baseline level, or if triggered by an event.

More information on RIIO-2

In December 2019 we submitted our business plans to Ofgem for the RIIO-2 period, setting out the proposed activities and expenditure to meet the needs of our customers and stakeholders in the period 1 April 2021 to 31 March 2026. These plans were developed through extensive enhanced stakeholder engagement to improve the quality and ensure they delivered what our stakeholders need.

To support this process Independent User Groups were set up in July 2018, one for GT and one for ET. Their responsibility was to ensure that the companies were putting stakeholders at the heart of their decision-making processes so as to produce a business plan that was fully reflective of customers'/consumers'/stakeholders' requirements. They summarised their views in an independent report to Ofgem on the companies' RIIO-2 business plans in December 2019.

The Independent User Groups represent a cross-section of the energy industry and represent the interests of consumers, environmental and public interest groups, as well as large-scale and small-scale customers and distribution networks.

The Group has now taken on an enduring role through RIIO-2. There are expected to be three key focus areas which are to:

- scrutinise and challenge the Company's periodic business plans;
- monitor, interrogate and help the business to enhance transparency of performance against commitments; and
- act as a 'critical friend' for strategy, culture and processes in key areas like stakeholder engagement, innovation, customer, consumer and responsible business.

Ofgem published its Final Determinations in December 2020, followed by the RIIO-2 licences and Regulatory Instructions and Guidance in February 2021. The RIIO-2 price controls started on 1 April 2021. On 2 March 2021, National Grid announced that it was broadly accepting most of the RIIO-2 package for its Electricity and Gas Transmission businesses, but had decided to submit a technical appeal to the Competition and Markets Authority (CMA) in relation to ET and GT focused on Ofgem's proposed cost of equity and 'outperformance wedge', which is a downward adjustment to allowed returns in expectation of future outperformance.

RIIO-2 builds on the framework established for RIIO-T1. For example, it introduces a range of new mechanisms to facilitate the transition to net zero, and it increases support for innovation, for example by allowing the regulator to direct additional funding in gas transportation for hydrogen innovation, in recognition of the uncertainty around the extent networks may have a role in transporting hydrogen.

The business in detail continued

Key Parameters from Ofgem's RIIO-2 Determinations

	Gas Transmission	Electricity Transmission
Allowed return on equity[1, 2]	4.3%[3] (real, relative to CPIH)	4.02%[4] (real, relative to CPIH), at 55% gearing (which is broadly equivalent to 4.3% at 60% gearing)
Allowed debt funding	Calculated and updated each year using an extending 'trombone-like' trailing average of iBoxx Utilities 10+ year index (increases from 10 years for 2021/22 to 14 years for 2025/26), plus 25 bps additional borrowing costs.	
Depreciation of RAV	45-year sum of digits regulatory depreciation applied to RIIO-2 additions and retrospectively to 2002-2021 additions.	No change in policy: straight line over 45 years for post-2021 RAV additions, with pre-2021 RAV additions as per RIIO-T1.
Notional Gearing	60%	55%
Split between fast/slow money	Fast: TO baseline 35%; SO baseline 66%; TO uncertainty mechanisms 25% Slow: TO baseline 65%; SO baseline 34%; TO uncertainty mechanisms 75%	Fast: TO baseline 22%; TO uncertainty mechanisms 15% Slow: TO baseline 78%; TO uncertainty mechanisms 85%
Sharing factor	39%	33%
Core baseline totex in 2018/19 prices (cumulative for the 5 years of RIIO-2)	£2.0 billion	£5.4 billion

1. National Grid has submitted a technical appeal to the CMA on Ofgem's proposed cost of equity and 'outperformance wedge'.
2. The cost of equity in RIIO-2 is subject to annual adjustments that are calculated using the Capital Asset Pricing Model, through indexation of the 'risk-free rate' parameter. The 4.3% and 4.02% figures shown in this row are Ofgem's estimates of the average allowed return on equity over the five years of RIIO-2, as given in the RIIO-2 Final Proposals.
3. The 4.3% value shown here for allowed return on equity is after deduction of the 'outperformance wedge': Ofgem's estimate of the cost of equity before deduction of the wedge is 4.55%.
4. The 4.02% value shown here for allowed return on equity is after deduction of the 'outperformance wedge': Ofgem's estimate of the cost of equity before deduction of the wedge is 4.25%.

Competition in onshore transmission

Ofgem stated in its final decision on the RIIO-T1 price control that it would consider holding a competition to appoint the constructor and owner of suitably large new electricity transmission projects, rather than including these new outputs and allowances in existing transmission licensee price controls. Ofgem reiterated this view in the RIIO-2 Determination, extending it now to gas transmission and gas distribution. In the absence, thus far, of the legislation needed to support a competition, Ofgem has developed a number of models which it has indicated it would consider using to deliver benefits of competition, the primary one of these being called the 'Competition Proxy Model' (CPM), but so far this has not been used for any projects or implemented into licences. The December 2020 BEIS energy white paper reiterated the government's ambition to introduce greater competition to support the delivery of net zero targets but also explained that the introduction of legislation to support full third-party competition would be subject to available parliamentary time.

Regulation of the electricity system operator, NGESO

A primary goal of the ESO legal separation in April 2019 was to increase transparency of our activities and help minimise any perceived conflicts of interest as we take on the challenge of driving forward the energy transformation. There are clear signals from Ofgem and the broader regulatory context that the ESO will play a crucial role in the changing energy environment. As an asset-light and service-based entity, the ESO is also fundamentally different from other regulated network companies. The new price control arrangements for RIIO-2 are therefore an opportunity to implement a new regulatory framework that enables the ESO to meet our stakeholders' expectations.

In April 2018, Ofgem introduced a new regulatory and incentives framework for the ESO. This moved away from the use of targeted, mechanistic incentives towards a 'principles-based' evaluative incentives approach. The new approach includes a set of 'Roles and Principles' designed to set clear expectations about the baseline behaviours expected from the ESO and a requirement for the ESO to produce a Forward Plan, following stakeholder engagement, demonstrating the activities it will undertake over the year to add value for consumers. Ofgem's ESO Performance Panel will challenge the ESO on its plans, evaluate its performance and make recommendations to Ofgem. At the end of the year, Ofgem will decide whether to financially reward or penalise the ESO, with a maximum annual reward of +£30 million and maximum annual penalty of -£30 million (during the RIIO-T1 price control), informed by the Performance Panel's recommendations, as well as other evidence collected throughout the year.

In 2019, the ESO published a mission and set of ambitious goals accompanied by its Forward Plan and its RIIO-2 business plan to set out what, when and how it delivers. The RIIO-2 business plan reflects the ambition shared by us and Ofgem for the ESO to be innovative, ambitious and agile, responding to stakeholder needs and the changing energy landscape. Ofgem's Final Determinations were published on 8 December 2020 confirming a new regulatory framework for the ESO. The framework includes a return on regulatory asset value (RAV) but also provides additional non-RAV funding for roles and risks that are not linked to an asset base. There is no totex incentive mechanism for ESO in RIIO-2, which means that all efficiently incurred costs can be recovered through regulated revenues. This means the ESO have greater flexibility to adjust spending in order to deliver the ambitious business plan and maximise consumer benefit. ESO performance in RIIO-2 will continue to be assessed via an evaluative incentive approach, through a two-year incentive scheme with a total maximum reward of £30 million and maximum penalty of £12 million for the two-year period.

On 25 January 2021, Ofgem published its review into GB system operation. This recommends that the ESO take on more roles and responsibilities within the energy sector to help accelerate the transition to net zero. These roles include more responsibility for onshore and offshore network planning, greater responsibility for whole-system thinking in both system operation and market development, and enhanced responsibilities for data management across the industry as well as upscaling our own use of data and digital infrastructure. As part of taking on new responsibilities, Ofgem believes that further independence of the ESO may be appropriate. The decision on changes and developments for system operation remains with BEIS. The BEIS Energy White Paper, published in December 2020, sets out the government's intention to consult on system governance later this year. We expect that the requirements for further separation will be considered as a part of that process.

Interconnectors regulation

Interconnectors derive their revenues from sales of capacity to users who wish to move power between market areas with different prices. Up until 31 December 2020, this was governed under European legislation and these capacity sales are classified as 'congestion revenues'. This is because the market price differences result from congestion on the established interconnector capacity which limits full price convergence. European legislation governed how congestion revenues may be used and how interconnection capacity is allocated. It requires all interconnection capacity to be allocated to the market through auctions. From 1 January 2021, interconnectors to the UK are no longer governed by European legislation, and the operation of these interconnectors is governed by individual sets of access rules which are agreed by regulators at each end of the link. This does not affect the fundamental business model for interconnectors.

Under UK legislation, interconnection businesses must be separate from transmission businesses.

There is a range of different regulatory models available for interconnector projects. These involve various levels of regulatory intervention, ranging from fully merchant (where the project is fully reliant on sales of interconnector capacity) to cap and floor.

The cap and floor regime is now the regulated route for interconnector investment in GB and may be sought by project developers who do not qualify for, or do not wish to apply for, exemptions from UK and European legislation which would facilitate a merchant development.

US regulation

Regulators

In the US, public utilities' retail transactions are regulated by state utility commissions which serve as economic regulators, approving cost recovery and authorised rates of return. The state commissions establish the retail rates to recover the cost of transmission and distribution services within their jurisdictions. They also serve the public interest by making sure utilities provide safe and reliable services at just and reasonable prices. The commissions establish service standards and approve public utility mergers and acquisitions. State Commissions are also asked to approve a variety of programmes and costs related to state energy and climate goals.

The Federal Energy Regulatory Commission (FERC) regulates wholesale transactions for utilities, such as interstate transmission and wholesale electricity sales, including rates for these services, at the federal level. FERC also regulates public utility holding companies and centralised service companies, including those of our US businesses.

Regulatory process

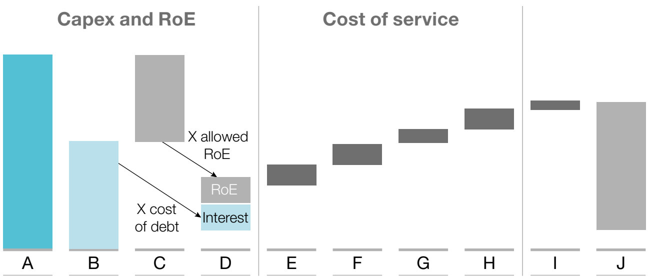
The US regulatory regime is premised on allowing the utility the opportunity to recover its cost of service and earn a reasonable return on its investments as determined by the commission. Utilities submit formal rate filings (rate cases) to the relevant state regulator when additional revenues are necessary to provide safe, reliable service to customers. Utilities can be compelled to file a rate case, either due to complaints filed with the commission or at the commission's own discretion.

The rate case is typically litigated with parties representing customers and other interests. The utility is required to prove that the requested rate change is just and reasonable, and the requested rate plan can span multiple years. In the states where we operate, it can take 9 to 13 months for the commission to render a final decision although, in some instances, rules allow for longer negotiation periods which may extend the length of the rate case proceeding. Unlike the state processes, the federal regulator has no specified timeline for adjudicating a rate case; typically it makes a final decision retroactive when the case is completed.

Gas and electricity rates are established from a revenue requirement, or cost of service, equal to the utility's total cost of providing distribution or delivery service to its customers, as approved by the commission in the rate case. This revenue requirement includes operating expenses, depreciation, taxes and a fair and reasonable return on shareholder capital invested in certain components of the utility's regulated asset base or 'rate base'.

The final revenue requirement and rates for service are approved in the rate case decision. The revenue requirement is derived from a comprehensive study of the utility's total costs during a representative 12-month period, referred to as a test year. Each commission has its own rules and standards for adjustments to the test year. These may include forecast capital investments and operating costs.

US regulatory revenue requirement



A Rate base
B Debt
C Equity
D Return
E Controllable costs
F Non-controllable costs
G Depreciation
H Taxes
I Lagged recoveries
J Allowed revenue

Our rate plans

Each operating company has a set of rates for service. We have three electric distribution operations (upstate New York, Massachusetts and Rhode Island) and six gas distribution networks (upstate New York, New York City, Long Island, Massachusetts (two) and Rhode Island).

Our distribution operating companies have revenue-decoupling mechanisms that delink their revenues from the quantity of energy delivered and billed to customers. These mechanisms remove the natural disincentive utility companies have for promoting and encouraging customer participation in energy-efficiency programmes that lower energy end use and distribution volumes.

We bill our customers for their use of electricity and gas services. Customer bills typically cover the cost of the commodity (electricity or gas delivered), and charges covering our delivery service. With the exception of residential gas customers in Rhode Island, our customers are allowed to select an unregulated competitive supplier for the commodity component of electricity and gas utility services.

A substantial proportion of our costs, in particular electricity and gas commodity purchases, are 'pass-through' costs, fully recoverable from our customers. We recover 'pass-through' costs through making separate charges to customers, designed to recover those costs with no profit. We adjust the charges from time to time often annually to make sure that any over- or under-recovery of these costs is returned to, or recovered from, our customers.

Our rate plans are designed to a specific allowed Return on Equity (RoE), by reference to an allowed operating expense level and rate base. Some rate plans include earnings-sharing mechanisms that allow us to retain a proportion of the earnings above our allowed RoE, achieved through improving efficiency, with the balance benefiting customers.

In addition, our performance under certain rate plans is subject to service performance targets. We may be subject to monetary penalties in cases where we do not meet those targets.

Our FERC-regulated transmission companies use formula rates (instead of periodic stated rate cases) to set rates annually that recover their cost of service. Through the use of annual true-ups, formula rates recover our actual costs incurred and the allowed RoE based on the actual transmission rate base each year. We must make annual formula rate filings documenting the revenue requirement that customers can review and challenge.

Revenue for our wholesale transmission businesses in New England and New York is collected from wholesale transmission customers. These are typically other utilities and include our own New England electricity distribution businesses. With the exception of upstate New York, which continues to combine retail transmission and distribution rates to end-use customers, these wholesale transmission costs are generally incurred by distribution utilities on behalf of their customers. They are fully recovered as a pass-through from end-use customers, as approved by each state commission.

Our Long Island generation plants sell capacity to the Long Island Power Authority (LIPA) under 15-year and 25-year power supply agreements and within wholesale tariffs approved by FERC. Through the use of cost-based formula rates, these long-term contracts provide a similar economic effect to cost-of-service rate regulation.

One measure used to monitor the performance of our regulated businesses is a comparison of achieved RoE to allowed RoE. However, this measure cannot be used in isolation, as several factors may prevent us from achieving the allowed RoE. These include financial market conditions, regulatory lag (e.g. the time period after a rate or expense is approved for recovery but before we collect same from customers) and decisions by the regulator preventing cost recovery in rates from customers.

We work to increase achieved RoE through:

- productivity improvements;
- positive performance against incentives or earned savings mechanisms, such as available energy-efficiency programmes; and
- filing a new rate case when achieved returns are lower than those the Company could reasonably expect to attain through a new rate case.

The business in detail continued

US regulatory filings

The objectives of our rate case filings are to make sure we have the right cost of service and are able to earn a fair and reasonable rate of return, while providing a safe, reliable and economical service. To achieve these objectives and reduce regulatory lag, we have been successful in many cases in obtaining relief, such as:

- revenue decoupling mechanisms;
- capital trackers;
- commodity-related bad debt true-ups;
- pension and other post-employment benefit true-ups, separately from base rates; and
- performance-based frameworks such as incentives and multi-year plans.

We explain these terms in the table on page 235.

Below, we summarise significant, recent developments in rate filings and the regulatory environment. In 2017/18, we made full rate case filings with Niagara Mohawk (electric and gas), in April 2017; Boston Gas and Colonial Gas, in November 2017; and The Narragansett Electric Company, also in November 2017. A joint proposal, setting forth a three-year rate plan for Niagara Mohawk, was approved by the New York State Public Service Commission (NYPSC) in March 2018. An amended settlement agreement setting forth a three-year rate plan for The Narragansett Electric Company was approved by the Rhode Island Public Utilities Commission (RIPUC) in August 2018. The multi-year rate plan includes an interim fourth year, effective 1 September 2021. An order, establishing new base rates for Boston Gas and Colonial Gas, was approved by the Massachusetts Department of Public Utilities (MADPU) in September 2018. In November 2018, we made a full rate case filing for Massachusetts Electric which resulted in a five-year performance-based ratemaking plan in September 2019. In April 2019, we made a full rate case filing for KEDNY and KEDLI in April 2019. In November 2020, we made a full rate case filing for Boston Gas proposing a five-year performance-based ratemaking plan which is currently pending.

Massachusetts

Massachusetts Electric and Nantucket Electric rate cases

We filed a rate case for Massachusetts Electric and Nantucket Electric with the MADPU on 15 November 2018 with new rates effective on 1 October 2019. The Massachusetts Electric rate case was the first for Massachusetts Electric and Nantucket Electric since the case was filed in 2015. It updated the electric companies' rates to more closely align revenues with the cost of service and bring their earned RoEs closer to the allowed RoE. New rates were approved with an allowed RoE of 9.6% on an equity ratio of 53.5%. The MADPU approved a five-year performance-based ratemaking plan, which adjusts distribution rates annually based on a predetermined formula. As part of its decision, the MADPU required a management audit addressing the Company's strategic planning processes, staffing decisions and its relationship to National Grid USA Service Company, among other items.

Boston Gas Company rate case

On 13 November 2020, we filed a rate case with the MADPU for Boston Gas Company, including a request for approval of a performance-based ratemaking plan (PBR Plan), and related proposals. We requested that the MADPU approve new distribution rates to increase distribution revenues by $220.7 million, including the transfer of $81.9 million of recovery of Boston Gas's Gas System Enhancement Program (GSEP) investments completed through 31 March 2020, from the GSEP factors to base distribution rates, with new rates to be effective 1 October 2021. The actual net revenue deficiency calculated by Boston Gas for distribution rates is $138.8 million, or an incremental increase in distribution revenue of 18.1%. The last Boston Gas rate case was filed in 2017, and this rate case would allow the Company's rates to more closely align revenues with the cost of service and bring the earned RoE closer to the allowed RoE. Boston Gas also presented its Future of Heat proposals to address Massachusetts' ambitious greenhouse gas emissions reduction goals. These proposals are innovative programmes and demonstration projects that the Company has developed to reduce emissions, promote gas demand response, and encourage the development of sustainable heating options and new technologies to advance low carbon heating solutions. Ultimately, the MADPU elected to remove our Future of Heat proposals from the rate case without prejudice for their consideration as part of other proceedings.

Investigation into role of gas distribution companies in achieving climate change goals

On 29 October 2020, the MADPU issued an order opening an investigation into the role of gas distribution companies in achieving the Massachusetts' 2050 climate goals. Noting Massachusetts' work to develop a 2050 Decarbonization Roadmap and a Clean Energy Climate Plan for 2030 (together the 'Roadmaps'), released in December 2020, the MADPU directed the gas distribution companies to jointly hire one or more independent consultants to review the Roadmaps, identify any pathways not examined in the Roadmaps, and perform a detailed study of each gas company that analyses the feasibility of all pathways. On or before 1 March 2022, each company must submit a proposal to the MADPU that includes its recommendations and plans for helping Massachusetts achieve its 2050 climate goals, supported by the consultants' report, that incorporates feedback and advice on its proposals obtained through a stakeholder process.

Management Audit

On 30 September 2019, in its decision regarding Massachusetts Electric Company and Nantucket Electric Company's most recent request for a change in base distribution rates, the MADPU required a comprehensive independent management audit of the company, including a review of its relationship to the National Grid USA Service Company (NGSC). On 25 November 2019, the MADPU formally opened the investigation to undertake the audit. The audit scope included a review of:

- the Company's strategic planning processes;
- National Grid's staffing decisions and the extent to which they affect the Company's efficiency of operations and the productivity of its employees;
- potential management problems through to the highest levels of the organisation, as well as potential management issues related to National Grid's relationship with NGSC;
- investigation of management process issues relating to IT strategy, cybersecurity, and the Phase I EV and Phase II EV Programmes; and
- the Company's management of its interconnection process in light of the Transmission Cluster Study in Central and Western, Massachusetts.

The final audit report was issued on 29 March 2021. Regarding organisational structure, the report recommended improvements to risk management processes/mitigation plans and presentation materials to enable the senior leadership team to have visibility of risks at the right level of granularity, and noted changes are already underway. Regarding strategic planning, the report recommended changes to enhanced alignment of strategic planning and budgetary planning processes to avoid a mismatch between budget and resources, and track strategic decision-making at senior management level. In relation to staffing decisions, the report recommended improvements to strategic workforce/resource planning processes. In addition, the report noted positive changes in information technology strategy and efforts to insource strategic capabilities and recommended that the Company implement more electric vehicle programme metrics to track and identify the programme's effectiveness.

On 30 April 2021, the Company filed its response to the final audit report. As part of the Company's proposal for implementation of the audit's recommendations regarding strategic planning, the Company will submit compliance filings during 2021/22 with more specific plans and policies. These compliance filings will also provide an opportunity for the Company to update the MADPU on its progress.

The MADPU inquiry regarding COVID-19 customer assistance and ratemaking matters
Starting with the First Set of Orders on 24 March 2020, the Chairman of the MADPU issued a series of orders in response to the Governor's declaration of a state of emergency due to the COVID-19 pandemic. In the First Set of Orders, the MADPU prohibited the utilities from terminating service to any customer (including residential, commercial and industrial customers) for non-payment of utility bills until the state of emergency is lifted. Since that time the state has extended the moratorium for residential customers to 1 July 2021, but the moratorium for commercial and industrial (C&I) customers has since expired.

On 11 May 2020, the MADPU opened an inquiry into establishing policies and practices regarding customer assistance and ratemaking measures for gas companies in response to the effects of the COVID-19 pandemic and established a Customer Assistance and Ratemaking Working Group ('Working Group') to develop programmes to assist customers and to establish appropriate policies and practices for the resumption of collections activities. The Working Group's first report on customer assistance issues contained a four-phased plan for customer outreach which was approved by the MADPU on 26 June 2020.

On 31 December 2020, the MADPU approved the consensus implementation issues related to the ratemaking treatment of the COVID-19 customer assistance programmes and determined that the remaining contested issues, including the extent to which the companies will be allowed to recover their COVID-19 costs, should be fully adjudicated in a new proceeding which is currently pending before the MADPU.

On 1 March 2021, the distribution companies filed their initial testimony in D.P.U. 20–91 on the following contested ratemaking issues:
- whether companies with PBR Plans, including National Grid, should be permitted to recover incremental bad debt costs or COVID-19 expenses; and
- whether the distribution companies and their shareholders should absorb some losses associated with the pandemic and resulting economic downturn (the Massachusetts Office of the Attorney General's position is that the companies should only get 50%).

New York

Downstate New York 2019 rate cases
On 30 April 2019, we filed to increase revenues for The Brooklyn Union Gas Company and KeySpan Gas East Corporation for the 12 months ending 31 March 2021. On 14 May 2021, we filed a joint proposal setting out a comprehensive three-year rate plan (financial years 2021–23) for our downstate New York gas business. The rate plan includes: a 8.8% RoE and 48% equity ratio; gas revenue decreases of $4.7 million for KEDNY and $22.8 million for KEDLI in 2020/21, gas revenue increases of $47 million for KEDNY and $28.9 million for KEDLI in 2021/22, and gas revenue increases of $73.4 million for KEDNY and $26.2 million for KEDLI in 2022/23; funding for a three-year capital plan of approximately $2 billion for KEDNY and $1.4 billion for KEDLI; annual reconciliation mechanisms for certain non-controllable costs (e.g. property taxes, pension/OPEBs, and site investigation remediation costs); a gas safety and reliability surcharge to recover the costs of incremental leak-prone pipe replacement; and a number of incentive mechanisms, including earnings adjustment mechanisms (EAMs), which provide a potential incentive of approximately $3.3 million and $2.2 million annually for KEDNY and KEDLI, respectively. The NYPSC final decision is expected later this summer.

NMPC rate case
In July 2020, we filed to adjust Niagara Mohawk's base electric and gas delivery rates in the 12 months ending 30 June 2022. To facilitate a potential multi-year settlement, we submitted comprehensive financial information for two additional data years ending 30 June 2023 and 30 June 2024. On 14 October 2020, the Company filed corrections and updates, which requested rate increases of $103.3 million for the electricity business and $37.1 million for the gas business. We are currently engaged in settlement negotiations. If a settlement can be achieved on a multi-year rate plan, we will file a plan that will be subject to approval by the NYPSC.

Downstate Gas Moratorium
Following the Company's decision to enact a moratorium on new gas connections in 2019 and the resulting threat against the Company's licence to operate in New York, various actions have been taken to address gas supply constraints and improve stakeholder relationships.

During November 2019, a settlement was agreed to immediately resume connecting gas services in Brooklyn, Queens and Long Island for applications that had been put on hold. A total of $36 million in customer assistance, gas conservation measures and clean energy investments has been committed by the Company, along with the appointment of an external monitor and the requirement to deliver a plan to address service to customers through winter 2020/21. In the interest of promoting transparency and to assure the public of the Company's commitment to identifying long-term solutions for the region's energy challenges, we extended the engagement of the external monitor through to September 2021. The settlement agreement also provides a framework for identifying longer-term solutions to address the supply constraints in downstate New York. We developed a range of options to address the natural gas constraints facing the region, which were presented at a series of public meetings in the downstate New York service territory. These meetings were designed to facilitate a dialogue with customers, residents, advocates, business leaders and local elected officials on potential solutions. Following the public meetings, the Companies published a report that summarised the public feedback and provided additional information and analysis on the various long-term natural gas supply options. The companies are now working with regulators, stakeholders, and customers to implement long-term solutions to the gas supply constraints in the region. On 15 April 2021, the NYPSC approved an amendment to the Settlement Agreement, which repurposed $20 million of shareholder funding to establish a deferral for the benefit of customers. The funding would be used as a credit to offset the costs of KEDNY and KEDLI's energy efficiency and demand response programmes being addressed in their ongoing rate cases.

COVID-19 response New York
The New York State Legislature, in response to the state of emergency, enacted amendments to Section 32 of the Public Service Law, referred to as the Parker-Mosley amendments, that provided, inter alia, that no utility corporation shall terminate or discontinue service to any residential customer for non-payment of any overdue charges for the duration of the COVID-19 state of emergency.

Other important regulatory updates
In November 2020, the NYPSC approved our filing requesting permission to deploy advanced metering infrastructure (AMI) in NMPC's upstate New York service territory. The AMI programme involves a six-year, $640 million (20-year NPV) deployment of approximately 1.7 million electric AMI meters and 640,000 AMI-compatible gas modules, with two years of back-office system work beginning in the second quarter of 2021, and electric meter/gas module deployment to begin in the second quarter of 2023. This investment will modernise both customer and grid-facing components of the Company's distribution system and is considered a key enabler of NMPC's strategy to address the comprehensive clean energy goals set forth in New York's Climate Leadership and Community Protection Act.

In addition, on 12 February 2021, the Department of Public Service Staff issued white papers on gas system planning that propose:
- a process for modernising the long-term gas planning process in New York; and
- procedures for managing future moratoria on new gas service connections resulting from supply constraints.

The Gas Planning Paper proposes significant changes to the reporting and regulatory oversight for gas supply planning, including that the Commission direct New York's distributions companies to begin filing long-term supply plans every three years. These supply plans would be similar in many respects to our long-term report for downstate New York, in terms of identifying and analysing various supply options to address different demand scenarios. Staff proposes potential financial incentive mechanisms for developing non-pipeline alternatives, including potential incentives for sourcing renewable natural gas and promoting electrification. The Moratorium Paper proposes a roadmap for managing future moratoria, including requirements for stakeholder notifications, communications plans, and applicant management. Final comments on Staff's proposals are due in June 2021.

The business in detail continued

Rhode Island

Rhode Island combined gas and electric rate case

On 24 August 2018, the RIPUC approved the terms of an Amended Settlement Agreement (ASA). We are currently in year three of the Company's multi-year rate plan. The ASA also requires the Company to file the next rate case so that new rates take effect no later than 1 September 2022, unless the Rhode Island Division of Public Utilities and Carriers consents to an extension of the term and specifies another date upon which rates are to take effect. The Company will file its Rate Year 4 compliance filing by 1 June 2021 for distribution rates for year four of the multi-year rate plan, effective 1 September 2021. The ASA includes an Electric Transportation Initiative (the ET Initiative or Program) to facilitate the growth of Electric Vehicle (EV) adoption and scaling of the market for EV-charging equipment to advance Rhode Island's zero emission vehicles and greenhouse gas emissions policy goals. The ET Initiative includes the following five components:

- Off-Peak Charging Rebate Pilot;
- Charging Station Demonstration Program;
- Discount Pilot for Direct Current Fast Charging (DCFC) Station Accounts;
- Fleet Advisory Services; and
- Electric Transportation Initiative Evaluation.

As of the end of Rate Year 2, the Charging Station Demonstration Program achieved 72% of ET Initiative targets for Level 2 ports and 7% of the target for DCFC ports. The ASA also includes two energy storage demonstration projects because storage is critical for achieving Rhode Island's clean energy future, as it provides the ability to optimise system performance over time and allows intermittent renewable resources to make a larger contribution to overall generation.

Rhode Island Aquidneck Island gas service interruption

On 21 January 2019, we suffered a significant loss of gas supply to the distribution system that serves our customers on Aquidneck Island in Rhode Island. As a result, we made the decision to interrupt the gas service to the Aquidneck Island system to protect the safety of our customers and the public. Overall, approximately 7,500 customers lost their gas service. On 30 October 2019, RIPUC issued an investigation report regarding the gas service interruption which identified the causes of the outages, which included multiple factors, some of which were outside the control of The Narragansett Electric Company. RIPUC's report also recommended several gas system improvements, many of which we have addressed already. On 13 December 2019, we filed our response to the RIPUC's report and continue to meet with RIPUC on a quarterly basis regarding winter reliability issues for Aquidneck Island and Rhode Island. On 23 September 2020, we published a long-term capacity study for energy solutions for Aquidneck Island for stakeholder feedback. We are gathering stakeholder feedback on a hybrid model approach that will offset gas demand growth with advanced non-infrastructure solutions while addressing existing gas capacity and vulnerability challenges with an alternative LNG solution.

Power Sector Transformation/Advanced Metering Functionality and Grid Modernisation Plan

On 27 November 2017, we filed a Power Sector Transformation (PST) Vision and Implementation Plan (the PST Plan) in conjunction with our combined gas and electric rate case. The PST Plan proposed a suite of investments, including the full deployment of Advanced Metering Functionality (AMF) and grid modernisation investments. On 21 January 2021, following more than two years of extensive collaboration with regulators and key stakeholders, we filed an Updated AMF Business Case and Grid Modernisation Plan (GMP) with the RIPUC. The Updated AMF Business Case provides a detailed plan to provide customers with greater control, choice and convenience in their energy consumption through the full-scale deployment of approximately 525,000 electric AMF meters, 277,000 gas modules, and the associated communications network. GMP presents a five-year implementation plan, and a ten-year road map of investments necessary to manage the electric distribution grid more granularly considering a range of Distributed Energy Resource (DER) adoption levels through 2030, as well as a comprehensive cost benefit analysis. Cost recovery for the specific projects and programmes in the GMP will be separately requested as part of future Infrastructure, Safety and Reliability (ISR) Plans or rate cases.

Infrastructure, Safety and Reliability Plans

We filed our 2022 Gas and Electric ISR Plans on 18 December and 21 December 2020, respectively, for effect 1 April 2021. The Electric ISR Plan proposed capital spending of $103.7 million, plus $12 million for total operation and maintenance expenses. The Gas ISR Plan proposed total capital spending of $180.1 million. On 29 March 2021, RIPUC approved the Company's 2021/22 Gas ISR Plan which included $173.2 million of investments, and the Company's 2021/22 Electric ISR Plan which included $101.7 million for capital investments plus an additional $12 million for operation and maintenance expenses. The Electric ISR Plan hearing took place on 16 March 2021. The Gas ISR Plan hearing took place on 11 March 2021.

COVID-19 response Rhode Island

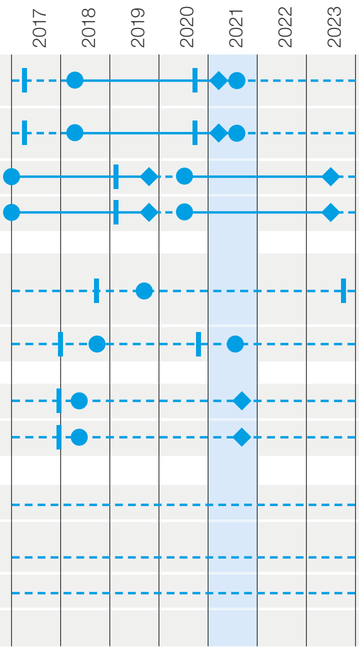
In response to the COVID-19 emergency, effective on 16 March 2020, the RIPUC ordered all electric and natural gas utilities to immediately cease certain collection activities, including termination of service for non-payment. On 13 July 2020, RIPUC, after finding that an emergency still existed for customers eligible for the low-income rate, extended the moratorium on utility shut-offs until 1 November 2020 for customers qualifying for a low-income discount and until 30 September 2020 for remaining residential customers of National Grid. All COVID-19-related moratoria have now expired, and the Company has continued to make progress on the three-stage process for resuming collection activities.

Federal Energy Regulatory Commission

Formula Rate 206 proceeding

On 28 December 2020, FERC approved the settlement of a proceeding it had initiated against the Company and other New England transmission owners in 2015 under Section 206 of the Federal Power Act. The new settlement formula rates will go into effect on 1 January 2022. Permanent formula rate protocols providing for information exchange and challenges will go into effect in June 2023. As part of the settlement approved by the Commission, the parties agreed to a moratorium which applies to Section 205 or Section 206 filings seeking to change Attachment F of the ISO-NE OATT, its appendices or the formula rate Protocols developed as part of the settlement, subject to certain exceptions, until 31 December 2024.

Summary of US price controls and rate plans



Regulator	Rate plan	Rate base (31 Mar 2021)	Equity-to-debt ratio	Allowed Return on Equity	Achieved Return on Equity (31 Mar 2020)	Revenue decoupling†	Capital tracker‡	Commodity-related bad debt true-up§	Pension/OPEB true-up◊
New York Public Service Commission	Niagara Mohawk[1] (upstate, electricity)	**$6,206m**	**48:52**	**9.0%**	**6.3%**	✓	P	P	✓
	Niagara Mohawk (upstate, gas)	**$1,467m**	**48:52**	**9.0%**	**7.2%**	✓	P	P	✓
	KEDNY (downstate)[2,4]	**$4,958m**	**48:52**	**8.8%**	**6.1%**	P	P	P	✓
	KEDLI (downstate)[3,4]	**$3,158m**	**48:52**	**8.8%**	**8.2%**	P	P	P	✓
Massachusetts Department of Public Utilities	Massachusetts Electric/Nantucket Electric	**$3,033m**	**53:47**	**9.6%**	**5.3%**	✓	P	✓	✓
	Massachusetts Gas[5]	**$3,521m**	**53:47**	**9.5%**	**5.7%**	✓	P	✓	✓
Rhode Island Public Utilities Commission	Narragansett Electric[6]	**$950m**	**51:49**	**9.3%**	**10.0%**	✓	✓	P	✓
	Narragansett Gas[6]	**$1,082m**	**51:49**	**9.3%**	**6.9%**	✓	✓	P	✓
Federal Energy Regulatory Commission	Narragansett	**$787m**	**50:50**	**10.6%**	**11.1%**	n/a	✓	n/a	✓
	Canadian Interconnector/Other[7]	**$58m**	**100:0**	**13.0%**	**13.0%**	n/a	✓	n/a	✓
	New England Power	**$1,970m**	**64:36**	**10.6%**	**11.0%**	n/a	✓	n/a	✓
	Long Island Generation	**$440m**	**48:52**	**9.9%**	**12.2%**	n/a	✓	n/a	✓

1. Both transmission and distribution, excluding stranded costs.
2. KeySpan Energy Delivery New York (the Brooklyn Union Gas Company).
3. KeySpan Energy Delivery Long Island (KeySpan Gas East Corporation).
4. National Grid, Department of Public Service Staff, and other settling parties filed a joint proposal for a three-year rate plan beginning April 2020 and ending March 2023. The settlement was filed on 14 May 2021 and a final decision from the NYPSC is expected later this year.
5. The chart shows the anticipated date rates are to be in effect.
6. The Narragansett Electric Company is currently seeking an extension of their current electric and gas rate plans.
7. Equity ratio and return on equity values are for the Canadian Interconnector only.

Rate filing made
New rates effective
Rate plan ends
Rates continue indefinitely
Multi-year rate plan

✓ Feature in place
P Feature partially in place

†Revenue decoupling
A mechanism that removes the link between a utility's revenue and sales volume so that the utility is indifferent to changes in usage. Revenues are reconciled to a revenue target, with differences billed or credited to customers. Allows the utility to support energy efficiency.

‡Capital tracker
A mechanism that allows the recovery of the revenue requirement of incremental capital investment above that embedded in base rates, including depreciation, property taxes and a return on the incremental investment.

§Commodity-related bad debt true-up
A mechanism that allows a utility to reconcile commodity-related bad debt to either actual commodity-related bad debt or to a specified commodity-related bad debt write-off percentage. For electricity utilities, this mechanism also includes working capital.

◊Pension/OPEB true-up
A mechanism that reconciles the actual non-capitalised costs of pension and OPEB and the actual amount recovered in base rates. The difference may be amortised and recovered over a period or deferred for a future rate case.

Internal control and risk factors

Disclosure controls

Our management, including the Chief Executive and Chief Financial Officer, have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as at 31 March 2021. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives; however, their effectiveness has limitations, including the possibility of human error and the circumvention or overriding of the controls and procedures.

Even effective disclosure controls and procedures provide only reasonable assurance of achieving their objectives. Based on the evaluation, the Chief Executive and Chief Financial Officer concluded that the disclosure controls and procedures are effective to provide reasonable assurance that information required for disclosure in the reports that we file and submit under the Exchange Act is recorded, processed, summarised and reported as and when required and that such information is accumulated and communicated to our management, including the Chief Executive and Chief Financial Officer, as appropriate, to allow timely decisions regarding disclosure.

Internal control over financial reporting

Our management, including the Chief Executive and Chief Financial Officer, have carried out an evaluation of our internal control over financial reporting pursuant to the Disclosure Guidance and Transparency Rules sourcebook and Section 404 of the Sarbanes-Oxley Act 2002. As required by Section 404, management is responsible for establishing and maintaining an adequate system of internal control over financial reporting (as defined in Rules 13a-5(f) and 15d-15(f) under the Exchange Act).

Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management's evaluation of the effectiveness of the Company's internal control over financial reporting was based on the revised Internal Control-Integrated Framework 2013 issued by the Committee of Sponsoring Organizations of the Treadway Commission. Using this evaluation, management concluded that our internal control over financial reporting was effective as at 31 March 2021.

Deloitte LLP, which has audited our consolidated financial statements for the year ended 31 March 2021, has also audited the effectiveness of our internal control over financial reporting.

During the year, there were no changes in our internal control over financial reporting that have materially affected it, or are reasonably likely to materially affect it.

Risk factors

Management of our risks is an important part of our internal control environment, as we describe on pages 24 – 27. In addition to the principal risks listed, we face a number of inherent risks that could have a material adverse effect on our business, financial condition, results of operations and reputation, as well as the value and liquidity of our securities.

Any investment decision regarding our securities and any forward-looking statements made by us should be considered in the light of these risk factors and the cautionary statement set out on page 268. An overview of the key inherent risks we face is provided below.

Risk factors

Law, regulation and political and economic uncertainty

Changes in law or regulation, or decisions by governmental bodies or regulators and increased political and economic uncertainty, could materially adversely affect us.

Most of our businesses are utilities or networks subject to regulation by governments and other authorities. Changes in law or regulation or regulatory policy and precedent (including changes arising as a result of the UK's exit from the European Union), as well as legislation introduced to facilitate the attainment of net zero emissions targets, and decisions of governmental bodies or regulators in the countries or states in which we operate could materially adversely affect us. We may fail to deliver any one of our customer, investor and wider stakeholder propositions due to increased political and economic uncertainty. Subject to completion of the WPD Acquisition, we may come under increased regulatory scrutiny resulting in greater costs of compliance.

If we fail to respond to or meet our own commitments as a leader in relation to climate change and the energy transition, we may be unable to influence future energy policy and deliver our strategy.

Decisions or rulings concerning the following (as examples) could have a material adverse impact on our results of operations, cash flows, the financial condition of our businesses and the ability to develop those businesses in the future:

- the implementation of the RIIO-2 price controls; whether licences, approvals or agreements to operate or supply are granted, amended or renewed; whether consents for construction projects are granted in a timely manner; or whether there has been any breach of the terms of a licence, approval or regulatory requirement; and
- timely recovery of incurred expenditure or obligations; the ability to pass through commodity costs; a decoupling of energy usage and revenue, and other decisions relating to the impact of general economic conditions on us, our markets and customers; implications of climate change and of advancing energy technologies; whether aspects of our activities are contestable; and the level of permitted revenues and dividend distributions for our businesses and in relation to proposed business development activities.

For further information, see pages 228 – 235, which explain our regulatory environment in detail.

Potentially harmful activities

Aspects of the work we do could potentially harm employees, contractors, members of the public or the environment.

Potentially hazardous activities that arise in connection with our business include: the generation, transmission and distribution of electricity; and the storage, transmission and distribution of gas. Electricity and gas utilities also typically use and generate hazardous and potentially hazardous products and by-products. In addition, there may be other aspects of our operations that are not currently regarded or proved to have adverse effects but could become so, such as the effects of electric and magnetic fields.

A significant safety or environmental incident, or the failure of our safety processes or of our occupational health plans, as well as the breach of our regulatory or contractual obligations or our climate change targets, could materially adversely affect our results of operations and our reputation.

Safety is a fundamental priority for us, and we commit significant resources and expenditure to ensuring process safety; to monitoring personal safety, occupational health and environmental performance; and to meeting our obligations under negotiated settlements.

We are subject to laws and regulations in the UK and US governing health and safety matters to protect the public and our employees and contractors, who could potentially be harmed by these activities, as well as laws and regulations relating to pollution, the protection of the environment, and the use and disposal of hazardous substances and waste materials.

These expose us to costs and liabilities relating to our operations and properties, including those inherited from predecessor bodies, whether currently or formerly owned by us, and sites used for the disposal of our waste.

The cost of future environmental remediation obligations is often inherently difficult to estimate, and uncertainties can include the extent of contamination, the appropriate corrective actions and our share of the liability. We are increasingly subject to regulation in relation to climate change and are affected by requirements to reduce our own carbon emissions (including our own commitment to reduce our greenhouse gas emissions to net zero by 2050) as well as to enable reduction in energy use by our customers. If more onerous requirements are imposed or our ability to recover these costs under regulatory frameworks changes, this could have a material adverse impact on our business, reputation, results of operations and financial position.

Infrastructure and IT systems

We may suffer a major network failure or interruption, or may not be able to carry out critical operations due to the failure of infrastructure, data or technology or a lack of supply.

Operational performance could be materially adversely affected by: a failure to maintain the health of our assets or networks; inadequate forecasting of demand and inadequate record keeping or control of data or failure of information systems and supporting technology. This, in turn, could cause us to fail to meet agreed standards of service, incentive and reliability targets, or be in breach of a licence, approval, regulatory requirement or contractual obligation. Even incidents that do not amount to a breach could result in adverse regulatory and financial consequences, as well as harming our reputation.

Where demand for electricity or gas exceeds supply, including where we do not adequately forecast and respond to disruptions in energy supplies, and our balancing mechanisms are not able to mitigate this fully, a lack of supply to consumers may damage our reputation.

In addition to these risks, we may be affected by other potential events that are largely outside our control, such as the impact of the COVID-19 pandemic (including on our operations and as a result of large-scale working from home by our employees), weather (including as a result of climate change and major storms), unlawful or unintentional acts of third parties, insufficient or unreliable supply, or force majeure.

Weather conditions can affect financial performance, and severe weather that causes outages or damages infrastructure, together with our actual or perceived response, could materially adversely affect operational and potentially business performance and our reputation.

Malicious attack, sabotage or other intentional acts, including breaches of our cyber security, may also damage our assets (which include critical national infrastructure) or otherwise significantly affect corporate activities and, as a consequence, have a material adverse impact on our reputation, business, results of operations and financial condition.

Unauthorised access to, or deliberate breaches of, our IT systems may also lead to manipulation of our proprietary business data or customer information. Unauthorised access to private customer information may make us liable for a violation of data privacy regulations. Even where we establish business continuity controls and security against threats to our systems, these may not be sufficient.

Pandemics

We face risks related to health epidemics and other outbreaks.

As seen in the context of COVID-19, pandemics and their associated counter-measures may affect countries, communities, supply chains and markets, including the UK and our service territory in the US. The spread of such pandemics could have adverse effects on our workforce, which could affect our ability to maintain our networks and provide service. In addition, disruption of supply chains could adversely affect our systems or networks.

Pandemics such as COVID-19 can also result in extraordinary economic circumstances in our markets which could negatively affect our customers' ability to pay our invoices in the US or the charges payable to the system operators for transmission services in the UK. Measures such as the suspension of debt collection and customer termination activities across our service area in response to such pandemics are likely to result in near-term lower customer collections, and could result in increasing levels of bad debt and associated provisions.

The extent to which pandemics such as COVID-19 may affect our liquidity, business, financial condition, results of operations and reputation will depend on future developments, which are highly uncertain and cannot be predicted, and will depend on the severity of the relevant pandemic, the scope, duration, cost to National Grid and overall economic impact of actions taken to contain it or treat its effects.

Business performance

Current and future business performance may not meet our expectations or those of our regulators and shareholders.

Earnings maintenance and growth from our regulated gas and electricity businesses will be affected by our ability to meet or exceed efficiency targets and service quality standards set by, or agreed with, our regulators.

If we do not meet these targets and standards, or if we are not able to deliver the US rate plans strategy successfully, we may not achieve the expected benefits, our business may be materially adversely affected and our performance, results of operations and reputation may be materially harmed and we may be in breach of regulatory or contractual obligations.

Internal control and risk factors continued

Growth and business development activity

Failure to respond to external market developments and execute our growth strategy may negatively affect our performance. Conversely, new businesses or activities that we undertake alone or with partners may not deliver target outcomes and may expose us to additional operational and financial risk.

Failure to grow our core business sufficiently and have viable options for new future business over the longer term, or failure to respond to the threats and opportunities presented by emerging technology or innovation (including for the purposes of adapting our networks to meet the challenges of increasing distributed energy resources), could negatively affect the Group's credibility and reputation and jeopardise the achievement of intended financial returns.

Our business development activities, including the WPD Acquisition, the NECO sale and the announced proposed sale of a stake in our Gas Transmission business and the delivery of our growth ambition, involve acquisitions, disposals, joint ventures, partnering and organic investment opportunities, such as development activities relating to changes to the energy mix and the integration of distributed energy resources and other advanced technologies. These are subject to a wide range of both external uncertainties (including the availability of potential investment targets and attractive financing and the impact of competition for onshore transmission in both the UK and US) and internal uncertainties (including actual performance of our existing operating companies and our business planning model assumptions and ability to integrate acquired businesses effectively). As a result, we may suffer unanticipated costs and liabilities and other unanticipated effects.

We may also be liable for the past acts, omissions or liabilities of companies or businesses we have acquired, which may be unforeseen or greater than anticipated. In the case of joint ventures, we may have limited control over operations and our joint venture partners may have interests that diverge from our own.

The occurrence of any of these events could have a material adverse impact on our results of operations or financial condition, and could also impact our ability to enter into other transactions.

Financing and liquidity

An inability to access capital markets at commercially acceptable interest rates could affect how we maintain and grow our businesses.

Our businesses are financed through cash generated from our ongoing operations, bank lending facilities and the capital markets, particularly the long-term debt capital markets.

Some of the debt we issue is rated by credit rating agencies, and changes to these ratings may affect both our borrowing capacity and borrowing costs. In addition, restrictions imposed by regulators may also limit how we service the financial requirements of our current businesses or the financing of newly acquired or developing businesses.

Financial markets can be subject to periods of volatility and shortages of liquidity – for example, as a result of unexpected political or economic events or the COVID-19 pandemic. If we were unable to access the capital markets or other sources of finance at commercially acceptable rates for a prolonged period, our cost of financing may increase, the discretionary and uncommitted elements of our proposed capital investment programme may need to be reconsidered, and the manner in which we implement our strategy may need to be reassessed.

Such events could have a material adverse impact on our business, results of operations and prospects.

Some of our regulatory agreements impose lower limits for the long-term unsecured debt credit ratings that certain companies within the Group must hold or the amount of equity within their capital structures, including a limit requiring National Grid plc to hold an investment-grade long-term senior unsecured debt credit rating.

In addition, some of our regulatory arrangements impose restrictions on the way we can operate. These include regulatory requirements for us to maintain adequate financial resources within certain parts of our operating businesses and may restrict the ability of National Grid plc and some of our subsidiaries to engage in certain transactions, including paying dividends, lending cash and levying charges.

The inability to meet such requirements, or the occurrence of any such restrictions, may have a material adverse impact on our business and financial condition.

Our debt agreements and banking facilities contain covenants, including those relating to the periodic and timely provision of financial information by the issuing entity, restrictions on disposals and financial covenants, such as restrictions on the level of subsidiary indebtedness.

Failure to comply with these covenants, or to obtain waivers of those requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of our debt and may restrict our ability to draw upon our facilities or access the capital markets.

Exchange rates, interest rates and commodity price indices

Changes in foreign currency rates, interest rates or commodity prices could materially impact earnings or our financial condition.

We have significant operations in the US and are therefore subject to the exchange rate risks normally associated with non-UK operations including the need to translate US assets, liabilities, income and expenses into sterling (our reporting currency).

In addition, our results of operations and net debt position may be affected because a significant proportion of our borrowings, derivative financial instruments and commodity contracts are affected by changes in interest rates, commodity price indices and exchange rates, in particular the dollar-to-sterling exchange rate.

Furthermore, our cash flow may be materially affected as a result of settling hedging arrangements entered into to manage our exchange rate, interest rate and commodity price exposure, or by cash collateral movements relating to derivative market values, which also depend on the sterling exchange rate into the euro and other currencies.

Post-retirement benefits

We may be required to make significant contributions to fund pension and other post-retirement benefits.

We participate in a number of pension schemes that together cover substantially all our employees. In both the UK and US, such schemes include various large defined benefit schemes where the scheme assets are held independently of our own financial resources.

In the US, we also have other post-retirement benefit schemes. Estimates of the amount and timing of future funding for the UK and US schemes are based on actuarial assumptions and other factors, including: the actual and projected market performance of the scheme assets; future long-term bond yields; average life expectancies; and relevant legal requirements.

Actual performance of scheme assets may be affected by volatility in debt and equity markets.

Changes in these assumptions or other factors may require us to make additional contributions to these pension schemes which, to the extent they are not recoverable under our price controls or state rate plans, could materially adversely affect the results of our operations and financial condition.

Customers and counterparties

Customers and counterparties may not perform their obligations.

Our operations are exposed to the risk that customers, suppliers, banks and other financial institutions, and others with whom we do business, will not satisfy their obligations, which could materially adversely affect our financial position.

This risk is significant where our subsidiaries have concentrations of receivables from gas and electricity utilities and their affiliates, as well as industrial customers and other purchasers, and may also arise where customers are unable to pay us as a result of increasing commodity prices or adverse economic conditions (including as a result of the COVID-19 pandemic).

To the extent that counterparties are contracted with for physical commodities (gas and electricity) and they experience events that impact their own ability to deliver, we may suffer supply interruption as described in Infrastructure and IT systems on page 237.

There is also a risk to us where we invest excess cash or enter into derivatives and other financial contracts with banks or other financial institutions. Banks who provide us with credit facilities may also fail to perform under those contracts.

Employees and others

We may fail to attract, develop and retain employees with the competencies (including leadership and business capabilities), values and behaviours required to deliver our strategy and vision and ensure they are engaged to act in our best interests.

Our ability to implement our strategy depends on the capabilities and performance of our employees and leadership at all levels of the business. Our ability to implement our strategy and vision may be negatively affected by the loss of key personnel or an inability to attract, integrate, engage and retain appropriately qualified personnel (including people with the skills to help us deliver on our net zero commitments) or if significant disputes arise with our employees.

As a result, there may be a material adverse effect on our business, financial condition, results of operations and prospects.

There is a risk that an employee or someone acting on our behalf may breach our internal controls or internal governance framework, or may contravene applicable laws and regulations. This could have an impact on the results of our operations, our reputation and our relationship with our regulators and other stakeholders.

Index to Directors’ Report and other disclosures

Shareholder information

Articles of Association

The following description is a summary of the material terms of our Articles of Association (Articles) and applicable English law. It is a summary only and is qualified in its entirety by reference to the Articles.

The Company is proposing at the 2021 AGM to update the Articles to take account of recent changes to company law and market changes, including in particular the flexibility for the Company to hold general meetings by allowing combined physical and electronic general meetings (also known as 'hybrid' meetings). The Notice of Meeting for the 2021 AGM, which sets out details of the proposed amendments to the Articles and the proposed form of the amended Articles (the 'New Articles') are available on the Company's website.

Summary

The Articles set out the Company's internal regulations. Copies are available on our website and upon request. Amendments to the Articles have to be approved by at least 75% of those voting at a general meeting of the Company. Subject to company law and the Articles, the Directors may exercise all the powers of the Company. They may delegate authorities to committees and day-to-day management and decision-making to individual Executive Directors. We set out the committee structure on page 74.

General

The Company is incorporated under the name National Grid plc and is registered in England and Wales with registered number 4031152. Under the Companies Act 2006, the Company's objects are unrestricted.

Directors

Under the Articles, a Director must disclose any personal interest in a matter and may not vote in respect of that matter, subject to certain limited exceptions. As permitted under the Companies Act 2006, the Articles allow non-conflicted Directors to authorise a conflict or potential conflict for a particular matter. In doing so, the non-conflicted Directors must act in a way they consider, in good faith, will be most likely to promote the success of the Company for the benefit of the shareholders as a whole.

The Directors (other than a Director acting in an executive capacity) are paid fees for their services. In total, these fees must not exceed £2,000,000 per year or any higher sum decided by an ordinary resolution at a general meeting of shareholders. In addition, special pay may be awarded to a Director who acts in an executive capacity, serves on a committee, performs services which the Directors consider to extend beyond the ordinary duties of a Director, devotes special attention to the business of National Grid, or goes or lives abroad on the Company's behalf. Directors may also receive reimbursement for expenses properly incurred, and may be awarded pensions and other benefits. The compensation awarded to the Executive Directors is determined by the Remuneration Committee. Further details of Directors' remuneration are set out in the Directors' Remuneration Report (see pages 92 – 113).

The Directors may exercise all the powers of National Grid to borrow money. However, the aggregate principal amount of all the Group's borrowings outstanding at any time must not exceed £35 billion or any other amount approved by shareholders by an ordinary resolution at a general meeting. At the Company's AGM for 2020, shareholders approved, by ordinary resolution, an increase in this amount (which had remained unchanged since the 2009 AGM) to £45 billion and to enable the funding of growth over the medium term in an efficient manner. At the General Meeting on 22 April 2021 to approve the WPD Acquisition, shareholders approved a further increase in this amount to £55 billion to reflect the additional borrowing required for the WPD Acquisition and the taking on of existing WPD debt. The amount specified in the New Articles reflect these resolutions.

Directors can be appointed or removed by the Board or shareholders at a general meeting. Directors must stand for election at the first AGM following their appointment to the Board and the New Articles provide, in line with market practice, that they must be recommended by the Board or the Company must have received written confirmation of their willingness to act as Director. Each Director must retire at least every three years, although they will be eligible for re-election. In accordance with best practice introduced by the UK Corporate Governance Code, all Directors wishing to continue in office currently offer themselves for re-election annually. No person is disqualified from being a Director or is required to vacate that office by reason of attaining a maximum age.

A Director is not required to hold shares in National Grid in order to qualify as a Director.

Rights, preferences and restrictions

(i) Dividend rights

National Grid may not pay any dividend otherwise than out of profits available for distribution under the Companies Act 2006 and other applicable provisions of English law. In addition, as a public company, National Grid may only make a distribution if, at the time of the distribution, the amount of its net assets is not less than the aggregate of its called-up share capital and undistributable reserves (as defined in the Companies Act 2006), and to the extent that the distribution does not reduce the amount of those assets to less than that aggregate. Ordinary shareholders and American Depositary Share (ADS) holders receive dividends.

Subject to these points, shareholders may, by ordinary resolution, declare dividends in accordance with the respective rights of the shareholders, but not exceeding the amount recommended by the Board. The Board may pay interim dividends if it considers that National Grid's financial position justifies the payment. Any dividend or interest unclaimed for 12 years from the date when it was declared or became due for payment will be forfeited and revert to National Grid, and the New Articles clarify that the Company may use such unclaimed dividends for the Company's benefit as the Directors may think fit.

(ii) Voting rights

Subject to any rights or restrictions attached to any shares and to any other provisions of the Articles, at any general meeting on a show of hands, every shareholder who is present in person will have one vote and, on a poll, every shareholder will have one vote for every share they hold. On a show of hands or poll, shareholders may cast votes either personally or by proxy. A proxy need not be a shareholder. Under the Articles, all substantive resolutions at a general meeting must be decided on a poll and the New Articles provide that voting on resolutions at a general meeting that is held at least in part using an electronic platform must be decided on a poll. Ordinary shareholders and ADS holders can vote at general meetings.

(iii) Liquidation rights

In a winding up, a liquidator may (in each case with the sanction of a special resolution passed by the shareholders and any other sanction required under English law): (a) divide among the shareholders the whole or any part of National Grid's assets (whether the assets are of the same kind or not); the liquidator may, for this purpose, value any assets and determine how the division should be carried out as between shareholders or different classes of shareholders, or (b) transfer any part of the assets to trustees on trust for the benefit of the shareholders as the liquidator determines. In neither case will a shareholder be compelled to accept assets upon which there is a liability.

(iv) Restrictions

There are no restrictions on the transfer or sale of ordinary shares. Some of the Company's employee share plans, details of which are contained in the Directors' Remuneration Report, include restrictions on the transfer of ordinary shares while the ordinary shares are subject to the plan. Where, under an employee share plan operated by the Company, participants are the beneficial owners of the ordinary shares but not the registered owner, the voting rights may be exercised by the registered owner at the direction of the participant. Treasury shares do not attract a vote or dividends.

(v) Variation of rights

Subject to applicable provisions of English law, the rights attached to any class of shares of National Grid may be varied or cancelled. This must be with the written consent of the holders of three quarters in nominal value of the issued shares of that class, or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class.

General meetings

AGMs must be convened each year within six months of the Company's accounting reference date upon 21 clear days' advance written notice. Under the Articles, any other general meeting may be convened provided at least 14 clear days' written notice is given, subject to annual approval of shareholders. In certain limited circumstances, the Company can convene a general meeting by shorter notice. The notice must specify, among other things, the nature of the business to be transacted, the place, the date and the time of the meeting. As at the date of this report, it will be possible to hold the Company's 2021 AGM as a physical meeting in accordance with the UK government's roadmap to ease COVID-19 restrictions across England. However, given the unpredictable circumstances of the COVID-19 pandemic and to ensure the health and safety of all our shareholders and colleagues, we may be required to rapidly adapt these arrangements to respond to the UK government guidelines. Please ensure you continue to monitor our website nationalgrid.com/investors/shareholder-information/agm for any updates to the arrangements for the AGM.

Rights of non-residents

There are no restrictions under the Articles that would limit the rights of persons not resident in the UK to vote in relation to ordinary shares.

Disclosure of interests

Under the Companies Act 2006, National Grid may, by written notice, require a person whom it has reasonable cause to believe to be or to have been, in the last three years, interested in its shares to provide additional information relating to that interest. Under the Articles, failure to provide such information may result in a shareholder losing their rights to attend, vote or exercise any other right in relation to shareholders' meetings.

Under the UK Disclosure Guidance and Transparency Rules (DTR) sourcebook, there is also an obligation on a person who acquires or ceases to have a notifiable interest in shares in National Grid to notify the Company of that fact. The disclosure threshold is 3% and disclosure is required each time the person's direct and indirect holdings reach, exceed or fall below each 1% threshold thereafter.

The UK City Code on Takeovers and Mergers imposes strict disclosure requirements regarding dealings in the securities of an offeror or offeree company, and also on their respective associates, during the course of an offer period. Other regulators in the UK, US and elsewhere may have, or assert, notification or approval rights over acquisitions or transfers of shares.

Depositary payments to the Company

The Depositary (The Bank of New York Mellon) reimburses the Company for certain expenses it incurs in relation to the ADS programme. The Depositary also pays the standard out-of-pocket maintenance costs for the ADSs, which consist of the expenses for the mailing of annual and interim financial reports, printing and distributing dividend cheques, the electronic filing of US federal tax information, mailing required tax forms, stationery, postage, facsimiles and telephone calls. It also reimburses the Company for certain investor relationship programmes or special investor relations promotional activities. There are limits on the amount of expenses for which the Depositary will reimburse the Company, but the amount of reimbursement is not necessarily tied to the amount of fees the Depositary collects from investors.

For the period 18 June 2020 to 19 May 2021, the Company received a total of $1,943,797.24 in reimbursements from the Depositary consisting of $1,112,830.34, $285,087.01 and $545,879.89 received in October 2020, December 2020 and March 2021 respectively. Fees that are charged on cash dividends will be apportioned between the Depositary and the Company.

Any questions from ADS holders should be directed to The Bank of New York Mellon at the contact details on page 267.

Description of securities other than equity securities: Depositary fees and charges

The Depositary collects fees by deducting them from the amounts distributed or by selling a portion of distributable property for:

- delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them; and
- making distributions to investors (including, it is expected, cash dividends).

The Depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

Persons depositing or withdrawing shares must pay:	For:
$5.00 per 100 ADSs (or portion of 100 ADSs)	Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property; cancellation of ADSs for the purpose of withdrawal, including if the Deposit agreement terminates; and distribution of securities distributed to holders of deposited securities that are distributed by the Depositary to ADS holders.
Registration or transfer fees	Transfer and registration of shares on our share register to or from the name of the Depositary or its agent when they deposit or withdraw shares.
Expenses of the Depositary	Cable, telex and facsimile transmissions (when expressly provided in the Deposit agreement); and converting foreign currency to dollars.
Taxes and other governmental charges the Depositary or the Custodian has to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes	As necessary.

The Company's Deposit agreement under which the ADSs are issued allows a fee of up to $0.05 per ADS to be charged for any cash distribution made to ADS holders, including cash dividends. ADS holders who receive cash in relation to the 2020/21 final dividend will be charged a fee of $0.02 per ADS by the Depositary prior to distribution of the cash dividend.

Documents on display

National Grid is subject to the US Securities and Exchange Commission (SEC) reporting requirements for foreign companies. The Company's Form 20-F and other filings can be viewed on the National Grid website as well as the SEC website at sec.gov.

Shareholder information continued

Events after the reporting period

There were no events after the reporting period.

Exchange controls

There are currently no UK laws, decrees or regulations that restrict the export or import of capital, including, but not limited to, foreign exchange control restrictions, or that affect the remittance of dividends, interest or other payments to non-UK resident holders of ordinary shares except as otherwise set out in Taxation on pages 243 and 244 and except in respect of the governments of and/or certain citizens, residents or bodies of certain countries (described in applicable Bank of England Notices or European Union Council Regulations in force as at the date of this document).

Material interests in shares

As at 31 March 2021, National Grid had been notified of the following holdings in voting rights of 3% or more in the issued share capital of the Company:

	Number of ordinary shares	% of voting rights[1]	Date of last notification of interest
BlackRock, Inc.	253,998,855	7.21	1 December 2020
The Capital Group Companies, Inc.	145,094,617	3.88	16 April 2015

1. This number is calculated in relation to the issued share capital at the time the holding was disclosed.

As at 19 May 2021, no further notifications have been received.

The rights attached to ordinary shares are detailed on page 240. All ordinary shares and all major shareholders have the same voting rights. The Company is not, to the best of its knowledge, directly or indirectly controlled.

Share capital

As at 19 May 2021, the share capital of the Company consists of ordinary shares of $12^{204/473}$ pence nominal value each and ADSs, which represent five ordinary shares each.

Authority to purchase shares

Shareholder approval was given at the 2020 AGM to purchase up to 10% of the Company's share capital (being 351,013,155 ordinary shares). The Directors intend to seek shareholder approval to renew this authority at the 2021 AGM.

In some circumstances, the Company may find it advantageous to have the authority to purchase its own shares in the market, where the Directors believe this would be in the interests of shareholders generally. The Directors believe that it is an important part of the financial management of the Company to have the flexibility to repurchase issued shares to manage its capital base, including actively managing share issuances from the operation of the scrip dividend scheme. It is expected that repurchases to manage share issuances under the scrip dividend scheme will not exceed 2.5% of the issued share capital (excluding treasury shares) per annum.

When purchasing shares, the Company has taken, and will continue to take, into account market conditions prevailing at the time, other investment and financing opportunities, and the overall financial position of the Company.

At the 2020 AGM, the Company sought authority to purchase ordinary shares in the capital of the Company as part of the management of the dilutive effect of share issuances under the scrip dividend scheme. During the year, the Company did not purchase any of its own shares.

	Number of shares	Total nominal value	% of called up share capital
Shares held in Treasury purchased in prior years[1]	271,931,784	£33,804,627.69[2]	7.19[1]
Shares purchased and held in Treasury during the year	–	–	–
Shares transferred from Treasury during the year (to employees under employee share plans)	6,172,027	£767,262.55[2]	0.16[3]
Maximum number of shares held in Treasury during the year	271,931,784	£33,804,627.69[2]	7.13[3]

1. Called-up share capital: 3,780,237,016 as at 31 March 2020.
2. Nominal value: $12^{204/473}$p.
3. Called-up share capital of 3,814,951,606 ordinary shares as at the date of this report.

As at the date of this report, the Company held 259,621,074 ordinary shares as treasury shares. This represented 6.81% of the Company's called-up share capital.

Authority to allot shares

Shareholder approval was given at the 2020 AGM to allot shares of up to one third of the Company's share capital. The Directors are seeking this same level of authority this year. The Directors consider that the Company will have sufficient flexibility with this level of authority to respond to market developments and that this authority is in line with investor guidelines.

The Directors currently have no intention of issuing new shares or of granting rights to subscribe for or convert any security into shares. This is except in relation to, or in connection with, the operation and management of the Company's scrip dividend scheme and the exercise of options under the Company's share plans. No issue of shares will be made that would effectively alter control of the Company without the sanction of shareholders in a general meeting.

The Company expects to actively manage the dilutive effect of share issuance arising from the operation of the scrip dividend scheme. In some circumstances, additional shares may be allotted to the market for this purpose under the authority provided by this resolution. Under these circumstances, it is expected that the associated allotment of new shares (or rights to subscribe for or convert any security into shares) will not exceed 1% of the issued share capital (excluding treasury shares) per annum.

Dividend waivers

The trustee of the National Grid Employee Share Trust, which is independent of the Company, waived the right to dividends paid during the year. They have also agreed to waive the right to future dividends, in relation to the ordinary shares and ADSs held by the trust.

Under the Company's ADS programme, the right to dividends in relation to the ordinary shares underlying the ADSs was waived during the year, under an arrangement whereby the Company pays the monies to satisfy any dividends separately to the Depositary for distribution to ADS holders entitled to the dividend. This arrangement is expected to continue for future dividends.

Share information

National Grid ordinary shares are listed on the London Stock Exchange under the symbol NG. The ADSs are listed on the New York Stock Exchange under the symbol NGG.

Shareholder analysis

The following table includes a brief analysis of shareholder numbers and shareholdings as at 31 March 2021.

	Number of shareholders	% of shareholders	Number of shares	% of shares[1]
1–50	163,850	21.22	4,977,152	0.13
51–100	194,515	25.19	13,646,168	0.36
101–500	322,508	41.77	67,393,746	1.77
501–1,000	45,487	5.89	31,660,235	0.83
1,001–10,000	43,014	5.57	105,181,894	2.76
10,001–50,000	1,714	0.22	31,282,895	0.82
50,001–100,000	206	0.03	14,734,456	0.39
100,001–500,000	413	0.05	99,665,659	2.61
500,001–1,000,000	151	0.02	109,396,417	2.87
1,000,001+	302	0.04	3,337,012,984	87.47
Total	772,160	100	3,814,951,606	100

1. Percentages have been rounded to two decimal places.

Taxation

This section provides information about certain US federal income tax and UK tax consequences for US Holders (defined below) of owning ADSs and ordinary shares. A US Holder is the beneficial owner of ADSs or ordinary shares who:

- is for US federal income tax purposes (i) an individual citizen or resident of the United States; (ii) a corporation created or organised under the laws of the United States, any state thereof or the District of Columbia; (iii) an estate, the income of which is subject to US federal income tax without regard to its source; or (iv) a trust, if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust, or the trust has elected to be treated as a domestic trust for US federal income tax purposes; and
- does not hold ADSs or ordinary shares in connection with the conduct of a business or the performance of services in the UK or otherwise in connection with a branch, agency or permanent establishment in the UK.

This section is not a comprehensive description of all the US federal income tax and UK tax considerations that may be relevant to any particular investor (including consequences under the US alternative minimum tax or net investment income tax). Neither does it address state, local or other tax laws. National Grid has assumed that shareholders, including US Holders, are familiar with the tax rules applicable to investments in securities generally and with any special rules to which they may be subject. This discussion deals only with US Holders who hold ADSs or ordinary shares as capital assets. It does not address the tax treatment of investors who are subject to special rules. Such investors may include:

- financial institutions;
- insurance companies;
- dealers in securities or currencies;
- investors who elect mark-to-market treatment;
- entities treated as partnerships or other pass-through entities and their partners;
- individual retirement accounts and other tax-deferred accounts;
- tax-exempt organisations;
- investors who own (directly or indirectly) 10% or more of our shares (by vote or value);
- investors who hold ADSs or ordinary shares as a position in a straddle, hedging transaction or conversion transaction;
- individual investors who have ceased to be resident in the UK for a period of five years or less;
- persons that have ceased to be US citizens or lawful permanent residents of the US; and
- US Holders whose functional currency is not the US dollar.

The statements regarding US and UK tax laws and administrative practices set forth below are based on laws, treaties, judicial decisions and regulatory interpretations that were in effect on the date of this document. These laws and practices are subject to change without notice, potentially with retroactive effect. In addition, the statements set forth below are based on the representations of the Depositary and assume that each party to the Deposit agreement will perform its obligations thereunder in accordance with its terms.

US Holders of ADSs generally will be treated as the owners of the ordinary shares represented by those ADSs for US federal income tax purposes. For the purposes of the Tax Convention, the Estate Tax Convention and UK tax considerations, this discussion assumes that a US Holder of ADSs will be treated as the owner of the ordinary shares represented by those ADSs. HMRC has stated that it will continue to apply its long-standing practice of treating a holder of ADSs as holding the beneficial interest in the ordinary shares represented by the ADSs; however, we note that this is an area of some uncertainty and may be subject to change.

US Holders should consult their own advisors regarding the tax consequences of buying, owning and disposing of ADSs or ordinary shares depending on their particular circumstances, including the effect of any state, local or other tax laws.

Taxation of dividends

The UK does not currently impose a withholding tax on dividends paid to US Holders.

US Holders should assume that any cash distribution paid by us with respect to ADSs or ordinary shares will be reported as dividend income for US federal income tax purposes. While dividend income received from non-US corporations is generally taxable to a non-corporate US Holder as ordinary income for US federal income tax purposes, dividend income received by a non-corporate US Holder from us generally will be taxable at the same favourable rates applicable to long-term capital gains provided (i) either: (a) we are eligible for the benefits of the Tax Convention or (b) ADSs or ordinary shares are treated as 'readily tradable' on an established securities market in the United States; and (ii) we are not, for our taxable year during which the dividend is paid or the prior year, a passive foreign investment company for US federal income tax purposes (a PFIC), and certain other requirements are met. We expect that our shares will be treated as 'readily tradable' on an established securities market in the United States as a result of the trading of ADSs on the New York Stock Exchange. We also believe we are eligible for the benefits of the Tax Convention.

Based on our audited financial statements and the nature of our business activities, we believe that we were not treated as a PFIC for US federal income tax purposes with respect to our taxable year ending 31 March 2021. In addition, based on our current expectations regarding the value and nature of our assets, the sources and nature of our income, and the nature of our business activities, we do not anticipate becoming a PFIC in the foreseeable future.

Dividends received by corporate US Holders with respect to ADSs or ordinary shares will not be eligible for the dividends-received deduction that is generally allowed to corporations.

Taxation of capital gains

Subject to specific rules relating to assets that derive at least 75% of their value from UK land, US Holders will not be subject to UK taxation on any capital gain realised on the sale or other disposition of ADSs or ordinary shares.

Provided that we are not a PFIC for any taxable year during which a US Holder holds their ADSs or ordinary shares, upon a sale or other disposition of ADSs or ordinary shares, a US Holder generally will recognise a capital gain or loss for US federal income tax purposes that is equal to the difference between the US dollar value of the amount realised on the sale or other disposition and the US Holder's adjusted tax basis in the ADSs or ordinary shares. Such capital gain or loss generally will be long-term capital gain or loss if the ADSs or ordinary shares were held for more than one year. For non-corporate US Holders, long-term capital gain is generally taxed at a lower rate than ordinary income. A US Holder's ability to deduct capital losses is subject to significant limitations.

Shareholder information continued

US information reporting and backup withholding tax

Dividend payments made to US Holders and proceeds paid from the sale, exchange, redemption or disposal of ADSs or ordinary shares to US Holders may be subject to information reporting to the US Internal Revenue Service (IRS). Such payments may be subject to backup withholding taxes if the US Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to comply with applicable certification requirements.

US Holders should consult their tax advisors about these rules and any other reporting obligations that may apply to the ownership or disposition of ADSs or ordinary shares. Such obligations include reporting requirements related to the holding of certain foreign financial assets.

UK stamp duty and stamp duty reserve tax (SDRT)

Transfers of ordinary shares – SDRT at the rate of 0.5% of the amount or value of the consideration will generally be payable on any agreement to transfer ordinary shares that is not completed using a duly stamped instrument of transfer (such as a stock transfer form).

The SDRT liability will be cancelled where an instrument of transfer is executed and duly stamped before the expiry of the six-year period beginning with the date on which the agreement is made. If a claim is made within the specified period, any SDRT which has been paid will be refunded. SDRT is due whether or not the agreement or transfer is made or carried out in the UK and whether or not any party to that agreement or transfer is a UK resident.

Purchases of ordinary shares completed using a stock transfer form will generally result in a UK stamp duty liability at the rate of 0.5% (rounded up to the nearest £5) of the amount or value of the consideration. Paperless transfers under the CREST paperless settlement system will generally be liable to SDRT at the rate of 0.5%, and not stamp duty. SDRT is generally the liability of the purchaser, and UK stamp duty is usually paid by the purchaser or transferee.

Transfers of ADSs – no UK stamp duty will be payable on the acquisition or transfer of existing ADSs or beneficial ownership of ADSs, provided that any instrument of transfer or written agreement to transfer is executed outside the UK and remains at all times outside the UK.

An agreement for the transfer of ADSs in the form of American Depositary Receipts will not result in an SDRT liability. A charge to stamp duty or SDRT may arise on the transfer of ordinary shares to the Depositary or The Bank of New York Mellon as agent of the Depositary (the Custodian).

The rate of stamp duty or SDRT will generally be 1.5% of the value of the consideration or, in some circumstances, the value of the ordinary shares concerned. However, there is no 1.5% SDRT charge on the issue of ordinary shares (or, where it is integral to the raising of new capital, the transfer of ordinary shares) to the Depositary or the Custodian.

The Depositary will generally be liable for the stamp duty or SDRT. Under the terms of the Deposit Agreement, the Depositary will charge any tax payable by the Depositary or the Custodian (or their nominees) on the deposit of ordinary shares to the party to whom the ADSs are delivered against such deposits. If the stamp duty is not a multiple of £5, the duty will be rounded up to the nearest multiple of £5.

UK inheritance tax

An individual who is domiciled in the US for the purposes of the Estate Tax Convention and who is not a UK national for the purposes of the Estate Tax Convention will generally not be subject to UK inheritance tax in respect of (i) the ADSs or ordinary shares on the individual's death or (ii) a gift of the ADSs or ordinary shares during the individual's lifetime. This is not the case where the ADSs or ordinary shares are part of the business property of the individual's permanent establishment in the UK or relate to a fixed base in the UK of an individual who performs independent personal services.

Special rules apply to ADSs or ordinary shares held in trust.

In the exceptional case where the ADSs or shares are subject both to UK inheritance tax and to US federal gift or estate tax, the Estate Tax Convention generally provides for the tax paid in the UK to be credited against tax paid in the US or vice versa.

Capital gains tax (CGT) for UK resident shareholders

You can find CGT information relating to National Grid shares for UK resident shareholders on the investor section of our website. Share prices on specific dates are also available on our website.

Other disclosures

All-employee share plans

The Company has a number of all-employee share plans as described below, which operated during the year. These allow UK or US-based employees to participate in tax-advantaged plans and to become shareholders in National Grid.

Sharesave

UK employees are eligible to participate in the Sharesave plan. Under this plan, participants may contribute between £5 and £500 each month, for a fixed period of three years, five years or both. Contributions are taken from net salary. At the end of the fixed period, participants may use their savings to purchase ordinary shares in National Grid at a 20% discounted option price, which is set at the time of each annual Sharesave launch.

Share Incentive Plan (SIP)

UK employees are eligible to participate in the SIP. Contributions up to £150 per month are deducted from participants' gross salary and used to purchase National Grid ordinary shares each month. The shares are placed in a UK resident trust and are available to the individual with tax advantages after a five-year period.

US Incentive Thrift Plans

Thrift Plans are open to all US employees of participating National Grid companies; these are tax-advantaged savings plans (commonly referred to as 401k plans). These are defined contribution (DC) pension plans that give participants the opportunity to invest up to applicable federal salary limits. The federal limits for calendar year 2020 were: for pre-tax contributions, a maximum of 50% of salary limited to $19,500 for those under the age of 50 and $26,000 for those aged 50 and above; for post-tax contributions, up to 15% of salary. The total amount of employee contributions (pre-tax and post-tax) could not exceed 50% of compensation, and was further subject to the combined federal annual contribution limit of $57,000. For the calendar year 2021, participants may invest up to the applicable federal salary limits: for pre-tax contributions, this is a maximum of 50% of salary limited to $19,500 for those under the age of 50 and $26,000 for those aged 50 and above; for post-tax contributions, this is up to 15% of salary. The total amount of employee contributions (pre-tax and post-tax) may not exceed 50% of compensation, and is further subject to the combined federal annual contribution limit of $58,000.

US Employee Stock Purchase Plan (ESPP)

Employees of National Grid's participating US companies are eligible to participate in the ESPP (commonly referred to as a 423b plan). Eligible employees have the opportunity to purchase ADSs in National Grid on a monthly basis at a 15% discounted price. Under the plan, employees may contribute up to 20% of base pay each year, up to a maximum annual contribution of $25,000, to purchase ADSs.

The ESPP rules expire in July 2021 and so the Company will seek shareholder approval at the 2021 AGM for the new ESPP rules. The new rules will be substantially in line with the existing rules, updated to reflect developments in market practice and good governance.

Change of control provisions

No compensation would be paid for loss of office of Directors on a change of control of the Company. As at 31 March 2021, the Company had borrowing facilities of £4.2 billion available to it with a number of banks, which, on a change of control of the Company following a takeover bid, may alter or terminate; however, the Company is currently not drawing on any of such borrowing facilities. All of the Company's share plans contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time. In the event of a change of control of the Company, a number of governmental and regulatory consents or approvals are likely to be required, arising from laws or regulations of the UK or the US. Such consents or approvals may also be required for acquisitions of equity securities that do not amount to a change of control.

No other agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid are considered to be significant in terms of their potential impact on the business as a whole.

Code of Ethics

In accordance with US legal requirements, the Board has adopted a Code of Ethics for senior financial professionals. This Code is available on our website: nationalgrid.com (where any amendments or waivers will also be posted). There were no amendments to, or waivers of, our Code of Ethics during the year.

Conflicts of interest

In accordance with the Companies Act 2006, the Board has a policy and procedure in place for the disclosure and authorisation (if appropriate) of actual and potential conflicts of interest. The Board continues to monitor and note possible conflicts of interest that each Director may have. The Directors are regularly reminded of their continuing obligations in relation to conflicts, and are required to review and confirm their external interests annually. During the year ended 31 March 2021, no new actual or potential conflicts of interest were identified that required approval by the Board. The Board has considered and noted a number of situations in relation to which no actual conflict of interest was identified. Due to current ongoing contractual negotiations that the Company has with Costain plc, the situational conflict that Paul Golby has by virtue of being a Non-executive Director of the Company and Chairman of Costain plc has been kept under constant review during the year and Paul Golby has been recused of all discussions in relation to contractual issues with Costain plc. He has also confirmed to us in writing that the same arrangements are in place in Costain plc.

Corporate governance practices: differences from New York Stock Exchange (NYSE) listing standards

The Company is listed on the NYSE and is therefore required to disclose differences in its corporate governance practices adopted as a UK listed company, compared with those of a US company.

The corporate governance practices of the Company are primarily based on the requirements of the Corporate Governance Code 2018 but substantially conform to those required of US companies listed on the NYSE. The following is a summary of the significant ways in which the Company's corporate governance practices differ from those followed by US companies under Section 303A Corporate Governance Standards of the NYSE.

The NYSE rules and the Code apply different tests for the independence of Board members.

The NYSE rules require a separate nominating/corporate governance committee composed entirely of independent directors. There is no requirement for a separate corporate governance committee in the UK. Under the Company's corporate governance policies, all directors on the Board discuss and decide upon governance issues, and the Nominations Committee makes recommendations to the Board with regard to certain responsibilities of a corporate governance committee.

The NYSE rules require listed companies to adopt and disclose corporate governance guidelines. While the Company reports compliance with the Code in each Annual Report and Accounts, the UK requirements do not require the Company to adopt and disclose separate corporate governance guidelines.

The NYSE rules require a separate audit committee composed of at least three independent members. While the Company's Audit Committee exceeds the NYSE's minimum independent Non-executive Director membership requirements, it should be noted that the quorum for a meeting of the Audit Committee, of two independent Non-executive Directors, is less than the minimum membership requirements under the NYSE rules.

The NYSE rules require a compensation committee composed entirely of independent directors, and prescribe criteria to evaluate the independence of the committee's members and its ability to engage external compensation advisors. While the Code prescribes different independence criteria, the Non-executive Directors on the Company's Remuneration Committee have each been deemed independent by the Board under the NYSE rules. Although the evaluation criteria for appointment of external advisors differ under the Code, the Remuneration Committee is solely responsible for the appointment, retention and termination of such advisors.

Directors' indemnity

The Company has arranged, in accordance with the Companies Act 2006 and the Articles of Association, 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 in prior financial years for matters arising when they were Directors of the Company. Alongside these indemnities, the Company places Directors' and Officers' liability insurance cover for each Director. To the extent appropriate and required, similar indemnities have also been given to directors of subsidiary and other associated companies, who also benefit from Directors' and Officers' liability insurance cover.

Other disclosures continued

Employees

We negotiate with recognised unions. It is our policy to maintain well developed communications and consultation programmes. Other than the implementation of the Massachusetts workforce contingency plan in June 2018 there have been no material disruptions to our operations from labour disputes during the past five years. The agreement under dispute between the Company and the Massachusetts Gas unions was satisfactorily renegotiated in January 2019. National Grid believes that it can conduct its relationships with trade unions and employees in a satisfactory manner. Further details on the Company's colleagues can be found on page 59.

Human rights

We launched our Responsible Business Charter in October 2020 focusing on five key areas. One of the areas is our people and our commitment to ensuring all our people are treated fairly and given the opportunity to thrive at work. As a responsible, purpose-led company the way in which we conduct ourselves allows us to build trust with the people we work with by doing things in the right way, building our reputation as a responsible and ethical company that our stakeholders want to do business with and our employees want to work for.

National Grid does not have direct operations in countries of high concern with respect to human rights, therefore we do not have a specific policy relating to human rights. However, respect for human rights is incorporated into our employment practices and our values. We treat everyone fairly and equally, without discrimination. Respecting others and valuing inclusion and diversity are integral to our Code of Ethics and we provide unconscious bias training to all our people to build awareness of cultural differences and the importance of diversity, and necessity of achieving equity and inclusion. We acknowledge that there may be potential risks in our wider supply chain, and we ensure that the expectations outlined in our Supplier Code of Conduct relating to respecting, protecting and promoting human rights regarding our suppliers are proactively promoted. Our Global Supplier Diversity Policy outlines our commitments to ensuring there is an established approach to diversity, equity, inclusion and respect from our suppliers in all aspects of business.

We recognise that the relationship we have with our suppliers can influence how they support our commitment to acting responsibly. Our Supplier Code of Conduct is updated and communicated to our suppliers annually and clearly sets out our expectations to share our commitment to respecting, protecting and promoting human rights. This includes alignment to the UN Guiding Principles, the 10 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 Victims of Trafficking and Violence Protection Act 2000, the US Department of State Principles Combatting Human Trafficking and, for our UK suppliers, the requirements of the Living Wage Foundation.

In addition, we are signatories to the UK Construction Protocol, which is a joint agreement with many of the largest firms in the UK construction sector focused on eradicating modern slavery and exploitation in the building industry. We are also founding signatory members of the People Matter Charter which was created to help organisations up and down the supply chain to bring challenges related to decent work together into one workforce strategy. The Charter has eight commitments that can apply to any organisation, of any size including aspects supporting human rights.

We are members of the UNGC Modern Slavery working group and actively involved in the UK Utilities Sector Modern Slavery Working Group which is aimed at working together to eradicate slavery and exploitation in the UK Utilities Sector and its supply chains.

We aim to maintain fairness across the organisation for pay and make sure our pay practices do not show bias. In the US, we pay all our employees at least the minimum wage or above the minimum wage requirements. 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 and is actively promoted through our supply chain and embedded in our contract terms and conditions. We believe that everyone should be appropriately rewarded for their time and effort. We also go above the real living wage requirements and voluntarily pay our trainees the Living Wage. We undertake a real living wage review each year to ensure continued alignment. We also increase individual salaries as required. We have verified the implementation of the real living wage in supply chain contracts where low wages could be a risk including our catering and cleaning contracts.

Listing Rule 9.8.4 R cross-reference table

Information required to be disclosed by LR 9.8.4 R (starting on page indicated):

Interest capitalised	Page 149
Publication of unaudited financial information	Not applicable
Details of long-term incentive schemes	Page 97
Waiver of emoluments by a director	Not applicable
Waiver of future emoluments by a director	Not applicable
Non-pre-emptive issues of equity for cash	Not applicable
Item (7) in relation to major subsidiary undertakings	None
Parent participation in a placing by a listed subsidiary	Not applicable
Contracts of significance	Not applicable
Provision of services by a controlling shareholder	Not applicable
Shareholder waivers of dividends	Page 242
Shareholder waivers of future dividends	Page 242
Agreements with controlling shareholders	Not applicable

Material contracts

On 17 March 2021 we agreed to buy WPD from PPL, and, conditional upon the completion of the WPD Acquisition and certain regulatory approvals, agreed to sell NECO to PPL. The share purchase agreements for the WPD Acquisition and the NECO sale, together with the sponsor agreement between the Company and Barclays Bank plc (Barclays) dated 31 March 2021 (pursuant to which the Company appointed Barclays as sponsor in connection with the WPD Acquisition and the publication of its shareholder circular for approval of the WPD Acquisition), as well as the acquisition facility dated 17 March 2021 required for the WPD Acquisition, comprising a £8,250,000,000 term loan facility and a £1,105,000,000 revolving loan facility term between the Company, Barclays and Goldman Sachs as lenders and lead arrangers, constitute material contracts for the Company.

In addition, each of our Executive Directors has a Service Agreement and each Non-executive Director has a Letter of Appointment. Apart from these, no contract (other than contracts entered into in the ordinary course of business) has been entered into by the Group within the two years immediately preceding the date of this report that is, or may be material; or which contains any provision under which any member of the Group has any obligation or entitlement which is material to the Group at the date of this report.

Political donations and expenditure

At this year's AGM, the Directors will again seek authority from shareholders, on a precautionary basis, for the Company and its subsidiaries to make donations to registered political parties and other political organisations and/or incur political expenditure as such terms are defined in the Companies Act 2006. In each case, donations will be in amounts not exceeding £125,000 in aggregate. The definitions of these terms in the Companies Act 2006 are very wide. As a result, this can cover bodies such as those concerned with policy review, law reform and the representation of the business community (for example trade organisations). It could include special interest groups, such as those involved with the environment, which the Company and its subsidiaries might wish to support, even though these activities are not designed to support or influence support for a particular party. The Companies Act 2006 states that all-party parliamentary groups are not political organisations for these purposes, meaning the authority to be sought from shareholders is not relevant to interactions with such groups. The Company has no intention of changing its current practice of not making political donations or incurring political expenditure within the ordinary meaning of those words. This authority is, therefore, being sought to ensure that none of the Company's activities inadvertently infringe these rules.

National Grid made no political donations and did not incur any political expenditure during the year, as such terms are defined for the purposes of the Companies Act 2006 and the Political Parties, Elections and Referendums Act 2000. National Grid USA and its affiliated New York and federal political action committees (PAC) made political donations in the US totalling $35,000 (£25,365) during the year. National Grid USA's affiliated New York PAC (NYPAC) was funded partly by contributions from National Grid USA and certain of its subsidiaries and partly by voluntary employee contributions. National Grid USA's affiliated federal PAC was funded wholly by voluntary employee contributions. The NYPAC did not receive any corporate contribution during the past fiscal year.

Property, plant and equipment

This information can be found in note 13 property, plant and equipment on pages 159 – 161, note 21 borrowing on pages 170 – 172 and where we operate on page 227.

Research, development and innovation activity

Investment in research and development during the year for the Group was £17 million (2019/20: £14 million; 2018/19: £19 million). We only disclose directly incurred expenditure, and not those amounts our partners contribute to joint or collaborative projects. Collaborating across the industry has played a crucial role in our ability to develop new programmes and deliver value to our stakeholders throughout 2020/21.

UK Electricity

Continued collaboration and stakeholder engagement have driven the research programmes for ET innovation. Our engagement with stakeholders as part of webinars, formal meetings, conferences and dissemination events has been instrumental to developing our strategies including our overall innovation strategy as well as technology and asset-related innovation strategies.

As a result, our project portfolio has been developed around the themes of delivering cleaner and cheaper energy. Our commitment to the net zero target for 2050 has provided the focus for our research programme on carbon emission reduction. We completed our Zero-2050 project, which was aimed at developing the decarbonisation pathways for South Wales using a whole system approach. The project resulted in significant learning for the development of optimised regional pathways to meet the UK net zero targets. We presented our findings to the Welsh government and are now developing the next stages of the project in close collaboration with key stakeholders.

We are also increasing research into decarbonising our own operations and preparing our network for the changes we need to make to accommodate a fully decarbonised energy sector. We have worked with our partners on several projects, investigating ways to eliminate greenhouse gases from our gas-insulated equipment, replacement of diesel generators with low-carbon alternatives for back-up power generation in our substations, and the reduction of our carbon footprint relating to our construction work. Our future network will need to accommodate more renewable energy sources and other converter-based connections and equipment. Providing the infrastructure for a secure, efficient and reliable network requires an increased understanding of network stability. We have, therefore, developed several projects investigating the impacts of reduced inertia, potential controller interactions and reduced fault levels. We are also working with other GB transmission owners and ESO to develop a detailed GB transmission network electromagnetic transient model. An accurate network representation will provide greater insight and design of mitigating actions to maintain network stability.

The second key aspect that our stakeholder engagement has highlighted is the delivery of cheaper energy. This has been implemented in our research programme on optimised asset management and monitoring as well as the digitisation of operational technology, considering in particular, cyber security in a context of increasing cyber threats.

As a key enabler for future innovation we have continued the delivery of our Deeside Centre for Innovation. Significant progress has been made with good progress on the construction of the overhead line test area and detailed design for the substation area, which notably includes a trial for construction with cement-free concrete. We are aiming to open the facility for wider industry use in October 2021.

We submitted two entries to Ofgem for this year's Network Innovation Competition (NIC). The first entry was Proteus, a project which aimed to trial an innovative STATCOM solution for stability and voltage management. The second entry was RICA (Retro-Insulated Cross-Arms), a research project aimed to develop an innovative method for uprating existing overhead lines, allowing the voltage on 275kV overhead lines to be increased to 400kV. Both the entries were successful in the initial screening process and in its final decision, Ofgem awarded £8.1 million funding to the RICA project but chose not to take Proteus forward. The total cost of the RICA project is £9.1 million and ET will be contributing the remaining £1 million. We are also working with Smart Wires (see page 40) to use modular power flow control devices to increase power transfer capability on our network, thereby enabling greater volumes of renewable energy to be efficiently transferred to customers.

Electricity System Operator

Throughout the year the ESO has delivered a diverse innovation portfolio that supports our role in keeping electricity supplies safe, reliable and efficient, while pushing the boundaries to enable a net zero energy future. Our innovation projects continue to explore how we work in ground breaking areas such as advanced analytics and machine learning, as well as state-of-the-art technologies such as Virtual Synchronous Machines. In 2020/21 the ESO funded over £2.6 million worth of projects using Network Innovation Allowance (NIA), and were involved in four large-scale NIC projects with partners (two led by the ESO), we also supported third-party innovation with in-kind support from ESO experts. We refresh our strategy and innovation priorities annually, based on consultation with our stakeholders and this ensures we continue to focus innovation funding only on the most effective projects which could deliver significant consumer benefits. Our innovation activities last year include the Distributed ReStart project, which continues to engage with stakeholders, and explore how distributed energy resources can be used to restore power to the transmission network in the unlikely event of a blackout. The 4D Heat project explored how off-mains gas homes in Scotland could use wind power for domestic heating to ease constraint and congestion issues on the network. While the benefits of closer to real-time procurement of frequency response was tested in the Frequency Response Auction Trial, 2021 was the first year of the new ESO regulatory period, where we have access to £23 million of NIA over five years, and the Strategic Innovation Fund (SIF) will replace the NIC to support large-scale, collaborative projects focused on key industry challenges to achieving net zero targets.

UK Gas

Gas Transmission innovation has increased focus on meeting the UK's net zero 2050 targets. An accelerated programme of work in 2020/21 covered net zero challenges, including hydrogen and reduction of methane emissions alongside a focus on safety, reliability and asset health. The key highlights of 2020/21 include:

- collaboratively working with the gas distribution networks on several new projects under our Hydrogen in the NTS (HyNTS) programme: Hydrogen Deblending which allows for the separation of hydrogen in a natural gas mix and HyTechnical working with the Institute of Gas Engineers & Managers (IGEM) to overhaul the gas technical standards to meet hydrogen specifications;
- successfully securing funding for the £12.7 million HyNTS FutureGrid NIC Project which is an ambitious programme that seeks to build a hydrogen test facility from decommissioned assets at DNV GL Spadeadam, to demonstrate the National Transmission System (NTS) can transport hydrogen;
- reduction of methane emissions through two key projects: Monitoring of Real-time Fugitive Emissions (MoRFE), which looks at developing a cost-effective continuous fugitive emission detection system and CH4RGE, a project that looks at reducing methane emissions from rotating gas equipment;
- development of valve remediation techniques under the Valve Care Toolbox project to provide a suite of solutions that allow for repair rather than replacement of valves; and
- unlocking the potential of drone technology for inspection through the Above & Beyond Project to investigate and demonstrate the ability to fly a drone beyond visual line of sight, in uncontrolled airspace, to inspect large areas of our network and assets.

US research and development

Research and development (R&D) work in the US focused on the advancement of products, processes, systems technologies and work methods that may be new to National Grid. This is accomplished by working with internal departments to identify where strategic R&D investment is needed and is likely to prove beneficial. To achieve these goals, we work in collaboration with technical organisations, academia and vendors in the energy sector that align with our goals and objectives to provide a safe, reliable, efficient and clean service. We continue to focus our R&D on increasing public safety supporting the integration of renewable resource, protecting our workforce and reducing the cost of the work we perform.

Research efforts are designed with the focus on shared learnings across jurisdictions to help reduce cost and allow for a faster pace of technology adoption.

In 2020/21, we continued to invest and participate in several significant pilot projects with the intention of obtaining operational knowledge and experience of technology-driven system impacts.

Other disclosures continued

US Electricity
New England – Distribution

- Under the Company's 'Solar Phase 1, 2 and 3' programmes, we contracted and built approximately 35 MW of PV solar and 6.2 MW/ 12 MWh of energy storage system as part of our company-owned facilities portfolio. The facilities are used to explore new technologies that can help reduce the interconnection cost and time of solar energy. The research also aims to help the Company move from interconnecting DER to integrating it. Among the technologies researched are smart inverters, energy storage, dynamic VAR STATCOMS, plant level controllers and dual axis PV tracking. To enhance the learning experience the Company partnered with industry leaders such as the Electric Power Research Institute (EPRI), Sandia National Laboratories (Sandia) and Fraunhofer Gesellschaft (Fraunhofer). The programme won two awards in 2020:
  - the 2020 Digitalisation/Technology Adoption Award by Power Magazine; and
  - the Game Changer Award at the 2020 Connected Plant Conference.

New England – Transmission

- Working with Boston Dynamics, National Grid deployed the 'Spot Robot' (the robot) at its Sandy Pond HVDC station, which is responsible for importing almost 2,000 MW of clean hydroelectricity into New England every day. Currently technicians inspect the thyristors twice a year visually through windows looking into a hall, during two planned outages a year.
- The robot can be in the hall when energised. The robot can walk around the full floor area of the thyristor hall, affording the technicians full viewing angles of the equipment which were impossible to view through the windows alone. The robot also conducts thermal scans. With both its high-resolution optical cameras and sensors it can pick up on very small water leaks (which were difficult to detect visually before) and identify hot spots (places of possible mechanical fatigue). This is all without entering the environment such that the station can stay in operation and energised.
- The pilot of the robot was successful, the Company is collaborating with Boston Dynamics and so far has two robots. One of the robots will be permanently in the thyristor hall, and the other serves as a back up and is being considered for other locations.
- Smart Wires manufactures a power flow control device called the SmartValve. SmartValve are FACTS (Flexible Alternating Current Transmission System) devices that use power electronics to 'push and pull' power over a transmission network thus increasing transmission capacity over AC lines without the need to build additional capability (for example, reconductoring, new lines, or other typical upgrades).
- National Grid US deployed the SmartValve system on a 69kV line near the Fitch Road substation (Lancaster, MA north of Worcester, MA). The deployment will give us operational experience with the technology and prove out the capabilities.

New York – Distribution

- We are working on a demand reduction pilot project in Clifton Park that will offer customers various programmes and pricing signals to manage usage to reduce energy bills and demand during peak times. In addition, the Company has deployed and operated two VVO/CVR schemes in Clifton Park. We are conducting an offline analysis to determine the incremental benefits of incorporating AMI data with VVO/CVR operation. We are also piloting a smart inverter VVO/CVR project to assess the feasibility and benefits of integrating smart inverters with the existing VVO/CVR scheme currently in operation in the Clifton Park Pilot.
- We continued to progress our Smart City REV demonstration project in partnership with the city of Schenectady. Phase 1, which involves procurement, deployment and initial operation of all selected technologies, has been completed. Now we are collaborating on the establishment and assessment of functional performance characteristics, including feedback from city stakeholders to evaluate the public acceptance and the overall value proposition. Phase 2 of the project is currently in the technology procurement phase, which will then be deployed in the remaining areas of the city.
- We have been proposing a flexible Load Study to quantify the ability of flexible load to solve potential peak load challenges from beneficial electrification and minimum load challenges from DG penetration simultaneously. This study will model and simulate shifting of load from peak periods to mid-day time.
- As part of our NIMO rate case, we have proposed a distributed communications project to investigate greater integration of DER into the grid via: 1) novel communication schemes and protocols through utilisation of DTT and 3V0 low cost alternatives, 2) communications between the Company and the NYISO for new DER market products, 3) increased integration of DER into distribution automation schemes, 4) low-cost monitoring and control for smart inverters.
- We are also looking to pilot a net zero Carbon Building-to-Grid project to develop building-to-grid ('B2G') software, communication, and integration to Building Management System (BMS) and DER to actively manage the increased electrical load to support the grid and potentially provide compensation to the building owner and tenants.
- We have selected two developers and are proceeding with contract negotiations of two energy storage projects. The first project, Old Forge, is a 20 MW and 40 MWh battery to operate as a Microgrid. The second project, North Lakeville, is a 10 MW and 20 MWh battery and will be operated as an alternative to a traditional wire upgrade. In addition, both projects aim to dually participate in the NYISO markets.

Calibration across multiple jurisdictions

- We are piloting an Active Resource Integration (ARI) project at solar phase 3 location in MA and at Peterboro substation in NY to test the ability to increase the amount of solar DG integrated into the distribution system in constrained areas via development of curtailment capabilities.
- We are starting a DERMS Investigation project to conduct a deep dive into many aspects of DERMS (e.g., use cases, functions, IT architecture, cybersecurity, BCA, vendor capabilities) to prepare National Grid for the enterprise-wide implementation of a DERMS platform and associated modules.
- National Grid is heavily engaged on several EPRI and CEATI programmes, including bulk system renewables, DERs integration, planning and asset management, energy storage, asset management for transmission and distribution, system automation and integrating emerging technologies.
- Over the next 10 years we will be deploying up to 150 digital substations in New England and New York as we transition to fully digital substations on our transmission network, which will utilise the IEC 61850 communications standard. The digital substation reduces construction and operation costs, engineering and construction time, increases system flexibility, and helps facilitate the large-scale incorporation of renewable power.

US Gas
New York

- While partnering with a robotics company and another utility, we have been developing and testing new technology to locate inadvertent sewer cross bores created when using some trenchless technology. This technology is deployed in our gas main immediately after installation, prior to the introduction of natural gas. It differs from the current process, which requires us to gain access to the municipal sewer system. Deployment will reduce the risk and cost associated with sewer cross bores. We constructed a functional sewer system covering five hectares at one of our facilities to test the accuracy of the technology. We purposefully created cross bores in the system at several points to determine if the technology could locate them. The technology found all the cross bores with no false negatives. We are currently transitioning the technology to the field for live testing. After achieving positive results deploying this technology in a controlled test bed at one of our NY facilities, the next step was to test this process in the field. This technology was tested after new pipe installation via trenchless methods as well as in validation runs where sewer cross bores were identified in the field through the existing process. In all cases, the technology was able to verify the locations of the cross bores accurately. We are now working to gather more field data to support the validation of this technology.
- We have been working with a Canadian valve manufacturer to develop a service isolation valve to locally and remotely isolate a gas service. The application has become necessary due to recent industry incidents in the US. The valve has passed all industry and National Grid required testing and can be installed on service lines up to 11 bar of pressure. The valve can take a switched signal from any source and locally isolate the gas service. Signals include flood, fire, seismic, under-pressurisation, over-pressurisation and methane. The valve can also be closed via a wireless signal from National Grid. The intent of this initiative is to incorporate the valve into an integrated safety solution with network communications that has the ability to remotely isolate the service under various hazard conditions while communicating alarms to the utility. We are currently pilot testing versions of this valve integrated with cellular and LoRaWan communications networks. To enhance the functionality of the service isolation valve, we have been working to develop and deploy enhanced residential methane detectors (RMDs).
- In connection with the deployment of the 75 service isolation valves, we have European manufactured RMDs, as part of the integrated safety solution, that are powered by 120 V and hard-wired to the valve control which complicates the installation of the solution at scale. To improve this overall solution, we are working with several manufacturers on RMDs with enhanced features: first to power the unit with long-term batteries (current technology limits battery life to three years); and second, to introduce wireless communication to the valve controller (as current technology requires wiring from the RMD to the isolation valve). We are developing an RMD with communications technology that would allow installation of the RMD in residential and commercial locations. RMDs with network communication will be one of the main components to the integrated safety solution along with the service isolation valve. We are starting trial testing to validate performance of the RMD's battery life and ability to communicate across various networks.
- We are partnering with another NY utility and a company in California on the development of an advanced RMD which is focused on early detection of gas leaks. This technology is focused on improving the detection of leaks to maximise response time to real hazards. The RMD is in its third prototype phase of development and has shown to be capable of precise and accurate detection of methane at the parts per million level. We are deploying several of these prototypes in a controlled test facility that will undergo methane dispersion through typical household leak scenarios. The performance of the RMDs will be evaluated against an established testing protocol that competing technologies have undergone.
- National Grid has begun supporting research into the ability to use hydrogen in its gas distribution systems with the intent of reducing the overall carbon footprint of the gas network. We are formally collaborating in several R&D projects with various other organisations. National Grid and the Institute for Gas Innovation & Technology (IGIT) at Stony Brook University are leading participants in the HyBlend Collaborative Research and Development Agreement (CRADA). This CRADA is a $14 million research programme sponsored by the United States Department of Energy's Hydrogen and Fuel Cell Technologies Office (HFTO) in the Office of Energy Efficiency and Renewable Energy and 22 other industry and academic participants which will identify and evaluate the technical and safety requirements for introducing hydrogen blending into US gas distribution systems. The HyBlend CRADA will be led by the National Renewable Energy Laboratory (NREL) and implemented by six other national laboratories. This effort is currently in the project formation stage and is expected to officially kick off in summer 2021.

The Company is pursuing the above R&D efforts to drive innovations that will improve safety, reliability and operational efficiency of our gas business operations.

Unresolved SEC staff comments

There are no unresolved SEC staff comments required to be reported.

Other unaudited financial information

Alternative performance measures/non-IFRS reconciliations

Within the Annual Report, a number of financial measures are presented. These measures have been categorised as alternative performance measures (APMs), as per the European Securities and Markets Authority (ESMA) guidelines and the Securities and Exchange Commission (SEC) conditions for use of non-GAAP financial measures.

An APM is a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined under IFRS. The Group uses a range of these measures to provide a better understanding of its underlying performance. APMs are reconciled to the most directly comparable IFRS financial measure where practicable.

The Group has defined the following financial measures as APMs derived from IFRS: net revenue, the various adjusted operating profit, earnings and earnings per share metrics detailed in the 'adjusted profit measures' section below, net debt, capital investment, funds from operations (FFO), FFO interest cover and retained cash flow (RCF)/adjusted net debt. For each of these we present a reconciliation to the most directly comparable IFRS measure.

We also have a number of APMs derived from regulatory measures which have no basis under IFRS; we call these Regulatory Performance Measures (RPMs). They comprise: Group Return on Equity (RoE), UK and US regulatory RoE, regulated asset base, regulated financial performance, regulatory gearing, asset growth, Value Added, including Value Added per share and Value Growth. These measures include the inputs used by utility regulators to set the allowed revenues for many of our businesses.

We use RPMs to monitor progress against our regulatory agreements and certain aspects of our strategic objectives. Further, targets for certain of these performance measures are included in the Company's Annual Performance Plan (APP) and Long Term Performance Plan (LTPP) and contribute to how we reward our employees. As such, we believe that they provide close correlation to the economic value we generate for our shareholders and are therefore important supplemental measures for our shareholders to understand the performance of the business and to ensure a complete understanding of Group performance.

As the starting point for our RPMs is not IFRS, and these measures are not governed by IFRS, we are unable to provide meaningful reconciliations to any directly comparable IFRS measures, as differences between IFRS and the regulatory recognition rules applied have built up over many years. Instead, for each of these we present an explanation of how the measure has been determined and why it is important, and an overview as to why it would not be meaningful to provide a reconciliation to IFRS.

Alternative performance measures

Net revenue

Net revenue is revenue less pass-through costs, such as UK system balancing costs, gas and electricity commodity costs in the US and, prior to the adoption of IFRS 15, payments to other UK network owners. Pass-through costs are fully recoverable from our customers and are recovered through separate charges that are designed to recover those costs with no profit. Where revenue received or receivable exceeds the maximum amount permitted by our regulatory agreement, adjustments will be made to 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.

	2021			2020			2019		
	Gross revenue £m	**Pass-through costs £m**	**Net revenue £m**	Gross revenue £m	Pass-through costs £m	Net revenue £m	Gross revenue £m	Pass-through costs £m	Net revenue £m
UK Electricity Transmission	**3,992**	**(2,062)**	**1,930**	3,702	(1,528)	2,174	3,351	(1,397)	1,954
UK Gas Transmission	**904**	**(233)**	**671**	927	(242)	685	896	(227)	669
US Regulated	**9,195**	**(3,253)**	**5,942**	9,205	(3,460)	5,745	9,846	(3,978)	5,868
NGV and Other	**715**	**—**	**715**	736	—	736	876	—	876
Sales between segments	**(27)**	**—**	**(27)**	(30)	—	(30)	(36)	—	(36)
Total	**14,779**	**(5,548)**	**9,231**	14,540	(5,230)	9,310	14,933	(5,602)	9,331

Adjusted profit measures

In considering the financial performance of our business and segments, we use various adjusted profit measures in order to aid comparability of results year-on-year.

The various measures are presented on pages 30 – 39 and reconciled below.

Adjusted results, also referred to as Headline results – these exclude the impact of exceptional items and remeasurements that are treated as discrete transactions under IFRS and can accordingly be classified as such. This is a measure used by management that is used to derive part of the incentive target set annually for remunerating certain Executive Directors, and further details of these items are included in Note 5 to the financial statements.

Underlying results – further adapts our adjusted results to take account of volumetric and other revenue timing differences arising due to the in-year difference between allowed and collected revenues, including revenue incentives, as governed by our rate plans in the US or regulatory price controls in the UK (but excluding totex-related allowances and adjustments). For 2020/21, as highlighted on page 251, our underlying results exclude £207 million (2019/20: £147 million) of timing differences as well as £150 million (2019/20: £nil) of major storm costs (as costs were above our $100 million storm cost timing threshold in the current year). We expect to recover major storm costs incurred through regulatory mechanisms in the US.

Constant currency – the adjusted profit measures are also shown on a constant currency basis to show the year-on-year comparisons excluding any impact of foreign currency movements.

Reconciliation of statutory, adjusted and underlying profits and earnings – at actual exchange rates – continuing operations

Year ended 31 March 2021	Statutory £m	Exceptionals and remeasurements £m	Adjusted £m	Timing £m	Major storm costs £m	Underlying £m
UK Electricity Transmission	1,027	7	1,034	88	—	1,122
UK Gas Transmission	337	5	342	96	—	438
US Regulated	1,344	(31)	1,313	23	150	1,486
NGV and Other	187	50	237	—	—	237
Total operating profit	2,895	31	2,926	207	150	3,283
Net finance costs	(870)	(72)	(942)	—	—	(942)
Share of post-tax results of joint ventures and associates	58	8	66	—	—	66
Profit before tax	2,083	(33)	2,050	207	150	2,407
Tax	(442)	26	(416)	(41)	(39)	(496)
Profit after tax	1,641	(7)	1,634	166	111	1,911

Year ended 31 March 2020	Statutory £m	Exceptionals and remeasurements £m	Adjusted £m	Timing £m	Major storm costs £m	Underlying £m
UK Electricity Transmission	1,316	4	1,320	(146)	—	1,174
UK Gas Transmission	347	1	348	54	—	402
US Regulated	880	517	1,397	239	—	1,636
NGV and Other	237	5	242	—	—	242
Total operating profit	2,780	527	3,307	147	—	3,454
Net finance costs	(1,113)	64	(1,049)	—	—	(1,049)
Share of post-tax results of joint ventures and associates	87	1	88	—	—	88
Profit before tax	1,754	592	2,346	147	—	2,493
Tax	(480)	47	(433)	(45)	—	(478)
Profit after tax	1,274	639	1,913	102	—	2,015

Year ended 31 March 2019	Statutory £m	Exceptionals and remeasurements £m	Adjusted £m	Timing £m	Major storm costs £m	Underlying £m
UK Electricity Transmission	778	237	1,015	77	—	1,092
UK Gas Transmission	267	36	303	38	—	341
US Regulated	1,425	299	1,724	(223)	93	1,594
NGV and Other	400	—	400	—	—	400
Total operating profit	2,870	572	3,442	(108)	93	3,427
Net finance costs	(1,069)	76	(993)	—	—	(993)
Share of post-tax results of joint ventures and associates	40	—	40	—	—	40
Profit before tax	1,841	648	2,489	(108)	93	2,474
Tax	(339)	(149)	(488)	36	(24)	(476)
Profit after tax	1,502	499	2,001	(72)	69	1,998

Other unaudited financial information continued

Reconciliation of adjusted and underlying profits – at constant currency

		At constant currency				
Year ended 31 March 2020	Adjusted at actual exchange rate £m	Constant currency adjustment £m	Adjusted £m	Timing £m	Major storm costs £m	Underlying £m
UK Electricity Transmission	1,320	—	1,320	(146)	—	1,174
UK Gas Transmission	348	—	348	54	—	402
US Regulated	1,397	(56)	1,341	229	—	1,570
NGV and Other	242	1	243	—	—	243
Total operating profit	3,307	(55)	3,252	137	—	3,389
Net finance costs	(1,049)	30	(1,019)	—	—	(1,019)
Share of post-tax results of joint ventures and associates	88	(1)	87	—	—	87
Profit before tax	2,346	(26)	2,320	137	—	2,457

		At constant currency				
Year ended 31 March 2019	Adjusted at actual exchange rate £m	Constant currency adjustment £m	Adjusted £m	Timing £m	Major storm costs £m	Underlying £m
UK Electricity Transmission	1,015	—	1,015	77	—	1,092
UK Gas Transmission	303	—	303	38	—	341
US Regulated	1,724	(46)	1,678	(217)	91	1,552
NGV and Other	400	(1)	399	—	—	399
Total operating profit	3,442	(47)	3,395	(102)	91	3,384
Net finance costs	(993)	19	(974)	—	—	(974)
Share of post-tax results of joint ventures and associates	40	(1)	39	—	—	39
Profit before tax	2,489	(29)	2,460	(102)	91	2,449

Earnings per share calculations from continuing operations – at actual exchange rates

The table below reconciles the profit before tax from continuing operations as per the previous tables back to the earnings per share from continuing operations for each of the adjusted profit measures. Earnings per share is only presented for those adjusted profit measures that are at actual exchange rates, and not for those at constant currency.

Year ended 31 March 2021	**Profit after tax £m**	**Non-controlling interest £m**	**Profit after tax attributable to shareholders £m**	**Weighted average number of shares millions**	**Earnings per share pence**
Statutory	**1,641**	**(1)**	**1,640**	**3,523**	**46.6**
Adjusted (also referred to as Headline)	**1,634**	**(1)**	**1,633**	**3,523**	**46.4**
Underlying	**1,911**	**(1)**	**1,910**	**3,523**	**54.2**

Year ended 31 March 2020	Profit after tax £m	Non-controlling interest £m	Profit after tax attributable to shareholders £m	Weighted average number of shares millions	Earnings per share pence
Statutory	1,274	(1)	1,273	3,461	36.8
Adjusted (also referred to as Headline)	1,913	(1)	1,912	3,461	55.2
Underlying	2,015	(1)	2,014	3,461	58.2

Year ended 31 March 2019	Profit after tax £m	Non-controlling interest £m	Profit after tax attributable to shareholders £m	Weighted average number of shares millions	Earnings per share pence
Statutory	1,502	(3)	1,499	3,386	44.3
Adjusted (also referred to as Headline)	2,001	(3)	1,998	3,386	59.0
Underlying	1,998	(3)	1,995	3,386	58.9

Timing and regulated revenue adjustments

As described on pages 228 – 235, our allowed revenues are set in accordance with our regulatory price controls or rate plans. 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 the 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 revenue, adjustments will be made to future prices to reflect this over-recovery, and if we collect less than the allowed level of revenue, adjustments will be made to future prices to reflect the under-recovery. In the US, a substantial portion of our costs are pass-through costs (including commodity and energy-efficiency costs) and are fully recoverable from our customers. Timing differences between costs of this type being incurred and their recovery through revenue are also included in timing. The amounts calculated as timing differences are estimates and subject to change until the variables that determine allowed revenue are final.

Our continuing operating profit for the year includes a total estimated in-year under-collection of £207 million (2019/20: £147 million under-collection). Our closing balance at 31 March 2021 was £54 million over-recovered. In the UK, there was a cumulative under-recovery of £150 million at 31 March 2021 (2020: over-recovery of £24 million). In the US, cumulative timing over-recoveries at 31 March 2021 were £198 million (2020: £240 million over-recovery).

The total estimated in-year over- or under-collection excludes opening balance adjustments related to estimates or finalisation of balances as part of regulatory submissions.

In addition to the timing adjustments described above, as part of the RIIO price controls in the UK, 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 include these amounts that relate to certain costs incurred in prior years or 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.

For our UK Regulated businesses as a whole, timing and regulated revenue adjustments totalled a return of £184 million in the year (2019/20: £92 million recovery). In the US, accumulated regulatory entitlements cover a range of different areas, with the most significant being environmental remediation and pension assets, as well as deferred storm costs.

All regulatory entitlements are recoverable (or repayable) over different periods, which are agreed with the regulators to match the expected payment profile for the liabilities.

	UK Electricity Transmission £m	**UK Gas Transmission £m**	**US Regulated £m**	**Total £m**
1 April 2020 opening balance[1]	**18**	**16**	**227**	**261**
Over/(under) recovery	**(88)**	**(96)**	**(23)**	**(207)**
31 March 2021 closing balance to (recover)/return[3]	**(70)**	**(80)**	**204**	**54**

	UK Electricity Transmission £m	UK Gas Transmission £m	US Regulated £m	Total £m
1 April 2019 opening balance[1]	(127)	59	452	384
Over/(under) recovery	146	(54)	(229)	(137)
31 March 2020 closing balance to (recover)/return[2,3]	19	5	223	247

	UK Electricity Transmission £m	UK Gas Transmission £m	US Regulated £m	Total £m
1 April 2018 opening balance[1]	(41)	97	235	291
Over/(under) recovery	(77)	(38)	217	102
31 March 2019 closing balance to (recover)/return[2,3]	(118)	59	452	393

1. Opening balances have been restated to reflect the finalisation of calculated over/(under)-recoveries in the UK and the US.
2. US over/(under) recovery and all US Regulated balances have been translated using the average exchange rate for the year ended 31 March 2021.
3. The over-recovered closing balance at 31 March 2021 was £48 million (translated at the closing rate of $1.38:£1). 31 March 2020 was £264 million (translated at the closing rate of $1.24:£1). 31 March 2019 was £407 million (translated at the closing rate of $1.30:£1).

Other unaudited financial information continued

Capital investment

'Capital investment' or 'investment' refer to additions to property, plant and equipment and intangible assets, and contributions to joint ventures and associates, other than the St William Homes LLP joint venture during the period. We also include the Group's investments by National Grid Partners during the period, which are classified for IFRS purposes as non-current financial assets in the Group's consolidated statement of financial position.

Investments made to our St William Homes LLP arrangement are excluded based on the nature of this joint venture arrangement. We typically contribute property assets to the joint venture in exchange for cash and accordingly do not consider these transactions to be in the nature of capital investment.

Year ended 31 March	At actual exchange rates			At constant currency		
	2021 £m	2020 £m	% change	**2021 £m**	2020 £m	% change
UK Electricity Transmission	**1,072**	1,043	3	**1,072**	1,043	3
UK Gas Transmission	**176**	249	(29)	**176**	249	(29)
US Regulated	**3,223**	3,228	—	**3,223**	3,098	4
NGV and Other	**460**	559	(18)	**460**	559	(18)
Group capital expenditure	**4,931**	5,079	(3)	**4,931**	4,949	—
Equity investment, funding contributions and loans to joint ventures and associates[1]	**78**	56	39	**78**	54	44
Acquisition of National Grid Renewables (formerly Geronimo) and Emerald	**—**	209	n/a	**—**	195	n/a
Increase in financial assets (National Grid Partners)	**38**	61	(38)	**38**	59	(36)
Group capital investment	**5,047**	5,405	(7)	**5,047**	5,257	(4)

1. Excludes £nil (2020: £15 million) equity contribution to the St William Homes LLP joint venture.

Net debt

See note 29 on page 187 for the definition and reconciliation of net debt.

Funds from operations and interest cover

FFO is the cash flows generated by the operations of the Group. Credit rating metrics, including FFO, are used as indicators of balance sheet strength.

Year ended 31 March	**2021 £m**	2020[1] £m	2019[1] £m
Interest expense (income statement)	**977**	1,119	1,066
Hybrid interest reclassified as dividend	**(38)**	(39)	(51)
Capitalised interest	**131**	122	135
Pensions interest adjustment	**(16)**	16	(4)
Interest on lease rentals adjustment	**—**	—	11
Unwinding of discount on provisions	**(78)**	(77)	(74)
Other interest adjustments	**—**	—	1
Adjusted interest expense	**976**	1,141	1,084
Net cash inflow from operating activities	**4,461**	4,715	4,389
Interest received on financial instruments	**16**	73	68
Interest paid on financial instruments	**(835)**	(957)	(914)
Dividends received	**80**	75	201
Working capital adjustment	**(312)**	(269)	(40)
Excess employer pension contributions	**116**	176	260
Hybrid interest reclassified as dividend	**38**	39	51
Lease rentals	**—**	—	34
Difference in net interest expense in income statement to cash flow	**(138)**	(187)	(186)
Difference in current tax in income statement to cash flow	**(67)**	67	(13)
Current tax related to prior periods	**8**	(45)	(52)
Cash flow from discontinued operations	**—**	(97)	(71)
Other fair value adjustments	**22**	—	—
Funds from operations (FFO)	**3,389**	3,590	3,727
FFO interest cover ((FFO + adjusted interest expense)/adjusted interest expense)	**4.5 x**	4.1 x	4.4 x

1. Numbers for 2020 and 2019 reflect the calculations for the total Group as based on the published accounts for the respective years.

Retained cash flow/adjusted net debt

RCF/adjusted net debt is one of two credit metrics that we monitor in order to ensure the Group is generating sufficient cash to service its debts, consistent with maintaining a strong investment-grade credit rating. We calculated RCF/adjusted net debt applying the methodology used by Moody's, as this is one of the most constrained calculations of credit worthiness. The net debt denominator includes adjustments to take account of the equity component of hybrid debt.

Year ended 31 March	2021 £m	2020 £m	2019 £m
Funds from operations (FFO)	**3,389**	3,590	3,727
Hybrid interest reclassified as dividend	**(38)**	(39)	(51)
Ordinary dividends paid to shareholders	**(1,413)**	(892)	(1,160)
RCF (excluding share buybacks)	**1,938**	2,659	2,516
Repurchase of shares	**—**	—	—
RCF (net of share buybacks)	**1,938**	2,659	2,516
Borrowings[1]	**32,339**	30,794	28,730
Less:			
50% hybrid debt	**(1,032)**	(1,054)	(1,039)
Cash and cash equivalents	**(157)**	(73)	(252)
Financial and other investments	**(1,768)**	(1,278)	(1,311)
Underfunded pension obligations	**467**	1,442	845
Operating leases adjustment[2]	**—**	—	248
Derivative balances removed from debt[2]	**—**	(116)	141
Currency swaps[2]	**—**	203	38
Nuclear decommissioning liabilities reclassified as debt[2]	**—**	6	18
Collateral – cash received under collateral agreements	**(582)**	(785)	(558)
Accrued interest removed from short-term debt[2]	**—**	(246)	(223)
Adjusted net debt (includes pension deficit)	**29,267**	28,893	26,637
RCF (excluding share buybacks)/adjusted net debt	**6.6%**	9.2%	9.4%
RCF (net of share buybacks)/adjusted net debt	**6.6%**	9.2%	9.4%

1. Before NECO reclassification.
2. Below agency threshold, prior year not restated.

Regulatory Performance Measures

Regulated financial performance – UK

Regulatory financial performance is a pre-interest and tax measure, starting at segmental operating profit and making adjustments (such as the elimination of all pass-through items included in revenue allowances and timing) to approximate regulatory profit for the UK regulated activities. This measure provides a bridge for investors between a well-understood and comparable IFRS starting point and through the key adjustments required to approximate regulatory profit. This measure also provides the foundation to calculate Group RoE.

For the reasons noted above, the table below shows the principal differences between the IFRS operating profit and the regulated financial performance, but is not a formal reconciliation to an equivalent IFRS measure.

UK Electricity Transmission

Year ended 31 March	2021 £m	2020 £m	2019 £m
Adjusted operating profit	**1,034**	1,320	1,015
Movement in regulatory 'IOUs'	**188**	(99)	174
Deferred taxation adjustment	**60**	63	64
RAV indexation (average 3% long-run inflation)	**424**	406	391
Regulatory vs IFRS depreciation difference	**(439)**	(459)	(394)
Fast money/other	**28**	26	72
Pensions	**(54)**	(52)	(51)
Performance RAV created	**111**	119	90
Regulated financial performance	**1,352**	1,324	1,361

Other unaudited financial information continued

UK Gas Transmission

Year ended 31 March	2021 £m	2020 £m	2019 £m
Adjusted operating profit	342	348	303
Movement in regulatory 'IOUs'	34	67	68
Deferred taxation adjustment	12	25	8
RAV indexation (average 3% long-run inflation)	189	185	179
Regulatory vs IFRS depreciation difference	(88)	(77)	(42)
Fast money/other	25	(17)	(10)
Pensions	(34)	(34)	(33)
Performance RAV created	(23)	(24)	(30)
Regulated financial performance	**457**	473	443

Regulated financial performance – US

US Regulated

Year ended 31 March	2021 £m	2020 £m	2019 £m
Adjusted operating profit	1,313	1,397	1,724
Provision for bad and doubtful debts (COVID-19), net of recoveries[1]	120	117	—
Major storm costs	150	—	93
Timing	23	239	(223)
US GAAP pension adjustment	3	(4)	(80)
Regulated financial performance	**1,609**	1,749	1,514

1. US Regulated financial performance includes an adjustment reflecting our expectation for future recovery of COVID-19-related provision for bad and doubtful debts.

Total regulated financial performance

Year ended 31 March	2021 £m	2020 £m	2019 £m
UK Electricity Transmission	1,352	1,324	1,361
UK Gas Transmission	457	473	443
US Regulated	1,609	1,749	1,514
Total regulated financial performance	**3,418**	3,546	3,318

US timing, major storms and movement in UK regulatory 'IOUs' – Revenue related to performance in one year may be recovered in later years. Where revenue received or receivable exceeds the maximum amount permitted by our regulatory agreement, adjustments will be made to future prices to reflect this over-recovery. No liability is recognised under IFRS, as such an adjustment to future prices relates to the provision of future services. Similarly, no asset is recognised under IFRS where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery. In the UK, this is calculated as the movement in other regulated assets and liabilities.

Performance RAV – UK performance efficiencies are in-part remunerated by the creation of additional RAV which is expected to result in future earnings under regulatory arrangements. This is calculated as in-year totex outperformance multiplied by the appropriate regulatory capitalisation ratio and multiplied by the retained company incentive sharing ratio.

Pension adjustment – Cash payments against pension deficits in the UK are recoverable under regulatory contracts. In US Regulated operations, US GAAP pension charges are generally recoverable through rates. Revenue recoveries are recognised under IFRS but payments are not charged against IFRS operating profits in the year. In the UK, this is calculated as cash payments against the regulatory proportion of pension deficits in the UK regulated business, whereas in the US, it is the difference between IFRS and US GAAP pension charges.

3% RAV indexation – Future UK revenues are expected to be set using an asset base adjusted for inflation. This is calculated as UK RAV multiplied by 3% (long-run RPI inflation assumption).

UK deferred taxation adjustment – Future UK revenues are expected to recover cash taxation cost including the unwinding of deferred taxation balances created in the current year. This is the difference between: (a) IFRS underlying EBITDA less other regulatory adjustments; and (b) IFRS underlying EBITDA less other regulatory adjustments less current taxation (adjusted for interest tax shield) then grossed up at full UK statutory tax rate.

Regulatory depreciation – US and UK regulated revenues include allowance for a return of regulatory capital in accordance with regulatory assumed asset lives. This return does not form part of regulatory profit.

Fast/slow money adjustment – The regulatory remuneration of costs incurred is split between in-year revenue allowances and the creation of additional RAV. This does not align with the classification of costs as operating costs and fixed asset additions under IFRS accounting principles. This is calculated as the difference between IFRS classification of costs as operating costs or fixed asset additions and the regulatory classification.

Regulated asset base

The regulated asset base is a regulatory construct, based on predetermined principles not based on IFRS. It effectively represents the invested capital on which we are authorised to earn a cash return. By investing efficiently in our networks, we add to our regulated asset base over the long term, and this in turn contributes to delivering shareholder value. Our regulated asset base is comprised of our regulatory asset value in the UK, plus our rate base in the US.

Maintaining efficient investment in our regulated asset base ensures we are well positioned to provide consistently high levels of service to our customers and increases our revenue allowances in future years. While we have no specific target, our overall aim is to achieve between 5% and 7% growth in regulated asset base each year through continued investment in our networks in both the UK and US.

In the UK, the way in which our transactions impact RAV is driven by principles set out by Ofgem. In a number of key areas these principles differ from the requirements of IFRS, including areas such as additions and the basis for depreciation. Further, our UK RAV is adjusted annually for inflation. RAV in each of our retained UK businesses has evolved over the period since privatisation in 1990, and as a result, historical differences between the initial determination of RAV and balances reported under UK GAAP at that time still persist. Due to the above, substantial differences exist in the measurement bases between RAV and an IFRS balance metric, and therefore, it is not possible to provide a meaningful reconciliation between the two.

In the US, rate base is a regulatory measure determined for each of our main US operating companies. It represents the value of property and other assets or liabilities on which we are permitted to earn a rate of return, as set out by the regulatory authorities for each jurisdiction. The calculations are based on the applicable regulatory agreements for each jurisdiction and include the allowable elements of assets and liabilities from our US companies. For this reason, it is not practical to provide a meaningful reconciliation from the US rate base to an equivalent IFRS measure. However, we include the calculation below.

'Total Regulated and other balances' includes the under or over-recovery of revenues that National Grid's UK regulated businesses target to collect in any year, which are based on the regulator's forecasts for that year. Under the UK price control arrangements, revenues will be adjusted in future years to take account of actual levels of collected revenue, costs and outputs delivered when they differ from those regulatory forecasts. In the US, other regulatory assets and liabilities include regulatory assets and liabilities which are not included in the definition of rate base, including working capital where appropriate.

The investment in 'NGV and other businesses' includes net assets excluding pensions, tax and items related to the UK Gas Distribution sale.

	RAV, rate base or other business assets		Total Regulated and other balances	
Year ended 31 March (£m at constant currency)	**2021 £m**	2020[1] £m	**2021[2,3] £m**	2020[1,2,3] £m
UK Electricity Transmission	**14,565**	14,133	**14,379**	13,772
UK Gas Transmission	**6,307**	6,298	**6,333**	6,291
US Regulated	**20,041**	18,598	**22,015**	20,211
Total regulated	**40,913**	39,029	**42,727**	40,274
NGV and other businesses	**4,458**	3,942	**4,122**	3,428
Total Group regulated and other balances	**45,371**	42,971	**46,849**	43,702

1. Figures relating to prior periods have, where appropriate, been re-presented at constant currency, for opening balance adjustments following the completion of the UK regulatory reporting pack process in 2019, and finalisation of US balances.
2. Includes totex-related regulatory IOUs of £310 million (2020: £411 million), over-recovered timing balances of £150 million (2020: £24 million under-recovered) and under-recovered legacy balances related to previous price controls of £nil (2020: £78 million).
3. Includes assets for construction work-in-progress of £1,639 million (2020: £1,510 million), other regulatory assets related to timing and other cost deferrals of £806 million (2020: £642 million) and net working capital liabilities of £471 million (2020: £361 million).

US rate base and other total regulated and other balances for 31 March 2020 have been restated in the table above at constant currency. At actual currency the values were £20.6 billion and £25.5 billion respectively.

Group RoE

Group RoE provides investors with a view of the performance of the Group as a whole compared with the amounts invested by the Group in assets attributable to equity shareholders. It is the ratio of our regulatory financial performance to our measure of equity investment in assets. It therefore reflects the regulated activities as well as the contribution from our non-regulated businesses together with joint ventures and non-controlling interests.

We use Group RoE to measure our performance in generating value for our shareholders, and targets for Group RoE are included in the incentive mechanisms for executive remuneration within both the APP and LTPP schemes.

Group RoE is underpinned by our regulated asset base. For the reasons noted above, no reconciliation to IFRS has been presented, as we do not believe it would be practical. However, we do include the calculations below.

Calculation: Regulatory financial performance including a long-run assumption of 3% RPI inflation, less adjusted interest and adjusted taxation divided by equity investment in assets:

- adjusted interest removes interest on pensions, capitalised interest in regulated operations and unwind of discount rate on provisions;
- adjusted taxation adjusts the Group taxation charge for differences between IFRS profit before tax and regulated financial performance less adjusted interest; and
- equity investment in assets is calculated as the total opening UK regulatory asset value, the total opening US rate base plus goodwill plus opening net book value of National Grid Ventures and Other activities and our share of joint ventures and associates, minus opening net debt as reported under IFRS restated to the weighted average £/$ exchange rate for the year.

Other unaudited financial information continued

Year ended 31 March	2021 £m	2020[1] £m	2019[1] £m
Regulated financial performance	**3,418**	3,546	3,318
Operating profit of other activities	**264**	269	424
Group financial performance	**3,682**	3,815	3,742
Share of post-tax results of joint ventures and associates	**66**	88	40
Non-controlling interests	**(1)**	(1)	(3)
Adjusted Group interest charge	**(882)**	(1,069)	(1,037)
Group tax charge	**(416)**	(433)	(488)
Tax on adjustments	**(175)**	(117)	(34)
Group financial performance after interest and tax	**2,274**	2,283	2,220
Opening rate base/RAV	**39,552**	37,459	35,045
Opening other balances	**3,984**	3,304	2,298
Opening goodwill	**5,295**	5,435	5,356
Opening capital employed	**48,831**	46,198	42,699
Opening net debt	**(27,398)**	(27,194)	(24,345)
Opening equity	**21,433**	19,004	18,354
Return on Equity	**10.6%**	12.0%	12.1%

1. Group ROE in 2020 and 2019 have been recalculated to reflect the revision to decrease the comparative goodwill balances (see note 1F for details).

UK and US regulated RoE

		Achieved Return on Equity		Base or Allowed Return on Equity	
Year ended 31 March	Regulatory Debt: Equity assumption	2021 %	2020 %	2021 %	2020 %
UK Electricity Transmission	**60/40**	**13.9**	13.5	**10.2**	10.2
UK Gas Transmission	**62.5/37.5**	**9.6**	9.8	**10.0**	10.0
US Regulated	**Avg. 50/50**	**7.2**	9.3	**9.4**	9.4

UK regulated RoE

UK regulated RoEs are a measure of how the businesses are performing against the assumptions used by our UK regulator. These returns are calculated using the assumption that the businesses are financed in line with the regulatory adjudicated capital structure, at the cost of debt assumed by the regulator, and that RPI inflation is equal to a long-run assumption of 3%. They are calculated by dividing elements of out/under-performance versus the regulatory contract (i.e., regulated financial performance disclosed above) by the average equity RAV in line with the regulatory assumed capital structure and adding to the base allowed RoE.

This is an important measure of UK regulated business performance, and our operational strategy continues to focus on this metric. This measure can be used to determine how we are performing under the RIIO framework and also helps investors to compare our performance with similarly regulated UK entities. Reflecting the importance of this metric, it is also a key component of the APP scheme.

The UK RoE is underpinned by the UK RAV. For the reasons noted above, no reconciliation to IFRS has been presented, as we do not believe it would be practical.

US regulated RoE

US regulated RoE is a measure of how a business is performing against the assumptions used by the US regulators. This US operational return measure is calculated using the assumption that the businesses are financed in line with the regulatory adjudicated capital structure and allowed cost of debt. The returns are divided by the average rate base (or where a reported rate base is not available, an estimate based on rate base calculations used in previous rate filings) multiplied by the adjudicated equity portion in the regulatory adjudicated capital structure.

This is an important measure of our US regulated business performance, and our operational strategy continues to focus on this metric. This measure can be used to determine how we are performing and also helps investors compare our performance with similarly regulated US entities. Reflecting the importance of this metric, it is also a key component of the APP scheme.

The US return is based on a calculation which gives proportionately more weighting to those jurisdictions which have a greater rate base. For the reasons noted above, no reconciliation to IFRS for the RoE measure has been presented, as we do not believe it would be practical to reconcile our IFRS balance sheet to the equity base.

The table below shows the principal differences between the IFRS result of the US Regulated segment, and the 'return' used to derive the US RoE. In outlining these differences, we also include the result for the US regulated Operating Companies (OpCo) entities aggregated under US GAAP.

In respect of 2019/20 and 2018/19, this measure is the aggregate operating profit of our US OpCo entities' publicly available financial statements prepared under US GAAP. For 2020/21, this measure represents our current estimate, since local financial statements have yet to be prepared.

	2021 £m	2020 £m	2019 £m
Underlying IFRS operating profit for US regulated segment	**1,486**	1,636	1,594
Weighted average £/$ exchange rate	**$1.341**	$1.287	$1.305

	2021 $m	2020 $m	2019 $m
Underlying IFRS operating profit for US regulated segment	**1,993**	2,105	2,081
Adjustments to convert to US GAAP as applied in our US OpCo entities			
Adjustment in respect of customer contributions	**(59)**	(50)	(50)
Pension accounting differences[1]	**—**	(13)	(10)
Environmental charges recorded under US GAAP	**(108)**	(94)	(117)
Storm costs and recoveries recorded under US GAAP	**(113)**	(9)	(112)
Other regulatory deferrals, amortisation and other items	**100**	3	121
Results for US regulated OpCo entities, aggregated under US GAAP[2]	**1,813**	1,942	1,913
Adjustments to determine regulatory operating profit used in US RoE			
Levelisation revenue adjustment	**—**	(122)	(48)
Adjustment for COVID-19-related provision for bad and doubtful debts[3]	**127**	150	—
Net other	**(32)**	51	(1)
Regulatory operating profit	**1,908**	2,021	1,864
Pensions[1]	**(46)**	19	(95)
Regulatory interest charge	**(539)**	(491)	(457)
Regulatory tax charge	**(348)**	(408)	(345)
Regulatory earnings used to determine US RoE	**975**	1,141	967

1. Following a change in US GAAP accounting rules, an element of the pensions charge is reported outside operating profit with effect from 2019.
2. Based on US GAAP accounting policies as applied by our US regulated OpCo entities.
3. US RoE includes an adjustment reflecting our expectation for future recovery of COVID-19-related bad and doubtful debt costs.

	2021 $m	2020 $m	2019 $m
US equity base (average for the year)	**13,621**	12,331	11,045
US RoE	**7.2%**	9.3%	8.8%

Value Added and Value Added per share and Value Growth

Value Added is a measure that reflects the value to shareholders of our cash dividend and the growth in National Grid's regulated and non-regulated assets (as measured in our regulated asset base, for regulated entities), and corresponding growth in net debt. It is a key metric used to measure our performance and underpins our approach to sustainable decision-making and long-term management incentive arrangements.

Value Added is derived using our regulated asset base and, as such, it is not practical to provide a meaningful reconciliation from this measure to an equivalent IFRS measure due to the reasons set out for our regulated asset base. However, the calculation is set out in the Financial review. Value Added per share is calculated by dividing Value Added by the weighted average number of shares (3,523 million) set out in note 8.

Value Growth of 9.4% (2020: 10.7%) is derived from Value Added by adjusting Value Added to normalise for a 3% long-run RPI inflation rate. In 2021, the numerator for Value Growth was £1,995 million (2020: £2,068 million). The denominator is Group equity as used in the Group RoE calculation, adjusted for foreign exchange movements. Value Growth in 2020 has been recalculated from the previously reported 10.4% to reflect the revision to decrease the comparative goodwill balance (see note 1F for details).

Asset growth

Asset growth is the annual percentage increase in our RAV and rate base and other business balances (including the assets of NGV and NGP) calculated at constant currency.

Regulatory gearing

Regulatory gearing is a measure of how much of our investment in RAV and rate base and other elements of our invested capital (including our investments in NGV, UK property and other assets and US other assets) is funded through debt. Comparative amounts as at 31 March 2020 are presented at historical exchange rates and have not been restated for opening balance adjustments.

As at 31 March	2021 £m	2020 £m	change
UK RAV	**20,872**	20,431	
US rate base	**20,041**	20,644	
Other invested capital included in gearing calculation	**4,458**	4,105	
Total assets included in gearing calculation	**45,371**	45,180	
Net debt (including 100% of hybrid debt)	**(29,665)**	**(28,590)**	
Group gearing (based on 100% of net debt)	**65%**	63%	2 % pts
Group gearing (excluding 50% of hybrid debt from net debt)	**63%**	61%	2 % pts

Commentary on consolidated financial statements

for the year ended 31 March 2020

In compliance with SEC rules, we present a summarised analysis of movements in the income statement and an analysis of movements in adjusted operating profit (for the continuing group) by operating segment. This should be read in conjunction with the 31 March 2021 financial review included on pages 30 – 39.

Analysis of the income statement for the year ended 31 March 2020

Revenue

Revenue for the year ended 31 March 2020 decreased by £393 million to £14,540 million. This decrease was driven by lower revenues in our US Regulated, in our UK Gas Transmission business and in our NGV & Other businesses, partially offset by higher revenues in our UK Electricity Transmission business. US Regulated revenues were £641 million lower year-on-year, principally due to the impact of lower commodity pass-through costs, partly offset by new rates and the benefit of foreign exchange. UK Gas Transmission revenues were £27 million higher, driven by the return of allowances related to Avonmouth in the year ended 31 March 2019, partly offset by timing under-recoveries. UK Electricity Transmission revenues increased by £363 million, mainly as the result of higher BSIS pass-through costs (due to increased levels of renewable generation) and favourable timing over-collections (higher volumes and collection of prior period under-recoveries). Revenue from NGV and Other businesses decreased by £142 million, primarily driven by the significant level of sales in our Commercial Property business in the year ended 31 March 2019 and lower income from other support services.

Operating costs

Operating costs for the year ended 31 March 2020 of £11,760 million were £303 million lower than the prior year. This decrease in costs included a £45 million reduction in exceptional items and remeasurements. Lower operating costs were driven by the reduction in US commodity pass-through costs and lower UK BSIS pass-through costs, partially offset by higher workforce costs, increased rates and property taxes, higher depreciation as a result of continued asset investment and the impact of movement in exchange rates.

Net finance costs

For the year ended 31 March 2020, net finance costs before exceptional items and remeasurements were £56 million higher than the year ended 31 March 2019 at £1,049 million, mainly as a result of swap termination and debt buy-back costs, lower capitalised interest, higher lease interest (as a result of IFRS16) and the impact of the stronger US dollar, partially offset by favourable tax interest and the impact of higher UK RPI inflation. Net finance costs in the year ended 31 March 2020 included remeasurement losses of £64 million on derivative financial instruments used to hedge our borrowings, compared to £76 million of remeasurement losses in the year ended 31 March 2019.

Tax

The tax charge on profits before exceptional items and remeasurements of £433 million was £55 million lower than the year ended 31 March 2019. This was mainly related to a lower level of profit before tax in the year ended 31 March 2020 compared to the year ended 31 March 2019, but was also the result of a benefit from the release of reserves following settlement of tax audits relating to earlier years and gains on chargeable disposals which were offset by previously unrecognised capital losses. In the year ended 31 March 2019, significantly higher gains on property disposals that were offset by previously unrecognised capital losses resulted in a lower underlying effective tax rate.

Exceptional items and remeasurements

In the year ended 31 March 2020, exceptional items included a £402 million charge associated with changes in our environmental provisions and an additional deferred tax charge of £192 million reflecting the impact of the remeasurement of the Group's deferred tax liabilities as a result of a change in the substantively enacted UK corporation tax rate. Remeasurement losses of £125 million on commodity contracts were recognised in the year ended 31 March 2020. In the previous year, operating costs included £283 million of costs arising from the workforce contingency plan related to the Massachusetts Gas labour dispute, £204 million of restructuring charges in our UK and US businesses and £137 million related to the impairment of nuclear connection development costs following the cancellation of the NuGen and Horizon projects. These were partially offset by a net £52 million gain on remeasurement of commodity contracts.

Finance costs for the year ended 31 March 2020 included a net loss of £64 million on financial remeasurements of derivative financial instruments used to hedge our borrowings, compared to a loss of £76 million on financial remeasurements in the year ended 31 March 2019.

Share of post-tax results of joint ventures and associates before exceptional items for the year ended 31 March 2020 were £88 million compared to £40 million in the year ended 31 March 2019, principally due to increased profits in St William, our Property joint venture.

Adjusted earnings and EPS from continuing operations

Adjusted earnings and EPS, which exclude exceptional items and remeasurements, are provided to reflect the Group's results on an 'adjusted profit' basis, described further in note 5. See page 252 for a reconciliation of adjusted basic EPS to EPS.

The above earnings performance translated into adjusted EPS in the year ended 31 March 2020 of 55.2p, compared to 59.0p in the year ended 31 March 2019.

Exchange rates

Our financial results are reported in sterling. Transactions for our US operations are denominated in dollars, so the related amounts that are reported in sterling depend on the dollar to sterling exchange rate. The table below shows the average and closing exchange rates of sterling to US dollars.

	2019/20	2018/19	% change
Weighted average (income statement)	**1.29**	1.31	-1.42%
Year-end (statement of financial position)	**1.24**	1.30	4.79%

The movement in foreign exchange during the year ended 31 March 2020 has resulted in a £143 million increase in revenue, a £25 million increase in adjusted operating profit and a £21 million increase in operating profit.

Analysis of the adjusted operating profit by segment for the year ended 31 March 2020

UK Electricity Transmission

For the year ended 31 March 2020, revenue in the UK Electricity Transmission segment decreased by £351 million to £3,702 million, and adjusted operating profit increased by £305 million to £1,320 million. Revenue was significantly impacted by higher levels of pass-through costs related to balancing services in ESO, as a result of record levels of renewable generation in the year ended 31 March 2020. Excluding pass-through costs, net revenue was £220 million higher, principally reflecting timing over-recoveries (higher volumes and collection of prior period under-recoveries) along with higher revenues as a result of MOD impact from cyber and data centre allowances, offset by the true-up of totex allowances and RAV indexation from inflation. Regulated controllable costs were £26 million lower, reflecting inflation and higher IT costs more than offset by efficiency savings and the non-recurrence of ESO legal separation costs in the year ended 31 March 2019. Depreciation and amortisation was £24 million lower due to lower levels of asset commissioning and provision releases in the year ended 31 March 2020. Other costs were £34 million lower, principally relating to provision against income recognised on early termination of connections in the prior year.

Capital expenditure increased by £118 million compared with the year ended 31 March 2019 to £1,043 million reflecting increased activity on Hinkley Seabank, London Power Tunnels 2 and higher capex on the Dorset Visual Impact Provision project in the year ended 31 March 2020.

UK Gas Transmission

Revenue in the UK Gas Transmission segment increased by £31 million to £927 million, and adjusted operating profit increased by £45 million to £348 million.

After deducting pass-through costs, net revenue was £16 million higher than the yeard ended 31 March 2019, reflecting the prior year refund of revenues previously received in respect of the proposed Avonmouth pipeline project that is no longer required. Regulated controllable costs were £17 million lower than the year ended 31 March 2019, with efficiency savings and an environmental provision release offsetting the higher IT run-the-business costs and the impact of inflation. Pension costs were £8 million lower mainly related to the Guaranteed Minimum Pension equalisation ruling in the year ended 31 March 2019. Depreciation and amortisation costs were £10 million lower following a full year impact of asset lives changes made in the year ended 31 March 2019. Other operating costs were £6 million higher than the year ended 31 March 2019, as a result of the release of unused provisions in the prior year.

Capital expenditure decreased by £59 million to £249 million, as a result of lower expenditure on Feeder 9 project (Humber Estuary), lower investment in Peterborough and Huntingdon compressor project and reduced asset health investment.

US Regulated

Revenue in our US Regulated business reduced by £641 million to £9,205 million, and adjusted operating profit decreased by £327 million to £1,397 million.

The stronger US dollar decreased revenue and operating profit in the year ended 31 March 2020. Excluding the impact of foreign exchange rate movements, revenue decreased by £783 million. Of this decrease, £575 million was due to increases in commodity pass-through costs charged on to customers, and £465 million was due to year-on-year timing movements as a result of under-collection of revenues compared to our regulatory allowances in the year ended 31 March 2020 of £239 million (2019: £226 million over-recovery). Excluding pass-through costs and timing swings, net revenue increased by £257 million at constant currency, principally reflecting increased revenue allowances under rate plans in upstate and downstate New York, in Massachusetts and in Rhode Island.

We incurred £76 million of deferrable storm costs in the year ended 31 March 2020 through a number of storms that caused substantial damage to our electricity networks, but this fell below our $100 million threshold to qualify as 'major' and be excluded from our underlying results. This compared to £95 million in the year ended 31 March 2019, which as these this did exceed our threshold were stripped out of our underlying results in the previous year. Excluding the impact of foreign exchange movements, regulated controllable costs decreased by £51 million as a result of cost efficiencies (principally from the benefit of restructurings and contract management), partly offset by workload increases and inflation. Bad debt expense increased by £85 million at constant currency, driven by £117 million additional provision for receivables related to the impact of COVID-19. Depreciation and amortisation increased due to ongoing investment in our networks. Other operating costs were £61 million higher at constant currency, as a result of higher storms in underlying in the year ending 31 March 2020 partly offset by lower cost of removal.

Capital expenditure in the US Regulated business increased to £3,228 million in the year ending 31 March 2020, £578 million more than in the year ending 31 March 2019. At constant currency, this represented a £540 million increase in investment driven by higher investment in new and replacement gas mains and gas business enablement investment, the impact of the Massachusetts Gas labour dispute on capex in the year ending 31 March 2019 and increased investment in IT.

NGV and Other

Revenue in NGV and Other reduced by £140 million to £736 million, and adjusted operating profit increased by £5 million to £242 million. This reflects lower revenues and profit on disposal of property sites in our UK commercial property business (due to significant sales made in the year ending 31 March 2019) and reduced income from support services supplied to Cadent compared to the prior year.

Capital expenditure in NGV and Other was £121 million higher than the year ending 31 March 2019 at £559 million, including the increased investment in a second French Interconnector, the North Sea Link interconnector to Norway and the Viking interconnector to Denmark.

Five year summary financial information

Financial summary (unaudited)

The financial summary set out below has been derived from the audited consolidated financial statements of National Grid for the five financial years ended 31 March 2021. It should be read in conjunction with the consolidated financial statements and related notes, together with the Strategic Report. The information presented below is adjusted for the matters described in the footnotes below for the years ended 31 March 2021, 2020, 2019, 2018 and 2017 where relevant and has been prepared under IFRS as issued by the IASB and as adopted by the EU.

Summary income statement (£m)	2021	2020	2019	2018[1]	2017
Continuing operations					
Revenue	**14,779**	14,540	14,933	15,250	15,035
Operating profit					
Before exceptional items, remeasurements	**2,926**	3,307	3,442	3,457	3,773
Exceptional items, remeasurements	**(31)**	(527)	(572)	36	(565)
Profit before tax					
Before exceptional items, remeasurements	**2,050**	2,346	2,489	2,500	2,807
Exceptional items, remeasurements	**33**	(592)	(648)	160	(623)
Profit after tax from continuing operations					
Before exceptional items, remeasurements	**1,634**	1,913	2,001	1,916	2,141
Exceptional items, remeasurements	**7**	(639)	(499)	1,633	(331)
(Loss)/profit after tax from discontinued operations					
Before exceptional items, remeasurements	**–**	5	57	145	606
Exceptional items, remeasurements	**–**	(14)	(45)	(143)	57
Gain on disposal of UK Gas Distribution after tax	**–**	–	–	–	5,321
Total profit for the year	**1,641**	1,265	1,514	3,551	7,794
Profit for the year attributable to equity shareholders					
Before exceptional items, remeasurements	**1,633**	1,917	2,055	2,060	2,747
Exceptional items, remeasurements	**7**	(653)	(544)	1,490	(273)
Gain on disposal of UK Gas Distribution after tax	**–**	–	–	–	5,321
Total	**1,640**	1,264	1,511	3,550	7,795
Earnings per share					
Basic – continuing operations (pence)	**46.6**	36.8	44.3	102.5	48.1
Diluted – continuing operations (pence)	**46.3**	36.6	44.1	102.1	47.9
Basic – total (pence)	**46.6**	36.5	44.6	102.6	207.1
Diluted – total (pence)	**46.3**	36.3	44.4	102.1	206.2
Weighted average number of shares – basic (millions)	**3,523**	3,461	3,386	3,461	3,763
Weighted average number of shares – diluted (millions)	**3,540**	3,478	3,401	3,476	3,780
Dividends per ordinary share					
Paid during the year (pence)	**49.00**	47.83	46.52	128.97	43.51
Approved or proposed during the year (pence)[2]	**49.16**	48.57	47.34	45.93	128.65
Paid during the year ($)	**0.628**	0.615	0.607	1.751	0.555
Approved or proposed during the year ($)	**0.682**	0.625	0.618	0.624	1.642

1. Items previously reported for 2018 have been re-presented to reflect our investment in Quadgas HoldCo Limited being presented as a discontinued operation in 2019.
2. Following the disposal of UK Gas Distribution, 2017 includes a special interim dividend of 84.375 pence per share that was paid on 2 June 2017.

Summary statement of net assets (£m)	2021	2020[1]	2019[1]	2018	2017
Non-current assets	**57,278**	61,759	55,466	52,106	52,266
Current assets	**9,938**	5,801	7,946	6,681	13,574
Total assets	**67,216**	67,560	63,412	58,787	65,840
Current liabilities	**(9,368)**	(8,564)	(9,129)	(8,697)	(10,511)
Non-current liabilities	**(37,988)**	(39,203)	(34,715)	(31,242)	(34,945)
Total liabilities	**(47,356)**	(47,767)	(43,844)	(39,939)	(45,456)
Net assets	**19,860**	19,793	19,568	18,848	20,384
Total shareholders' equity	**19,839**	19,771	19,548	18,832	20,368

1. Items previously reported for 2019 and 2020 have been revised as detailed in note 1F.

Definitions and glossary of terms

Our aim is to use plain English in this Annual Report and Accounts. However, where necessary, we do use a number of technical terms and abbreviations. We summarise the principal ones below, together with an explanation of their meanings. The descriptions below are not formal legal definitions. Alternative and Regulatory Performance Measures are defined on pages 250 – 262.

A

Adjusted interest
A measure of the interest charge of the Group, calculated by making adjustments to the Group reported interest charge.

Adjusted net debt
A measure of the indebtedness of the Group, calculated by making adjustments to the Group reported borrowings, including adjustments made to include elements of pension deficits and exclude elements of hybrid debt financing.

Adjusted results (also referred to as headline results)
Financial results excluding the impact of exceptional items and remeasurements that are treated as discrete transactions under IFRS and can accordingly be classified as such. This is a measure used by National Grid management that forms part of the incentive target set annually for remunerating certain Executive Directors, and further details of these items are included in note 5 to the Financial Statements.

American Depositary Shares (ADSs)
Securities of National Grid listed on the New York Stock Exchange, each of which represents five ordinary shares. They are evidenced by American Depositary Receipts or ADRs.

Annual General Meeting (AGM)
Meeting of shareholders of the Company held each year to consider ordinary and special business as provided in the Notice of AGM.

B

BEIS
The Department for Business, Energy and Industrial Strategy, the UK government department responsible for business, industrial strategy, and science and innovation with energy and climate change policy.

Board
The Board of Directors of the Company (for more information see pages 72 and 73).

bps
Basis point (bp, bps) is a unit that is equal to 1/100th of 1% and is typically used to denote the movement in a percentage-based metric such as interest rates or RoE. A 0.1% change in a percentage represents 10 basis points.

BritNed
BritNed Development Limited, a joint venture company in which National Grid and Tennet, the Dutch national transmission system operator, each hold 50% of the shares.

C

Called-up share capital
Shares (common stock) that have been issued and have been fully paid for.

Capital tracker
In the context of our US rate plans, this is a mechanism that allows the recovery of the revenue requirement of incremental capital investment above that embedded in base rates, including depreciation, property taxes and a return on the incremental investment.

Carbon capture usage and storage (CCUS)
The process of capturing carbon dioxide (CO_2) for the purpose of recycling it for further usage and/or determining safe and permanent storage options for it.

Carrying value
The amount at which an asset or a liability is recorded in the Group's statement of financial position and the Company's balance sheet.

The Company, the Group, National Grid, we, our or us
We use these terms to refer to either National Grid plc itself or to National Grid plc and/or all or certain of its subsidiaries, depending on context.

Consolidated financial statements
Financial statements that include the results and financial position of the Company and its subsidiaries together as if they were a single entity.

Constant currency
'Constant currency basis' refers to the reporting of the actual results against the results for the same period last year, which, in respect of any US$ currency denominated activity, have been translated using the average US$ exchange rate for the year ended 31 March 2021, which was \$1.34 to £1. The average rate for the year ended 31 March 2020 was \$1.29 to £1, and for the year ended 31 March 2019 was \$1.31 to £1. Assets and liabilities as at 31 March 2020 have been retranslated at the closing rate at 31 March 2021 of \$1.38 to £1. The closing rate for the balance sheet date 31 March 2020 was \$1.24 to £1.

Contingent liabilities
Possible obligations or potential liabilities arising from past events for which no provision has been recorded, but for which disclosure in the financial statements is made.

COP26
The 26th UN Climate Change Conference of the Parties which the UK will host at the Scottish Event Campus in Glasgow on 1–12 November 2021. The climate talks will bring together heads of state, climate experts and campaigners to agree coordinated action to tackle climate change. The Company is a principal partner of COP26.

COVID-19
COVID-19 or coronavirus disease is an infectious disease caused by a newly discovered coronavirus which spreads through droplets of saliva or discharge from the nose when an infected person coughs or sneezes.

CPIH
The UK Consumer Prices Index including Owner Occupiers' Housing Costs as published by the Office for National Statistics.

D

Dth
Decatherm, being an amount of energy equal to 1 million British thermal units (BTUs), equivalent to approximately 293 kWh.

DB
Defined benefit, relating to our UK or US (as the context requires) final salary pension schemes.

DC
Defined contribution, relating to our UK or US (as the context requires) pension schemes to which National Grid, as an employer, pays contributions based on a percentage of employees' salaries.

Deferred tax
For most assets and liabilities, deferred tax is the amount of tax that will be payable or receivable in respect of that asset or liability in future tax returns as a result of a difference between the carrying value for accounting purposes in the statement of financial position or balance sheet and the value for tax purposes of the same asset or liability.

Deposit agreement
The amended and restated deposit agreement entered into between National Grid plc, the Depositary and all the registered holders from time to time of ADRs, pursuant to which ADSs have been issued, dated 23 May 2013, and any related agreement.

Depositary
Depositary means the Bank of New York Mellon acting as depositary.

Derivative
A financial instrument or other contract where the value is linked to an underlying index, such as exchange rates, interest rates or commodity prices. In most cases, we exclude contracts for the sale or purchase of commodities that are used to supply customers or for our own needs from this definition.

Directors/Executive Directors/Non-executive Directors
The Directors/Executive Directors and Non-executive Directors of the Company, whose names are set out on pages 72 and 73 of this document.

Distributed energy resources (DER)
Decentralised assets, generally located behind the meter, covering a range of technologies including solar, storage, electric vehicle charging, district heating, smart street lighting and combined heat and power.

Definitions and glossary of terms continued

Dollars or $
Except as otherwise noted, all references to dollars or $ in this Annual Report and Accounts relate to the US currency.

E

Earnings per share (EPS)
Profit for the year attributable to equity shareholders of the Company allocated to each ordinary share.

Electricity System Operator (ESO)
The party responsible for the long-term strategy, planning and real-time operation (balancing supply and demand) of the electricity system in Great Britain.

Electricity Transmission (ET)
National Grid's UK electricity transmission business.

Employee engagement
A key performance indicator (KPI), based on the percentage of favourable responses to certain indicator questions repeated in each employee survey. It is used to measure how employees think, feel and act in relation to National Grid. Research shows that a highly engaged workforce leads to increased productivity and employee retention. We use employee engagement as a measure of organisational health in relation to business performance.

Employee resource group (ERG)
A group of employees who join together in their workplace based on shared characteristics or life experiences.

Estate Tax Convention
The convention between the US and the UK for the avoidance of double taxation with respect to estate and gift taxes.

EU
The European Union (EU) is the economic and political union of 27 member states located in Europe. The UK left the European Union on 31 January 2020.

Exchange Act
The US Securities Exchange Act 1934, as amended.

F

FERC
The US Federal Energy Regulatory Commission.

Finance lease
A lease where the asset is treated as if it was owned for the period of the lease, and the obligation to pay future rentals is treated as if they were borrowings. Also known as a capital lease.

Financial year
For National Grid this is an accounting year ending on 31 March. Also known as a fiscal year.

FRS
A UK Financial Reporting Standard as issued by the UK Financial Reporting Council (FRC). It applies to the Company's individual financial statements on pages 217 – 223, which are prepared in accordance with FRS 101.

Funds from Operations (FFO)
A measure used by the credit rating agencies of the operating cash flows of the Group after interest and tax but before capital investment.

G

Gas Transmission (GT)
National Grid's UK gas transmission business.

Grain LNG
National Grid Grain LNG Limited.

Great Britain (GB)
England, Wales and Scotland.

Group Value Growth
Group Value Growth is Group-wide value added expressed as a proportion of Group equity. See page 34 for an explanation of Value Added.

GW
Gigawatt, an amount of power equal to 1 billion watts (10^9 watts).

GWh
Gigawatt hours, an amount of energy equivalent to delivering 1 billion watts (10^9 watts) of power for a period of one hour.

H

HMRC
HM Revenue & Customs. The UK tax authority.

HVDC
High-voltage, direct-current electric power transmission that uses direct current for the bulk transmission of electrical power in contrast to the more common alternating current systems.

I

IAS or IFRS
An International Accounting Standard (IAS) or International Financial Reporting Standard (IFRS), as issued by the International Accounting Standards Board (IASB). IFRS is also used as the term to describe international generally accepted accounting principles as a whole.

Individual financial statements
Financial statements of a company on its own, not including its subsidiaries or joint ventures and associates.

Interest cover
A measure used by the credit rating agencies, calculated as FFO plus adjusted interest divided by adjusted interest.

J

Joint venture (JV)
A company or other entity that is controlled jointly with other parties.

K

KEDLI
KeySpan Gas East Corporation, also known as KeySpan Energy Delivery Long Island.

KEDNY
The Brooklyn Union Gas Company, also known as KeySpan Energy Delivery New York.

KPI
Key performance indicator.

kW
Kilowatt, an amount of power equal to 1,000 watts.

L

LIPA
The Long Island Power Authority.

LNG
Liquefied natural gas is natural gas that has been condensed into a liquid form, typically at temperatures at or below -161°C (-258°F).

Lost time injury (LTI)
An incident arising out of National Grid's operations that leads to an injury where the employee or contractor normally has time off for the following day or shift following the incident. It relates to one specific (acute) identifiable incident which arises as a result of National Grid's premises, plant or activities, and was reported to the supervisor at the time and was subject to appropriate investigation.

Lost time injury frequency rate (LTIFR)
The number of lost time injuries (LTIs) per 100,000 hours worked in a 12-month period.

M

MADPU
The Massachusetts Department of Public Utilities.

MW
Megawatt, an amount of power equal to 1 million watts.

MWh
Megawatt hours, an amount of energy equivalent to delivering 1 million watts (10^6) of power for a period of one hour.

N

National Grid Metering Limited (NGM)
The Company's UK regulated metering business.

National Grid Partners (NGP)
The Company's venture investment and innovation business established in November 2018.

National Grid Renewables (NGR)
This business, which includes the renewables development company formerly known as Geronimo, is a leading developer of wind and solar generation based in Minneapolis in the US. National Grid acquired Geronimo in July 2019.

National Grid Ventures (NGV)
The Company's division that operates outside its core UK and US regulated businesses, comprising a broad range of activities in the UK and US, including National Grid Renewables, electricity interconnectors, the Grain LNG terminal and energy metering, as well as being tasked with investment in adjacent businesses and distributed energy opportunities.

National Transmission System (NTS)
The gas National Transmission System in Great Britain.

NECO
The Narragansett Electric Company, National Grid's electricity transmission and distribution service provider to, as well as a natural gas distribution company in, Rhode Island.

NECO Sale
The agreed sale by National Grid to PPL of NECO, conditional upon completion of the WPD Acquisition and receipt of certain regulatory approvals, which is expected to complete before the end of the first quarter of 2022.

Nemo Link
Nemo Link Limited, a joint venture company in which National Grid and Elia, the Belgian national transmission system operator each hold 50% of the shares.

Net Promoter Score (NPS)
A commonly used tool to measure customer experience to gauge the loyalty of a company's customer relationships. It is an index ranging from -100 to +100.

Net zero
Net zero means that a person, legal entity (such as a company), country or other body's own emissions of greenhouse gases are either zero or that its remaining greenhouse gas emissions are balanced by schemes to offset, through the removal of an equivalent amount of greenhouse gases from the atmosphere, such as planting trees or using technology like carbon capture and storage.

New England
The term refers to a region within northeastern US that includes the states of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont. National Grid's New England operations are primarily in the states of Massachusetts and Rhode Island.

Northeastern US
The northeastern region of the US, comprising the states of Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Vermont.

NYPSC
The New York Public Service Commission.

O

Ofgem
The UK Office of Gas and Electricity Markets is part of the UK Gas and Electricity Markets Authority (GEMA), which regulates the energy markets in the UK.

OPEB
Other post-employment benefits.

Ordinary shares
Voting shares entitling the holder to part ownership of a company. Also known as common stock. National Grid's ordinary shares have a nominal value of $12^{204/473}$ pence following the share consolidation approved at the General Meeting of the Company held on 19 May 2017.

P

Paris Agreement
The agreement, also known as the Paris Climate Accord, within the United Nations Framework Convention on Climate Change dealing with greenhouse gas emissions mitigation, adaptation and finance starting in the year 2020, and adopted by consensus on 12 December 2015.

PPL
PPL Corporation, a US energy company headquartered in Pennsylvania.

Price control
The mechanism by which Ofgem sets restrictions on the amounts of revenue we are allowed to collect from customers in our UK businesses. The allowed revenues are intended to cover efficiently incurred operational expenditure, capital expenditure and financing costs, including a Return on Equity invested.

R

Rate base
The base investment on which the utility is authorised to earn a cash return. It includes the original cost of facilities, minus depreciation, an allowance for working capital and other accounts.

Rate plan
The term given to the mechanism by which a US utility regulator sets terms and conditions for utility service, including, in particular, tariffs and rate schedules. The term can mean a multi-year plan that is approved for a specified period, or an order approving tariffs and rate schedules that remain in effect until changed as a result of future regulatory proceedings. Such proceedings can be commenced through a filing by the utility or on the regulator's own initiative.

Regulated controllable costs
Total operating costs under IFRS less depreciation and certain regulatory costs where, under our regulatory agreements, mechanisms are in place to recover such costs in current or future periods.

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 the deduction of annual regulatory depreciation. Deductions are also made to reflect the value realised from the disposal of certain assets that formed part of the regulatory asset base. It is also indexed to the RPI to allow for the effects of inflation.

Regulatory IOUs
Net under/over-recoveries of revenue from output-related allowance changes, the totex incentive mechanism, legacy price control cost true-up and differences between allowed and collected revenues.

Retained cash flow (RCF)
A measure of the cash flows of the Group used by the credit rating agencies. It is calculated as funds from operations less dividends paid and costs of repurchasing scrip shares.

Revenue decoupling
Revenue decoupling is the term given to the elimination of the dependency of a utility's revenue on the volume of gas or electricity transported. The purpose of decoupling is to encourage energy-efficiency programmes by eliminating the disincentive a utility otherwise has to such programmes.

RIIO
Revenue = Incentives + Innovation + Outputs, the regulatory framework for energy networks issued by Ofgem.

RIIO-T1
The regulatory framework for transmission networks that was implemented in the eight-year price controls that started on 1 April 2013.

RIIO-2
The regulatory framework for energy networks issued by Ofgem which started on 1 April 2021.

Definitions and glossary of terms continued

RIPUC
The Rhode Island Public Utilities Commission.

RPI
The UK retail price index as published by the Office for National Statistics.

S

Scope 1 greenhouse gas emissions
Scope 1 emissions are direct greenhouse gas emissions that occur from sources that are owned or controlled by the Company. Examples include emissions from combustion in owned or controlled boilers, furnaces, vehicles, etc.

Scope 2 greenhouse gas emissions
Scope 2 emissions are greenhouse gas emissions from the generation of purchased electricity consumed by the Company. Purchased electricity is defined as electricity, heat, steam or cooling that is purchased or otherwise brought into the organisational boundary of the Company. Scope 2 emissions physically occur at the facility where electricity is generated.

Scope 3 greenhouse gas emissions
Scope 3 emissions are indirect greenhouse gas emissions as a consequence of the operations of the Company, but are not owned or controlled by the Company, such as emissions from third-party logistics providers, waste management suppliers, travel suppliers, employee commuting, and combustion of sold gas by customers.

SEC
The US Securities and Exchange Commission, the financial regulator for companies with registered securities in the US, including National Grid and certain of its subsidiaries.

SF_6
Sulphur hexafluoride is an inorganic, colourless, odourless and non-flammable greenhouse gas. SF_6 is used in the electricity industry as a gaseous dielectric medium for high-voltage circuit breakers, switchgear and other electrical equipment. The Kyoto protocol estimated that the global warming potential over 100 years of SF_6 is 23,900 times more potent than that of CO_2.

Share premium
The difference between the amount shares are issued for and the nominal value of those shares.

STEM
Science, technology, engineering and mathematics.

Subsidiary
A company or other entity that is controlled by National Grid.

Swaption
A swaption gives the buyer, in exchange for an option premium, the right, but not the obligation, to enter into an interest-rate swap at some specified date in the future. The terms of the swap are specified on the trade date of the swaption.

T

Task Force on Climate-relate Financial Disclosures (TCFD)
A body, established in 2015 comprising 31 members from across the G20, whose role is to develop recommendations for more informed investment and enable stakeholders to better understand the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risk.

Taxes borne
Those taxes that represent a cost to the Company and are reflected in our results.

Taxes collected
Those taxes that are generated by our operations but do not affect our results. We generate the commercial activity giving rise to these taxes and then collect and administer them on behalf of tax authorities.

Tax Convention
Tax Convention means the income tax convention between the US and the UK.

Tonne
A unit of mass equal to 1,000 kilogrammes, equivalent to approximately 2,205 pounds.

Tonnes carbon dioxide equivalent (CO_2e)
A measure of greenhouse gas emissions in terms of the equivalent amount of carbon dioxide.

Totex
Total expenditure, comprising capital and operating expenditure.

Treasury shares
Shares that have been repurchased but not cancelled. These shares can then be allotted to meet obligations under the Company's employee share schemes.

Total Societal Impact (TSI)
TSI is a methodology that attempts to calculate the total benefit to society from a company's products, services, operations, core capabilities and activities.

U

UK
The United Kingdom, comprising England, Wales, Scotland and Northern Ireland.

UK Corporate Governance Code (the Code)
Guidance, issued by the Financial Reporting Council in 2018, on how companies should be governed, applicable to UK listed companies, including National Grid, in respect of reporting periods starting on or after 1 January 2019.

UK GAAP
Generally accepted accounting practices in the UK. These differ from IFRS and from US GAAP.

Underlying EPS
Underlying results for the year attributable to equity shareholders of the Company allocated to each ordinary share.

Underlying results
The financial results of the Company, adjusted to exclude the impact of exceptional items and remeasurements that are treated as discrete transactions under IFRS and can accordingly be classified as such, and to take account of volumetric and other revenue timing differences arising due to the in-year difference between allowed and collected revenues as well as major storm costs (where these are above $100 million threshold in a given year).

US
The United States of America, its territories and possessions, any state of the United States and the District of Columbia.

US GAAP
Generally accepted accounting principles in the US. These differ from IFRS and from UK GAAP.

US state regulators (state utility commissions)
In the US, public utilities' retail transactions are regulated by state utility commissions, including the New York Public Service Commission (NYPSC), the Massachusetts Department of Public Utilities (MADPU) and the Rhode Island Public Utilities Commission (RIPUC).

V

Value growth
Value growth is the Value Added, adjusted to normalise for a 3% long-run RPI inflation rate, expressed as a proportion of Group equity. See page 259.

W

WPD
PPL WPD Investments Limited and its subsidiaries. The group is the UK's largest electricity distribution business and includes four distribution network operators.

WPD Acquisition
The agreement by National Grid to acquire WPD, which is subject to certain regulatory approvals and is expected to complete by July 2021.

Want more information or help?

Equiniti
For queries about ordinary shares:

0800 169 7775
This is a Freephone number from landlines within the UK, mobile costs may vary. Lines are open 8.30am to 5.30pm, Monday to Friday, excluding public holidays. If calling from outside the UK: +44 (0) 800 169 7775. Calls from outside the UK will be charged at the applicable international rate.

Visit help.shareview.co.uk for information regarding your shareholding (from here you will also be able to email a query securely).

National Grid Share Register
Equiniti
Aspect House
Spencer Road, Lancing
West Sussex BN99 6DA

The Bank of New York Mellon
For queries about American Depositary Shares:

1-800-466-7215
If calling from outside the US:
+1-201-680-6825

adrbnymellon.com
Email: shrrelations@cpushareownerservices.com

BNY Mellon – ADR
PO Box 505000
Louisville, KY 40233-5000

Further information about National Grid, including share price and interactive tools, can be found on our website: nationalgrid.com/investors

Beware of share fraud
Investment scams are often sophisticated and difficult to spot. Shareholders are advised to be wary of any unsolicited advice or offers, whether over the telephone, through the post or by email. If you receive any unsolicited communication, please check the company or person contacting you is properly authorised by the Financial Conduct Authority (FCA) before getting involved. Be ScamSmart and visit fca.org.uk/scamsmart. You can report calls from unauthorised firms to the FCA by calling 0800 111 6768.

Financial calendar
The following dates have been announced or are indicative:

20 May 2021	2020/21 full-year results
3 June 2021	Ordinary shares and ADRs go ex-dividend for 2020/21 final dividend
4 June 2021	Record date for 2020/21 final dividend
10 June 2021	Scrip reference price announced
21 July 2021 (5pm London time)	Scrip election date
26 July 2021	2021 AGM
18 August 2021	2020/21 final dividend paid to qualifying shareholders
18 November 2021	2021/22 half-year results
2 December 2021	Ordinary shares and ADRs go ex-dividend for 2021/22 interim dividend
3 December 2021	Record date for 2021/22 interim dividend
9 December 2021	Scrip reference price announced
20 December 2021 (5pm London time)	Scrip election date for 2021/22 interim dividend
19 January 2022	2021/22 interim dividend paid to qualifying shareholders

Dividends
The Directors are recommending a final dividend of 32.16 pence per ordinary share ($2.2812 per ADS) to be paid on 18 August 2021 to shareholders on the register as at 4 June 2021. Further details on dividend payments can be found on page 39. If you live outside the UK, you may be able to request that your dividend payments are converted into your local currency.

Under the Deposit agreement, a fee of up to $0.05 per ADS can be charged for any cash distribution made to ADS holders, including cash dividends. ADS holders who receive cash in relation to the 2020/21 final dividend will be charged a fee of $0.02 per ADS by the Depositary prior to the distribution of the cash dividend.

Have your dividends paid directly into your bank or building society account:
- your dividend reaches your account on the payment day;
- it is more secure – cheques sometimes get lost in the post; and
- no more trips to the bank.

Elect to receive your dividends as additional shares:
Join our scrip dividend scheme; no stamp duty or commission to pay.

Electronic communications
Please register at shareview.co.uk.

It only takes a few minutes to register – just have your 11-digit Shareholder Reference Number to hand. You will be sent an Activation Code to complete registration.

Once you have registered, you can elect to receive your shareholder communications electronically.

Registered office
National Grid plc was incorporated on 11 July 2000. The Company is registered in England and Wales No. 4031152, with its registered office at 1–3 Strand, London WC2N 5EH.

Share dealing
Postal share dealing: Equiniti offer our European Economic Area resident shareholders a share dealing service by post. This service is available to private shareholders resident within the European Economic Area, the Channel Islands or the Isle of Man. If you hold your shares in CREST, you are not eligible to use this service. For more information and to obtain a form, please visit shareview.co.uk or call Equiniti on 0800 169 7775.

Internet and telephone share dealing: Equiniti also offer telephone and online share dealing at live prices. For full details together with terms and conditions, please visit shareview.co.uk. You can call Equiniti on 0345 603 7037 for further details, or to arrange a trade. Lines are open Monday to Friday, 8.00am to 4.30pm for dealing, and until 6.00pm for enquiries.

ShareGift: If you only have a small number of shares that would cost more for you to sell than they are worth, you may wish to consider donating them to ShareGift. ShareGift is a registered charity (No. 1052686) which specialises in accepting such shares as donations. For more information, visit sharegift.org or contact Equiniti.

Individual Savings Accounts (ISAs): ISAs for National Grid shares are available from Equiniti. For more information, call Equiniti on 0345 300 0430 or visit shareview.co.uk/ISA.

Cautionary statement

This document comprises the Annual Report and Accounts for the year ended 31 March 2021 for National Grid and its subsidiaries.

It contains the Directors' Report and Financial Statements, together with the independent auditor's report thereon, as required by the Companies Act 2006. The Directors' Report, comprising pages 1 – 113 and 224 – 262 has been drawn up in accordance with the requirements of English law, and liability in respect thereof is also governed by English law. In particular, the liability of the Directors for these reports is solely to National Grid.

This document contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements include information with respect to our financial condition, our results of operations and businesses, strategy, plans and objectives. Words such as 'aims', 'anticipates', 'expects', 'should', 'intends', 'plans', 'believes', 'outlook', 'seeks', 'estimates', 'targets', 'may', 'will', 'continue', 'project' and similar expressions, as well as statements in the future tense, identify forward-looking statements. These forward-looking statements are not guarantees of our future performance and are subject to assumptions, risks and uncertainties that could cause actual future results to differ materially from those expressed in or implied by such forward-looking statements. Many of these assumptions, risks and uncertainties relate to factors that are beyond our ability to control or estimate precisely, such as changes in laws or regulations, including any arising as a result of the United Kingdom's exit from the European Union and any legislation introduced to facilitate the attainment of net zero emissions targets; announcements from and decisions by governmental bodies or regulators, including the implementation of the RIIO-2 price control as well as increased economic uncertainty following the COVID-19 pandemic; the timing of construction and delivery by third parties of new generation projects requiring connection; breaches of, or changes in, environmental, climate change, and health and safety laws or regulations, including breaches or other incidents arising from the potentially harmful nature of our activities; network failure or interruption, the inability to carry out critical non-network operations, and damage to infrastructure, due to adverse weather conditions, including the impact of major storms as well as the results of climate change, due to counterparties being unable to deliver physical commodities, or due to the failure of or unauthorised access to or deliberate breaches of our IT systems and supporting technology; failure to adequately forecast and respond to disruptions in energy supply; performance against regulatory targets and standards and against our peers with the aim of delivering stakeholder expectations regarding costs and efficiency savings; and customers and counterparties (including financial institutions) failing to perform their obligations to the Company. Other factors that could cause actual results to differ materially from those described in this document include fluctuations in exchange rates, interest rates and commodity price indices; restrictions and conditions (including filing requirements) in our borrowing and debt arrangements, funding costs and access to financing; regulatory requirements for us to maintain financial resources in certain parts of our business and restrictions on some subsidiaries' transactions, such as paying dividends, lending or levying charges; the delayed timing of recoveries and payments in our regulated businesses and whether aspects of our activities are contestable; the funding requirements and performance of our pension schemes and other post-retirement benefit schemes; the failure to attract, develop and retain employees with the necessary competencies, including leadership and business capabilities, and any significant disputes arising with our employees or the breach of laws or regulations by our employees; the failure to respond to market developments, including competition for onshore transmission; the threats and opportunities presented by emerging technology; the failure by the Company to respond to, or meet its own commitments as a leader in relation to, climate change development activities relating to energy transition, including the integration of distributed energy resources; and the need to grow our business to deliver our strategy, as well as incorrect or unforeseen assumptions or conclusions (including unanticipated costs and liabilities) relating to business development activity, including the WPD Acquisition, the NECO Sale and the proposed sale of a majority stake in the Group's UK Gas Transmission business, and joint ventures.

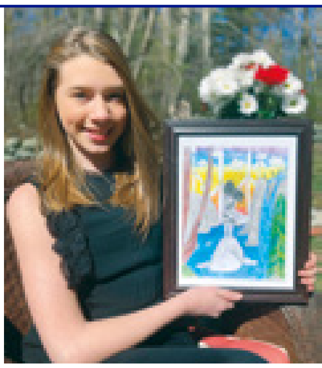
For further details regarding these and other assumptions, risks and uncertainties that may affect National Grid, please read the Strategic Report and the risk factors on pages 236 – 239 of this document. In addition, new factors emerge from time to time and we cannot assess the potential impact of any such factor on our activities or the extent to which any factor, or combination of factors, may cause actual future results to differ materially from those contained in any forward-looking statement. Except as may be required by law or regulation, the Company undertakes no obligation to update any of its forward-looking statements, which speak only as of the date of this document.

The contents of any website references in this document do not form part of this document.

Bringing net zero to life children's art competition

For this year's Annual Report and Accounts we decided to do something different for our front cover. We ran a competition for children to draw or paint a picture or design, in colour, to bring to life what they thought 'net zero' means for an energy company like National Grid.

Prizes of Amazon vouchers were awarded to an overall winner, as well to winners for each of the age groups: 6 and under, 7 to 11 and 12 to 16.



Kailyn Brenn
US
Overall Winner

Leo Harry Jamieson
UK
Joint winner
Age group 12–16

Rona Khanji
US
Winner
Age group 7–11

Zuri De Hazra-Sarkar
UK
Winner
Age group 6 and under

Niamh O'Sullivan
US
Runner-up
Age group 12–16

Eleni LaFond
US
Joint winner
Age group 12–16

Hadeeja Khan
UK
Runner-up
Age group 6 and under

We were delighted with the quality and variety of entries received from children both in our UK and US operating regions. Scan the QR code to see more of the runners-up entries.

Special Prize

Cornelia Perry, UK, age group 6 and under, was awarded a special prize for her amazing model and video of the net zero office of the future.

MIX
Paper from responsible sources
FSC
www.fsc.org
FSC® C022913

This report is printed on Arena White Smooth which is made of FSC® certified and other controlled material.

Printed sustainably in the UK by Pureprint, a CarbonNeutral® company with FSC® chain of custody and an ISO 14001 certified environmental management system recycling over 99% of all dry waste.

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The paper used in this report has been Carbon Balanced with the World Land Trust, an international conservation charity, who offset carbon emissions through the purchase and preservation of high conservation value land.

Through protecting standing forests, under threat of clearance, carbon is locked in that would otherwise be released. These protected forests are then able to continue absorbing carbon from the atmosphere, referred to as REDD (Reduced Emissions from Deforestation and forest Degradation). This is now recognised as one of the most cost-effective and swiftest ways to arrest the rise in atmospheric CO_2 and global warming effects. Additional to the carbon benefits is the flora and fauna this land preserves, including a number of species identified at risk of extinction on the IUCN Red List of Threatened Species.

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