**Company Registration Number: 4220381**

# NGG Finance plc

## Annual Report and Financial Statements

## For the year ended 31 March 2022

# NGG Finance plc

# Strategic Report

# For the year ended 31 March 2022

The Directors present their Strategic Report on NGG Finance plc ('the Company') for the year ended 31 March 2022.

## Review of the business

The Company obtains and provides finance to its parent company, National Grid plc, via external borrowings and intercompany balances.

## Executive summary

At 31 March 2022, the Company had in issue three fixed rate bonds listed on the London Stock Exchange with notional values of £1,000 million, €750 million and €500 million, see note 10 to the financial statements for further details. The consideration received from these bonds was advanced to its immediate parent company, National Grid plc, on the same terms to that of the securities.

There have been no significant changes in the Company's trading activities during the year as reported in the profit and loss account. The Company pays interest on its external borrowings and receives interest on its intercompany assets and interest income and interest expense also includes the foreign exchange movements on the revaluation of its euro assets and liabilities.

Results, as detailed below, largely reflect its fee from its financing activities and interest receivable on its intercompany loan assets with its immediate parent on activities prior to the issue of the current bonds.

### Results

The Company's profit for the year was £3,490,000 (2021: £3,647,000 profit).

### Financial position

The financial position of the Company is presented in the balance sheet. Total shareholders' equity at 31 March 2022 was £676,253,000 (2021: £672,763,000) comprising current assets of £2,780,797,000 (2021: £2,786,714,000) less current liabilities of £54,762,000 (2021: £55,038,000) less long term creditors of £2,049,782,000 (2021: £2,058,913,000).

### Key performance indicators and principal risks and uncertainties

As the Company is part of a larger group, the management of the Company does not involve the use of key performance indicators in measuring the development, performance or the position of the Company and the principal risks and uncertainties are integrated with the principal risks of National Grid plc. For information on the development, performance, risks, uncertainties and position of National Grid plc and its subsidiaries ('National Grid'), and of the key performance indicators used, refer to the Strategic Report included in National Grid plc's Annual Report and Accounts 2021/22, which does not form part of this report.

## Financial risk management

The management of the Company and the execution of the Company's strategy are subject to several financial risks. The Directors have identified the need to manage the Company's material financial risks, including liquidity, credit, interest rate cash flow and foreign exchange risks. These risks are monitored through a National Grid Treasury ('Treasury') management function which invests surplus funds, mitigates foreign exchange and interest rate exposure and manages borrowings for National Grid plc and its subsidiaries.

Treasury also seeks to limit third party counterparty risk which arises from the investment of surplus funds and the use of derivative financial instruments. Treasury monitors the exposure that National Grid has with any one counterparty against agreed limits and these limits are monitored regularly and updated for changes in credit ratings.

Each year National Grid reviews the effectiveness of the internal control systems and risk management processes covering all material systems, including financial and compliance controls, to make sure they remain robust. National Grid has specific internal mechanisms to govern the financial reporting process and the preparation of the Annual Report and Financial Statements. National Grid's financial controls guidance sets out the fundamentals of internal control over financial reporting, which are applied across the National Grid group, including NGG Finance plc. National Grid's financial processes include a range of system, transactional and management oversight controls.

## Financial risk management (continued)

As NGG Finance plc is a subsidiary undertaking of a parent undertaking subject to Disclosure Guidelines and Transparency Rules 7.1 and 7.2, it has used its immediate parent's finance committee as a suitable alternative body and it is not required to comply with the Financial Conduct Authority's requirements to report on compliance with, and application of, the UK Corporate Governance Code.

## Treasury Policy

All funding is approved by the National Grid Finance Committee and the use of derivative financial instruments is controlled by policy guidelines set by the National Grid plc Board. The Treasury function will raise all the funding for the Company and its subsidiary, and manages interest rate and foreign exchange risk

The Treasury function is not operated as a profit centre. Debt and treasury positions are managed in a non-speculative manner, such that all transactions in financial instruments or products are matched to an underlying current or anticipated business requirement of National Grid. As part of its business operations, National Grid is exposed to risks arising from fluctuations in interest rates and exchange rates. National Grid uses derivative financial instruments to manage exposures of this type and as such they are a useful tool in reducing risk. The policy is not to use derivatives for trading purposes.

### Liquidity risk

The Company finances its operations through a combination of retained profits, external bonds and intercompany loans. This is to ensure that the Company has sufficient long-term and short-term funds available for current operations and future activities.

### Credit risk

The Treasury function seeks to limit counterparty risk by conducting all its banking and dealing activities with a limited number of major international banks, whose status is kept under review. No exposure is considered to exist in respect of intercompany loans as the subsidiaries are solvent and are covered by the National Grid group's liquidity arrangements.

### Interest rate cash flow risk

The Company has one intercompany loan which can fluctuate between an asset and liability which exposes it to interest rate cash flow risk. Where the Company has borrowed at fixed rates it has on-lent those amounts to its immediate parent company on the same terms. A further loan agreement entered into prior to the issue of the current external bonds carries a floating interest rate, exposure to interest rate cash flow risk arises which is charged based upon Sterling Overnight Index Average (SONIA).

LIBOR is being replaced as an interest rate benchmark by alternative reference rates. This impacts contracts including financial liabilities that pay LIBOR-based cash flows, and derivatives that receive or pay LIBOR-based cash flows. The change in benchmark also affects discount rates which will impact the valuations of certain liabilities. The Directors are managing the risk by transitioning LIBOR cash flows to alternative reference rates on affected contracts. The migration project is underway, with all affected contracts where the Company had previously paid or received GBP LIBOR amended in the year to 31 March 2022. The Finance Committee of the National Grid plc Board have delegated to the treasury department the authority to determine which benchmarks are the most appropriate. A combination of LIBOR and the successor benchmarks, primarily GBP SONIA will be used in the portfolio during the migration period.

## Financial risk management (continued)

### Foreign exchange risk

To the extent that external bonds are entered into in currencies different to that of the functional currency, there is an exposure to movements in exchange rates. This exposure is managed by lending to the immediate parent company in the same currencies. The Company principally has euro denominated external bonds and intercompany loan assets as at the balance sheet date.

## Future developments

The Directors do not foresee a change in activities of the Company.

## Section 172(1) statement

The Directors of the Company, as those of all UK companies, must act in accordance with section 172 ('s172') of the UK Companies Act 2006. Section 172 requires a Director to consider, where relevant, the following in making their decisions:

- the likely long term consequences of the decision;
- the interests of the Company’s employees;
- the need to foster the Company’s business;
- the need to foster relationships with suppliers, customers and others;
- the impact of the Company’s operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly between members of the Company

The Directors of National Grid plc (the ‘Group Directors’) are responsible for overseeing the governance of the National Grid Group (the ‘Group’) as a whole. The Group operates a single governance framework, and the Group Directors have considered the matters under s172 at Group level. To the extent applicable for understanding the Company’s position, the Group summary of s172 considerations is set out on pages 56 to 59 of the National Grid plc Annual Report and Accounts (available at: www.nationalgrid.com/investors).

The Company is a financing company with listed debt. The Company’s main purpose is to provide long term finance to National Grid plc, its immediate and ultimate parent company. The Company’s key stakeholders are considered to be its shareholders and its investors, banks and any organisations which it conducts financing activities. The Company has no other operational activities, employees or external suppliers or customers.

During the year, the Directors approved a transition of the terms of its existing intercompany loan arrangements from LIBOR to SONIA. This decision was considered in accordance with the Group’s strategy, applicable risk policies and in light of the wider aims of the Group. The Board received relevant information from Group management to inform its decisions. All decisions have been taken in accordance with the Group delegations of authority policy and with due regard to National Grid’s aims and governance structure.

The Directors are of the opinion that they have acted fairly and in good faith to promote the success of the Company for the benefit of its members as a whole, with consideration of the applicable matters under s172. The Directors have carried out these duties and have made decisions and undertaken short- and long-term strategies to maintain its financial performance and position. The Directors also continue to recognise the importance of maintaining its high standards of business conduct in line with the Group’s Code of Ethical Business Conduct which applies to all subsidiaries within the Group.

The Strategic Report was approved by the Board of Directors and was signed by order of the Board on its behalf by:

DocuSigned by:
Megan Barnes
CD578C5FC5B2475...

**M Barnes**

Company Secretary
8 July 2022

# Directors' Report

## For the year ended 31 March 2022

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

### Future developments

Details of future developments have been included within the Strategic Report on page 3.

### Principal risk and uncertainties

Details of principal risks and uncertainties have been included within the Strategic Report on page 1.

### Financial risk management

Details of financial risk management have been included within the Strategic Report on page 1.

### Dividends

During the year, the Company has paid no interim ordinary dividends during the year (2021: £nil). The Directors do not recommend the payment of a final dividend (2021: £nil).

### Directors

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

A J Agg

L Barbrook

K M Dickie

S W Grant

A M Lewis

A K Mead

### Directors' indemnity

National Grid 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 during 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, National Grid places Directors' and Officers' liability insurance cover for each Director.

### Going concern

These financial statements have been prepared on a going concern basis, which presumes that the Company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements are signed. As the Company is part of a larger group it participates in the Group's centralised treasury arrangements and so shares banking arrangements with its subsidiaries. The Company is expected to generate positive cash flows or be in a position to obtain finance via intercompany loans to continue to operate for the foreseeable future.

### Disclosure of information to auditors

Having made the requisite enquiries, so far as the Directors in office at the date of the approval of this report are aware, there is no relevant audit information of which the auditors are unaware and each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information. This confirmation is given in accordance with the provisions of section 418 of the Companies Act 2006.

### Auditors

Subject to approval by National Grid plc shareholders at its 2022 Annual General Meeting, Deloitte LLP, will be reappointed as its external auditor for the next financial year. Pursuant to section 487 of the Companies Act 2006, Deloitte LLP will subsequently be deemed to be reappointed as the Company's auditor and will continue in office.

## Statement of Directors' responsibilities

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

UK company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework'. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

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

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

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework", give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

The Directors' Report was approved by the Board of Directors and was signed by order of the Board on its behalf by:

DocuSigned by:
Megan Barnes
CD578C5FC5B2475...

**M Barnes**
Company Secretary
8 July 2022

**Registered office:**
1-3 Strand
London
WC2N 5EH

**Registered in England and Wales**
**Company registration number: 4220381**

# Report on the audit of the financial statements

## 1. Opinion

In our opinion the financial statements of NGG Finance plc (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 March 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity;
- the related notes 1 to 13.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

## 2. Basis for opinion

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

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

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

## 3. Summary of our audit approach

| | |
|---|---|
| **Key audit matters** | The key audit matter that we identified in the current year is:<br>• Recoverability of receivables from the immediate parent company<br>Within this report, key audit matters are identified as follows:<br>Newly identified<br>Increased level of risk<br>Similar level of risk<br>Decreased level of risk |
| **Materiality** | The materiality that we used in the current year was £13.5m which was determined on the basis of 2% of net assets. |
| **Scoping** | Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team. |
| **Significant changes in our approach** | There have been no significant changes made to the audit approach from that adopted in the prior year audit. |

## 4. Conclusions relating to going concern

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

Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- considering the nature of the Company, its business model and the related risks as part of our risk assessment;
- considering the requirements of the applicable financial reporting framework and the system of internal control;
- evaluating the clerical accuracy and appropriateness of the model used to prepare forecasts at the Group level and assessing the assumptions used;
- evaluating the Directors' plans for future actions in relation to their going concern assessment
- assessing the Group's ability and intention to continue to support the Company.

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

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

## 5. Key audit matters

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

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

### 5.1. Recoverability of receivables from the immediate parent company

| | |
|---|---|
| Key audit matter description | Receivables from the immediate parent company are stated in the balance sheet at £731m (FY21: £728m) due within one year and £2,050m (FY21: £2,059m) due after more than one year.<br><br>Receivables due within one year are presented within current assets on the balance sheet due to the amount being repayable on demand and there being an expectation that the balance will be repaid within a short period.<br><br>Receivables due after more than one year are also presented within current assets on the balance sheet due to Companies Act format requirements.<br><br>There is judgement involved in determining the recoverability of these receivables based on the financial position and future prospects of the immediate parent company.<br><br>Therefore, due to the quantitative significance of the loans and the judgement in determining the existence and the valuation of the expected credit loss ('ECL') in the context of IFRS 9, recoverability of these receivables has been identified as a key judgement.<br><br>For additional detail on this refer to notes 7, 8 and 10. |
| How the scope of our audit responded to the key audit matter | We assessed the Directors' judgements regarding the appropriateness of the carrying value through obtaining a copy of the latest audited financial information of the parent company for the year ended 31 March 2022 and by assessing the intercompany receivables for recoverability against the retained earnings, profit for the year and current assets of the counterparty.<br><br>We assessed management's ECL assessment in the context of IFRS 9 by evaluating their judgments relating to the valuation of liquid assets of the borrowing entity, determination of existence of an ECL and computation of the value of the ECL. |
| Key observations | Based on the work performed, we have concluded that the receivables from the immediate parent company are appropriately stated based on our assessment of recoverability. |

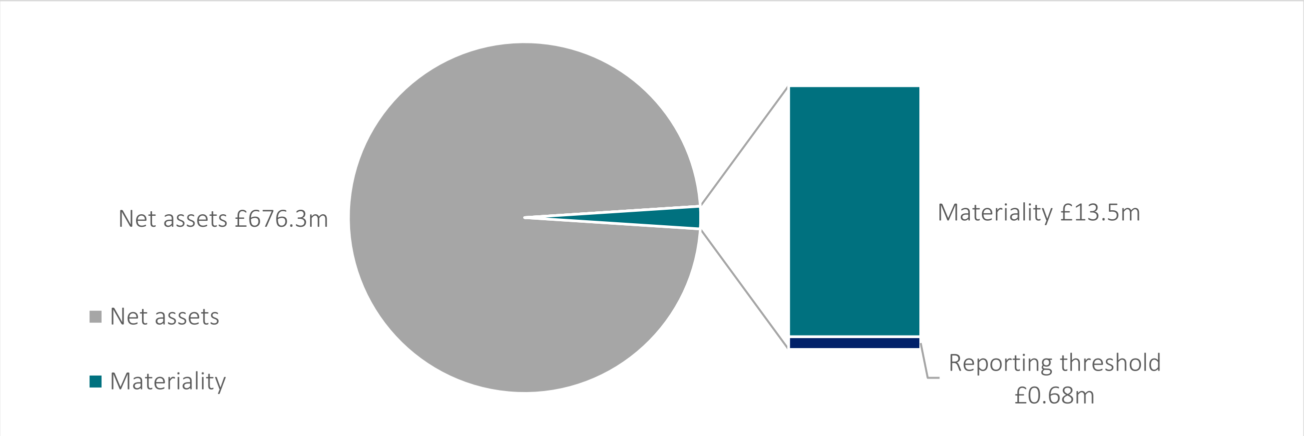
## 6. Our application of materiality

### 6.1. Materiality

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

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

| | |
|---|---|
| **Materiality** | £13.5m (FY21: £13.4m) |
| **Basis for determining materiality** | 2% of net assets (FY21: 2%) |
| **Rationale for the benchmark applied** | NGG Finance plc holds listed debt and as such, the bond holders monitor the Company's net current assets value, as well as the solvency (net assets value) to ensure that it has the ability to pay the bonds as and when they become due. Therefore, we have determined materiality based on net assets as this is the key metric used by the bond holders and investors when assessing the entity's financial position. As the Company is non-trading, operates primarily as a holding company for the Group's trading entities and is not profit-oriented, we believe that the net asset position is the most appropriate benchmark to use. |




### 6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2022 audit (2021: 70%). In determining performance materiality, we considered the following factors:

- our cumulative experience from prior year audits;
- the level of corrected and uncorrected misstatements identified; and
- our risk assessment including our understanding of the entity and its environment

### 6.3. Error reporting threshold

We agreed with those charged with governance that we would report all audit differences in excess of £0.68m (2021: £0.67m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to those charged with governance on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## 7. An overview of the scope of our audit

### 7.1. Scoping

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

### 7.2. Our consideration of the control environment

Our audit approach was to rely on the General IT Controls (GITCs) associated with systems relevant to the entity's financial reporting process, where the GITCs were appropriately designed and implemented, and these were operating effectively. To assess the operating effectiveness of GITCs, our IT audit specialists performed testing on access security, change management, data centre operations and network operations.

## 8. Other information

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

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

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

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

We have nothing to report in this regard.

## 9. Responsibilities of Directors

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

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

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

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

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

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

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

### 11.1. Identifying and assessing potential risks related to irregularities

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

- the nature of the industry and sector, control environment and business performance including the design of the Company's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- results of our enquiries of and those charged with governance about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Company's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations
- the matters discussed among the audit engagement team and involving relevant internal specialists, including tax and treasury specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

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

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

### Audit response to risks identified

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

Our procedures to respond to risks identified included the following:

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

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

# Report on other legal and regulatory requirements

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

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

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

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the Directors' report.

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

### 13.1. Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

### 13.2. Directors' remuneration

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

We have nothing to report in respect of this matter.

## 14. Other matters which we are required to address

### 14.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by Shareholders at the Annual General Meeting on 31 July 2017 to audit the financial statements for the year ending 31 March 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 5 years, covering the years ending 31 March 2018 to 31 March 2022.

### 14.2. Consistency of the audit report with the additional report to those charged with governance

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

## 15. Use of our report

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

DocuSigned by:

Lee Highton

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Lee Highton FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

8th July 2022

# Finance plc

## Profit and loss account

## For the year ended 31 March 2022

| | Notes | 2022 £'000 | 2021 £'000 |
|---|---|---|---|
| Operating charges | | **(42)** | (38) |
| **Operating loss** | 2 | **(42)** | (38) |
| Interest receivable and similar income | 4 | **92,151** | 127,407 |
| Interest payable and similar charges | 5 | **(87,801)** | (122,866) |
| **Profit before tax** | | **4,308** | 4,503 |
| Tax | 6 | **(818)** | (856) |
| **Profit for the year** | | **3,490** | 3,647 |

The results for both years reported above relate to continuing activities.

There have been no other comprehensive gains/losses during either the current or prior year other than as disclosed in the profit and loss account and therefore no separate statement of comprehensive income has been presented.

# NGG Finance plc

## Balance sheet

## As at 31 March 2022

| | Notes | 2022 £'000 | 2021 £'000 |
|---|---|---|---|
| **Current assets** | | | |
| Debtors (amounts falling due within one year) | 8 | **730,926** | 727,712 |
| Debtors (amounts falling due after more than one year) | 8 | **2,049,782** | 2,058,913 |
| Cash at bank in hand | | **89** | 89 |
| | | **2,780,797** | 2,786,714 |
| Creditors (amounts falling due within one year) | 9 | **(54,762)** | (55,038) |
| **Net current assets** | | **2,726,035** | 2,731,676 |
| Creditors (amounts falling due after more than one year) | 9 | **(2,049,782)** | (2,058,913) |
| **Net assets** | | **676,253** | 672,763 |
| **Equity** | | | |
| Share capital | 11 | **1,925** | 1,925 |
| Share premium account | | **431,325** | 431,325 |
| Profit and loss account | | **243,003** | 239,513 |
| **Total shareholders' equity** | | **676,253** | 672,763 |

The financial statements set out on pages 12 to 22 were approved by the Board of Directors on 8 July 2022 and were signed on its behalf by:

DocuSigned by:
Kylee Dickie
543744FB68524D9...

**K M Dickie**
Director

**NGG Finance plc**
Company registration number: 4220381

# NGG Finance plc

## Statement of changes in equity

## For the year ended 31 March 2022

| | Share capital £'000 | Share premium account £'000 | Profit and loss account £'000 | Total shareholders' equity £'000 |
|---|---|---|---|---|
| At 1 April 2020 | 1,925 | 431,325 | 235,866 | 669,116 |
| Profit for the year | — | — | 3,647 | 3,647 |
| At 31 March 2021 | 1,925 | 431,325 | 239,513 | 672,763 |
| Profit for the year | — | — | 3,490 | 3,490 |
| **At 31 March 2022** | **1,925** | **431,325** | **243,003** | **676,253** |

## 1. Summary of significant accounting policies

NGG Finance plc is a public company, limited by shares. The nature of the Company's principal activities is set out in the Strategic Report on page 1. The Company is incorporated and registered in England with its registered office at 1-3 Strand, London, WC2N 5EH.

### (a) Basis of preparation

The financial statements of NGG Finance plc for the year ended 31 March 2022 were approved by the Board of Directors on 8 July 2022. The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council. Accordingly, these financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). In preparing these financial statements, the Company applies the recognition and measurement requirements of International Financial Reporting Standards (IFRS) as adopted by the UK, but makes amendments where necessary in order to comply with the Companies Act 2006 and sets out below where advantage of the FRS 101 disclosure exemptions has been taken.

These financial statements have been prepared on an historical cost basis and are presented in pounds sterling which is the currency of the primary economic environment in which the Company operates. The 2021 comparative financial information has also been prepared on this basis.

These financial statements have been prepared on a going concern basis, which presumes that the Company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements are signed. As the Company is part of a larger group it participates in the Group's centralised treasury arrangements and so shares banking arrangements with its subsidiaries. The Company is expected to generate positive cash flows or be in a position to obtain finance via intercompany loans to continue for the foreseeable future.

These financial statements are presented in the format as set out in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410).

As a qualifying entity, the Company has taken the following exemptions in the preparation of these financial statements in accordance with FRS 101:

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

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 March 2022 that have a material impact on the Company's financial statements.

There are no areas of judgement or key sources of estimation uncertainty that are considered to have a significant effect on the amounts recognised in these financial statements

These financial statements have been prepared in accordance with the Company's accounting policies approved by the Board of Directors and described below:

### (b) Tax

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

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

## 1. Summary of significant accounting policies (continued)

### (c) Foreign currency transactions and balances

Transactions in currencies other than the functional currency of the Company are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at closing exchange rates. Non-monetary assets are not retranslated unless they are carried at fair value. Gains and losses arising on retranslation of monetary assets and liabilities are included in the profit and loss account.

### (d) Financial instruments

Under IFRS 9 the Company has reported the following financial assets and liabilities, and the classification for each is dependent upon its contractual cash flows and for financial assets the business model it is held under. All financial instruments are initially recognised on trade date.

Financial assets that have contractual cash flows that are solely payments of principal and interest, and which are held within a business model whose objective is to collect contractual cash flows, are held at amortised cost. These instruments include loans to the immediate parent company. For impairment assessment purposes, loans to the immediate parent company are individually assessed based on a review of solvency and liquidity arrangements and as such the expected credit loss for the year is £nil.

Borrowings, which include interest-bearing loans and overdrafts, are initially recorded at fair value. This normally reflects the proceeds received (net of direct issue costs for liabilities measured at amortised cost). Subsequently, borrowings are stated at amortised cost. Any difference between the proceeds after direct issue costs and the redemption value is recognised over the term of the borrowing in the profit and loss account using the effective interest method.

### (e) Equity instruments

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

## 2. Operating loss

| | 2022 | 2021 |
|---|---|---|
| | £'000 | £'000 |
| **Operating loss is stated after charging:** | | |
| Services provided by the Company's auditor | | |
| Audit fees of the Company | **39** | 35 |

Disclosure of non-audit fees is not required as these have been disclosed in the consolidated financial statements of National Grid plc.

## 3. Directors and employees

The emoluments of the Directors are not paid to them in their capacity as Directors of the Company and are payable for services wholly attributable to other National Grid subsidiary undertakings. Accordingly, no details in respect of their emoluments have been included in these financial statements. During the year, there were 6 Directors (2021: 5) who exercised share options in or received ordinary shares as part of long term incentive plans of the ultimate parent company, National Grid plc.

There were no employees of the Company during the year (2021: none).

## 4. Interest receivable and similar income

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Interest receivable from immediate parent company | **82,066** | 83,076 |
| Exchange gains on revaluation of foreign currency denominated borrowings and bank accounts | **10,085** | 44,331 |
| | **92,151** | 127,407 |

## 5. Interest payable and similar charges

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| External interest payable | **77,717** | 78,533 |
| Exchange losses on revaluation of foreign currency denominated borrowings and bank accounts | **—** | 2 |
| Exchange losses on revaluation of foreign currency denominated intercompany loans | **10,084** | 44,331 |
| | **87,801** | 122,866 |

## 6. Tax

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| **Current tax:** | | |
| UK corporation tax | **818** | 856 |

The tax charge for the year is equivalent to (2021: equivalent to) the standard rate of corporation tax in the UK of 19% (2021: 19%). The differences are explained below:

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| Profit before tax | **4,308** | 4,503 |
| Profit before tax multiplied by standard rate of corporation tax in the UK of 19% (2021: 19%) | **818** | 856 |

### Factors that may affect future tax charges

In the Spring Budget 2021, the UK government announced an increase in the main corporation tax rate from 19% to 25% with effect from 1 April 2023.

The Directors will continue to monitor the developments driven by Brexit, the OECD's Base Erosion and Profit Shifting (BEPS) project and European Commission initiatives including fiscal aid investigations. At this time, the Directors do not expect this to have any material impact on future tax charges. Governments across the world including the UK have introduced various stimulus/reliefs for businesses to cope with the impact of COVID-19 pandemic, from which the Directors do not currently expect there to be a material impact on the Company's future tax charges.

## 7. Financial risk factors

The activities of the Company expose it to a variety of financial risks including currency risk, interest rate risk, credit risk, liquidity risk and capital risk. The Company's risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential volatility of financial performance from these risks.

Risk management related to financing activities is carried out by a central Treasury function under policies approved by the Finance Committee of the National Grid Board. The objective of the Treasury function is to manage funding and liquidity requirements, including managing associated financial risks, to within acceptable boundaries. The Finance Committee provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, liquidity risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

The Company has exposure to the following risks: currency risk; interest rate risk; credit risk; liquidity risk; and capital risk, which are described in more detail below:

### (a) Currency risk

The Company can obtain financing and provide finance in various currencies and is exposed to foreign exchange risk arising from these, primarily with respect to the Euro. The following table sets out the net asset position by currency:

| | 2022 | | | | 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Sterling** | **Euro** | **US Dollar** | **Total** | **Sterling** | **Euro** | **US Dollar** | **Total** |
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Cash and cash equivalents | **74** | **—** | **15** | **89** | 75 | — | 14 | 89 |
| Intercompany receivable | **1,710,091** | **1,070,617** | **—** | **2,780,708** | 1,707,034 | 1,079,591 | — | 2,786,625 |
| Borrowings | **(1,042,484)** | **(1,061,165)** | **—** | **(2,103,649)** | (1,041,990) | (1,070,883) | — | (2,112,873) |
| Other liabilities | **(895)** | **—** | **—** | **(895)** | (1,078) | — | — | (1,078) |
| **Net asset position** | **666,786** | **9,452** | **15** | **676,253** | 664,041 | 8,708 | 14 | 672,763 |

An estimate of the Company's sensitivity to a 10% change in the Euro currency exchange rate is a £859,000 (2021: £792,000) impact on the profit and loss account and net assets. This movement has an equal and opposite effect if the sensitivity increases or decreases by the same amount.

### (b) Interest rate risk

Interest rate risk arises from long-term borrowings. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. The Company's interest rate risk management policy is to seek to minimise total financing costs (being interest costs and changes in the market value of debt) subject to constraints. It achieves that largely by lending amounts to its immediate parent company on the same terms as the external borrowings, with surplus amounts lent at variable rates based on SONIA.

The following table sets out the carrying amount, by contractual maturity, of borrowings that are exposed to interest rate risk:

| | 2022 | 2021 |
|---|---|---|
| | **£'000** | **£'000** |
| **Fixed interest rate borrowings** | | |
| In one year or less | **53,867** | 53,960 |
| In greater than one year | **2,049,782** | 2,058,913 |
| | **2,103,649** | 2,112,873 |

## 7. Financial risk factors (continued)

### (b) Interest rate risk (continued)

The following table sets out the net asset position by interest rate risk:

| | 2022 | | | | 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | Fixed-rate | Floating-rate | Other | Total | Fixed-rate | Floating-rate | Other | Total |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Cash and cash equivalents | **—** | **89** | **—** | **89** | — | 89 | — | 89 |
| Intercompany receivable | **2,123,951** | **656,757** | **—** | **2,780,708** | 2,131,231 | 655,394 | — | 2,786,625 |
| Borrowings | **(2,103,649)** | **—** | **—** | **(2,103,649)** | (2,112,873) | — | — | (2,112,873) |
| Other liabilities | **—** | **—** | **(895)** | **(895)** | — | — | (1,078) | (1,078) |
| **Net asset position** | **20,302** | **656,846** | **(895)** | **676,253** | 18,358 | 655,483 | (1,078) | 672,763 |

An estimate of the Company's sensitivity to a 0.5% change in UK interest rates is a £3,284,000 (2021: £3,277,000) impact on the profit and loss account and net assets. This movement has an equal and opposite effect if the sensitivity increases or decreases by the same amount.

### (c) Credit risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to intercompany receivables.

At the reporting dates, the Company had a number of exposures to individual counterparties. In accordance with the Company's treasury policies and exposure management practices, counterparty credit exposure limits are continually monitored and no individual exposure is considered significant in the ordinary course of treasury management activity. Management does not expect any significant losses from non-performance by these counterparties. There are netting agreements in place with some counterparties: these had no effect on the credit exposure.

The Company does not believe there is any significant credit risk in relation to the amounts owed by the immediate parent company and the amounts owed to fellow subsidiary undertakings.

### (d) Liquidity risk

The Company determines liquidity requirements by the use of both short-term and long-term cash flow forecasts. These forecasts are supplemented by a financial headroom analysis which is used to assess funding requirements for at least a 24 month period and maintain adequate liquidity for a continuous 12 month period. The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities as at the reporting date:

| | Less than 1 year | 1 - 2 years | 2 – 3 years | More than 3 years | Total |
|---|---|---|---|---|---|
| **At 31 March 2022** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| **Financial liabilities** | | | | | |
| Borrowings | **—** | **—** | **(421,292)** | **(1,631,938)** | **(2,053,230)** |
| Interest payments on borrowings (i) | **(76,525)** | **(76,611)** | **(76,415)** | **(3,857,800)** | **(4,087,350)** |
| **Total as at 31 March 2022** | **(76,525)** | **(76,611)** | **(497,707)** | **(5,489,738)** | **(6,140,580)** |

## 7. Financial risk factors (continued)

### (d) Liquidity risk (continued)

| At 31 March 2021 | Less than 1 year £'000 | 1 - 2 years £'000 | 2 – 3 years £'000 | More than 3 years £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Financial liabilities** | | | | | |
| Borrowings | — | — | — | (2,063,314) | (2,063,314) |
| Interest payments on borrowings (i) | (77,062) | (77,038) | (77,124) | (3,963,712) | (4,194,936) |
| **Total as at 31 March 2021** | (77,062) | (77,038) | (77,124) | (6,027,026) | (6,258,250) |

(i) The interest on borrowings is calculated based on borrowings held at 31 March. Floating rate interest is estimated using a forward interest rate curve as at 31 March. Payments are included on the basis of the earliest date on which the Company can be required to settle which is the maturity date of each bond as referenced in note 10.

### (e) Capital risk

The Company's objective when managing capital is to safeguard its ability to continue as a going concern and to maintain an efficient mix of debt and equity funding, thus achieving an optimal capital structure and cost of capital. The Company regularly reviews the capital structure as appropriate in order to achieve these objectives.

## 8. Debtors

| | 2022 £'000 | 2021 £'000 |
|---|---|---|
| **Amounts falling due within one year** | | |
| Amounts owed by immediate parent company | **730,926** | 727,712 |
| **Amounts falling due after more than one year** | | |
| Amounts owed by immediate parent company | **2,049,782** | 2,058,913 |

At 31 March 2022, the Company had in issue three fixed rate bonds listed on the London Stock Exchange with notional values of £1,000 million, €750 million and €500 million. These amounts are lent to its immediate parent company, National Grid plc, on the same terms to that of the securities. Other amounts owed by the immediate parent company of £656,757,000 (2021: £655,384,000) relates to activies prior to the issue of the current bonds and are repayable on demand and earn interest receivable at a rate based on SONIA having been previously GBP LIBOR plus 20 basis points. The fair value of the amounts owed by the immediate parent company approximates to their book values.

## 9. Creditors

| | 2022 | 2021 |
|---|---|---|
| | £'000 | £'000 |
| **Amounts falling due within one year** | | |
| Borrowings (note 10) | **53,867** | 53,960 |
| Amounts owed to fellow subsidiary undertakings | **892** | 1,040 |
| Accruals and deferred income | **3** | 38 |
| | **54,762** | 55,038 |

The fair value of creditors equates to their book value.

| | 2022 | 2021 |
|---|---|---|
| | £'000 | £'000 |
| **Amounts falling due after more than one year** | | |
| Borrowings (note 10) | **2,049,782** | 2,058,913 |

## 10. Borrowings

The following table analyses the total borrowings:

| | 2022 | 2021 |
|---|---|---|
| | £'000 | £'000 |
| **Current** | | |
| Bonds | **53,867** | 53,960 |
| **Non-current** | | |
| Bonds | **2,049,782** | 2,058,913 |
| **Total** | **2,103,649** | 2,112,873 |
| **Total borrowings are repayable as follows:** | | |
| Less than 1 year | **53,867** | 53,960 |
| Between 2 to 3 years | **420,672** | — |
| Between 3 to 4 years | **998,409** | 424,474 |
| Between 4 to 5 years | **—** | 997,915 |
| More than 5 years - other than by instalments | **630,701** | 636,524 |
| | **2,103,649** | 2,112,873 |

The fair value of borrowings at 31 March 2022 was £2,080,695,000 (2021: £2,268,861,000). Where market values were available, fair value of borrowings (Level 1) was £2,080,695,000 (2021: £2,268,861,000). The notional amount at maturity of the debt portfolio is £2,053,230,000 (2021: £2,063,314,000).

The Company has in issue three fixed rate bonds listed on the London Stock Exchange as follows

| Issuer | Description of instrument (original notional amount) | Maturity | First |
|---|---|---|---|
| NGG Finance plc | GBP £1,000 million 5.625% Fixed Rate Instrument | 2073 | 2025 |
| NGG Finance plc | EURO €750 million 2.125% Fixed Rate Instrument | 2082 | 2027 |
| NGG Finance plc | EURO €500 million 1.625% Fixed Rate Instrument | 2079 | 2024 |

## 11. Share capital

| | 2022 | 2021 |
|---|---|---|
| | £'000 | £'000 |
| **Allotted, called up and fully paid** | | |
| 1,925,000 (2021: 1,925,000) ordinary shares of 1 each | **1,925** | 1,925 |

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

## 12. Related party transactions

The Company is exempt under FRS 101.8(k) from disclosing transactions with National Grid plc and its subsidiary undertakings where all of the voting rights are held within the group. There were no related party transactions with other companies.

## 13. Ultimate parent company

The ultimate parent and controlling company is National Grid plc and the immediate parent company National Grid plc. The largest and smallest group which includes the Company and for which consolidated financial statements are prepared is headed by National Grid plc. National Grid plc is registered in England and Wales at the registered office below.

Copies of the consolidated financial statements can be obtained from the Company Secretary, National Grid plc, 1-3 Strand, London WC2N 5EH.