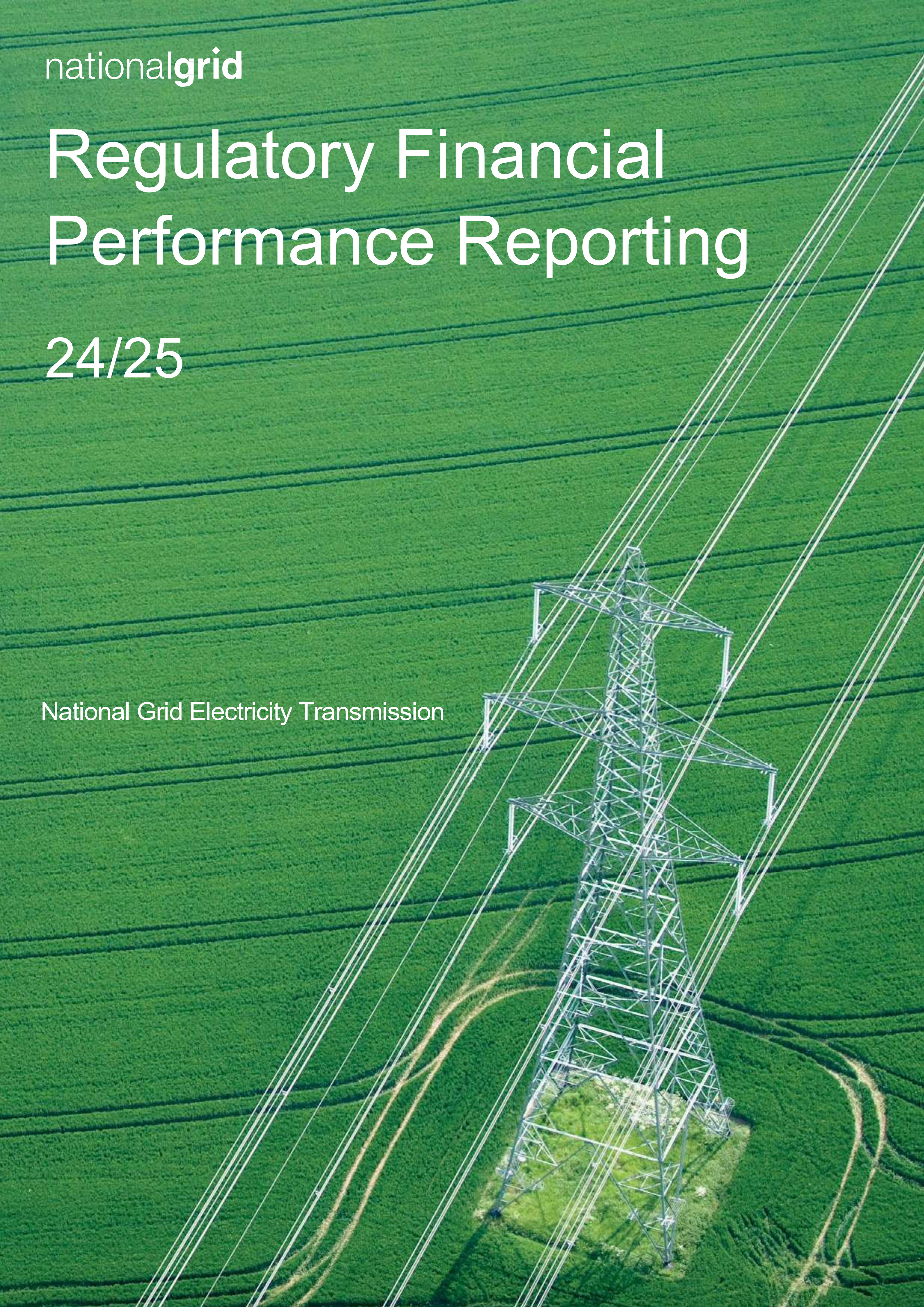
nationalgrid

Regulatory Financial Performance Reporting

24/25

National Grid Electricity Transmission



Contents

Purpose of This Report

Ofgem introduced the Regulatory Financial Performance Report (RFPR) in October 2018 and it is an annual reporting obligation for licensed network companies. The RFPR consists of two elements, both published on our website, as well as submitted to Ofgem:

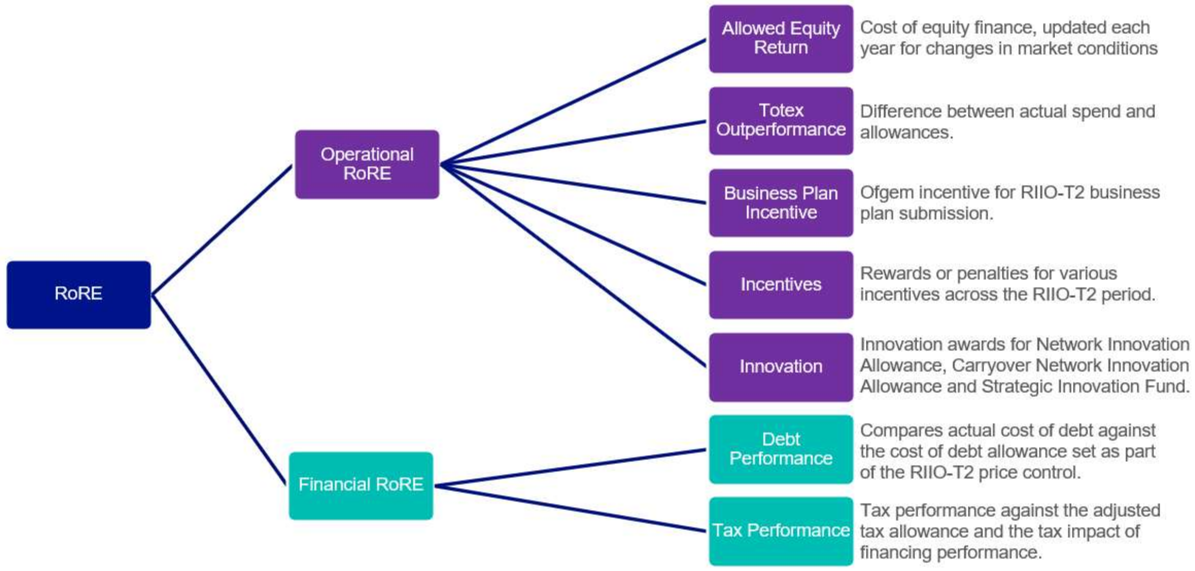
1) Ofgem's RFPR template for reporting data, and

2) The RFPR commentary.

The structure of this commentary follows the guidance provided by Ofgem[1], and should be read in conjunction with the RFPR spreadsheet templates published alongside this document.

The (RFPR) aims to produce a comprehensive, transparent, accessible, and accurate measure of network company Financial Performance under the RIIO framework. Performance is measured in the form of Return on Regulated Equity (RoRE).

RoRE is Ofgem's measure of the financial return achieved by shareholders from a licensee during a price control period, based on actual & forecast performance. The measure is further broken down into operational and financing components. Operational RoRE encompasses costs and allowances associated with a RIIO-T2 regulated business, including Totex, incentive performance and company funded innovation costs. Financing (Debt and Interest) and tax performance are included within the financial component.



This commentary supports the submission of our 2024/25 RFPR which is the fourth RFPR submission of the RIIO-T2 price control period. RFPR25 sets out the regulatory information to meet the requirements of Standard Condition B15 of the National Grid Electricity Transmission (NGET) licence.

This commentary covers NGET's RoRE performance across the price control period with focus on the 2024/25 performance delivered to date. Whilst RoRE reflects the financial performance achieved by shareholders, it does not reflect the consumer aspects of performance. The design of the regulatory framework – with outcome based financial incentives – means that delivery of financial performance is dependent on us creating value for consumers.

Unless stated, all figures will be in 2018/19 prices and using Ofgem's prescribed notional company gearing structure, 55% for NGET.

[1] https://www.ofgem.gov.uk/decision/decision-2025-modifications-regulatory-financial-performance-reporting-rfpr-riio-2

Executive Summary

Who we Are

National Grid Electricity Transmission (NGET) owns and maintains the high voltage electricity transmission network in England and Wales. Every time a phone is plugged in, or switch is turned on, we've played a part, connecting you to the electricity you need.

We take electricity generated across England and Wales, from windfarms or power stations, and transport it through our network, consisting of more than 7,000 kilometres of overhead line, 700 kilometres of underground cable and over 300 substations, on to the distribution system, so it reaches homes and businesses.

We're investing in the network, connecting more and more low-carbon electricity – it's a crucial role and pivotal in turning the UK's net zero ambitions into reality.

Our Performance

Our aim is to present a view of financial performance through the price control period that is consistent with our understanding of business performance. Outperformance under the RIIO-T2 framework is achieved through delivery of outputs prioritised by consumers for lower cost than allowances and by exceeding output delivery incentive targets. This drives financial and other benefits to our stakeholders – to shareholders through return on investment and to current and future consumers through lower bills and other benefits such as high levels of reliability of our network.

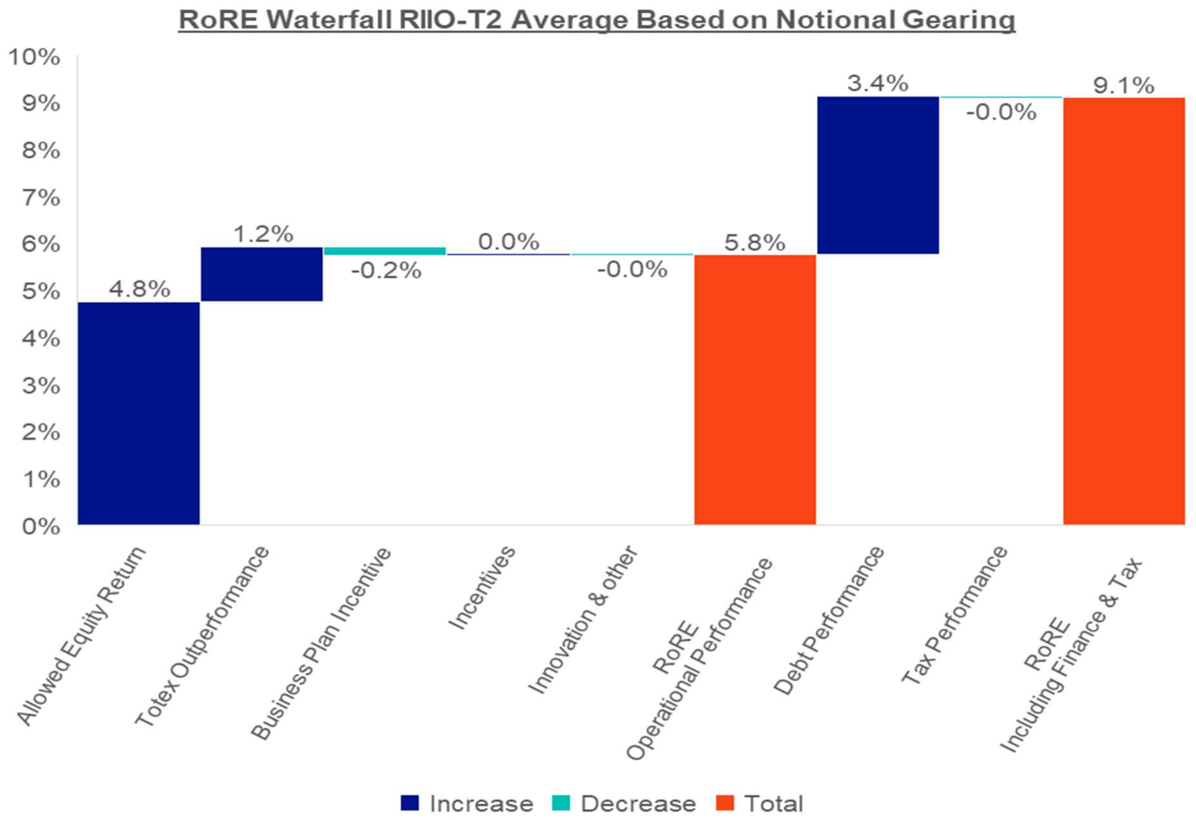
The forecast and actual cost, volume and output data submitted via the Regulatory Reporting Pack (RRP25) inform the regulatory performance. However, RRP25 is unable to account for a number of adjustments required to give a true view of performance, as represented in the RFPR. These adjustments are detailed in the Totex – Reconciliation section and Appendix 1 of this commentary.

It should be noted that the overall performance and the forecasts in RRP25 are based on our forecast view as of 31st March 2025 and are subject to uncertainties that could influence our performance over the remaining year of the RIIO-T2 period.

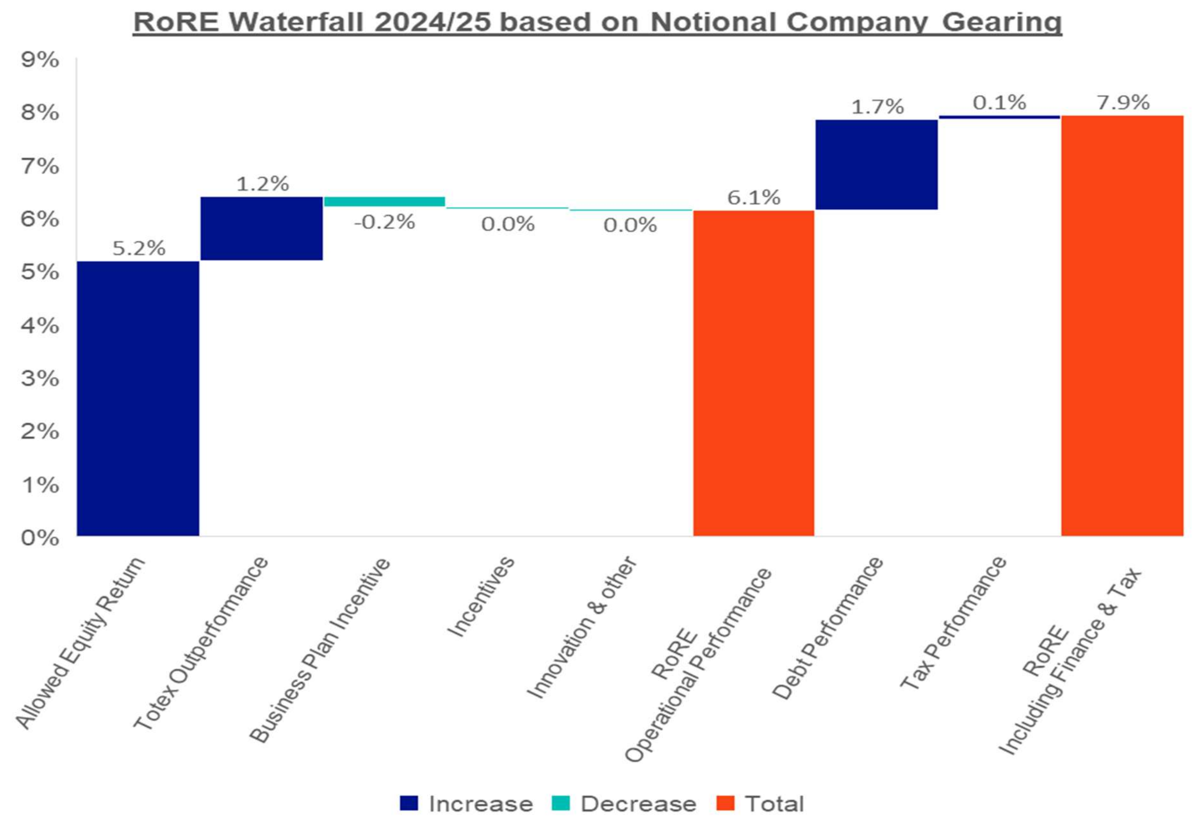
Based on this forecast, as an average over the RIIO-T2 period, NGET generates an Operational RoRE performance of 5.8%; this represents an operational outperformance of 1.0% relative to the allowed equity return for the period, with 1.2% of this outperformance coming from lower totex spend relative to our allowances being partially offset by -0.2% under-performance across the RIIO-T2 incentive range.

Including debt and tax performance, NGET's overall RoRE performance grows to 9.1%. Debt performance for the RIIO-T2 period of 3.4% is a result of our strategy to not materially invest in index linked debt. As such, we benefited from high inflation rates during the first half of the price control.

RoRE is not a reflection of customer bills, i.e. a higher RoRE does not equate to higher customer bills. RoRE is intended as a reflection of Licensee performance whereby higher RoRE is likely to mean greater cost efficiency which leads to lower customer bills while delivering better service levels, through output delivery and incentives.



2024/25 shows a lower overall RoRE outperformance than the five-year average, principally due to the lower in year debt performance. However, NGET still achieved totex outperformance of +1.2% with an overall operational outperformance figure of 0.94%.



RoRE is calculated using two methodologies; RoRE based using the notional gearing assumption of 55.0% and RoRE based on actual gearing.

RoRE performance based on actual gearing is broadly aligned to its notional comparator. Across RIIO-T2 NGET's actual gearing averages out to be 51.0% for the price control period and 49.7% for year 2024/25. Gearing has been decreasing during the first four years of RIIO-T2 as the RAV increased at a greater rate than net debt. Net debt is forecast to increase in 2025/26 due to significant forecast investment. The difference between actual and notional gearing creates a small variance between notional and actual performance; average actual performance for the period is lower at 8.3% for the 5 years and 7.2% for 2024/25.

Key Financial Performance Measures

(Figures are based on 55% notional gearing and stated in 2018/2019 price base unless otherwise stated)

The average RoRE operational performance over the duration of RIIO-T2 is forecast to be 5.8%, 1.0% above average Allowed Return on Equity comprising:

- 1.2% totex outperformance; and
- -0.2% net under performance encompassing the Business Plan Incentive adjustment of -£65m slightly offset by positive reward from output delivery incentive performance.

Totex outperformance of +1.2% for the RIIO-T2 period is driven from +1.1% totex performance and +0.1% Enduring Value Adjustments. Enduring Value Adjustments show the impact on performance of projects crossing price control periods. These adjustments ensure that performance is only recognised when outputs are delivered:

+1.1% Totex Performance:

- +1.0% RRP25 totex performance - primarily driven by a combination of projects in Wider Works being delivered at lower costs than allowances, the impact of some Demand portfolio spend moving into the first two years of RIIO-T3 and lower spend on pre-construction due to various efficiencies. This is partially offset by overspend in Network Operating Costs and Asset Health.
- +0.1% because of our ongoing efficiency ambition. NGET has stated its ambition to continue to seek additional efficiency through improving and innovating its approach to operating, maintaining, replacing and extending its transmission network and there are a number of initiatives currently being developed and implemented. £56m has been included in our financial forecasts and is included in the Price Control Financial Model to ensure the benefit is passed to consumers in a timely manner.

+0.1% Enduring Value Adjustments:

- +0.3% due to the deferral of allowances relating to load related projects initiated in RIIO-T1 but completing in RIIO-T2.
- +0.2% due to the rephasing of allowances for non-load projects that cross the RIIO-T1 and RIIO-T2 price control periods.
- -0.1% due to bringing RIIO-T2 performance in line with forecasts to: Reflect forecast PCD allowance adjustments at the end of RIIO-T2, remove bridging allowances relating to schemes delivering in T3 and adjust for spend incurred in RIIO-T2 for outputs in RIIO-T3 amongst others. Further details about enduring value adjustments can be found in Appendix 1.

2024/25 shows an operational performance of 6.1% which is 0.9% higher than the 2024/25 Allowed Return on Equity. The 0.9% outperformance comprises:

- 1.2% totex outperformance; consisting of 0.1% performance per RRP25 and 1.1% performance from enduring value adjustments which, as mentioned above, reflect deferred RIIO-T1 allowances, and align RIIO-T2 performance to forecast outcomes.

- -0.1% non-totex incentive performance; and
- -0.2% under performance arising from the Business Plan Incentive.

The operational RoRE values based on actual gearing are broadly aligned to their notional equivalents. Actual gearing is below the notional level of 55% at 51.0% for the period average and 49.7% for 2024/25.

Licence condition 2.3 sets out a Return Adjustment Mechanism based on operational performance which is triggers a revenue adjustment when operational performance falls outside of a +/-300 basis points threshold. Based on our forecasts, we do not anticipate that NGET will meet these thresholds and therefore do not expect any associated adjustment to RIIO-T2 revenues.

The key financial performance measure within the RFPR25 submission is RoRE financial performance. The values quoted in this section focus on RoRE based on notional gearing of 55% unless otherwise stated.

NGET’s RoRE financial performance across the period is forecast to outperform against regulatory cost of debt and tax allowances across the period by 3.3%, comprising 3.4% debt performance and a small amount of tax underperformance. Debt performance has benefitted from NGET’s financing strategy, including choosing not to index a higher proportion of the debt book, and high recent levels of inflation which have reduced the reported real cost of fixed coupon nominal debt.

Financial performance in 2024/25 is 1.8%, comprising 1.7% debt performance and 0.1% tax performance.

The financial RoRE values based on actual gearing differ slightly to their notional equivalents with 1.6% debt performance and 0.1% tax performance in 2024/25 and RIIO-T2 average financial performance of 3.0% and tax performance of 0.0%. The RIIO-T2 average actual gearing for NGET is 51.0%. It’s predominantly this slightly lower actual gearing that drives the marginal reduction in actual debt performance.

Key Operational Performance Measures

Safety

We met all legal and health and safety requirements. Injury frequency rate 0.06 per million hours worked is a reduction on previous year's rate of 0.14. This is world class performance.

Asset Health

In FY25, we delivered more asset health volumes (1,133) than in any of the previous years in RIIO-T2, reflecting an 8.5% year-on-year increase in volumes since the beginning of RIIO-T2. Increased productivity has been made possible through the implementation of key initiatives including the introduction of ‘campaign style’ outages that maximise opportunities to bundle in asset health work around longer duration outages for load work. This has allowed us to manage risk levels across our lead asset portfolio and reduce the proportion of assets classified as either high, or very high risk, in three of the six groups over RIIO-T2.

Network Reliability

Over the past five years, our network has achieved exceptional availability and reliability, exceeding 99.9999% each year prior to FY25, which is amongst the highest world-wide. This year network reliability for FY25 was 99.9998%.

Generation and Demand

We connected 2.5GW of Generation in 2024/25 and our current forecast for the RIIO-T2 period indicates a connection volume of 15.5GW compared to a baseline of 13.5GW. We delivered four demand connections in 2024/2025, connecting 1,064MVA to the network. Our current forecast for the RIIO-T2 period shows that we will exceed our baseline of 2,680MVA by 1,156MVA.

Customer Satisfaction

Measured in "Quality of Connections" survey and scored 6.5/10 versus a target of 7.7, a drop of 0.7 from last year. Plans are in place to close the gap to target, and actions are ongoing to improve all customers' journeys from pre-application through to commissioning their assets.

Customer Connections

We met all customer requirements to connect to the transmission network during 2024/2025. Second highest ever number of customer offer requests made in 2024/2025 (924 in total) with all but ten sent within the required timescales. The volume of offers was reduced due to the new two-stage process.

Environmental

SF6 leakage was below the allowed level in 2024/25 and ahead of 2026 target of 33% reduction. Our business carbon footprint was 30% lower than the baseline position.

Overview of Regulatory Performance

RoRE

Using the notional company gearing, RoRE for 2024/25 and the RIIO-T2 price control average comprise the following components:

	2024/25	RIIO-T2 Average
Allowed Return	5.2%	4.8%
Totex Performance	1.2%	1.2%
Business Plan Incentive	(0.2%)	(0.2%)
Non-Totex Incentives and Innovation	(0.1%)	0.0%
RoRE – Operational Performance	**6.1%**	**5.8%**
Financing	1.7%	3.4%
Tax	0.1%	0.0%
RoRE including Financing and Tax	**7.9%**	**9.1%**

n.b. RoRE using actual gearing	**7.2%**	**8.3%**

The subsequent sections of this commentary cover performance against each of the individual components.

As NGET's actual gearing is lower than the Ofgem notional company gearing, when measured on this basis, the RoRE calculation includes a higher ratio of regulated equity which negates a comparative debt performance increase, resulting in a lower overall RoRE.

RoRE is not a reflection of customer bills, whereby a higher RoRE does not equate to higher customer bills. RoRE is intended as a reflection of Licensee performance whereby higher RoRE is likely to mean greater cost efficiency which leads to lower customer bills while delivering better service levels

Reconciliation to Revenue and Profit

(Financial values in 2024/25 price base unless otherwise stated)

The purpose of Table R2 is to report Allowed and Collected Regulated Network Revenue ("collected revenue") and to reconcile collected revenue to the turnover reported within the statutory accounts. Table R2 also provides a reconciliation for regulated network profit to profit as per the statutory accounts.

Collected revenue for 2024/25 of £2,027.6m is collected via Transmission Network Use of System (TNUoS) charges set by the National Energy System Operator (NESO) and based on Allowed Revenue for 2024/25 within the PCFM published in January 2024. Turnover within the statutory accounts includes TNUoS related revenue and revenues received outside of TNUoS and the RIIO-T2 revenue frameworks. Turnover as per the 2024/25 statutory accounts is £2,619.1m, a difference to collected revenue of +£591.6m. The key reconciling items between collected revenue and turnover are:

- Directly Remunerated Services revenue of +£221.6m.

  Directly Remunerated Services are those which are not already remunerated through TNUoS charges. Collected revenue specifically excludes Directly Remunerated Services as per SpC 2.1.7 whereas turnover includes all sources of revenue.

- De Minimis Business of the licensee and Other consented activities of +£347.2m.

  De minimis activities are business activities carried out by NGET outside of the transmission business below a defined threshold and are therefore not included in collected revenue. Similarly, consented activities which are those outside of the transmission business for which the Authority has given its consent in writing are not included within collected revenue. Statutory turnover includes all sources of revenue including de minimis and consented revenues.

- Other Adjustments of +£22.7m.

  The main element of the remaining variance between turnover and collected revenue is the adjustment for capital contributions (+£22.1m).

The second purpose of R2 is to perform a reconciliation of our regulated network profit to our statutory accounts. For this reconciliation regulated network profit is a proxy definition of a regulatory profit measure as set by Ofgem. Net profit per the regulated business is £643.8m compared to the statutory accounts of £752.2m giving a difference of +£108.4m. This reconciliation comprises:

- +£218.8m for operating profit before interest and taxes. This comprises +£591.6m difference in revenues (explained above) and -£372.8m difference in operating costs which is explained in the Reconciliation to Totex section;
- +£150.8m for net interest which is explained in the financing section; and
- -£261.2m for tax which is the difference between our tax related to regulated business +£1.8m and the tax as per our statutory accounts +£263.0m which is explained in the Taxation and Tax Reconciliation section.

Totex – Reconciliation

RIIO-T2 Totex Performance

(Financial values in 2018/19 price base unless otherwise stated)

Table R3 Totex – Reconciliation includes two elements, calculation of totex performance and reconciliation of regulatory totex to the actual opex and capex costs incurred per NGET's statutory accounts with actual reported totex.

The average totex outperformance impact on RoRE is forecast to be +1.2% for the RIIO-T2 period.This is driven by the following factors (subject to rounding differences):

RIIO-T2 Performance	Totex Performance RIIO-T2 Average
Performance per RRP25	+1.0%
Efficiency Ambition	+0.1%
T1 Deferral Adjustments	+0.8%
T2 Allowance Adjustments	-0.6%
Total	**+1.2%**

<u>Performance per RRP25</u>
RIIO-T2 average performance of +1.0% is primarily driven by a combination of projects in Wider Works being delivered at lower costs than allowances, the impact of some Demand portfolio spend moving

into the first two years of RIIO-T3 and lower spend on pre-construction due to various efficiencies. This is partially offset by overspend in Network Operating Costs and Asset Health.

The totex performance as per RRP in 2024/25 is just higher than neutral at +0.1%, spend is broadly aligned with allowances with no particular drivers to comment on specifically.

Efficiency Ambition
An adjustment of £56m is applied to our performance position. This reflects NGET's ongoing efficiency ambition, which is not yet embedded at project level within RRP25. We continue to seek additional efficiency through improving and innovating our approach to operating, maintaining, replacing, and extending the transmission network. We therefore include £56m performance ambition in our financial forecasts and the Price Control Financial Model to ensure the benefit is passed to consumers in a timely manner.

T1+2 Allowance
This adjustment relates to allowances for load related projects that were initiated in RIIO-T1 but are due to complete in RIIO-T2. The allowances have been reprofiled through enduring value adjustments to ensure that performance is recognised when the output is delivered. Appendix 1 includes additional detail.

T1 Non-Load
This adjustment rephases allowances for non-load projects that cross price control periods. These are rephased to ensure performance is recognised when the output is delivered. These adjustments relate to RIIO-T1 non-load and ISS projects. The T1/T2 offset adjusts a negative allowance in the RIIO-T2 PCFM which claws back RIIO-T1 allowances. This has already been included in RIIO-T1 RoRE, therefore adjustment to add back is included. Appendix 1 includes additional detail.

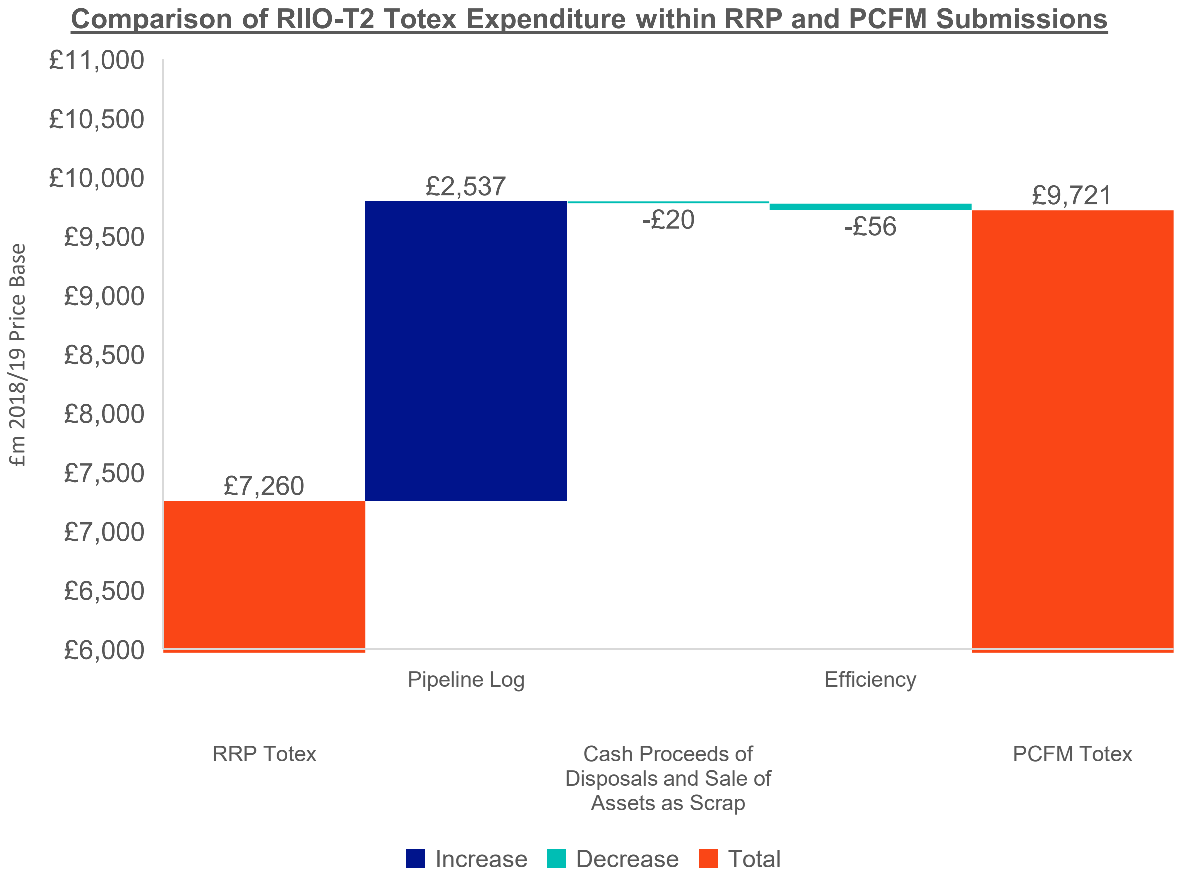
T2 Allowance Adjustments
These include: Adjustments to allowances for pre-construction and PCDs that cross price control periods to ensure performance is recognised when the output is delivered, an adjustment to reflect anticipated future adjustments to bridging allowances for schemes that deliver beyond the second year of RIIO-T3 and adjust for spend incurred in RIIO-T2 for outputs in RIIO-T3. Appendix 1 includes additional detail.

Reconciliation to Totex

(Financial values in a nominal price base unless otherwise stated)

The totex reconciliation is only applicable for years for which statutory accounts have been published. Therefore, for this submission the reconciliation is performed for 2021/22, 2022/23, 2023/24 and 2024/25 only.

For the purposes of the reconciliation, the regulatory totex costs are as per the cost matrix in RRP25. There are a number of known and deliberate differences between the regulatory totex costs as per the cost matrix in RRP25 and the totex costs reported in the PCFM. The following waterfall details these differences for the RIIO-T2 period (2018/19 price base):



Pipeline Log re-opener spend of £2,537m (2018/19 price base) is included within the Price Control Financial Model as this provides our best forecast of revenues. The RRP25 only captures directed and submitted re-openers within the cost matrix, any unsubmitted re-openers are captured within the Pipeline Log. Additionally, per Ofgem's instruction, ASTI data is reported in the Pipeline Log rather than the cost & volumes tables therefore the Pipeline Log column is inclusive of, but not limited to, ASTI schemes. To generate cost reflective revenues, re-openers that are subject to competition have not been included in the PCFM. This is because there is a level of uncertainty as to whether NGET will carry out the works.

Cash proceeds of £20m (2018/19 price base) from disposals and sale of assets as scrap are included as negative totex within the PCFM. This is to ensure that any proceeds received from the sale of assets as scrap and disposals are shared with consumers. Scrap and disposal proceeds are not included within the RRP25 cost matrix table.

Our efficiency ambition of £56m (2018/19 price base) is included in our financial forecasts and the Price Control Financial Model to ensure the benefit is passed to consumers in a timely manner. This reflects NGET's ongoing efficiency ambition, which is not yet embedded at project level within RRP25.

In nominal price terms NGET's total reported expenditure incurred in 2024/25 on an accounting basis is £4,057m, comprising opex of £1,378m and capex of £2,679m. This compares with regulatory totex as stated in Table R3 of £2,273m, a difference of -£1,784m.

The reconciling items fall into two categories, items that meet the definition of statutory opex and capex but are not included in total regulatory costs and regulatory costs which fall outside of the definition of totex.

The key items which are defined differently for statutory and regulatory purposes are:

- £544m of statutory depreciation and amortisation which are included in statutory opex but don't form part of regulatory totex;
- £336m of Excluded, Consented and De Minimis Services costs which are included in opex but don't form part of regulatory totex
- £825m of NGET pipeline log costs (excluding ASTI prepayments) which are included in capex but not in regulatory totex, and;
- £80m of various other small value items

The costs which fall outside of the totex definition are:

- Directly Remunerated Services of £18m;
- Pass-through costs of £101m, predominantly business rates;
- Innovation costs of £21m;
- Scrap disposal proceeds of £5m; and
- Pipeline log costs of £900m

Incentives and Other Revenue

Financial Output Delivery Incentives ("ODI-Fs") are an important component of the RIIO price control framework and incentivise Licensees to drive continuous performance and efficiency improvements relevant to customers and the environment

Incentive and Other Revenue RoRE performance is -0.26% in 2024/25 based on actual values per RRP25. The RIIO-T2 average incentive and other revenue performance is forecast to be -0.18%. The general principle underpinning NGET's forecasting policy is to set incentives equal to historical averages for 2021/22, 2022/23, 2023/24 and 2024/25 actuals plus the application of business intelligence, for example, the Insulation and Interruption Gas Emissions incentive forecast has been aligned to the flightpath to achieve a 50% emission reduction by 2030. The adverse incentive and other revenue performance are primarily driven by the business plan incentive which reduces RoRE by an average of 0.20% each year over RIIO-T2.

Incentives

(Financial values in 2018/19 price base unless otherwise stated)

NGET has continued to focus on delivery against the RIIO-T2 output areas: Safety, Meeting the needs of Consumers and Network Users, Customer Connections and the Environment. Incentive performance is based on the six output delivery incentives which support these output areas as well as the Business Plan Incentive, which is set at the start of the price control as detailed below. Further detail for each output incentive is detailed below.

Energy Not Supplied ODI

The purpose of the Energy Not Supplied (ENS) incentive is designed to encourage NGET to improve network reliability by efficiently managing short-term operational risk to minimise disruption to the network. This incentive will either reward or penalise NGET's performance in relation to loss of supply events.

The incentivised loss of supply events volume target is set at 147 MWh. NGET's total incentivised energy not supplied in 2024/25 was 359 MWh, underperforming the target by 212 MWh.

This results in a reduction to earned revenue of £1.5m for 2024/25 and RoRE impact of -0.02% for 2024/25.

Factors driving the initiation, duration and magnitude of incentivised energy not supplied events are highly varied, therefore this incentive is forecast to align to a historical average of 2021/22, 2022/23, 2023/24 and 2024/25 actuals in the final year of the RIIO-T2 period.

The impact of the Energy Not Supplied incentive on average RoRE for the RIIO-T2 period is forecast to be +0.01%.

Insulation and Interruption Gas Emissions ODI

The purpose of the Insulation and Interruption Gas (IIG) Emissions incentive is to incentivise a reduction in leakage of SF_6 and other IIGs from assets on the transmission network, and to support the transition to low greenhouse gas alternative IIGs. The effect of this incentive is to reward or penalise NGET's performance in relation to CO_2 targets.

Actual IIG emissions in 2024/25 were 198,761 tCO_2e, outperforming the target by 9,653 tCO_2e.

This gives rise to earned revenue of £0.8m for 2024/25 and RoRE impact of +0.01% for 2024/25.

This performance is driven by targeted interventions on our highest leaking assets.

Forecasts are based on historical SF_6 inventory changes from a rolling 5-year period and future annual IIG emissions aligned to the figures required to maintain the flightpath to achieve a 50% emissions reduction by 2030.

The impact of the IIG incentive on average RoRE for the RIIO-T2 period is forecast to be +0.01%.

Timely Connections ODI

The purpose of this incentive is to penalise the licensee for failing to deliver timely offers for connection to the licensee's Transmission System.

In 2024/25, NGET delivered 924 out of 936 Transmission Owner Connection Offers (98.72%) to the NESO within mandated timescales, leaving 12 'untimely' offers.

This gives a reduction to earned revenue of £0.11m for 2024/25 and RoRE impact of -<0.01% for 2024/25.

This incentive is forecast to align to a historical average of 2021/22, 2022/23, 2023/24 and 2024/25 actuals across the remainder of the RIIO-T2 period.

The impact of the Timely Connections incentive on average RoRE for the RIIO-T2 period is forecast to be -<0.01%.

Quality of Connections Satisfaction Survey ODI

The purpose of this incentive is to incentivise NGET to improve the quality of service delivered to connection customers. The effect of this incentive is to reward or penalise NGET's performance in relation to customer connections.

In 2024/25 NGET achieved a mean performance score for quality of connections satisfaction survey of 6.5, below the performance neutral target of 7.7.

This gives a reduction to earned revenue of £7.4m for 2024/25 and RoRE impact of -0.11% for 2024/25.

The score reflects a year of both challenging and encouraging developments in the connections landscape. Throughout this period of significant change and uncertainty, we have remained committed to delivering high-quality customer service across the journey and focused on improving communication with all customers. For those customers in the process steps that are more directly under our control, such as construction delivery and post-energisation activities, we achieved scores of 7.7, 8.5 and 9.1 for the respective touchpoints from Delivery onwards. This has resulted in high praise from customer feedback, highlighting clear and timely communication, collaborative working, supportive and professional interactions, and fostering productive working relationships.

This incentive is forecast to align to any Ofgem directions. Where Ofgem have not directed a score the score is forecasted to reflect the uncertainty of these changes and what they mean for customers experience.

The impact of the Quality of Connections Satisfaction Survey incentive on average RoRE for the RIIO-T2 period is forecast to be -0.06%.

SO-TO Optimisation ODI

SO-TO Optimisation is designed to encourage collaboration with the NESO to identify and provide additional solutions beyond business-as-usual activities to help reduce constraint costs.

In 2024/25 NGET delivered 36 enhanced services solutions successfully with the NESO, which has resulted in over £50.0m in actual constraint savings.

This gives rise to earned revenue of £4.18m for 2024/25 and RoRE impact of +0.06% for 2024/25.

The impact of the SO-TO Optimisation incentive on average RoRE for the RIIO-T2 period is forecast to be +0.07%.

Environmental Scorecard ODI

The purpose of this incentive is to reward or penalise NGET's performance in relation to six environmental targets compared to annual thresholds. The six components of the environmental scorecard are:

- Business travel
- Operational and office recycling
- Office waste reduction
- Office water
- Environmental value of non-operational land
- Net gain on construction projects

NGET has outperformed in 6 elements of the scorecard this year, with the maximum incentive reward being achieved in every area.

This gives rise to earned revenue of £1.1m in 2024/25 and RoRE impact of +0.02% for 2024/25.

This is largely driven by the enhancement of our non-operational land, where we put in place eight new Environmental Partnership Agreements. These partnerships will deliver a variety of site-specific biodiversity enhancement interventions, alongside nature-based community engagement. We continue to look at ways to further reduce our environmental impact and are on track to exceed our 10% natural capital target by the end of the RIIO-T2 period.

This incentive is forecast to align to a historical average of 2021/22, 2022/23, 2023/24 and 2024/25 actuals across the remainder of the RIIO-T2 period.

The impact of the environmental scorecard incentive on average RoRE for the RIIO-T2 period is forecast to be +0.01%.

RIIO-T2 Network Innovation Allowance

The purpose of the RIIO-T2 Network Innovation Allowance (NIA) is to incentivise networks to take forward innovation projects that have the potential to address consumer vulnerability and/or deliver longer–term financial and environmental benefits for consumers, which may not have been undertaken within the price control.

The NIA allows NGET to recover 90% of total NIA expenditure capped at a maximum allowance of £49.3m over RIIO-T2. Therefore, at least 10% of NIA expenditure will impact operational RoRE, and thus create a negative RoRE performance impact in the short term before any future benefits from the innovation can be realised.

In 2024/25 NGET spent £14.2m on NIA projects, with the 90% allowance recovering £12.8m against this expenditure. This is an increase from £8.7m in 2023/24, driven by the increase in both the total number of NIA projects, and the increase in the NIA projects that have incurred spend. RoRE operational performance for 2024/25 is not significantly impacted (<0.1%) by the net cost of NIA projects.

31 NIA projects have been registered by NGET this year and we have made financial contributions through collaboration on a further five NIA projects led by other network licensees. This brings the total number to 98 for RIIO-T2. Three of these projects have not incurred any spend in FY25 due to being in the contracting stage and work not yet being started.

Further information can be obtained from NIA annual summaries published on the National Grid Electricity Transmission website[2].

Carry Over Network Innovation Allowance

The purpose of the Carry Over Network Innovation Allowance is to extend RIIO-T1 Network Innovation funding. This allowance ensures any unspent 2020-2021 RIIO-T1 NIA allowance was carried over into the first year of RIIO-T2 in 2021/2022, to spend on projects that had already been started by 31 March 2021.

There has been no additional spend incurred on any of the applicable projects, and all projects have a status of ‘complete’.

Strategic Innovation Fund

The Strategic Innovation Fund aims to determine and fund innovative projects with the potential to accelerate the transition to Net Zero whilst succeeding commercially where possible to ensure consumer affordability.

In March 2024, NGET was successful in securing Discovery funding for 1 project, HIRE. The project was delivered from 1st March 2024 to 31st May 2024.

[3] Electricity transmission innovation | National Grid ET

In October 2024, NGET were successful in securing Alpha funding for 2 projects, LookNortH2 and Assessment of Superconducting Technologies for Standards Development. These projects were delivered from 1st October 2024 to 30th April 2025.

In December 2024, NGET was successful in securing Beta funding for 1 project, SF6 Whole Life. The project will run from 1st December 2024 to 30th November 2028.

Spend to date is summarised in the following table.

Project Name (£k) 18/19 Price Base	2022	2023	2024	2025	2026
SCADENT	2	551	0	0	0
SEGIL	2	83	0	0	0
Eye in the Sky	5	383	0	0	0
SCOHL	0	0	109	0	0
SF6 Whole Life	0	0	444	0	1605
Wellness	0	0	508	0	0
Hire	0	0	1	104	0
Assessment of Superconducting Technologies for Standards Development	0	0	0	290	52
LookNortH2	0	0	0	219	77
DELTA	0	0	0	24	60
Total (£k)	**9**	**1017**	**1061**	**637**	**1793**

Financing and Net Debt position

Financing

The purpose of Table R5 is to report annual actual and forecast Net Interest as per the Regulatory (RIIO-T2) definition. This is then adjusted to remove inflation and include early redemption costs and amortisation of discount/premia on issue and compared against the cost of debt allowances published in the latest PCFM. This table also reconciles actual Net Interest with the interest charge included in the statutory accounts.

The Regulatory Net Interest including forecast new financing/refinancing costs definition is used as an input to calculate whether a tax clawback adjustment is required in the PCFM through the TNDI variable value. If both the net interest of the actual company as well as the actual gearing (see the Net Debt section) exceeds the notional company equivalents, then a tax clawback can arise. For NGET, the tax clawback is not triggered in RIIO-T2

Table R5 further analyses the performance of a notional and actual company. A notional company in this context is a hypothetical, but typical and efficient network company whereas the actual company is the actual performance during the price control. This can be demonstrated in gearing where notional gearing is 55% in RIIO-T2 whereas actual gearing in RIIO-T2 is on average 51%.

	2022	2023	2024	2025	2026	RIIO-T2 Average
Actual Regulatory Gearing	53.3%	50.7%	49.7%	49.7%	51.7%	51.0%
Notional Company Gearing	55.0%	55.0%	55.0%	55.0%	55.0%	55.0%

Net Interest Reconciliation

Table R5 also requires a reconciliation between actual Net Interest with the interest charge included in the statutory accounts.

Actual Net Interest for 2024/25 is £376.7m. Net interest as per the 2024/25 statutory accounts is £225.9m, giving a difference of +£150.8m. The key reconciling items are capitalised interest added back of +£133.2m and movements relating to pension fund liabilities of +£21.0m. The remaining items include: Fair value adjustments, swap termination costs paid, commitment fees, provision unwind, IFRS16 right of use lease liability, other income on prepayments and forward points.

Net Debt

(Financial values in nominal price base unless otherwise stated)

The purpose of Table R6 is to report annual actual and forecast Net Debt as per the Regulatory (RIIO-T2) definition. The worksheet also reconciles the actual Net Debt with statutory accounts. The Net Debt Per Regulatory (RIIO-T2) Definition will continue to be used as an input to calculate any tax clawback.

Net debt per the 2024/25 statutory accounts is £10,355.5m and Total Net Debt closing average per Regulatory (RIIO-T2) definition is £10,317.8m, a difference to Statutory Accounts of -£37.7m. The key reconciling items between statutory accounts and the RIIO-T2 definition are Fair Value Adjustments +£365.0m, Cross Currency Swaps -£290.0m, Balancing Value on Cross Currency Swaps +£223.4m, Derivatives -£177.8m and Accrued Interest -£74.1m.

The R6a tab is showing errors in rows 93, 102, 108 & 114, despite the sum of the proportions equalling 100% to 10 decimal places.

This year, there have been prior year restatements to align with Ofgem guidance. The amount for use on fixed rate debt issued at premium/discount has been updated to the notional plus the premium/discount to align with Regulatory Instructions and Guidance. In addition, the coupon/rate for use/yield to maturity of 8 trades have been updated to align with Ofgem guidance following our business plan review in March 2025. Updates to the amount for use decreased the prior period regulatory net debt by £26m in FY22, £25.4m in FY23 and £24.5m in FY24. Further, the change in amount for use coupled with the rate changes had an impact on R5a bonds interest calculation. This led to an increase of £0.2m in FY22, £1.1m in FY23 and £1.1m in FY24 but had no overall impact on regulatory net interest due to adjustments made to difference on bonds to align to statutory accounts.

RAV

The R7 – RAV table details the annual Regulatory Asset Value (RAV) position based on the actual and forecast RAV per the ET2 PCFM for the September 2025 submission. The closing RAV balance is used to derive actual gearing and the NPV neutral equity element of RAV is then used to calculate RoRE.

The Closing RAV values in row 12, Opening RAV in cell F15, Net additions in row 18 and Depreciation in row 21 are those per the latest PCFM submitted in September 2025. The PCFM is then adapted to include the impact of enduring value adjustments (EVAs) to give the adjusted closing RAV. It is the closing RAV from the PCFM adjusted for EVAs that is used in the calculation of actual gearing and RoRE as the enduring value adjustments applied provide a more representative view of in year performance. Details of the enduring value adjustments are reported in Appendix 1.

The following table shows the difference between the adjusted closing RAV calculated in the R7 – RAV table and the closing RAV per the latest PCFM. The enduring value adjustments release deferred performance from RIIO-T1 to ensure performance is recognised when outputs are delivered, adjust performance in RIIO-T2 to reflect expected outcomes or simply re-phase performance in line with spend:

£m 18/19 Price Base	2022	2023	2024	2025	2026
Closing RAV per latest PCFM	14,176	14,418	14,888	15,958	17,761
In year enduring value adjustments	-32	-56	-25	56	96
Cumulative enduring value adjustments	-32	-88	-113	-54	42
Adjusted Closing RAV	14,144	14,329	14,775	15,904	17,803

The adjusted closing RAV is forecast to increase by £1,899m in FY26, reflecting an increase in the level of outputs NGET expects to deliver in response to Net Zero targets.

Taxation and Tax Reconciliation

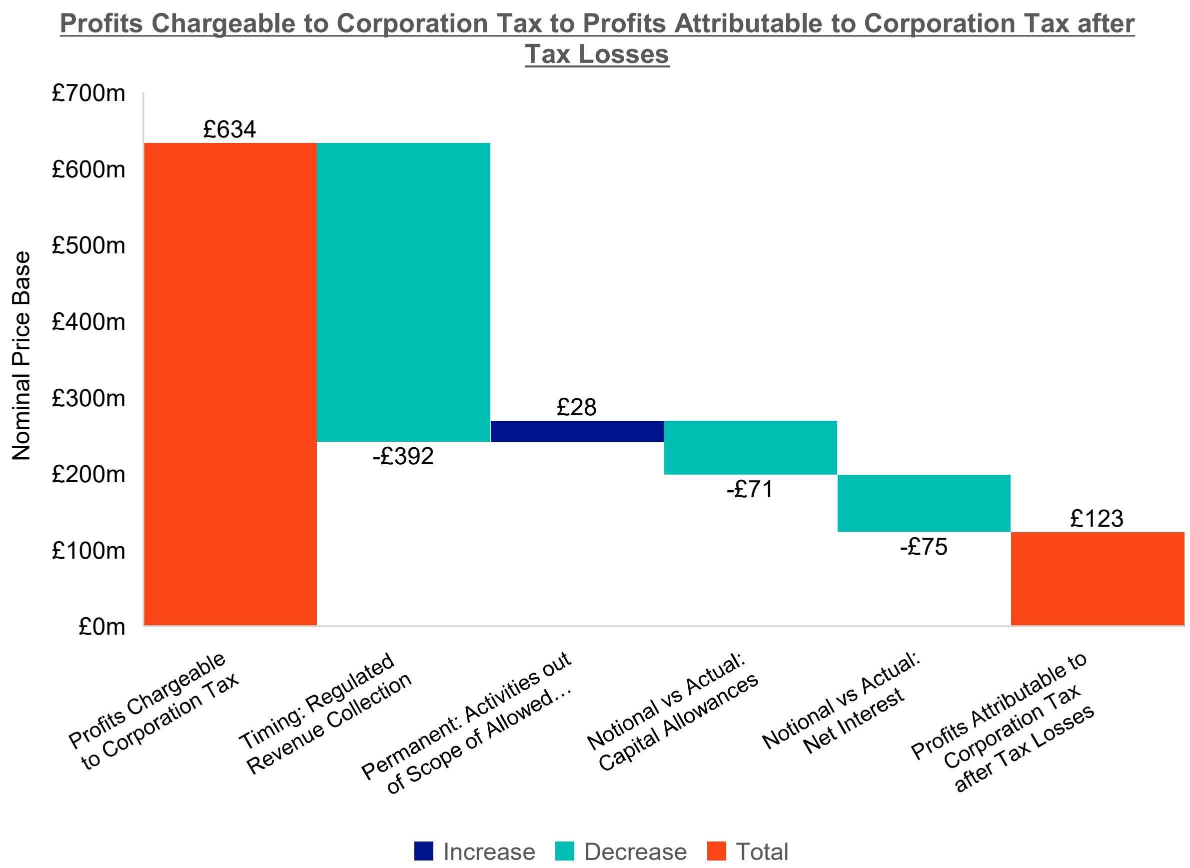
(Financial values in 2018/19 price base unless otherwise stated)

The purpose of the taxation worksheet is to calculate the tax out or underperformance against the tax allowance at actual and notional levels of gearing.

The forecast tax allowance for 2024/25 per the latest PCFM is £5.4m. Forecast tax outperformance is £3.9m at actual gearing and £5.3m at notional gearing levels. The cause of the outperformance is the PCFM applying the tax trigger deadband to the tax allowance, which is higher than the forecast tax liability. The difference between actual and notional is caused by an adjustment to regulatory tax cost relating to variance from notional gearing of +£1.4m.

The primary objective of the R8a- Tax Reconciliation worksheet is to highlight differences between a licensee's CT600 actual corporation tax liability and the calculated tax allowance in the 'Finance & Tax' sheet of the latest PCFM. Due to the timing of the CT600 submissions to HMRC, this sheet is to be reported with a one-year lag (i.e. inputs will relate to the previous reporting period).

The graph below breaks down the differences (£510.6m Nominal Price Base) between the Profits Chargeable to Corporation Tax (i.e. after Tax Loss Adjustments) ('PCTCT') (pre group relief) and Profits attributable to Corporation Tax after tax losses (pre-group relief). This can be found in cell J97 in the Tax Reconciliation tab.



Variances can be split into three broad categories – regulatory timing differences, differences associated with actual company positions versus the notional company assumptions adopted in the regulated framework, and other activities and adjustments which fall outside the scope of the regulated allowed revenue calculation.

Regulatory timing variances arise due to differences between the regulatory reporting rules used to prepare the PCFM (which drive the calculation of the regulatory tax allowance), and the statutory reporting rules used to prepare NGET's statutory accounts (which drive the basis of the CT600 tax liability assessment). These differences are expected and arise in each reporting cycle.

Actual versus notional company variances arise because the regulatory framework adopts methodologies that give rise to differences in the determination of values for the purposes of the allowed revenue calculation. For instance, the Totex regime apportions net regulatory opex and capex at fixed capitalisation rates, meaning that the resulting outcome would differ to the delineation of opex and capex under statutory account rules. Another relevant difference is that the regulatory model assumes a notional target gearing of 55% at an allowed cost of debt, giving rise to differences to what we would observe in the actual company.

Other tax differences arise from activities that fall outside the scope of the allowed revenue calculation (for instance Directly Remunerated Services and De Minimis activities, and other excluded aspects of the cost base).

Corporate Governance & Financial Resilience

The purpose of this worksheet is to report the executive directors' remuneration. Additionally, this worksheet is to report actual dividends paid that relates to the regulated business. The worksheet then reconciles with information in the statutory accounts.

Corporate Ownership and Governance Framework

The corporate governance structure for NGET can be found in Appendix 2, including ownership stakes in the licensee expressed as a percentage and the names (both registered and trading) of all companies in the ownership structure between the NGET and National Grid plc.

Board of Directors

Reinforcing its commitment to sound corporate governance the Board has continued to strengthen and develop both its composition and governance framework, implementing, as applicable, many of the best practice governance principles in operation at the National Grid plc level.

At the year end, the Board consisted of five executive directors, one National Grid Group-appointed non-executive directors, two Sufficiently Independent Directors (SIDs) and one Non-executive director. Between them, they provide a broad and diverse range of experience and technical skills from both within and external to the organisation, from the energy sector, other regulated industries and external bodies.

Directors who were in office during the financial year ending 31 March 2025 and up to the date of this report:

Name	Director Type	Appointment Date	Resignation Date	Role
Bennett, Christopher Paul	Executive	25/06/2016		Group UK Regulation and Policy Director
Braovac, Matthew	Executive	01/08/2025		General Counsel ET
Campbell, Justine	Shareholder appointed non-executive	24/02/2023	30/06/2024	Group General Counsel & Company Secretary
Delahunty, Alice Kyne	Executive	14/12/2020		Electricity Transmission President
Lewis, Alexandra Morton	Shareholder-appointed non-executive	13/04/2018		Treasurer
Long, Jeremy Paul Warwick	Sufficiently Independent	17/03/2022		SID
Mavor, Jeremy	Executive	01/07/2024	01/08/2025	Group General Counsel & Company Secretary
Ross, Cathryn	Sufficiently Independent	21/06/2019		SID
Sheppard, Philip Graham	Non-executive	01/08/2021		Non-Executive
Thakrar, Sandip	Executive	17/11/2023		Chief Financial Officer
Trowell, Carl Geoffrey	Executive	29/05/2023		Strategic Infrastructure President

Board committees

There are several committees within NGET, including:

Audit Committee

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

- Jeremy Long (Sufficiently Independent Director)
- Alexandra Lewis (Shareholder-appointed non-executive Director)
- Cathryn Ross (Sufficiently Independent Director)

Business Separation Compliance Committee (BSCC)

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

Membership of the Committee is by appointment of the Board and comprises all directors of the licensee. The Committee was chaired by Cathryn Ross (Sufficiently Independent Director).

Finance Committee

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

- Andrew Agg (Chief Financial Officer of National Grid plc)
- Alexandra Lewis (Shareholder-appointed non-executive Director)

Electricity Transmission and Strategic Infrastructure Committees

These Committees direct the affairs of the Electricity Transmission and Strategic Infrastructure businesses on behalf of the Board. This performs an assurance role within the context of the overall RIIO networks governance framework and oversees the performance of sub-committees reporting to them. The Committees' remit extends to approving the strategies and business objectives for managing the RIIO contract and for approving opportunities to deliver value within that contract in accordance with Delegations of Authority limits.

The ET Executive Committee comprises the senior management of the ET business and is chaired by

- Alice Delahunty (Executive Director) – Electricity Transmission

The SI Executive Committee comprises the senior management of the SI business and is chaired by

- Carl Trowell (Executive Director) – Strategic Infrastructure

The following Committee members form part of the Company's senior management team and are not statutory directors.

- Matthew Bravoc (UK General Counsel)
- Simon Johnston (Chief Information & Digital Officer)
- Sharan Sandhar (Chief People Officer)
- Jon Davies (Director of Network Operations & Intelligence)
- Mark Lissimore (Director of Infrastructure Delivery)
- John Twomey (Director of Customer and Network Development)
- Ciara Taberner (Director of Safety, Health, Environment, and Communities)
- Sandip Thakrar (Chief Financial Officer, NGET)
- Rob Salter-Church (Director of ET Regulation)
- Lydia Ogilvie (Director of Corporate Affairs)
- Kate Grant (Director of Asset Operations)

Decision Making

The following table explains the decision-making responsibilities that are reserved to a parent/group company and/or where the company consults with guidance given by the group:

Purpose, values and strategy	Purpose, values and strategy are matters reserved to the ultimate shareholder, National Grid plc. The Company works within the purpose, values and strategy of National Grid and the Company's Board is responsible for the oversight of the Company's purpose, values and strategy.
Board nominations	Changes to the structure, size and composition of the Board and Board Committees are matters reserved to the Company's Board. In accordance with the Company's Articles of Association, the Company's shareholder (being National Grid Holdings Limited) may appoint and remove directors by ordinary resolution.
Board evaluation	The Board evaluation process is a matter reserved for the Company's Board. Separately to the Company, the Board of National Grid plc complies with the provisions of the UK Corporate Governance Code in relation to its own evaluation.
Executive remuneration	Executive remuneration is a matter reserved to the Board of National Grid plc. Further information on this is available within the Remuneration Report of National Grid plc's 2024/25 Annual Report and Accounts on pages 121 to 149.[3]
Dividend policy	Dividend policy is a matter reserved to the Company's Board. The Company will consult with the Board of National Grid plc to determine dividends, with final approval from the Company's Board.

[3] Annual Report and Accounts 2024/25

Executive Remuneration Policies & Framework

Executive remuneration is controlled by the ultimate parent company, National Grid plc. The National Grid plc Remuneration Committee is responsible for recommending the remuneration policy for the National Grid plc executive directors, Group Executive Committee members and the Chair, and for implementing this policy. Further information on this is available within the Remuneration Report of National Grid plc's Annual Report and Accounts on pages 121 to 149.The aim of NGET's remuneration policy is to ensure that how we structure remuneration and how we make decisions on annual and long-term reward plans are compatible with and fully support:

- attracting, motivating, and retaining employees while not over-paying; the key elements of remuneration are targeted broadly at mid-market of our peer group of general industry and energy services organisations.
- ensuring we pay our employees in a way that incentivises stretching financial and operational performance, within the risk appetite set by the NGET leadership team.
- being fully aligned to the fact that we are a Regulated company and our impact we have on the cost to the consumer; and
- actively supporting our strategy, ethics, values, and contribution to society in the areas where we operate.

NGET's remuneration policies are designed to ensure alignment with customer and stakeholder interests; our purpose, culture and values; and long-term delivery of our strategy. Our management is incentivised through our target setting and remuneration policy to deliver the actions necessary to achieve our net zero objectives. Alignment of the Annual Performance Plan (APP) and the Long Term Performance Plan (LTPP) to core financial Key Performance Indicators (KPIs) incentivise operational excellence and long-term value creation to ensure we deliver for our customers efficiently.

Remuneration Framework

Our remuneration policy weights executive and senior leadership compensation more heavily towards performance related pay, especially long-term share-based reward. The portion of reward at risk (linked to performance-based elements) accounts for more than half the total remuneration opportunity; and is linked to both business performance measures and individual performance. This typically comprises an annual element (APP) and a longer-term element (LTPP):

<table>
<tr><th>Band</th><th>Target APP (% of salary)</th><th>LTPP Maximum Award</th><th>Pension DC contribution*</th><th>Car Allowance</th><th>PMI</th><th>Holiday</th><th>Flexible Benefits</th></tr>
<tr><td>President NGET</td><td>45%</td><td>Up to 225% of annual base salary</td><td>12%</td><td>£12,000</td><td>Uncapped</td><td rowspan="2">28 days annually (plus public holidays)</td><td rowspan="2">We offer a range of benefits including a Sharesave scheme, Share incentive plan, employee assistance programme and flex benefits scheme</td></tr>
<tr><td>NGET Leadership Team</td><td>25%</td><td>Up to 85 - 120% base salary</td><td>12%</td><td>£12,000</td><td>Family</td></tr>
</table>

**Externally hired employees will participate in a Defined Contribution (DC) arrangement with a maximum of 12% employer contributions; and receive Employee only private medical insurance (PMI)* *cover. New appointments and new hires will be appointed on the terms set above, however, there may be cases where employees have legacy terms and conditions that continue to apply based on their contractual arrangements.*

Annual Remuneration Increases

Base salary increases are generally reviewed annually and are targeted broadly at mid-market of our peer group. In addition, a number of other factors are taken into account:

- business performance and individual contribution;
- the individual's skills and experience;
- scope of the role, including any changes in responsibility; and
- market data, including base pay and total remuneration opportunity in the relevant comparator group.

The remuneration of the President NGET and other senior leaders are reviewed and approved annually at National Grid Group Executive Committee level. The budget for annual salary increases for Senior Managers and Managers is also set by the NG Executive Committee and allocated to individuals with reference to the factors outlined above.

Performance Related Remuneration

Short term incentives

The Annual Performance Plan (APP) comprises reward for achievement against NGET scorecard measures and achievement against individual objectives. Performance measures and targets are normally agreed at the start of each financial year and are aligned with NGET strategic business priorities. Targets are set with reference to the budget, which is reviewed and approved annually by the National Grid Group Executive Committee.

Individual performance will be determined by an assessment of the achievement of objectives set at the start of the financial year and their demonstration of leadership behaviours and National Grid values.

Operational performance of NGET during the year will be assessed against metrics and targets set at the start of the financial year.

The achievement of stretch performance across all measures will result in the maximum APP award of 200% of target at managerial levels. APP awards are paid in June and subject to malus and clawback provisions.

Long term incentives

NGET operates a share based Long Term incentive plan (LTPP) under which awards may be granted to senior managers each year, with the intention to provide an appropriate incentive to NGET employees and to encourage outstanding long-term performance. Awards are in the form of either Performance Shares or Restricted Shares.

Vesting occurs at the third anniversary of the award with the vesting value flexing with the value of the National Grid business during the vesting period. The Committee reserves the right to apply discretion on overall vesting outcome taking into consideration the underlying business, financial and operational performance. LTPP awards are subject to malus and clawback provisions.

2024/2025 Executive Remuneration

As at March 2025, NGET had five executive directors, Alice Delahunty (President of Electricity Transmission), Christopher Bennett (Group UK Regulation and Policy Director), Sandip Thakrar (Chief Financial Officer), Carl Trowell (President of Strategic Infrastructure) and Jeremy Mavor (Group General Counsel & Company Secretary).

Where executive directors are remunerated for services across multiple group companies, remuneration is allocated to the regulated business in accordance with the Unified Cost Allocations Methodology.

National Grid's Group structure means that Directors do not hold shares at a Licensee level. For this reason, NGET has agreed with Ofgem that we will not declare any shares/options as part of the remunerations package as information around Shares/Options and dividends paid becomes inapplicable. Any shares owned would be in National Grid plc and would not be allocated to the individual businesses. Shares owned will not be awarded by the rewards team and do not form part of the remuneration package.

CEO Pay Ratios

When making remuneration decisions for NGET senior leaders, account is taken of the remuneration arrangements and outcomes for the wider workforce and statistical information, such as the pay ratio between senior management and the wider workforce. This compares the CEO/President of NGET's remuneration to the equivalent pay for the lower quartile, median and upper quartile UK employees (calculated on a full-time equivalent basis) in accordance with the Companies (Miscellaneous Reporting) Regulations 2018 (as amended).

The 2024/2025 CEO Pay Ratio reports the 25th, 50th and 75th percentiles as 24.23, 18.63 and 14.41 respectively. The median pay ratio reported this year is consistent with our wider pay, reward and progression policies. For reference, the National Grid plc Group-wide pay ratio and National Grid UK ratio are disclosed in the NG plc Group Annual report.[4]

Dividend policy

Dividends represent the return of profits to shareholders. Dividends are paid as an amount per ordinary share held. NGET retains part of the profits generated in the year to meet future growth plans and meet our gearing target. Interim dividends are recognised when they become payable to the Company's shareholders. Final dividends are recognised when they are approved by shareholders.

The Directors are proposing a final dividend of £400 million for the year ended 31 March 2025. This was confirmed after the year end during the 28 July 2025 board meeting and will be reflected in the R9 table as well as the cash flow statement in the statutory accounts in the year 2025/26.

As per the Corporate Group Structure (see Appendix 2), National Grid Group plc, rather than NGET, maintains a dividend policy for shareholders and investors. The NGET Board is acutely aware that external investors in regulated utility companies, such as National Grid plc, value regular, stable dividends and invest on this basis. NGET has the advantage that it is owned by National Grid plc and, while National Grid plc needs to maintain a stable dividend, NGET has more flexibility in its dividend choices.

[4] download (nationalgrid.com)

In determining what, if any, dividends to pay, the NGET Board adopts a multi-stage process:

- Determination of an appropriate dividend based on performance, followed by
- Consideration of issues associated with financial resilience, ensuring adequate financial resources and credit metrics considering both current and future price control investment requirements

Whilst acting on behalf of the Licensee, the NGET Board also recognises the efficiency benefits of being part of inter-Group financing arrangements.

With regard to the performance benchmark, the NGET Board takes into account the total return earned by NGET. This includes:

- The allowed return on equity,
- The impact of operational performance, i.e. totex and ODI performance, and
- The impact of financial performance (e.g. cost of debt)

This first stage ensures that dividends take account of the performance of the company, and delivery on behalf of consumers.

With regard to financial resilience and resources, the Board considers:

- Current and future financial sustainability
- Current and future investment needs
- Current and projected gearing
- Current and projected credit metrics
- Previously deferred dividend

Financial Resilience

NGET is required by and has complied with its Electricity Transmission Licence obligation to provide Ofgem with annual certificates [Certificates for Operational Resources (1R), Financial Resources (1F), and compliance with standard conditions (1C)] by 31st July each year. Additionally, a statement of the main factors considered, in respect of its sufficiency of operational and financial resources over the next 12 months is also required. NGET must also be compliant with certain standard conditions and consider whether it is appropriate to pay a dividend or not. The Licence requires the certificates to be approved by a resolution of the NGET Board and signed by a director. These requirements form part of NGET's annual Financial Ringfence compliance process.

National Grid as a group do not have securitisation requirements that limit or restrict cashflows or dividends across the group. NGET has no such covenants and no external financing in the ownership chain until National Grid Group plc, see Appendix 2 for the Corporate Group Structure. At National Grid group level the balance of UK regulated, US regulated and unregulated activity ensures that the 50% threshold is not met and as such no companies within the corporate group have a material economic reliance on distributions and dividends from the Licensee.

Pensions and Other Activities

The purpose of the Pensions and Other Activities worksheet is to report a summarised position of NGET's pensions deficit for defined benefit schemes, and to capture any Ofgem related fines and penalties. The latter feeds into the calculation of RoRE.

The established deficit allowance less Pension Payment History (PPH) is -£0.3m. The pension scheme valuation is performed tri-annually, with the valuation presented in the 2024/25 RFPR being the March 2022 version.

Pension deficit payments ceased in 2023/24, except for an Employer Deficit Contribution payment of £1.6m in lieu of excess ongoing contributions for transferred Section A members of NGUK (Gas) Pension Scheme who transferred across as part of the sale of National Gas Transmission.

Pension Deficit payments (and all associated allocations thereof) reduce to zero with effect from FY2025.

There have been no Ofgem related fines or penalties in the year 2024/25.

September 2025

Data Assurance Statement

The RFPR submissions have been completed in line with the Ofgem Data Assurance Guidelines (DAG) process. This mandates a fully documented 2 level review process. The overall submission and regulatory judgments have been signed off at Director level.

In summary, the following assurances were completed:

1. Assurance Template completed by Data Provider
2. First Level Reviewer
3. Second Level Reviewer
4. Independent Expert Reviewer/ Internal Data Audit
5. Manager & Senior Manager
6. Director Sign Off

Basis of any Estimates and Allocations

Forecasts are based on the key principle that variable values remain unchanged from the published PCFM in January 2025 unless:

- Actual data is available;
- there is a clear external signal indicating change to values published through the published PCFM in January 2025; and
- there is an increase in the assurance of project costs compared with those published through the published PCFM in January 2025.

Where there is neither an external signal nor increased cost assurance, variable values remain unchanged from the published PCFM in January 2025.

These forecasting principles are specifically interpreted and applied to each category of variable values. On an annual basis the policies within this document are reviewed by NGET's Chief Financial Officer.

Contact Details

If you have any questions or comments on this document or the accompanying spreadsheet templates, please do not hesitate to contact a member of the team:

Drew Sambridge

Senior Finance Business Partner (Revenue & Regulation)

Drew.sambridge@nationalgrid.com

Appendices

Appendix 1 - Enduring Value Adjustments

To provide a true view of RoRE, several enduring value adjustments have been applied to totex. The enduring value is the true value of the regulated business over the course of the price control and factors in the financial impact of any decisions or events which are yet to be reflected in revenue and RAV but are known at the time of estimation. Where possible forecasting is utilised to give a view of the true value of the regulated business, however the RRP does not accommodate all required adjustments. Therefore, several adjustments are required to be overlaid after the completion of the RRP. These adjustments release deferred performance from RIIO-T1 to ensure performance is recognised when outputs are delivered, adjust performance in RIIO-T2 to reflect expected outcomes or simply re-phase performance in line with spend. A summary of the RoRE impact for these categories of adjustment can be seen below:

EV RoRE Impact	2022	2023	2024	2025	2026	RIIO-T2 Period
T1 Deferral Adjustments	1.74%	1.38%	0.27%	0.38%	0.20%	0.77%
T2 Adjustments	-0.65%	-0.63%	-0.67%	-0.28%	-0.89%	-0.63%
Re-Phasing Adjustments	-1.75%	-1.87%	-0.14%	0.95%	2.30%	0.00%
Total EV Impact	-0.66%	-1.13%	-0.54%	1.05%	1.61%	0.14%

The following table details the individual enduring value adjustments applied and the reasoning behind the application. These items reconcile to worksheet R3 – Totex Reconciliation:

Enduring Value Adjustment £m 2018/19 Price Base	2024/25 Adjustment	Total RIIO-T2 Adjustment	Total RIIO-T1 Adjustment	Explanation
T1+2 Deferral	£40.5m	£269.5m	-£358.8m	Allowances deferred in RIIO-T1 relating to crossover schemes. Performance to be released in line with output delivery dates.
T1 Non Load	£19.7m	£376.6m	-£393.9m	Outstanding RIIO-T1 projects where work is expected to complete in RIIO-T2 without further funding. Deferral of allowances released in line with spend to ensure performance is recognised when outputs are delivered.
ISS Deferral	£2.9m	£46.0m	-£46.0m	Agreement with Ofgem for the late delivery of ISS sites, with no change to RIIO-T1 allowances.
T1/T2 Offset	£15.7m	£78.4m	-£78.4m	Adjusts negative allowance in RIIO-T2 PCFM which claws back RIIO-T1 allowances. This has already been included in RIIO-T1 RoRE therefore adjustment to add back is included.
Pre-Construction Rephasing	£56.1m	£0.0m	n/a	Re-phasing of allowances compared to those in the PCFM. This re-phases allowances to match the spend profile to provide a more accurate view of in year performance.

Pre-Construction Adjustment + Easements	-£19.6m	-£160.7m	n/a	Deferral of pre-construction allowances that have pre-construction spend beyond RIIO-T2 to ensure performance is recognised when outputs are delivered. True-up of allowances to cost relating to permanent easements.
Bridging Allowance Adjustment	-£105.8m	-£255.6m	n/a	Removal of bridging allowances for schemes that won't deliver until RIIO-T3 to reflect accurate performance.
PCD Adjustment	-£66.9m	-£378.3m	n/a	Due to limitations within the RIIO-T2 licence we are unable to include a forecast certain PCD adjustments within the RRP. This adjusts allowances to provide a more accurate view of performance.
T2/T3 cross over projects	£134.0m	£160.0m	n/a	Adjusting for Totex that is being spent in RIIO-T2 for projects that will deliver in RIIO-T3, which we are assuming will be funded through T2/T3 crossover funding for the completion of these asset interventions. Also spend incurred on connections projects with no associated allowances. These will either trigger a TPG/TPD claim or will proceed to full output delivery in RIIO-T3.
Phasing Adjustment	£140.0m	£0.0m	n/a	Re-phasing of allowances compared to those in the PCFM. This re-phases allowances to match the spend profile to provide a more accurate view of in-year performance.
Total	**£216.5m**	**£135.9m**	**-£877.1m**	

September 2025

Appendix 2 - Corporate Ownership Structure