Leading a clean energy future for everyone

Annual report and accounts 2022–23

Welcome to the first National Gas annual report & accounts

Please use buttons to return to:

Main contents page

Business overview contents page

Strategic report contents page

Financial statements contents page

Business overview

Strategic report

Financial statements

Our business at a glance

We at National Gas are proud of our role in the UK. More than 1,600 skilled colleagues bring gas to around 23 million homes and over 500,000 businesses, including heavy industries and power stations that keep the lights on.

We are formed of three businesses – National Gas Transmission, National Gas Services and National Gas Metering.

Together, National Gas will work towards playing a leading role in the journey to Net Zero by developing a hydrogen backbone which can:

- Facilitate the decarbonisation of our energy system.
- Enable the development of the UK's hydrogen economy.

National Gas Transmission

National Gas Transmission (NGT) is the backbone of Britain's energy system today and we are working to play a leading role in the transition to a clean energy future that works for every home and business. We own and operate the gas National Transmission System (NTS) – more than 7,600km of pipeline, 68 compressors at 23 compressor stations and more than 500 above-ground installations delivering energy to where it is needed in every part of the country. We keep households warm and underpin their quality of life.

Gas is currently a critical part of Britain's energy needs. This is because we can ensure security of supply; and it is because of our transmission system that we are able to move it to where it is needed efficiently and quickly. Security of energy supply is something many of us take for granted, but delivering it is a responsibility we take incredibly seriously.

For business, we fuel growth and innovation. We will bolster Britain's energy security for the coming decades, helping to achieve its Net Zero ambitions, and ensure a competitive edge for British business.

National Gas Services

National Gas Services (NGS) is Britain's trusted authority in pipeline repair, maintenance and intervention. We provide comprehensive services for strategic gas assets. With our extensive expertise in both emergency and planned solutions, we ensure rapid 24/7 responses, 365 days a year, along with a full range of maintenance, inspection, and repair services.

Our expertise has unparalleled geographic reach. We have six strategically positioned depots across England, Scotland, and Wales, which enables us to effectively serve customers nationwide. We prioritise understanding each of our customers' unique requirements, making us the partner of choice for their gas asset needs.

National Gas Metering

National Gas Metering (NGM) is one of the largest meter equipment managers in Britain, enabling homes and industry to access the energy they need safely and reliably.

We manage around 6.8 million diverse and, in some cases, significantly complex gas metering installations delivering consistently high performance and outstanding levels of customer satisfaction. Our award-winning business is built from a dynamic, people-centred culture and an ethos of trust, care, transparency, agility, and value which guides us in all that we do.

national gas

national gas transmission

National Gas Transmission (NGT) is the backbone of Britain's energy system today and will play a leading role in the transition to a clean energy future that works for every home and business.

national gas services

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national gas metering

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Highlights of the year

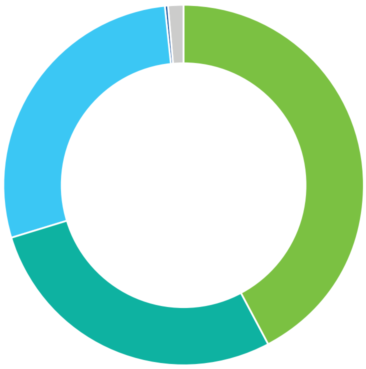
Energy industry

23m
UK homes use gas

500k
UK businesses use gas

38.4%
UK electricity generated from gas in 2022

Where did the UK's gas come from in 2022



National Gas

7,630km
of pipeline

68
compressors at 23 compressor sites and 500+ above-ground installations

Customers connected directly to the NTS

12 Industrial consumers
35 Power stations
9 Storage sites
2 Terminals
3 Interconnectors

£7.99 per year
National Gas Transmission's impact on the consumer bill*

£7,075m
Regulated Asset Value (RAV)

6.8m
gas meters managed by National Gas Metering

0.03 ↓
Lost Time Injury Frequency Rate, lowered from 0.12 in 2021/22

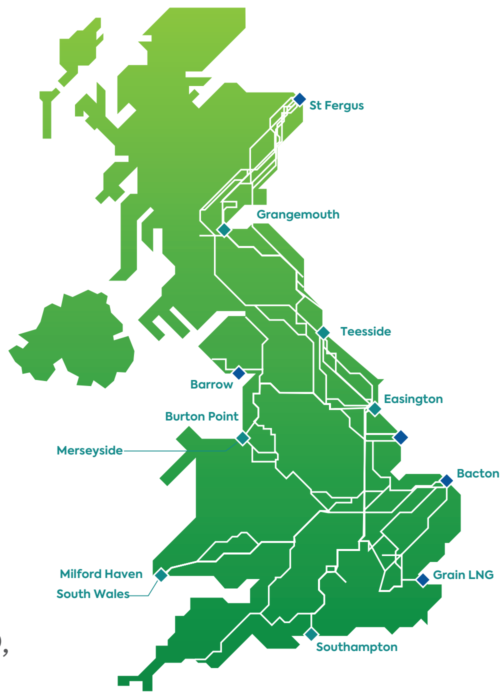
1,600+
colleagues

4.3% ↓
2022 gender pay gap, further lowered from 5.9% in 2021/22

8.6 out of 10
NGT Customer Satisfaction score

8.7 out of 10
NGT Stakeholder Satisfaction score

National Transmission System



Financial numbers	2022/23 £m	2021/22 £m
Revenue	**1,918**	1,374
Operating Profit before Exceptional Items	**619**	512
Exceptional Items	**(42)**	(13)
Total Operating Profit	**577**	499
Profit Before Tax	**354**	320
Cash Generated from Operations	**825**	864
Capital Expenditure	**382**	269
Regulated Assets	**7,075**	6,561

* In line with the Ofgem methodology for calculating network costs.

Taking a leading role in the transition to a clean energy future

Business overview

Chair's message

National Gas (previously National Grid Gas plc) is the backbone of Britain's energy system today and will play a leading role in the transition to a clean energy future that works for every home and business.

It is a real pleasure to report for the first time on the progress of our new business, National Gas Transmission plc (called "National Gas" from here onwards) – comprising National Gas Transmission, National Gas Services and National Gas Metering. Together we own and operate the National Transmission System (NTS), maintain around 6.8 million metering installations and play a critical role in delivering secure and reliable energy to where it is needed in every part of the country.

I am pleased to start my role as Chair by reporting on a transformative time for National Gas, which was formed on 31 January 2023 following the completed acquisition of a 60% equity stake in the business by the consortium comprising Macquarie Asset Management and British Columbia Investment Management Corporation.

The birth of the new business happened in the midst of some of the most challenging energy circumstances that the UK has seen, following Russia's illegal invasion of Ukraine and the resulting volatility in wholesale gas markets. Accordingly, my thanks are due to the National Gas executive team, to National Gas employees and to National Grid during the transition for ensuring that the business was able to start its new life in good shape.

Further, despite the unprecedented market challenges and a 10-month purchase approval process, our team delivered a strong set of results. We delivered positive performance across the majority of our measures, performing above target in six out of seven areas. I would like to thank our dedicated employees who have embraced so many organisational changes in the past year whilst still delivering continuous improvement across these indicators.

In addition we will continue to develop National Gas Metering and National Gas Services, both in their current functions and in their contribution to a future hydrogen network. We are already a key component in the Government's ambitions to see 10GW of hydrogen running through Britain's energy system by 2030, a programme which we are supporting both through physical trials and long-term strategic programmes.

Financial results

Our strong financial performance in 2022/23 included profit before tax of £354 million (£392 million before exceptionals and remeasurements). This was up 11% per cent on the equivalent 2021/22 profits of £320 million (£324 million before exceptional and remeasurements). We made a Return on Equity (RoE) of 7.8%, which was in line with the result achieved in 2021/22.

Our capital investment during the year totalled £382 million, up £113 million on 2021/22 and reflecting the increased investment in asset health and cyber security we expect to make over the five year regulatory investment period to April 2026.

We own and operate the National Transmission System, delivering energy to where it is needed in every part of the country. **Dr Phil Nolan,** Chair

Safety performance

First and foremost we want to run a safe business. In 2022/23 we improved our performance on our safety performance indicator of lost time incidents per 100,000 hours, reducing the rate from 0.12 to 0.03.

Environmental, social and governance

National Gas is at the forefront of leading a transition to clean, fair and affordable energy. To deliver on our vision, we have a clear strategy for how we will manage and operate our business for long-term sustainable benefit.

We are fully committed to ensuring sustainable and ethical practices through continuous evaluation and enhancement of our operations. Our goal is to promote sustainable, inclusive growth for our customers, employees, and society as a whole. To achieve this, we have implemented a robust improvement program that actively encourages stakeholder participation, challenges our practices, and leverages our business intelligence to gain deeper insights.

We are focused on our wider responsibilities beyond meeting our key performance indicators by acting as a responsible business and doing good in the communities we serve, such as through our social partnerships or our employees volunteering for charities across the UK.

We also made great strides in developing a hydrogen future. Our FutureGrid test facility at Spadeadam is planned to complete in November 2023; and last December we submitted plans for the initial phase of a hydrogen backbone in the UK, known as Project Union. Ofgem approved funding during the spring for this project, which will support further feasibility work over the next 12 months on a proposed 2,000km hydrogen transmission network.

People and culture

At National Gas we want everyone to feel a sense of belonging, where diversity and inclusion are celebrated in a meaningful and substantial way. This in turn will help us to attract and retain the best talent in our industry, as potential employees find out more about the company's values.

We have established an internal diversity and inclusion strategy which is focused on establishing strong foundations, moving the dial in the right direction for the business and the communities we operate in. We also set up NEON in March 2023 – our New Employee Opportunities and Networking group. This employee-led resource group helps new colleagues and aims to promote a positive experience for existing employees as we start our journey as a standalone business.

Board appointments

Our new Board was established on 31 January and to support the new Board we have established a new board governance framework, applying the Wates Corporate Governance Principles for large private companies. You can read more about our board members' experience and the committees they support in the Corporate Governance review.

Outlook

We believe the business is in a strong position to deliver its objectives over the next financial year. We will see a number of exciting developments to improve energy security in the near term and progress towards a cleaner energy future.

- We remain on track to deliver our regulated capital programme, improving energy resilience for our customers and investing more than £2bn directly into the UK's economy;
- We will continue to develop our hydrogen programme, including FutureGrid and Project Union, and the Government continues to support the requirement for the NTS to enable hydrogen transition;
- In terms of wider innovation, 26 Network Innovation Alliance projects have been sanctioned with many more under development for financial year 2023/24;
- We will strengthen our relationship with Ofgem even further, as the regulator builds its framework for the next price control which will take us into the early 2030s.

During my first few months as Chair, I have been impressed by the passion, innovation and sense of ownership among our people: these qualities are already yielding real results which contribute towards energy security now and towards clean energy networks in the future.

It is with a feeling of great pride that I thank my colleagues across National Gas for delivering such excellent results in a year of challenge and change across the energy sector.

Dr Phil Nolan, Chair

Gas energy landscape

The process of transporting gas from source to customer starts with producing the gas:

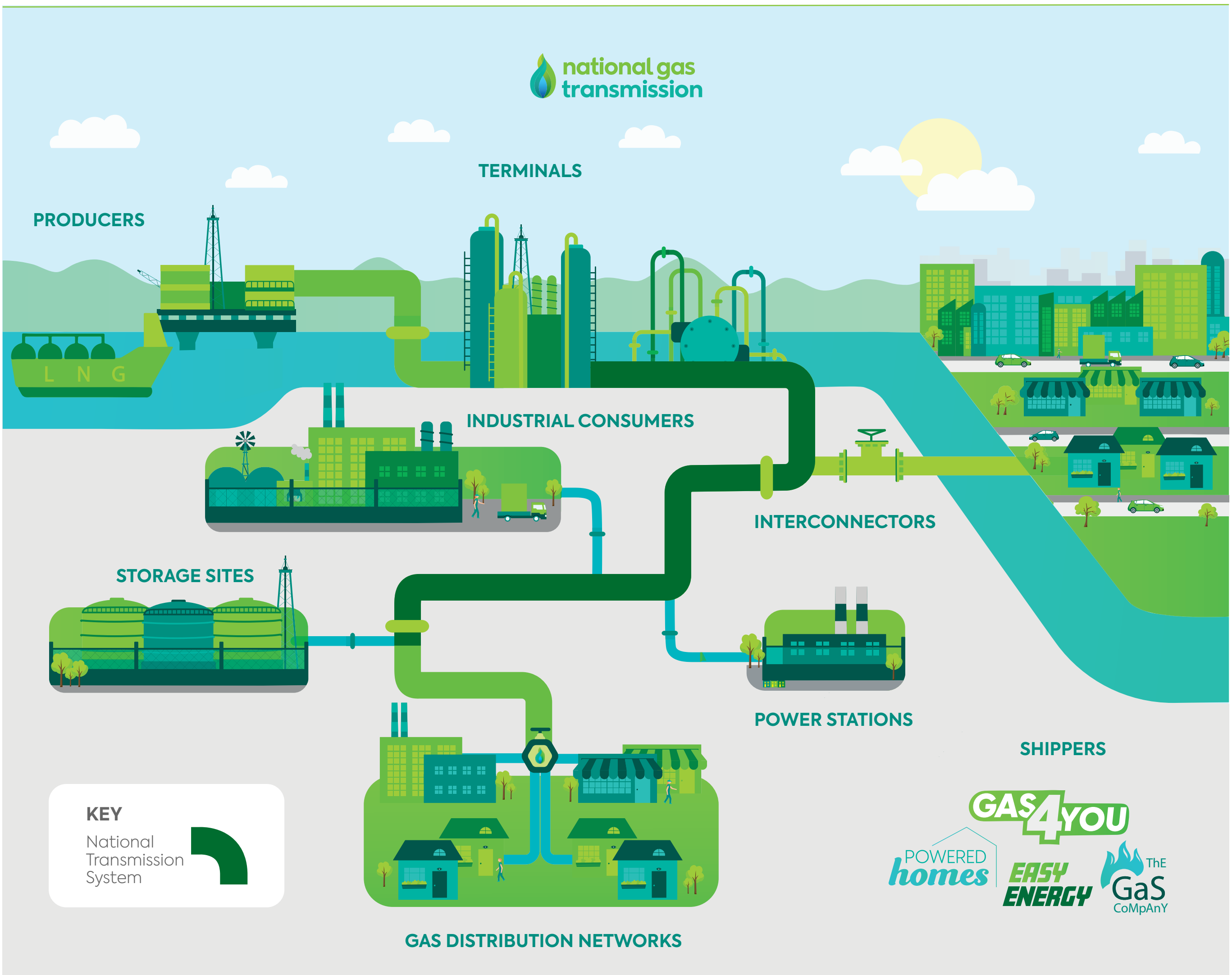
- Gas fields in the North Sea
- Pipes from Europe
- Imports via ship as Liquified Natural Gas
- Biomethane

The gas flows into our high-pressure NTS:

- Acting as the 'motorways of the system', transporting gas up to 94 bar pressure (a fully inflated car tyre is about 2 bar)
- Made up of steel pipelines
- Compressor stations push the gas around the network
- Third party gas producers and their appointed shippers decide where to put gas onto the system
- All controlled by our Gas National Control Centre (GNCC) which facilitates the gas markets and ensures gas is transported to where it is needed

The gas then reaches our customers

- These include industry, power stations, regional gas distribution networks and gas storage sites
- Household consumers receive gas through the four Gas Distribution Networks (GDNs), these being Cadent Gas, Northern Gas Networks, SGN and Wales & West Utilities
- Consumers will use gas at lower pressures which are controlled by the GDNs



National Gas is at the forefront of leading the UK's transition to clean, fair, and affordable energy. To deliver our vision we have a robust ESG strategy that will benefit our stakeholders and the planet.

Dr Phil Nolan, Chair

CEO's review: reflections on 2022/23

The year covered in this report was one of the most extraordinary years in the history of Britain's gas industry.

Like many businesses, we encountered some of the greatest challenges we have ever faced, driven by Russia's illegal invasion of Ukraine and the resulting volatility in the gas markets.

The year also presented many opportunities for National Gas as we became a stand-alone gas business. On 31 January 2023, we saw the completed acquisition of a 60% equity stake in our business by a consortium comprising Macquarie Asset Management and British Columbia Investment Management Corporation.

This significant investment is a vote of confidence that National Gas will play a leading role in the UK's energy transition. It enables us to support the expansion of hydrogen's role in the energy mix to deliver a competitive edge for the UK, and to work with the Government and Ofgem to maintain security of supply over the coming decades.

Last year we made strong progress on our consumer priorities that underpin our business: delivering reliable energy, affordable energy and sustainable energy to our consumers.

Reliable energy

The reliability of our network keeps homes warm, industry fuelled and the lights on – the safety and reliability of our supply is our first priority. I can report that we have achieved 100% reliability in 2022/23 despite an increase in asset maintenance activity as we worked to enhance the resilience of our network still further.

To maintain this high standard throughout last year we carried out winter preparations even in the high heat of summer: our engineers carried out vital pipeline inspections, digs and maintenance around our networks ranging from Westminster to the North York Moors National Park.

Our maintenance programme made us all the more resilient when it came to winter, and enabled us to maintain high levels of export through the gas interconnectors to Belgium and the Netherlands. An extraordinary supply and demand pattern, driven by volatility in global gas markets, continued throughout 2022/23. We exported sustained flows of gas into Europe throughout that period via our compressor and terminal network in eastern England – regularly sustaining flows of 75 million cubic metres every day to the gas interconnectors with Belgium and the Netherlands, and accounting for more than 15% of European gas storage by the end of 2022.

Unusually large entry and exit flows continued throughout the financial year. A record 26.2 billion cubic metres of liquefied natural gas (LNG) came into Britain via Milford Haven and Isle of Grain terminals: up 53% on the 17.1 billion cubic metres in 2021/22. Meanwhile, 20.3 billion cubic metres flowed out to the Netherlands and Belgium through the two interconnectors from Bacton terminal in Norfolk. The volume of these exports was four times greater than the volume we flowed to Europe in 2021/22, and represented a substantial operational challenge to the way we manage and maintain the transmission network. This had a substantial impact on our revenues during the year, although this does not increase our profitability as the regulatory system balances out in-year gains from higher wholesale prices. The financial consequences of these higher flows are covered within the financial sections of this report.

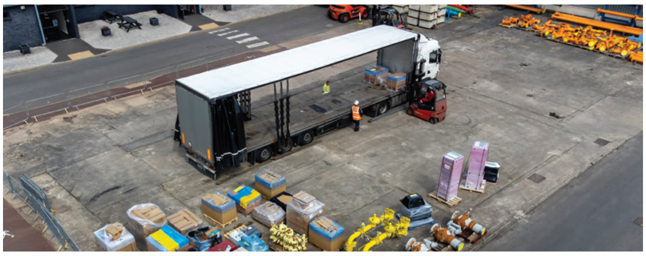
We also continued to work closely with Government, Ofgem, our supply chain and other partners to enhance supply security for British consumers in future winters or emergencies. In October 2022 we completed our annual network emergency exercise "Exercise Degree" involving hundreds of participants from the industry, government and regulators. The exercise enabled us to practice responses up to and including a National Gas Supply Emergency, an event that the UK has never seen.

I strongly believe that National Gas has the right tools and services available and the right capabilities through our people and supply chain partners, to continue operating safely and deliver reliable energy for all customers.

Jon Butterworth, Chief Executive Officer

> National Gas will play a leading role in the UK's energy transition – one which keeps Britain moving and enables choice for businesses and homes.
>
> **Jon Butterworth,** Chief Executive Officer

CEO's review: reflections on 2022/23 continued



Ukraine response

In addition to our work in Britain, we joined forces with the industry during 2022 to assemble and send key specialist components to help Ukraine to repair and replace infrastructure damaged during Russia's invasion. Our employees have been shocked by events in Ukraine and were motivated to help citizens and our counterparts in the Ukrainian energy sector, using our specialist expertise. It was a Herculean collaborative effort, with some fantastic leadership demonstrated across the industry. We will continue to work with the industry in the UK to support the Ukraine as they re-build.

Affordable energy

Affordability for our consumers is paramount. Last year presented extraordinary circumstances for businesses and consumers alike. The Russian war in Ukraine and resulting reduction in gas supplies to EU countries generated unforeseen and uncertain circumstances for the energy market. Despite wholesale gas prices falling since the 2022 peak, prices remain volatile.

We are acutely aware of the impact that high gas prices can have on consumers across the board. With this in mind, our business plan to March 2026 is geared to having a minimal impact on bills.

In 2022/23, the impact of NGT on the typical fuel bill was low, at around £7.99 on the typical annual consumer bill. NGM and NGS are not incorporated within this assessment owing to differing business models.

However, we recognise that some consumers are more vulnerable to price increases – that's why we supported Government measures such as the Energy Price Guarantee and Energy Bills Support Scheme to help households on variable tariffs and higher fixed tariffs.

Consumer bill*

2.4%	Environmental/ Social Obligation	21.5%	Energy Suppliers
2.4%	Other direct costs	27.8%	Other Networks
4.7%	VAT	41.3%	Wholesale

National Gas Transmission's cost

£7.99

of the average annual gas bill

Sustainable energy

National Gas has an ambition to be Net Zero by 2040 for Scope 1, 2 and 3 emissions. This is a change to our previous ambition of 2050 which was in place under National Grid Group. To support this ambition work is underway to develop a bespoke decarbonisation strategy and emission reduction roadmap. The strategy and roadmap will be developed by the end of 2023.

This year the Government defined a more ambitious hydrogen target of 10GW by 2030, and the gas industry has already identified 12GW in existing programmes – a transformational endeavour by any standards.

NGT is already at the forefront of hydrogen innovation through Project Union – our plan to develop a hydrogen backbone for Britain. FutureGrid will help us to demonstrate the safety case and indicate any modifications required to transport up to 100% hydrogen in the NTS at our site at RAF Spadeadam with our partners DNV. Looking forward, National Gas is perfectly placed to contribute to the UK's clean energy future.

> National Gas is already at the forefront of hydrogen innovation through Project Union, our plan to develop a hydrogen backbone for Britain, and FutureGrid, our world-leading test facility at RAF Spadeadam.
>
> **Jon Butterworth,** Chief Executive Officer

10GW
by 2030, hydrogen target defined by Government

12GW
identified hydrogen production facilities

* In line with the Ofgem methodology for calculating network costs, our contribution to consumer energy bills is estimated from our revenues charged to suppliers (i.e. our exit revenues from transmission services and general non-transmission services), as it is assumed that these charges are passed directly on to consumers through bills. We divide our exit revenues by our exit flows, to calculate a p/kWh value. We then multiply this by Ofgem's estimated average domestic demand (12,000 kWh), to obtain an estimated consumer bill impact.

Our purpose, values and priorities

National Gas is here to play a leading role in creating a clean energy future which works for every home and business.

Driven by consumer priorities, we aim to continue ensuring a safe and reliable gas network throughout the Net Zero transition.

We then plan to be a central player in the UK's future hydrogen network and will continue to grow our business in areas where we can leverage our unique skills and expertise.

Consumer priorities

The things that are important to UK energy consumers

- I want an affordable energy bill
- I want to use energy as and when I want
- I want you to deliver a sustainable energy system

Our purpose

Why we are here

Leading a clean energy future for everyone

Our values

How we work

- Simplicity
- Ownership
- Progress

Our priorities

Where we will focus our efforts

- Operate safely, reliably, and flexibly
- Deliver sustainable value for customers and stakeholders
- Drive positive environmental and community impact
- Invest in our people, grow our capability, and value everyone's contribution
- Shape the energy markets of the future

Innovation

Innovation is about taking calculated risks that can drive change and deliver value to our customers. We are continuing to develop the future of the NTS and gas metering through our work on hydrogen and alternative Net Zero opportunities.

National Gas Transmission – business review

At National Gas Transmission (NGT), we keep households warm and underpin their quality of life. For businesses, we fuel growth and innovation.

There are three main areas where we are delivering for Britain's energy system:

- **Providing a critical part of the UK's energy needs today**
- **Playing a leading role in the UK's journey to a clean energy future; and**
- **Underpinning industry and growth in every nation and region of Britain.**

Gas is currently a critical part of Britain's energy needs; and it is because of the NTS that we are able to move gas to where it is needed in an affordable manner and efficiently. Security of energy supply is something many of us take for granted, but delivering it is a responsibility we take incredibly seriously.

You can read about our achievements during 2022/23 on page 12.

At the same time we are looking to the future by developing the hydrogen transmission system of tomorrow. With hydrogen, we can support the development of renewable sources like wind and solar – providing energy in the depths of winter when sunlight is at a premium and in the height of summer when the wind is not blowing. By using our existing infrastructure and expertise, we are proud to play a leadership role in delivering an energy system of the future and realising our Net Zero ambitions.

Providing the energy homes and businesses need is not the only way we are delivering. Our NTS for gas powers jobs and fuels growth – both directly and through our extensive supply chain. The UK employs 130,000 gas engineers alone and many further thousands of jobs are supported across the wider gas sector. These jobs are highly skilled and provide individuals and families across the whole country with financial security.

As hydrogen becomes a larger part of our energy mix, the contribution of the gas sector to our wider economy can only grow. Britain's hydrogen economy can also power exports, with products made here, such as hydrogen boilers, becoming renowned around the world for their quality and cost-effectiveness.

We are proud to deliver Britain's energy needs.

Our priorities

In developing our business plans, we have continually sought the views of our customers, our stakeholders, and UK energy consumers, to understand their priorities and what they want from our network.

Using this feedback, we have developed our five strategic business priorities - the areas we will focus our efforts to deliver for our customers and achieve our goals.

Our priorities	Operate safely, reliably, and flexibly	Deliver sustainable value for customers and stakeholders	Drive positive environmental and community impact	Invest in our people, grow our capability, and value everyone's contribution	Shape the energy markets of the future
This means	Doing the job we're here to do, running our network and National Gas Metering to the highest standards, never compromising on our people's or customers' safety	We'll listen and respond to customers, to make sure we deliver what they need. And we will do that with commerciality in mind	We think green when maintaining, improving, decommissioning, or buying assets and we aim to deliver substantial community benefit with every project	We're nowhere without our teams, and our business is only as good as its people	We're at the centre of the energy markets of the future, working to decarbonise and secure energy supply and leading the hydrogen transition for gas networks

Our achievements in 2022/23

Our priorities	Achievements
Operate safely, reliably and flexibly	• We have kept our people, and the communities that we serve, safe from harm – 0 tier 1 or 2 process safety incidents in 2022/23 versus 1 in 2021/22 – 6 high potential controllable events in 2022/23 versus 10 in 2021/22 – Lost time injury frequency rate of 0.03 in 2022/23 versus 0.12 in 2021/22 • Our customers, and therefore UK energy consumers, experienced zero supply interruptions, keeping homes warm, industry fuelled and the lights on • Following Russia's invasion of Ukraine and subsequent reduction of Russian gas supplies to Europe, we re-configured our network to facilitate sustained, high levels of export through the interconnectors to Belgium and the Netherlands. These exports totalled more than 20 billion cubic metres of gas during the year. – 100% reliability of our network – same as 2021/22 – 92% availability of seasonal critical compressors vs 93.5% in 2021/22 – 15% of EU storage refilled with exports through interconnectors (estimated) • A record 26.2 billion cubic metres of liquefied natural gas (LNG) came into Britain via Milford Haven and Isle of Grain terminals: up 53% on the 17.1 billion cubic metres in 2021/22. • 20.3 billion cubic metres flowed out to the Netherlands and Belgium through the two interconnectors from our Bacton gas terminal. The volume of these exports was four times greater than the volume we flowed to Europe in 2021/22. – The impact of both increased imports via LNG and increased exports via interconnectors – coupled with higher wholesale gas prices – were large factors in increasing overall National Gas revenue by £544 million. This resulted from the profile of regulated allowances in the RIIO-2 period and the higher recovery of charges caused by higher gas volumes - the latter driven by increased transit gas activity and auction outcomes, as flows into mainland Europe increased significantly. • We successfully delivered our annual network emergency exercise 'Exercise Degree', once again demonstrating that the gas industry is prepared and able to meet its obligations in the event of a Network Gas Supply Emergency. Exercise Degree was held over 4 days, with over 400 industry participants taking part.
Deliver sustainable value for our customers and shareholders	• We have continued to keep our annual impact on consumer bills low. – £7.30 per year in March 2022 – £7.99 per year in March 2023 • Our continued focus on delivering for our customers is having an impact – Customer Satisfaction Score of 8.6 (113 responses) vs 8.6 (95 responses) in 2021/22 – Stakeholder Satisfaction Score of 8.7 (84 responses) vs 8.6 (71 responses) in 2021/22 • We have managed the system efficiently to minimise constraints, maximising capacity releases on the system and saving money for our direct customers and consumers more broadly – This resulted in a capacity constraint management incentive performance of £4.8 million in 2022/23 • Our customers experienced zero unplanned outages and therefore no interruption to their gas supply – We delivered over 1,000 summer maintenance activities with only 1 day of change to the agreed plan vs 0 in 2021/22 • Despite volatile markets, we have provided accurate demand forecasts, helping our customers make informed decisions – 8.97 mcm/d difference in our forecast accuracy versus the daily demand vs 8.52 mcm/d in 2021/22. • Our impact on the market has been minimal. Our customers can rely on us to ensure a balanced gas system matching supply and demand to deliver maximum value for consumers. – 2 million cubic metres of gas required each day to balance the system, which is the same as 2021/22 • We are making progress with delivering the commitments and outputs that we have agreed with Ofgem to deliver in this price control period. These include investment to reduce the emissions from our compressor fleet, enhancing the physical security of our sites, plus decommissioning redundant assets. Each set of outputs is defined as a "Price Control Deliverable", which will be monitored by the regulator over the course of the five-year period. – 1 Price Control Deliverable (PCD) has been fully delivered with alternative specification – 17 PCDs are on track to be fully delivered by the end of the control period – 1 PCD is expected to be partially delivered with alternative specification by the end of the control period

Our achievements in 2022/23 (continued)

Our priorities	Achievements
Drive a positive environmental and community impact	• In response to the Russian invasion of Ukraine we co-ordinated the collection of essential gas transmission and distribution components, with substantial donations from the four UK Gas Distribution Networks (GDNs), for delivery to the Ukrainian transmission operator. • As part of our Environmental Action Plan (EAP) we are striving to reduce our emissions across RIIO-2 (2021/22 to 2025/26), supporting the transition to Net Zero. – Business carbon footprint (CO2e) emissions increased by 109 kilotonnes (37%) from 2021/22* – Compressor station and terminal NOx emissions were 6.3 kilogrammes per compressor unit run hour, a decrease of 2.6 kg/hour from 2021/22 – Methane emissions from compressor venting increased 203 tonnes from 2021/22*
Invest in our people, grow our capability and value everyone's contribution	• Our employees make our business. We aim to ensure that they have all the tools, knowledge and skills to deliver for our customers whilst being healthy, happy and supported to speak their mind – Employee Engagement Score of 75% which is the same as in 2021/22 – "Safe to say what you think" score of 68% vs 75% in 2021/22. In response, we have stepped up the frequency of our employee experience surveys and have opened up new channels for employee listening and feedback on what it's like to work for National Gas. • Diversity within any workforce delivers huge benefits and we recognise that we have work to do in this area to ensure we meet the diversity targets that we have set ourselves. – 49% of our external hires are diverse vs 37% in 2021/22 – 44% of total leavers who are diverse vs 32% in 2021/22. As part of addressing this we have set up an active Diversity, Equity and Inclusion Council formed by volunteers who provide representation from diverse backgrounds within our business. They meet to discuss what is being actioned on a diversity, equality, and inclusion perspective, what is working and provide advice and insight on what to do next.
Shape the energy markets of the future	• We continue to build critical knowledge and evidence to support the transition to Net Zero – Number of Strategic Innovation Fund projects: 14 projects led, 27 supported – Number of Network Innovation Allowance projects: 26 newly sanctioned, 9 completed • We have collaborated more than ever across the sector to ensure no duplication of effort whilst delivering greater outcomes for the UK • We continue to demonstrate a significant investment in the future of our network and the role it can play now and in the future – Amount of Strategic Innovation Funding (SIF) awarded £2.92 million • Our FutureGrid project is the first of many steps towards a full-scale conversion of our network to transport hydrogen. – We have constructed a test facility from decommissioned assets, and in 2024 we begin a wide range of hydrogen testing to gain a full understanding of working with hydrogen, to develop processes and procedures – like those we currently have for natural gas – to allow us to run a safe and reliable national hydrogen network. • Project Union is our project to connect hydrogen production, storage and demand centres, to enable a hydrogen economy in the UK. Using the learning from our FutureGrid project we will repurpose our existing pipelines to create a low-cost hydrogen 'backbone' by the early 2030s and connect to the proposed European Hydrogen Backbone. • We have secured £5.9 million (2018/19 prices) of additional regulatory funding in RIIO-2 to start work on: – Phasing strategy and priority – Pre-Front End Engineering and Design (pre-FEED) – Hydrogen market enabling activities

Using the learning from our FutureGrid project we will repurpose our existing pipelines to create a low-cost hydrogen 'backbone' by the early 2030s and connect to the proposed European Hydrogen Backbone.

* Increase from 2021/22 due to compressor utilisation supporting gas exports to Europe

How we are regulated

The regulatory regime overseen by Ofgem applies to all aspects of our gas transmission business, NGT. The aim of the regulatory regime is to ensure companies operate and behave as if under competitive pressure, delivering outcomes that are in the interests of energy consumers.

Collectively, the transmission regulatory framework is called RIIO (Revenue = Incentives + Innovation + Outputs) and lasts for five years. The current period started on 1 April 2021 and runs until 31 March 2026. The regime sets out prospectively the expenditure allowances (budgets and associated revenue restrictions), incentives and output delivery requirements for NGT.

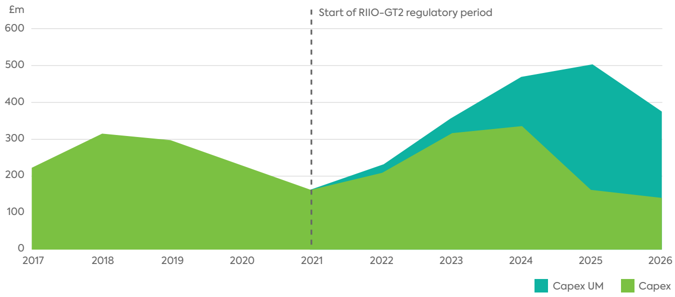
During the regulatory review process NGT's spending plans are scrutinised and benchmarked to ensure allowances are efficient and competitively costed. Further, the regulatory regime comprises of several incentives relating to both costs and service delivery that drive ongoing innovation, cost efficiency and service quality improvements.

Our Gas Transmission business operates under one price control, covering our role as transmission owner (TO) and system operator (SO).

We have a good relationship with Ofgem, with constructive engagement ahead of the regulator's RIIO-T2 decisions that will deliver significantly more capital investment annually than the previous regulatory period which ran from 2013 to 2021 (see figure below).

Annual totex allowance (including Uncertainty Mechanism (UM totex) has risen from £360 million in RIIO-T1 to £571 million in RIIO-T2 (2018/19 prices), driven by increased investment in asset investment maintenance, compressor replacement and cyber security obligations.

Our Capex Allowances



Stakeholder landscape

Our business relies on strong relationships with our stakeholders. We define our stakeholders as anyone who has an interest in or is impacted by what we do. **We cannot meet our ambition without working with our stakeholders**.

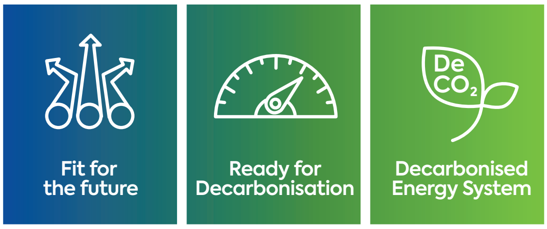
Stakeholder group	Examples	Description
Customers	Shippers, Directly Connected Industrial Consumers/Power stations, Gas Distribution networks	Customers depend on us to connect them to the energy they use safely, reliably, and efficiently.
National and regional governments	Westminster, Devolved Government, Government Departments, Local Government and Local Authorities	Set the policy framework for energy
Supply chain	Construction partners, service providers	Work collaboratively with us to deliver the services for our customers and consumers.
Financial and non-financial regulators	Ofgem, Health & Safety Executive, Environment Agency/ SEPA/ Natural Resources Wales	Regulate what we do and how we do it to ensure we are delivering for customers, consumers and the British economy.
Consumers	Homes and businesses consumer representatives i.e. Citizens Advice	We serve consumers, ensuring energy gets to where it's needed, when its needed. Whilst not directly interacting with consumers we ensure we focus on what's important to consumers through research and engaging consumer representatives.
Energy industry	Other networks, trade bodies	Due to the interconnectedness of the energy system, we work alongside the wider industry and trade bodies to ensure we deliver a clean energy transition for everyone.
Innovators and academics	Universities, think tanks, consultants	Working collaboratively on some of today's biggest challenges .

Innovation in our regulated business: a round-up of 2022/23

Our strategic themes have remained consistent through RIIO-T2, driving the reinforcement of the network through our 'Fit for the Future' programme, upgrading and developing the technologies and assets needed for the transition through 'Ready for Decarbonisation' and demonstrating Net Zero ready systems through the 'Decarbonised Energy System' theme. More can be found in our 2023 Innovation Strategy.

In RIIO-T2, we focus not only on regulatory innovation, but on reinforcing our innovation culture across the business, driving innovation and efficiency into every investment and activity. While the transition of the energy system is an immediate focus, we must ensure our transitioned network is optimised to deliver energy at the lowest cost and with the highest levels of safety.

As part of this price control period NGT have been provided with £25 million of Network Innovation Allowance (NIA) Funding and the opportunity to compete for a portion of the available £450 million Strategic Innovation Funding (SIF).



Network Innovation Allowance (NIA)

The NIA provides an allowance to fund small-scale, low Technology Readiness Level (TRL) projects from early research through to demonstration. The funding is accessible throughout the RIIO-T2 period and has three key drivers: (1) Research and Development – encouraging operational and technological innovation (2) Collaboration and Dissemination – working with external partners to solve problems and share new learning (3) Customers and Strategy – focusing on solutions that deliver benefits to our customers.

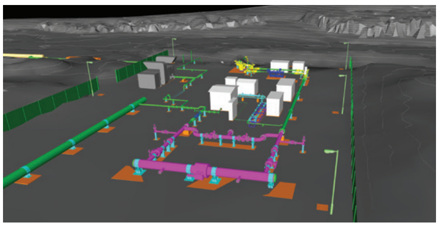
Key highlights of 2022/23:

- 26 NIA projects have been approved with many more projects under development for financial year 2023/24.
- 8 NIA projects have successfully completed in financial year 2022/23.

Examples of NIA projects appear below:

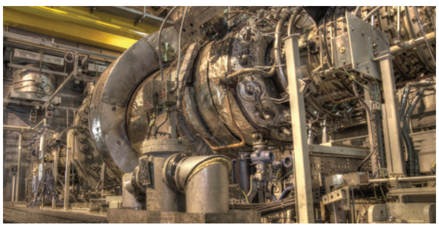
Gas and Electricity Transmission Infrastructure Outlook 2050

This was a collaboration project between National Grid ESO, National Grid Electricity Transmission and NGT. The study explored the development of an integrated energy infrastructure for Britain to achieve its 2050 net-zero target whilst reducing costs to consumers and maintaining energy security. One of the key messages from this study is that across all the modelled future energy scenarios, integrated electricity and hydrogen transmission infrastructure planning can realise savings, especially in the System Transformation scenario where energy system savings of £38 billion by 2050 are possible. Early investments common across the transmission networks are needed to realise these savings. The published report can be found at: https://www.nationalgas.com/document/142906/download



Collaborative Visual Data Twin – Phase 1

The introduction of hydrogen into the National Transmission System (NTS) poses many technical challenges and additional complexity which digital tools may enable us to resolve. A virtual and data twin is required to fully understand the intricacies of how traditional gas assets are affected by the introduction of hydrogen. This project uses the FutureGrid facility as a test case to explore how the virtual world can directly benefit our physical understanding of assets and the network. The project is established as two parts to develop an interactive and collaborative data twin. This work aligns to NGT's reopener activity for digital construction.



Hydrogen Fuel Gas for NTS Compressors

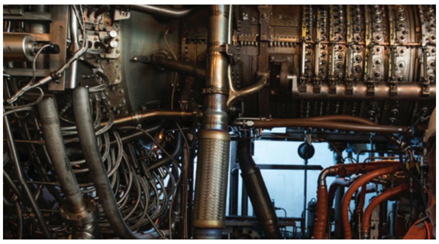
The project undertook a feasibility study on an example NTS Compressor Station that examined the safety, environmental, technical, operational and economic issues in establishing an innovative green hydrogen production, storage and supply facility to fuel the SGT-A20 GTs on varying blends of hydrogen. The study found it is viable to run the Siemens Energy SGT-A20 GTs on blends of hydrogen and natural gas up to 100% hydrogen. The project report can be found at: https://smarter.energynetworks.org/projects/nia_nggt0176/

Strategic Innovation Fund (SIF)

The SIF provides funding for larger scale demonstration projects and enables their development through several separate project phases – Discovery, Alpha and Beta. This funding is determined by annual challenges which focus on encouraging cross industry collaboration.

Key highlights of 2022/23:

- 10 SIF Discovery projects have been delivered
- 4 SIF Alpha projects have completed in financial year 2022/23

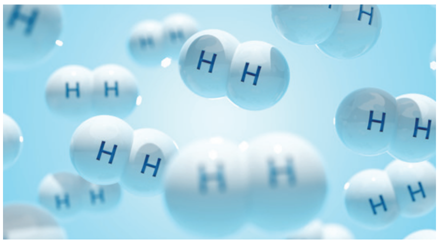


HyNTS Compression

The project investigated the key challenges associated with compression of hydrogen and blends through NTS assets. The project determined the most cost-effective, technically feasible solution for this. The early phases of the project focused on the business case, the gas turbine system, the compression system, ancillary equipment and the design of the demonstration facility. Based on thermodynamic model data the compressors can operate on blends of hydrogen up to 50% (with some modifications carried out to enable beyond 25% blends). A 100% hydrogen compressor will be manufactured and tested during the follow-on phase of work.

HyNTS Deblending for Transport

The overall pathway for HyNTS Deblending is to develop and demonstrate technologies that separate hydrogen from natural gas (and blends) for transport applications such as HGV, rail, marine and aviation. The solution developed will be low-cost and mobile for deblending and purification that can be migrated around the UK network. This phase of the project developed the business case, test profiles and system requirements. This led to a supplier selection for the next demonstration phase.



HyNTS Protection

The NTS consists of pipes and valves buried below ground and auxiliary and service units above ground. All of these components have been designed for natural gas and are potentially vulnerable to failure from hydrogen embrittlement. This project explored the options and application methods to potentially protect our assets from hydrogen gas via a permeation barrier that is continuous, without joins or flaws. Further work is needed but the research suggests the cost of repurposing is x18 less expensive than installing new pipeline. All the metal materials analysed provided improved hydrogen barrier performance against steel. Electro-forming was deemed suitable for removeable assets and cold-spraying metallic coatings deemed most suitable for in-pipe application.

The £12.7 million HyNTS FutureGrid NIC project at DNV's Spadeadam Test and Research Centre has progressed to commissioning stage, ready for testing trials.

FutureGrid

The £12.7 million HyNTS FutureGrid NIC project at DNV's Spadeadam Test and Research Centre has progressed to commissioning stage, ready for testing trials of 2%, 5%, 20% and 100% hydrogen to commence in financial year 2023/24. The project will demonstrate that the National Transmission System can transport hydrogen ready for Project Union (the UK hydrogen backbone).

The redundant assets used to construct the facility have been tested and, where necessary, remediation works have been conducted. We completed materials testing and started testing our Fatigue Rig, which replicates our network using a 36" X60 pipe with different weld types. These tests simulate hydrogen pressure cycles in the network. Our assets are designed for 15,000 pressure cycles, equivalent to 40 years of service. By February 2023, we had completed over 18,000 cycles without any observed changes.

The project completion date has been extended to November 2023 to accommodate delays in delivering the recompression unit. The extension also allows for a 5% hydrogen blend test, in response to a European Commission draft policy to accept 5% hydrogen by 2025 and ensuring the continued interaction with Europe via the interconnectors.

FutureGrid Hydrogen Test Facility in final stages of construction in January 2023

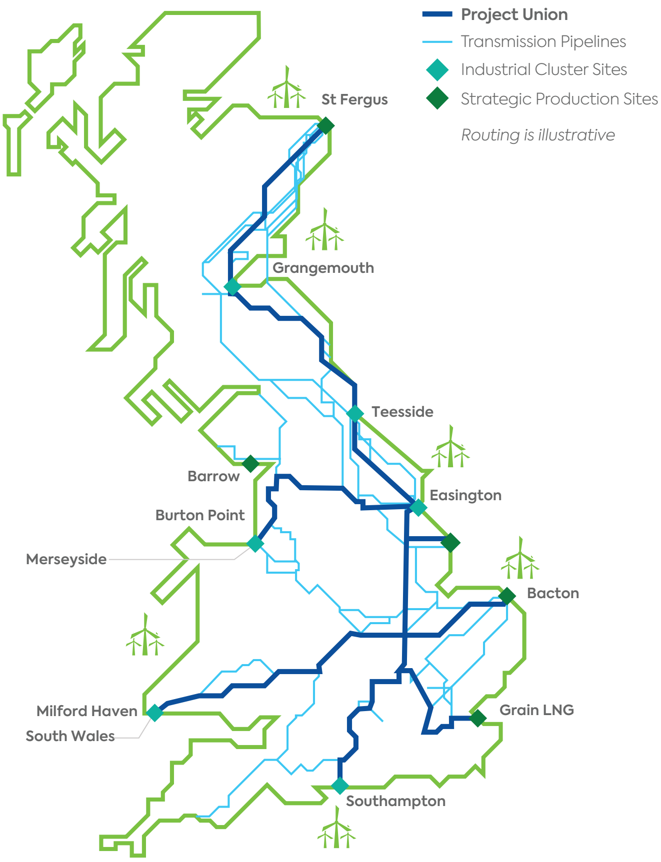
Project Union

As electricity generation becomes more weather dependent, we anticipate that gas-fired generation demand will become more variable both day to day and within a given day.

To support this transition, FutureGrid and Project Union and other ongoing innovation projects will help enable the UK network to manage the intermittency of decentralised, renewable power generation by developing a hydrogen transmission system

The UK government have continued to support the requirement for the gas transmission system to enable the hydrogen transition in the UK. Key milestones for the projects in 2022/23 include:

- Project Union was awarded its Pre-FEED funding to enable the project to begin to provide the strategy, route and business case for the FEED activities due to commence in 2024. Project Union aims to repurpose around 200km of the current gas transmission pipelines to unlock the potential of connecting industrial clusters to hydrogen supply.
- FutureGrid and several associated innovation projects have started to provide evidence for the network's capability with hydrogen.
- FutureGrid, in collaboration with numerous industry stakeholders and funded via the Network Innovation Competition, is using decommissioned assets to test and prove the feasibility of using hydrogen on the NTS and in homes and industry.
- National Gas also secured funding from the Strategic Innovation Fund to carry out a series of projects which aim to assess and ultimately prove the feasibility of several applications of new engineering or technology to facilitate the use of hydrogen on the gas network.



Business overview

National Gas Services – business review

Previously known as Pipelines Maintenance Centre (PMC), National Gas Services (NGS) is Britain's leading provider of planned and emergency pipeline maintenance and repair solutions with six depots strategically placed across England, Scotland and Wales.

We are ready to respond rapidly whenever needed, and provide comprehensive services for strategic gas assets nationwide.

NGS, which made £46 million of revenue in 2022/23, is Britain's trusted authority in pipeline repair, maintenance and intervention. With our extensive expertise in both emergency and planned solutions, we ensure rapid 24/7 responses, 365 days a year, along with a full range of maintenance, inspection, and repair services.

We have an efficient, integrated modern delivery unit of strategic gas assets and have become a key supply chain partner to the UK pipeline industry enabling security of supply and more recently building our capacity to support customers in the transition to a greener future.

As a competitive business, we carry out work for NGT and other companies both inside and beyond the gas networks. We provide Centralised Emergency Materials and Equipment (CEME) which ensures customers receive an emergency response service 24 hours a day, 365 days a year. CEME also provides customers with access to materials and specialist equipment held across our depots.

Performance to date

- We have found new efficiencies and innovation to enable a 31% increase in profit since 2021/22 (£10.5 million from £8 million).
- 37% increase in resource utilisation in 2022/23, significantly enhancing performance efficiency.
- Successful Operation and Maintenance (O&M) framework win with further opportunity in future years.
- Digitalisation of NGS beginning to drive efficiency improvements.
- Significant improvements in cost control including reduction in in-line inspection dig costs. 2020/21 £198K, 2021/22 £135k, target cost 2022/23 £108k.
- Customer Satisfaction score – 8.4 against a target of 8.0
- NGS refreshed its senior management across Commercial, Innovation, Market Insight, Programming and Customer disciplines. This brings new perspectives, and enables coordinated focus on key growth-focused initiatives.
- Introduction of new suppliers to support a model that can optimise utilisation and refresh the civils supply chain with new partnerships leading to the launch of a civils master framework that will deliver improved cost efficiency.
- Increased presence at industry events in the UK and beyond to support brand promotion and build market awareness of NGS capability.

We deliver value for customers through the following pillars:

Market engagement → Unlicensed growth → Workforce utilisation → Digitalisation

We ensure rapid 24/7 responses, 365 days a year, along with a full range of maintenance, inspection, and repair services.

8.4

Customer Satisfaction score 2022/23

37 percentage points

increase in resource utilisation from 52% to 89% in 2022/23

Business overview

National Gas Metering – business review

National Gas Metering (NGM) is one of the largest meter equipment managers in Britain, enabling homes and industry to access the energy they need safely and reliably.

Managing and maintaining around 6.8 million metering installations – including some of high complexity – NGM is responsible for keeping a large proportion of the UK's homes and businesses connected to gas networks.

As an experienced manager of gas metering equipment, our expertise spans domestic, commercial, and industrial installations, along with designing and building new connections to local gas distribution networks.

Our strategy

NGM's strategy, purpose, priorities, and values are aligned to those of National Gas as a whole.

Our purpose

Leading a clean energy future for everyone

Our priorities

The first choice for traditional gas metering and the transition to hydrogen

- Operate safely, reliably, and flexibly
- Deliver sustainable value for customers and stakeholders
- Drive positive environmental and community impact
- Invest in our people, grow our capability and value everyone's contribution
- Shape the energy markets of the future

Financial | Industry Engagement | Asset Excellence | Operational Excellence | Team | Culture | Hydrogen

Our values

Ownership | Simplicity | Progress

We champion BELONGING by fostering diversity, equity and inclusion

Safe every day

Our achievements in 2022/23

We are most proud of our relentless commitment to our people. It is this consistent focus that has enabled the safe and reliable delivery of our business plan and our customer commitments.

We have received external recognition for our service to customers, our culture, our innovation, and our leadership. Most notably, we were accredited 'A Great Place to Work' at the end of 2022, finalists for 'Employer of the Year' in the Utility Awards, and winners of gold and silver awards from the European Contact Centre & Customer Service Awards.

Strong market understanding, supply chain management and great customer relationships have led to consistent delivery of customer outcomes. In year we achieved our highest ever customer satisfaction and net promoter scores, and 95% of customer standards were delivered to target.

We have redesigned our asset management system, introduced new quantitative risk models to improve holistic risk management, implemented technology upgrades to our Field Force and Customer Self Service Portal and piloted a new telemetry system. We remain the highest user of Robotic Process Automation.

Over 375,000 activities have been safely delivered ranging from data surveys, meter installations and exchanges to high pressure replacement projects and siteworks projects.

We have maintained external accreditations to demonstrate our credibility. ISO55001 Asset Management, ISO14001 Environmental Management, GIRS and Metering Code of Practice (MCOP) recertifications have all been achieved, founded on robust assurance, governance, risk management and controls.

Against a backdrop of unprecedented change and challenging market conditions, performance has been outstanding and positions us strongly for the year ahead.

In our most recent Customer Satisfaction Survey:

+88
Customer satisfaction score 2022/23

89
Trust score 2022/23

90
Ease of doing business score 2022/23

+63
Net Promoter score 2022/23

Operating a diverse portfolio of gas metering installations in a range of settings, across all pressure tiers, is a responsibility we take seriously and requires both asset and operational excellence.

Operating safely, reliably, and flexibly

Operating a diverse portfolio of gas metering installations in a range of settings, across all pressure tiers, is a responsibility we take seriously and requires both asset and operational excellence. Delivering to manufacturer and legislative requirements, we proactively manage our portfolio to remove risk and maximise asset health.

We have a strong conviction that both those serving and those served by our assets have a basic right to be 'safe every day.' We will continue to collaborate with our partners to improve safety reporting, and to increase learning and building trust by sharing the actions taken.

Deliver sustainable value to our customers and stakeholders

Strong industry engagement, relationships with our customers and our ability to work in partnership to deliver for end-consumers is important to us. We recognise our role, from keeping our end-consumers warm right through to enabling industries that support the British economy.

Operating cost-consciously, our deep understanding of the market and well-defined and understood performance metrics mean we consistently deliver for our customers and exceed the industry norm. This positions us strongly in a sector undergoing momentous change due to the economic climate, smart meter roll-out and the advent of hydrogen.

Invest in our people and growing our capability

We strongly believe a business is only as good as its people. Through our agile transformation we have simplified our operating model, creating a thriving working environment where people feel valued for the uniqueness of their contribution.

We strive to provide our colleagues with clear business goals and clarity, thus supporting strong levels of ownership, commitment, and empowerment. This autonomy, our simplified hierarchy, our focus on value and our agile approach has enabled us to operate effectively in a competitive market and to adapt quickly.

We will continue to develop our ways-of-working and rolling out our Group-wide 'belonging' strategy. In addition, we are committed to our communities and aim to deliver over 630 hours of volunteering across a range of compelling causes close to the hearts of our people.

In our most recent Employee Satisfaction Survey:

95%
employees agreed, 'great place to work'

90%
employees agreed, 'I can be myself'

+49
Employee Net Promoter score

Shaping the gas market of the future

We are extending our expertise beyond natural gas to hydrogen, contributing to the UK's ambitious net-zero emissions goals. We aim to support any business wanting to make the transition to hydrogen. Consumers will need safe and highly accurate metering equipment, which is connected to the source of distribution. Our research and development (R&D) activities leverage supply-chain partners to develop the products needed to ensure accurate and effective hydrogen metering and connection. As natural-gas infrastructure changes to hydrogen infrastructure, we will be ready to help the country's homes and businesses change with it.

Summary

We are excited by the future and remain committed to supporting our people and delivering exceptional customer and business outcomes, in line with our purpose, priorities, values and cultural ambition.

We remain committed to supporting our people and delivering exceptional customer and business outcomes.

We are enabling a clean energy future that works for everyone

Strategic report

Our commitment to being a responsible business

At National Gas we are enabling a clean energy future that works for everyone, we recognise the importance of sustainable and responsible business practices in today's world. Our Environmental, Social and Governance strategy plays a critical role in shaping the future of the energy industry.

Fulfilling our purpose

Our purpose...

Leading a clean energy future for everyone

and our values...

Simplicity | Ownership | Progress

address our priorities...

- Operate safely, reliably, and flexibly
- Deliver sustainable value for customers and stakeholders
- Drive positive environmental and community impact
- Invest in our people, grow our capability, and value everyone's contribution
- Shape the energy markets of the future

to create a positive impact for our stakeholders

Customers | Communities | Employees | Investors

Our framework has the following strategic ambitions:

Improving the environment

We strive to achieve minimal adverse environmental impacts across all our operations whilst also enhancing the local environment.

Acting with a social conscience

We deliver positive, meaningful, and sustainable social impact, promoting the wellbeing and development of our people and adding value to both the communities within which we operate, and wider society.

Running our business ethically

We have a robust internal system of practices, controls and procedures in place to allow us to make effective decisions, comply with the law and provide assurance to our stakeholders.

Delivering our strategy

To ensure our framework intrinsically links with our purpose and objectives, we engage with stakeholders and the business to organise and prioritise ESG factors based on their importance. Our dynamic ESG programme ensures we continuously Plan-Do-Check-Act (PDCA).

A summary of the programme is detailed below:

:

The PDCA cycle ensures we are achieving the desired outcomes that enhance our performance to maintain the required trajectory to fulfil our performance.

In 2023, we will benefit from an independent assessment of our ESG performance to support delivering a transformational journey in bringing a clean energy future to every household and business.

Reporting on what matters

We ensure that the priorities within our ESG framework are being delivered on time and in full by measuring and reviewing a broad range of ESG Key Performance Indicators (KPIs) and metrics. Our Business Intelligence (BI) dashboards greatly improve strategy reviews as they provide a comprehensive visual overview which helps with making informed and data driven decisions.

We are firmly committed to enhancing our performance and will therefore continue to engage with our stakeholders to ensure we continually improve our underlying activities to improve our overall strategy. In 2023, we will benefit from an independent assessment of our ESG performance to support delivering a relentless and innovative journey in bringing a clean energy future to every household and business

Our environmental commitments

Looking after the environment is crucial to our business – both in our long-term vision for Britain's energy mix and our day-to-day operations.

Gas is, and will be for decades to come, a major contributor to the blend of energy sources powering the country. At any one time, up to 50% of the nation's energy could be supplied by gas. Security of energy supply is something many of us take for granted, and delivering it is a responsibility we take incredibly seriously. But we know it is important to balance this with our environmental obligations.

We are aware of the critical role we play in solving current and future challenges for energy and are ensuring that we are flexible in how we provide and use energy. A gas like hydrogen, for example, will be an integral part of the UK's future energy mix and we want to be at the forefront of delivering the benefits of connecting supply and demand.

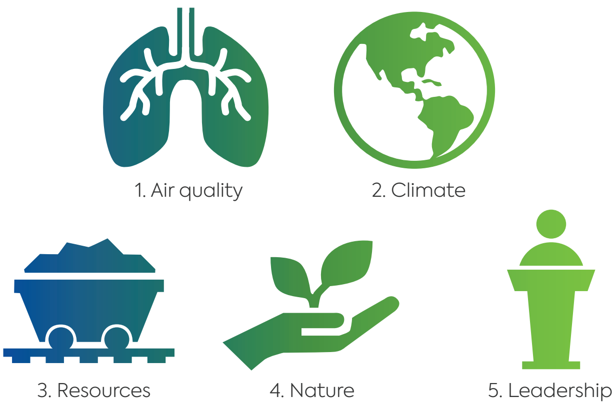
We strive to achieve minimal adverse environmental impacts across all our operations whilst also seeking ways to enhance the local environment. Our overall ambition here is to protect the environment and act sustainably every day. This approach aligns with Ofgem's environmental focus areas for the RIIO-T2 regulatory period:

- Decarbonising the energy networks - with a focus on business carbon footprint and embedded carbon
- Reducing networks' other environmental impacts, i.e. pollution to local environment; resource use and waste management; biodiversity loss and other adverse effects that are specific to each sector
- Supporting the transition to an environmentally sustainable low-carbon energy system.

Following extensive internal and external stakeholder engagement, we made firm Environmental Commitments in our December 2019 Business Plan which evolved into our Environmental Action Plan (EAP). This consists of five pillars with clear accountabilities and work programmes, which will drive improved environmental performance.

Environmental pillars

We have five pillars and 30 commitments that underpin our environmental plan and that help us to measure our performance against these commitments:



1. Air quality – compressor emissions

We will work to reduce NOx emissions from our operations by the end of RIIO-T2 (the regulatory) period to March 2026) and beyond. This includes replacing some of the older compressors in our network with cleaner technology, so we can improve local air quality.

Example

Commitment	Metric	Target
Reduce emissions from gas compressor fleet during combustion (NOx)	Performance is measured against a baseline of the period 2013 to 2021	Reduce emissions by 6% year-on-year from 2021/22 to 2025/26

2. Climate change – our climate commitment

Our key commitment here is to develop a science-based target for carbon reduction by 2023. Science-based targets are borne out of industry best practice, but developing them is no easy task.

It is particularly challenging for the gas industry where routes to decarbonisation are uncertain, because policy decisions impacting a future hydrogen economy are still to be made, for example, the role of hydrogen in domestic heat.

Example

Commitment	Metric	Target
Develop a science-based target	GHG emission targets for Scope 1, 2 and 3	Ambition to reach Net Zero by 2040

3. Responsible asset use

We will address 84 redundant assets, asset groups or sites, contributing to a sustainable, lower-carbon future by decommissioning them responsibly or changing their purpose where possible.

Example

Commitment	Metric	Target
Reducing the waste intensity of construction	Waste intensity of construction waste	Reduce year on year from baseline set in 2021/22

4. Caring for the natural environment

We will make sure both new construction and decommissioning projects include initiatives to protect and promote biodiversity. We will also enhance the value of natural assets on non-operational land that we own.

Example

Commitment	Metric	Target
Improve the natural capital and biodiversity of our land	Monitor natural capital and biodiversity units	Achieve 10% net gain on 2021/22 by 2025/26

5. Leadership for change

We will embed sustainability in our decision making, be transparent on our progress, and work with the industry to drive forward the sustainability agenda.

Example

Commitment	Metric	Target
Embed sustainability in our decision making	Monitor TCFD maturity rating	Achieve the maturity rating of "Leaders in their implementation" of TCFD by 2025/26

Highlights of the year

We have maintained our focus on climate change risk management and established environmental targets which deliver carbon reduction. In 2022 we achieved the following:

- Declaring an ambition to achieve a 2040 Net Zero target for scope 1, 2 and 3 emissions
- Secured Ofgem funding to purchase equipment which will reduce the need to vent gas during our routine operations. This will also allow us to trial technology which will allow vented gas to be re-compressed back into the network
- Published our first Annual Environmental Report explaining our progress against environmental targets that will deliver carbon reduction funded within the RIIO-T2 price control
- Broadened our climate change risks to include both target and performance monitoring and mitigation plans to manage our vulnerable assets
- All members of the Executive Committee received a climate change risk awareness training session from the Institute of Environmental Management and Assessment.

The full climate-related financial disclosures can be found on page 33.

Net Zero pathway

NGT has an ambition to be Net Zero by 2040 for Scope 1, 2 and 3 emissions. This is a change to our previous ambition of 2050 which was in place under National Grid Group. To support this ambition work is underway to develop a bespoke decarbonisation strategy and emission reduction roadmap. The strategy and roadmap will be developed by the end of 2023.

Acting with social conscience

National Gas held a consumer listening session in December 2021 to support National Gas' understanding of consumer views and attitudes. Community and social responsibility questions were addressed in breakout room discussions on the practical approaches National Gas can take to support the communities it serves.

Through this exercise we learned that consumers had a clear preference for supporting communities and charities at a local level, citing their financial struggles. Consumers also told us that they felt financial donation at this time would be more impactful than volunteering hours, on the basis that donations could ease the burden of charities' utility bills and staff costs. We further learned that consumers would like to see National Gas support causes that help vulnerable groups of people, educational and environmental projects.

We used these recommendations to formalise our socially responsible business strategy. We focus community efforts on a local and national level with the aim of bringing about targeted support to vulnerable people. Support is offered financially or through employee time and provides relief to current community concerns whilst also preparing for the future, equipping communities and young people with the skills to thrive moving forward.

We have strong ambitions to continue to deliver a positive social impact and put people at the forefront of social strategy. Plans for the activity we are undertaking cover:

- Charitable giving
- Community Impact
- Diversity, Equity and Inclusion
- Employee volunteering
- Future skills & education

Charitable giving

We asked our people who they wanted to support as our corporate charity partner once we became a standalone business, and after an all-employee vote, we selected Barnardo's. Barnardo's is the UK's largest children's charity, working to support vulnerable children, young people and families via 900 local services. We formalised this partnership in 2022/23, and over the next 3 years we aim to raise £100,000 for the charity through donations, volunteering and employee fundraising.

Employee donations

Colleagues are encouraged to donate towards charity – be it Barnado's or a charity that is close to them personally – by offering Employee Payroll Giving (GAYE) as an anytime reward, proving a tax-free way to donate through their wages or pension.

Local charity partnerships

As a national business, our colleagues across the country are encouraged to support local charity partnerships – through fundraising and volunteering –at a functional and operational level to build a wide net of positive community impact, directly benefiting the communities in which we operate.

In March 2022, we partnered with The Albion Foundation, the charitable wing of West Bromwich Albion FC, providing the organisation with £50,000 to help support their community impact programme across deprived areas of the Midlands.

Matched giving

Our people are encouraged to fundraise for any UK registered charity – whether independently or as part of a group –and are able to access up to £400 in matched giving on top of anything raised independently.

Community impact

Set against the context of the sharply rising cost of living and increased energy bills, leading to unprecedented levels of fuel poverty and social deprivation, it is vital for National Gas to support both vulnerable communities and those where our operations may be perceived to have a negative impact.

The schemes outlined below can deliver vital on-the-ground support to those most in need at a critical time, in addition to establishing National Gas as a community partner and good neighbour.

Delivery programmes:

1. Community-Led Grant Scheme – We have committed to provide financial grants to charities and not for profit organisations to support the delivery of social, economic and environmental benefits in the vicinity of our operations and/or site activities.
2. 0.3% Major Project Funding – We have committed to contribute 0.3% of funding for major construction projects to charities and not for profit organisations to support the delivery of social, economic and environmental benefits in the vicinity of our operations and / or site activities.
3. Community Partnership with The Albion Foundation – we have implemented a discretionary activity supporting our Social Impact strategy, delivering improved physical and mental wellbeing, and educational benefits, to deprived areas of the Midlands.

Diversity, equity and inclusion

We aspire to create a place where diversity, equity and inclusion are celebrated through meaningful actions, helping us to attract and retain the best talent in our industry. We acknowledge that this is the beginning of a journey for National Gas as it starts its life as a stand-alone business. It is imperative that we reflect the communities that we serve.

We have established an internal diversity and inclusion strategy, followed by meaningful action plans in place for each business area, focusing on establishing strong foundations that will move the dial in the right direction for our business and the communities we operate in.

Our commitment is to champion belonging by fostering diversity, equity, and inclusion.

We aspire to:

1. Create an environment where employees feel valued and appreciated
2. Be a diverse business, which represents the communities we work with
3. Continue to learn about our differences and improve our awareness through education and learning
4. Build our brand externally through marketing and active community engagement
5. Measure our progress and seek opportunities to improve

Our external partnerships with Inclusive Employers, Women Utilities Network (WUN) and Business in the Community (BITC) are adding meaningful value that will support our employees and our overall DEI (Diversity, Equity, and Inclusion) progress.

We also have an active Diversity, Equity and Inclusion Council formed by volunteers who provide representation from diverse backgrounds within our business. They meet to discuss what is being actioned on a diversity, equality, and inclusion perspective, what is working and provide advice and insight on what to do next. It provides a means to collaborate on all things DE&I.

Employee volunteering

As well as partnering with a number of charities we encourage employees to volunteer their time to support local communities. We give our employees two days paid leave per financial year to volunteer for charitable causes: whether that be through our Barnardo's partnership network or a different local cause close to one of our sites. Since August 2022, our employees have volunteered an estimated 800 hours.

Our colleagues can also access £25 per person per volunteering day to put towards the cause in a way they best see fit; buying materials for use on the day, pooling together to purchase goods for the charity, or simply offering as a monetary donation.

Future skills and education

We are in the process of building a future skills and education strategy to support local schools, colleges and early careers opportunities, particularly for those from a deprived or underrepresented background.

The strategy aims to engage students and young professionals in the Net Zero transition – particularly in hydrogen and inspire the next generation of talent into our industry.

Primary Key Stage 1 & 2	Inspire & educate	We will engage with **Primary Schools** in areas within which we operate/have major projects with the aim of providing inspiring STEM content, **introducing children to the world of energy and the net zero transition**	*Delivered via...* **Classroom talks** **Visits** **Competitions** **Volunteering**
Secondary Key Stage 1 & 2	Engage & talent pipeline	We will work with **Secondary Schools** in areas within which we operate/have major projects, via a range of different carrers activities with the aim of both supporting the **lower income** communities we serve, as well as providing potential early career opportunities	*Delivered via...* **Work experience** **Mentoring** **Careers Fairs** **CV Clinics**
NEETs* Age 16–24	Support & recruit	Time spent in **NEET can have a detrimental effect on physical and mental health**, and increase the likelihood of unemployment, low wages, or low quality of work later on in life. National Gas has an opportunity to support NEETs by offerring **career advice, coaching, mentoring or employment opprtunities.**	*Delivered via...* **Mentoring & coaching** **Early career opportunities** **Employment opportunities** **Apprenticeships**

* Not in education, employment or training

Gender pay gap

The gender pay gap is the difference in average earnings between women and men and is a symbol of women's position in the workforce in comparison to men. For National Gas, building a truly equal and inclusive business is not just the right thing to do — it is vital to achieve our business' vision.

We understand the business benefits of a diverse workforce and we know that being open to different perspectives helps us to better understand and support our customers, innovate, and manage risk.

In 2022, the gender pay gap for hourly and incentive pay shows that our gender pay gap has improved from 5.9% in 2021 to 4.3% in 2022. Our pay gap is driven primarily by the concentration of males in senior positions, rather than our pay structure. This measure covers NGT and NGS, but not NGM. The latter is a separate legal entity and is not large enough to be covered by these reporting requirements.

While this presents an improvement on the previous year, our leadership team is committed to continued progress on increasing female representation across positions and decreasing the gender pay gap in the coming years.

We are fully committed to improving our gender diversity focusing our efforts on attracting and recruiting more women, retaining them within our workforce and progressing our female talent into the most senior roles within the business.

Progress on minimising the Gender Pay Gap is a key priority for us as we strive to reach our goal of being a fully inclusive organisation.

National Gas Transmission gender pay gap 2022

National Grid will be reporting the April 2022 gender pay gap for Gas Transmission employees.

The gender pay gap for hourly and incentive pay, based on our pay profile as of April 5, 2022, shows that the gap has improved from 5.9% in 2021 to 4.3% in 2022. The incentive (bonus) pay gap has widened to 44.1% from 32.9% in 2021. This is related to the appointment of new largely male Senior Leaders following the decision by National Grid to sell a controlling stake in the Gas Transmission business.

The overall proportion of male and female employees receiving bonus pay is influenced by bonus eligibility rules for starters and leavers linked to the performance year (1 April to 31 March).

Gender pay gap 2022			
Gender	Mean	Median	% Female
Hourly pay	4.3%	0.5%	**22.7%**
Incentive pay	44.1%	8.7%	

Proportion of males and females by quartile		
	Male	Female
Upper quartile	80.0%	20.0%
Upper middle quartile	76.7%	23.3%
Lower middle quartile	84.9%	15.1%
Lower quartile	71.5%	28.5%
Overall	**77.3%**	**22.7%**

Proportion of male and female employees receiving bonus pay		
	Male	Female
	84.4%	**87.4%**

Gender pay gap reporting 2023

The legal requirement for future gender pay gap reporting now rests with us, and we will be reporting our gender pay gap disclosures on an annual basis. Gender pay gap metrics will be calculated and reported in line with regulatory and legal requirements. We will accompany our pay gap figures with contextual narrative and details of any remedial steps we are taking, or propose to take, to close the gap.

Our gender pay gap disclosures will be subject to a range of internal reviews and an external assurance review before final publication.

Running our business ethically

Ethical business standards

We have established policies and governance that set and monitor our approach to preventing financial crimes, fraud, bribery and corruption, including our Anti-Bribery and Corruption Policy and our Code of Ethics (the Code). These are reviewed annually and are supported by a company-wide framework of controls designed to prevent and detect bribery or corruption.

Our Code sets out the standards and behaviours we expect from all our employees. The Anti-Bribery and Corruption Policy applies to all employees and those working on our behalf and set out our zero-tolerance approach to bribery, fraud, money laundering, tax evasion and other corrupt business practices. These are supported by communication and training programmes, including mandatory e-learning for all employees and direct contractors, to promote a strong ethical culture. To ensure compliance with the UK Bribery Act 2010 and other relevant legislation, we operate an anti-financial crime risk assessment process across the business to identify higher-risk areas and act on the results to make sure adequate procedures are in place to address them.

The Audit and Risk Committee oversees the policies, systems and controls in place for the areas covered by the Code and the Anti-Bribery and Corruption Policy. We investigate all allegations of ethical misconduct thoroughly, and take corrective action and share learnings and trends where appropriate, and these are reported to the Audit and Risk Committee. None of our investigations during the financial year identified cases of fraud or bribery.

Whistleblowing

It is important that everyone that works for us can raise any concerns they might have, without fear of retaliation, and be able to do so anonymously. The Code encourages open reporting and the confidential, externally managed, 'Speak-Up' helpline is available 24 hours a day, 365 days a year. We publicise the contact information to all colleagues on our intranet and through direct engagement, particularly with those teams identified as higher risk through our anti-financial crime risk assessment process.

We use twice-yearly anonymous colleague listening survey to measure our ethical culture and the confidence that our employees have in raising ethical concerns either directly to management or through the 'Speak Up' helpline.

Our strategy for responding to climate change

As we establish ourselves as a separate business, we are continuing the excellent progress made in the prior financial year to support the important work of the Task Force on Climate-Related Financial Disclosures (TCFD). In year one of the new business, 2023/24, we will implement recommendations to comply with the beginner's stage and will progress each year to demonstrate leadership.

This report builds on previous National Grid disclosures and provides details on our approach to understanding and managing climate-related risks. This includes our governance, strategy, risk management, metrics and targets.

We will continue to monitor developments, engage with stakeholders and evolve our approach to identifying and managing climate-related risks and opportunities.

Introduction

Climate change remains the defining challenge of the 21st century and in our role as the owner and operator of Britain's gas transmission system we play a critical role in the energy transition.

As the UK transitions away from fossil fuel derived natural gas, we stand ready to support government, industry and consumers as the hydrogen economy develops and we all strive for carbon emission reduction.

The transition to a future hydrogen economy presents significant risks and opportunities to our business model that we manage with the due focus and attention required to enable the positive and responsible energy transition.

We are committed to developing a business model that is consistent with the objectives of the Paris Agreement and prior to separation from National Grid Group were part of the Group business commitment to reach Net Zero emissions by 2050. As a standalone business we have an ambition to reduce our Scope Scope 1, 2 and 3 emissions to Net Zero by 2040. The strategy and associated roadmap will detail interim targets and initiatives we intend to undertake to meet this ambition. This includes setting science-based aligned targets for Scope 1, 2 and 3 emission reduction.

Governance of climate-related risks and opportunities

The Board of Directors is accountable for setting and leading the company's climate-related strategy and has oversight of climate-related risks and opportunities impacting NGT.

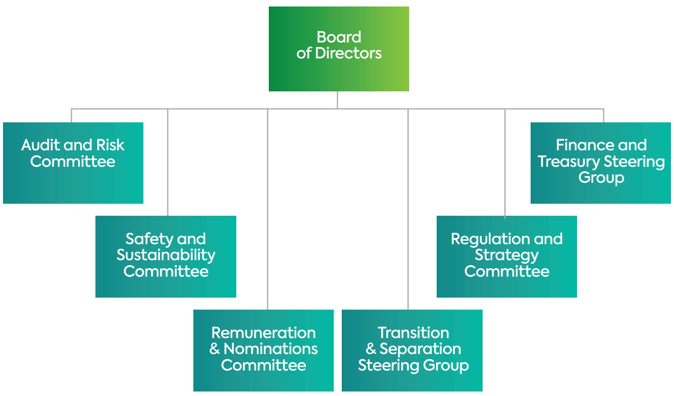
The National Gas Transmission plc Board was established on the 31 January 2023 with Dr Phil Nolan as chair. Phil has served on the board of many public and private companies, both in an executive and non-executive capacity. He has industry experience as Executive Director of BG Group plc and Chief Executive of Transco plc between 1998 and 2000. Phil also led the demerger of Transco from BG Group plc, as the Chief Executive of Lattice Group. Phil is currently the Chair of Associated British Ports, a leading UK ports group, and the Chair of Encyclis.

The Board is made up of seven shareholder appointed directors, two sufficiently independent directors (or 'SIDS'), our Chief Executive Officer Jon Butterworth and Chief Finance Officer Nick Hooper. The Board meets six times a year with a particular focus on the strategic direction of our business.

There have been several developments throughout the year that have strengthened focus on climate related matters at a Board level, throughout the organisation and also externally. There has been a realignment of strategic goals, significantly the Net Zero ambition has been brought forward to 2040. This is in line with the strategic ambition of Macquarie Asset Management and British Columbia Investment Management Corporations, who have acquired a 60% stake in National Gas (the remaining 40% remains with National Grid.)

To support the work of the Board, sub-committees and steering groups focus on specialist subjects in detail and ensure robust governance.

Ownership of climate related issues sits within the **Safety and Sustainability Committee**. This committee is chaired by Board member Howard Higgins, Senior Advisor to Macquarie. This committee oversees our safety and sustainability strategy, performance and risks. It provides assurance to the Board that the company is effectively managing legal, regulatory, and moral obligations.



Defining and managing climate risk

Climate risk is broadly defined as the range of potential business and financial impacts that organisations may face resulting from the effects of climate change. These risks are categorised as either physical risks or as transition risks.

A changing climate, including rising temperatures, changing weather patterns, and increased instances of extreme climate-related disasters, create physical risks for our network.

Transition risks are climate risks facing the organisation resulting from the relative uncertainty created by the global shift towards a more sustainable, net-zero economy. For example, regulatory, geopolitical, and social pressures.

NGT undertook an assessment of the physical risks from climate change in the publication of its third-round report under the Adaptation Reporting Power (ARP) set out in the Climate Change Act 2008. It formally assessed forty-one risks within its report and the assessment identified one high risk and ten medium climate risks. These risks can be summarised as falling within the following themes: raised temperatures, erosion, flooding, ground movement, wind damage, vegetation growth and lightning. They have been further summarised into three; coastal flooding, river flooding and high temperatures.

The process of prioritisation was to assess asset groups. Their reaction was modelled based on different climate scenarios and time periods. These were the baseline climate scenario based on UK Climate Projection (UKCP18) 1981-2010 data; 4 Degree climate scenario for 2050 time period (based on climate projections for the 30 year period 2036-2065; 4 Degree scenario associated with this time period in the data refers to expected temperature rise by 2100 assuming no intervention).

The output of the assessment has enabled NGT to prioritise Critical National Infrastructure (CNI) sites for more detailed risk assessments.

The prioritised list of sites will be reviewed with operations personnel to validate the risk assessment and determine where further assessment is warranted.

A key part of our strategy to manage the risks posed by climate change on our business is to engage with the wider infrastructure operator community to share best practice and share learning. Examples of this is our membership of the Energy Networks Association where we are an active member of the Climate Change Resilience Working Group, membership of the UK Collaboration for Research on Infrastructure and Cities (UKCRIC) and Net-Zero Infrastructure Industry Coalition.

NGT will review the transitional risks in 2023/24 as the business establishes itself at the 'Beginner' stage of the Task Force on Climate-related Financial Disclosures (TCFD) disclosure maturity and moves towards 'Intermediate'.

Risk management

Identifying and assessing the impact of climate-related risks and opportunities

The scale of ambition and speed of change required to meet Net Zero emission targets, along with the potential changes in weather patterns present both risks and opportunities to our business. National Gas has identified its risks aligned to climate change. These risks and associated mitigations are managed through its risk management framework with appropriate executive oversight and line of sight to the National Gas board.

National Gas takes the potential risks of climate change to its business extremely seriously and is committed to assessing these risks on an ongoing basis and taking appropriate mitigation and adaption action where necessary.

Strategic report

Through its membership of the Energy Networks Association, NGT and other energy network operators conducted a longer-term assessment of climate change risks out to 2050 utilising the latest UKCP18 UK Climate Projections. The conclusion of this work supported the Arup climate risk assessment that raised temperatures along with increased impacts from flooding and erosion have the potential to impact operation of the gas transmission system.

Climate change and enterprise risk management

Climate change risks are considered as part of our Enterprise Risk Management (ERM) process and has been one of our principal risks since May 2021. The ERM process is the framework through which NGT identifies, assesses, prioritises, manages, monitors and reports risks. This process includes the identification of a series of company-wide controls and actions to mitigate the climate change parent risk.

The principal climate risk is owned by the Director of Asset, Steven Vallender.

In February 2023, this principal risk was joined by two child risks which split the climate change principal risk into two distinct elements: adaptation risk and mitigation risk. As a new business, separated from National Grid Group, these risks form the foundation of our climate risk adaptation and mitigation which will mature over the next twelve months. Emerging risks are managed under our Risk management framework with results reviewed by senior leadership.

Parent Risk	There is a risk that NGT fail to manage the impacts of climate change and to meet our Net Zero Targets because of complex systems, ageing assets and inadequate proactive planning leading to reputational damage, falling investor confidence, legislation non-compliance, enforcement actions and fines.
Child Risk 1	There is a risk that NGT fail to meet Net Zero ambition by 2040 because of no clear glide path to Net Zero Scope 1 and 2 emissions or associated decarbonisation strategy leading to reputational damage and a fall in investor confidence, legislation non-compliance, enforcement actions, fines.
Child Risk 2	There is a risk that a climate change event will cause harm (damage) to an NGT asset because of a failure to respond to known climate hazards and appropriately manage asset vulnerabilities based on asset type characteristics and location of assets in relation to the hazard. Leading to loss of supply, increased maintenance and asset replacement costs. This could result in reputational damage, legislation non-compliance, enforcement actions, fines and safety/health/environment incidents.

Metrics and targets

Climate change metrics and targets

We have metrics and targets that allow us to measure our impact on the environment, demonstrate our commitment and monitor our performance. Our key metrics in respect of our greenhouse gas emissions (GHG) are scope 1 & 2. In order to report the GHG emissions associated with our activities, each unit of activity is converted into the same unit of metric I.e., CO2e, distance travelled, litres of fuel used, and tonnes of waste disposed. The metrics are displayed in the table below:

GHG reporting

Scope	Emission	Category
Scope 1	**Energy consumption (excluding electricity)**	Energy consumption
		Total
	Transport	Direct commercial vehicles
		Business mileage
		Total
	Fugitive emissions	Leak detection & repair
		Other gases (as applicable)
		Total
	Venting emissions	Venting (compressor only)
		Venting -Others
		Total
	Fuel combustion	Diesel
		Natural Gas
		Other fuels (as applicable)
		Total
		Total Scope 1
Scope 2	**Electricity consumption**	Electricity consumption
		Fleet & company cars EVs
		Total
		Total Scope 2

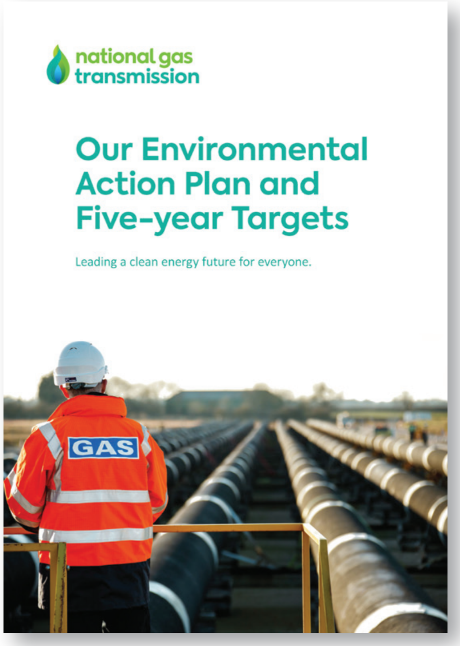
The variances in our scope 1 performance over the last two years has shown a 37% increase. This can be explained by an increase in emissions from the use of gas turbine driven compressors supporting gas exports to Europe.

In 2023 National Gas will develop its decarbonisation strategy. We are still developing some metrics as a stand-alone business, for example on carbon intensity. We will report on these developing measures in the next Annual Report.

Governance of climate-related risks and opportunities continued

Our commitment to operate responsibly with due regard to the environment and implement sustainable business practices can be seen within our Environmental Action Plan (EAP) and Five-year Targets for the RIIO-2 price control. The metrics are comprised of several business unit level metrics. Progress of these targets is tracked monthly with visibility at an executive level within the business. The EAP represents our commitment to climate change mitigation, for example a target to develop a science-based aligned target for carbon reduction by 2023, reducing methane emissions from leaks on the transmission system and purchasing 100% of electricity for our offices from renewable sources. Progress of the targets is reported annually to the Regulator and stakeholders in the Annual Environmental Report.

NGT's Greenhouse Gas (GHG) Emissions reporting can be found below.



Data sources

Established emission recording systems and databases such as the ALERT system which records the NOx emissions and fuel usage of our compressor units and number of hours run., records the NOx emissions of our compressor units and the number of hours run. Transport and energy have reduction strategies developed and monitored by the Gas Transmission Sustainability & Environment Group (GTSEG). In 2023 we will develop metrics which will monitor the climate change risks affecting operations. These will be governed by the GTSEG committee.

Greenhouse Gas (GHG) emissions

NGT generate Green House Gas (GHG) emissions across Scope 1 (direct emissions from our operational activities), Scope 2 (indirect emissions from our purchase and use of gas and electricity) and from the use of gas turbine driven compressors supporting gas exports to Europe, most notable from Scope 3 (other indirect emissions from activities and sources outside of our ownership or control).

In 2022/23 our Scope 1 emissions were 368 ktCO2e, a 40% increase on the prior year (263 ktCO2e). The increase in Scope 1 emissions is related to fuel combustion of the compressors. The increase is mainly from emissions at Felindre and Kings Lynn Compressor Station.

The increases in Scope 3 is a result of increased air travel, resulting from increasing travel following the lifting of Covid-19 restrictions.

Scope of Emissions	Units	2022	2023
Scope 1	tCO2e	262,912	367,657
Scope 2	tCO2e	33,612	37,733
Scope 3	tCO2e	256	605
Total BCF – TO	**tCO2e**	**296,780**	**405,995**

Currently there is no regulatory requirement for us to report our scope 3 emissions. However, we have chosen to report a small proportion of them, covering waste and employee commuting. We are drafting a decarbonisation strategy for 2023/24 which will detail a "road map" for scope 3 emissions: this includes provision to report on all relevant categories as we progress with adopting the strategy.

National Gas Transmission – UK regulation

Our licence to participate in transmission activities is established under the Gas Act 1986, as amended (the Act).

This requires us to develop, maintain and operate economic and efficient networks and to facilitate competition in the supply of gas in Britain. It also gives us statutory powers, including the ability to use compulsory powers to purchase land so we can conduct our business.

Our licensed activities are regulated by Ofgem, which has a statutory duty under the Act to protect the interests of consumers. To protect consumers from the ability of companies to set unduly high prices, Ofgem has established price controls that limit the amount of revenue such regulated businesses can earn. In setting price controls, Ofgem must have regard to the need to secure that licence holders are able to finance their obligations under the Act. This should give us a level of revenue for the duration of the price control that is sufficient to meet our statutory duties and licence obligations with a reasonable return on our investments. Licensees and other affected parties can appeal price controls or within period licence modifications which have errors, including in respect of financeability.

Ofgem is also responsible for:

- working with government, industry and consumer groups to deliver a net-zero economy, at the lowest cost to consumers
- ensuring fair treatment for all consumers, especially the vulnerable
- enabling competition and innovation, which also drives down prices and results in new products and services for consumers.

The RIIO-T1 price control came into effect on 1 April 2013 for the eight-year period until 31 March 2021. Our current price control, called RIIO-2, came into effect on 1 April 2021 and will run for five years until 31 March 2026. Both RIIO-T1 and RIIO-2 follow the RIIO (Revenue = Incentives + Innovation + Outputs) framework established by Ofgem.

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

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

Our UK gas transmission and system operator business operate under a single price control. These cover our roles as Transmission Owner (TO) and System Operator (SO). In addition, there is also a tariff cap price control applied to certain elements of domestic-sized metering activities carried out by National Grid Metering.

RIIO price controls

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

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

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

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

Where we under- or over-spend the allowed totex for reasons that are not covered by uncertainty mechanisms, there is a 'sharing' factor. This means we share the under- or over-spend with consumers through an adjustment to allowed revenues in future years. This sharing factor provides an incentive for us to provide the outputs efficiently, as we are able to keep a portion of savings we make, with the remainder benefiting consumers. Likewise, it provides a level of protection for us if we need to spend more than allowances. Alongside this, there are several specific areas where companies can submit further claims for new allowances within the period, for instance to enable Net Zero.

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

In addition to fast money, each year we are allowed to recover regulatory depreciation, i.e. a portion of the RAV, and a return on the outstanding RAV balance. The RAV is also indexed to a measure of inflation, using CPIH in RIIO-2. For RIIO-2, regulatory depreciation moves from straight line to sum-of-digit depreciation (so that depreciation is front loaded but then lower in the later years of the life of the asset). We are also allowed to collect additional revenues related to non-controllable costs and incentives. In addition to totex sharing, RIIO incentive mechanisms can increase or decrease our allowed revenue to reflect our performance against various other measures related to our outputs. For National Gas Transmission the upside is £14 million of allowed revenue across the RIIO-2 regulatory period (2021–26), with a downside of £16.1 million (2018/19 prices).

Key parameters from Ofgem's RIIO-2 determinations

	Gas Transmission
Allowed return on equity[1]	4.97% (real, relative to CPIH)
Allowed debt funding	Calculated and updated each year using an extending 'trombone-like' trailing average of iBoxx Utilities 10+ year index (increases from 10 years for 2021/22 to 14 years for 2025/26), plus 25 bps additional borrowing costs.
Depreciation of RAV	45-year sum of digits regulatory depreciation applied to RIIO-2 additions and retrospectively to 2002-2021 additions. Note for the SO a 7 year straight line depreciation is applied.
Notional Gearing	60%
Split between fast/ slow money	Fast: TO baseline 35%; SO baseline 66%; TO uncertainty mechanisms 25% Slow: TO baseline 65%; SO baseline 34%; TO uncertainty mechanisms 75%
Sharing factor	39%
Core baseline totex in 2018/19 prices (cumulative for the 5 years of RIIO-2)	£2.1 billion

Next price control

In March this year, Ofgem launched a consultation on possible framework options for a future systems and network regulation (FSNR) for implementation at the next price control. The consultation sought views on whether the transformation of the energy system, as we move to Net Zero, requires large-scale change in the price control framework. This followed an open letter published in September 2022 where Ofgem announced the review of existing network regulation. A number of archetype models are being considered at this stage from increasing competition to ex-post processes or incremental development of the current RIIO ex-ante framework. It is anticipated that this process will conclude this year in order to support the development of business plans for the next price control.

1 The cost of equity in RIIO-2 is subject to annual adjustments that are calculated using the Capital Asset Pricing Model, through indexation of the 'risk-free rate' parameter.

Financial review

On 31 January 2023 National Grid completed the sale of a 60% stake in National Gas Transmission Holdings Limited (including subsidiaries National Gas Transmission and National Gas Metering) to a Macquarie-led consortium, which includes BCI of Canada. Therefore, 100% of National Gas was owned by National Grid until 31 January 2023 and 40% thereafter.

The full-year results (for 1 April 2022 to 31 March 2023) show we continued to deliver good levels of performance. Operating profit was £577 million after operating expenses, and before interest and taxes have been deducted. This was a 16% increase on 2021/22 full-year figure of £499 million.

Revenue increased by £544 million to £1,918 million primarily due to higher revenue on regulated income for capacity and commodity. This is as a result of increased transit gas activity due to the Russian war on Ukraine as well as higher global gas prices. We have also seen auction premiums in 2022/23 in particular in October and November, where shippers were bidding higher that the default price. This was partly offset by lower metering income due to lower volumes of meters.

Operating Costs increased by £437 million to £1,299 million primarily due to higher purchases of gas costs.

The changes that commenced in the second half of 2021/22 continued to impact us in 2022/23, the macro economic factors further escalated inflation, cost of living and energy costs. The war in Ukraine continued to impact global markets.

We're working hard to support gas supplies in Europe, as well as to help Ukraine receive vital equipment for its transmission systems.

New accounting standards

There has been no major impact on the financial statements due to the adoption of any new accounting standards. Amendments to standards that have been adopted and new accounting standards yet to be adopted are listed within section G and H of note 1; Basis of preparation and recent accounting developments.

Use of adjusted profit measures

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

The first of these components is referred to as an adjusted profit measure also known as 'Headline' or a' business performance' measure. Adjusted results exclude the impact of exceptional items and remeasurements that are treated as discrete transactions. These items are reported collectively as the second component of the financial measures. Note 5 of the financial statements explains in detail the items which are excluded from our adjusted profit measures.

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

The presentation of these two components of financial performance is additional to, and not a substitute for, the comparable total profit measures presented. Management uses adjusted profit measures as the basis for monitoring financial performance.

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

Reconciliations of adjusted profit measures

Reconciliation of adjusted operating profit to total operating profit

There were exceptional items included within operating profit for the year ended 31 March 2023 and 31 March 2022. These related to establishing our new operating model, further details can be found in Note 5.

Unadjusted and adjusted profit figures are provided below;

	Years ended 31 March	
	2023 £m	2022 £m
Adjusted operating profit	**619**	512
Exceptional items[1]	**(42)**	(13)
Total operating profit	**577**	499

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

Reconciliation of adjusted operating profit to profit after tax (earnings)

	Years ended 31 March	
	2023 £m	2022 £m
Adjusted operating profit	**619**	512
Adjusted net finance costs	**(227)**	(188)
Adjusted profit before tax	**392**	324
Adjusted taxation	**(84)**	(66)
Adjusted profit after tax	**308**	258
Adjusted profit after tax (earnings)	**308**	258
Exceptional items after tax	**(26)**	(283)
Remeasurements after tax	**(3)**	(135)
Profit after tax (earnings)	**279**	110

Strategic report

Reconciliation of adjusted profit excluding timing differences to total operating profit

Adjusted profit excluding timing differences is presented below. Timing differences relate to the over or under recovery of revenue in year, this is explained in detail on page 40.

Years ended 31 March	2023 £m	2022 £m
Adjusted operating profit excluding timing differences	**668**	592
Timing differences[1]	**(49)**	(80)
Adjusted operating profit	**619**	512
Exceptional items[2]	**(42)**	(13)
Total operating profit	**577**	499

1 In year under-recovery £49 million compared with an under-recovery in the prior year of £80 million, largely driven by the net of higher shrinkage costs offsetting the increase in GTO over-collections driven by higher volumes and capacity auction prices forecasted.

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

Consolidated income statement

The commentary below describes the continuing business results for the year ending 31 March 2023.

Years ended 31 March	2023 £m	2022 £m
Revenue	**1,918**	1,374
Operating costs	**(1,299)**	(862)
Adjusted operating profit	**619**	512
Exceptional items	**(42)**	(13)
Finance income	**138**	51
Finance costs:		
Before remeasurements	**(365)**	(239)
Remeasurements	**4**	9
Profit before tax	**354**	320
Taxation:		
Before exceptional items and remeasurements	**(84)**	(66)
Exceptional items and remeasurements	**8**	(144)
Profit after tax	**279**	110

Revenue

Revenue for the year ended 31 March 2023 increased by £544 million to £1,918 million primarily due to higher regulated revenue for capacity and commodity charges. This was the result of the profile of regulated allowances in the RIIO-2 period and the higher recovery of charges caused by higher gas volumes, the latter driven by increased transit gas activity and auction outcomes as flows into mainland Europe increased significantly. This was partly offset by lower metering income due to lower volumes of meters.

Operating costs

Operating Costs increased by £437 million to £1,299 million primarily due to higher volume of gas purchased and higher market prices.

Operating profit

Adjusted operating profit for the year ended 31 March 2023 of £619 million represents an increase against last year of £107 million. Higher revenues were largely offset by higher operating costs, notably driven by higher shrinkage costs (due to higher gas prices).

Net finance costs

For the year ended 31 March 2023, net finance costs before remeasurements increased by £39 million to £227 million. This reflects the impacts of increased interest rates and higher RPI on the RPI-linked debt.

Remeasurements reduced by £5 million to a £4 million gain for the year ended 31 March 2023. This reduction was driven by lower gains on derivative financial instruments.

Taxation

The tax charge on profits before exceptional items and remeasurements, £84 million, was £18 million higher than 2021/22.

Taxation on exceptional items was £152 million lower than the prior year. This is largely driven by the rate change on opening deferred tax balances being included within the tax charge last year.

Consolidated statement of financial position

Year ended 31 March	2023 £m	2022 £m
Non-current assets	**8,806**	8,952
Current assets	**875**	670
Total assets	**9,681**	9,622
Current liabilities	**(1,344)**	(1,298)
Non-current liabilities	**(4,677)**	(4,262)
Total liabilities	**(6,022)**	(5,560)
Net assets	**3,659**	4,062

Non-current assets

The £146 million reduction in non-current assets is primarily due to a £252 million reduction in the net value of pension assets, partly offset by £156 million increase in Property Plant & Equipment.

Property, plant and equipment

Property, plant and equipment increased by £156 million to £4,774 million as at 31 March 2023. This was primarily due to capital expenditure of £364 million, partly offset by £184 million of depreciation and impairments in the year and net disposals of £22 million.

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

Financial and other investments

Financial and other investments comprise a contractual interest-bearing loan to our immediate parent company National Gas Transmission Holdings Limited of £3,426 million.

Other non-current assets

Other non-current assets comprise of non-current prepayments which reduced by £10 million to £11 million (reflecting release of gas holder demolition amounts in respect of the transfer of the obligation on the sale of St William (due to sale of interest in the JV with Berkeley Group)).

Current assets

The increase of £206 million in current assets is driven largely by movements in increase in Trade and other receivables of £81 million and Financial and other investments of £119 million (primarily due to increase in Money Market Fund Investments).

Trade and other receivables

Trade and other receivables have increased by £81 million to £294 million at 31 March 2023. This increase is principally due to a increase in contract assets £61 million, increase in trade receivables of £60 million, partly offset by £19 million reduction in prepayments.

Current liabilities

The increase of £47 million in current liabilities is mostly driven higher trade and other payables £118 million, partly offset by a reduction in borrowings of £38 million and reduction in provisions £27 million.

Current liabilities included borrowings of £805 million which comprised primarily of a bank loan of £750 million (notional), which was refinanced in April 2023 with a long term loan Euro 550 million and GBP 250 million (repayable on 5 April 2035).

Trade and other payables

Trade and other payables increased by £118 million. This is mainly due to increase in other payables of £112 million, largely driven by increase in customer deposits, partly offset by settlement of NG inter-company payables on completion.

Non-current liabilities

The increase of £415 million in non-current liabilities is driven mainly by an increase of £433 million in borrowings due after more than 12 months (primarily accretion on RPI debt and new debt issuances).

Current and deferred tax liabilities

The net deferred tax liability reduced by £21 million to £749 million. This is predominantly driven by the reduction in the deferred tax liability on the pension surplus due to the reduction in the gross pension surplus carried forward. This is offset in part by an increase in the deferred tax liability on fixed timing differences as a result of the acceleration of current tax relief through the capital allowance super deduction.

Net debt

Net debt has increased by £305 million primarily due changes from cash flows £15 million, net interest charge £295 million offset by exchange and non-cash movements £5 million. For detailed movements see net debt note 26.

Provisions

Total provisions reduced by £28 million mostly due to £15 million transfer of an obligation relating to gas holder demolition on the sale of interest in a property with JV Berkeley Group (by the National Grid group) and £10 million utilisation.

Contract liabilities

Contract liabilities increased by £4 million to £129 million.

Net pension asset

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

Net scheme asset	2023 £m	2022 £m
As at 1 April 2022	**664**	356
Current service cost	**(5)**	(9)
Augmentations	**(3)**	(2)
Redundancies	**0**	(4)
Net interest credit	**16**	2
Administration costs	**(3)**	(4)
Settlements cost	**(27)**	—
Actuarial gains/(losses)		
on plan assets	**(1,220)**	285
on plan liabilities	**975**	24
Employer contributions	**14**	16
As at 31 March 2023	**411**	664

The principal movements in the pension asset during the year is the net actuarial losses of £245 million. The overall pension asset reduced by £252 million to a closing asset of £411 million, reflecting latest valuation performed as at 31 March 2023.

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

Off balance sheet items

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

Cash flow statement

The commentary below describes business results for the year ending 31 March 2023.

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

Reconciliation of cash flow to net debt

	2023 £m	2022 £m
Cash generated from operations	**825**	864
Capital expenditure	**(300)**	(212)
Business net cash flow	**525**	652
Net interest paid	**(35)**	(47)
Tax paid	**(34)**	(39)
Movement in short-term financial investments	**(59)**	861
Movements in loans and short term borrowings	**115**	(1,460)
Net cash movement on derivatives	**3**	327
Net cash from discontinued operations	**0**	0
Dividends paid to shareholders	**(505)**	(295)
Increase in cash and cash equivalents	**10**	(1)
Increase in financial investments	**59**	(861)
(Decrease)/increase in borrowings and related derivatives	**(119)**	1,133
Net interest paid on the components of net debt	**35**	47
Changes in fair value of financial assets and liabilities and exchange movements	**12**	11
Other non-cash movements	**(7)**	(5)
Net interest charge on the components of net debt	**(295)**	(204)
Net debt increase	**(305)**	120
Opening net debt	**(3,660)**	(3,780)
Closing net debt	**(3,965)**	(3,660)

Cash generated from operations

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

For the year ended 31 March 2023, cash flow from operations reduced by £39 million to £825 million. This is primarily due to unfavourable working capital movements offsetting higher operating profit before depreciation.

Capital cash expenditure

Capital expenditure in the year increased by £88 million to £300 million driven by an increase in property, plant and equipment expenditure.

Dividends paid

A dividend of £290 million was declared and subsequently paid in July 2022 in respect of the year ending 31 March 2022. A further £215 million was paid as part of the sale completion process on 31 January 2023. In July 2023, the board agreed and approved the declaration of the final dividend of £49 million in respect of the year ending 31 March 2023.

Regulated financial performance

Timing and regulated revenue adjustments

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

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

The amounts calculated as timing differences are estimates and subject to change until the variables that determine allowed revenues are finalised. Our operating profit for the year includes a total estimated in year under recovery of £49 million (2021/22: £80 million under-recovery). Our closing balance at 31 March 2023 was £216 million under-recovery (2021/22: under-recovery of £156 million). Opening balances include true ups and adjustments for the time value of money totalling under-recovery £12 million (2021/22: £7 million over-recovery).

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

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

Return on equity

Return on Equity (RoE) is a measure of how much profit a business generates from investment by shareholders and is our key metric to compare how the business is performing against many of our peers and also against our RIIO-T2 business plan. The RoE achieved in 2022/2023 was 7.8%, which is 1.1% higher than the 6.7% allowed return on equity. We met our customer satisfaction targets, and performed well against other incentives in the RIIO-T2 price control. We achieved a customer satisfaction score of 8.6, while stakeholder satisfaction was 8.7 – our highest ever recorded score.

Year ended 31 March	**2023 %**	2022 %
Allowed return (including avg. 2% long-run inflation)	**6.7**	6.6
Totex incentive mechanism	**0.6**	0.5
Other revenue incentives	**0.4**	0.6
Unlicensed Income	**0.4**	0.3
Return including in year incentive performance	**8.0**	8.0
Pre-determined additional allowances	**(0.2)**	(0.2)
Return on Equity	**7.8**	7.8

Regulatory asset value

In the year RAV has grown by 8% (compared to prior year growth rate of 4%) due to higher capital expenditure and inflation linked growth in the RAV.

£m	**2023**	2022
Opening Regulated Asset Value (RAV)	**6,561**	6,307
Asset additions (aka slow money) (actual)	**301**	224
Performance RAV or assets created	**6**	3
Inflation adjustment (actual RPI)	**604**	388
Depreciation	**(397)**	(361)
Closing RAV	**7,075**	6,561

£m	**2023**	2022
Opening balance of other regulated assets and (liabilities)	**95**	27
Movement	**15**	67
Closing balance	**110**	95
Closing Regulated Financial Position	**7,185**	6,656

Risk management

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

Our principal risks and uncertainties

Our business is exposed to a variety of uncertainties that could have a material adverse effect on its short and long term financial position, its operations and its reputation. Accepting that it is not possible to identify, anticipate or eliminate every risk that may arise and that risk is an inherent part of doing business, our risk management process aims to provide assurance that we understand, monitor and manage the main risks that we face in delivering our strategic priorities. This aim includes consideration of inherent risks, which exist because of the nature of day-to-day operations in our industry.

Managing our risks

The Board has overall responsibility for risk management, which includes our risk management and internal control systems to ensure that we have an effective risk management framework in place. The Board also sets and monitors the amount of risk we are prepared to seek or accept in pursuing our strategic priorities – our risk appetite. The Audit and Risk Committee has been delegated the responsibility of monitoring and reviewing the integrity and effectiveness of our risk management framework whilst the Safety and Sustainability Committee has oversight of those risks that relate to safety and sustainability.

In anticipation of sale completion, an extensive review of the risk landscape was undertaken to ensure that the risk profile and framework is appropriate for the new business, resulting in a number of changes being made to our principal risks. As a newly established standalone business we acknowledge that the risk profile will evolve as the business develops. The Audit and Risk Committee and Safety and Sustainability Committee supports the Board by regularly reviewing the principal risks with any proposed changes being presented to the Board for endorsement.

Risk management process

Our risk strategy and framework are set by the Board with the business responsible for implementation. During the year a new risk governance structure was established to improve oversight and governance of our risks across NGT, NGS and NGM.

Responsibility of managing risks rests with the responsible business function. Each Executive maintains a risk register for their function and is responsible and accountable for conducting regular risk assessments of each of their risks and for ensuring adequacy of internal controls and mitigations that are in place to manage the risks within their areas of responsibility. These risks are considered by the newly established executive level Risk Sub-Committee. The sub-committee considers the principal risks and monitors any emerging risks, and any changes are reviewed by the Executive Committee, ahead of review by the Audit and Risk Committee or Safety and Sustainability Committee (as applicable) and approval by the Board.

Overseeing risk

Our Enterprise Risk Management (ERM) process provides a framework to identify, assess, prioritise, manage, monitor and report risks. We also have an established process to identify and monitor emerging risks. The process is designed to ensure adequate steps are taken to prevent the occurrence or manage the impact of risks. The ERM process supports this by monitoring management information from a wide variety of internal and external sources when considering emerging risks.

We have adopted a standard Three Lines of Defence model, with our colleagues operating internal controls in the first line, underpinned by our risk and assurance functions in the second; a third line of defence is provided by internal and external audit functions.

Operational risks

Operational risks relate to the potential losses resulting from inadequate or failed internal processes, people and systems, or due to external events. These risks normally fall within our risk-averse appetite level as there is no strategic benefit from accepting the risk, as it will not be in line with our vision and values.

Our operational principal risks have a low inherent likelihood of occurring. However, should an event occur, without effective prevention or mitigation controls, it would be likely to have a high level of impact. The risk owners, executive leaders, and their teams develop and monitor actions to control the risks. Operational risks are managed through policy, standards, procedure-based controls, active prevention and monitoring. The operational risks link to our strategic priorities to 'Deliver sustainable value for customers and stakeholders' and 'Operate safely, reliably and flexibly'. Principal risk assessment includes reasonable worst-case scenario testing i.e. gas transmission pipeline failure, loss of licence to operate, cyber security attack – and the financial and reputational impact should a single risk or multiple risks materialise.

Operational risks	Summary of mitigating actions
Asset failure There is a risk of a significant gas containment breach event on the gas transmission network because of an asset failure due to poor asset condition or a third-party infringement. This would lead to a significant safety event, lasting reputational damage among customers and regulators, and can damage investor confidence and potential disruption to energy supplies. **Risk trend: no change**	There has been an increased focus on process safety following weaknesses highlighted by our assurance and audit programmes and improvements have been made. We continue to monitor asset performance and people competency to minimise risk of an asset failure and the impact of any potential disruption.

Risk management continued

Operational risks	Summary of mitigating actions
Energy disruption There is a risk that we fail to appropriately mitigate, predict and respond to a significant disruption of energy that adversely impacts our customers and/or the public because of the performance or unavailability of NGT asset(s), or inadequate supply onto the NTS to meet demand as a result of the failure of a 3rd party asset(s) or wider market failure(s). This could lead to a disruption to GB energy supplies, resulting in significant customer harm, lasting reputational damage with customers and regulators, material financial losses and damage to investor confidence. **Risk trend: no change**	We continue to apply a holistic approach to predicting, mitigating and, if necessary, responding to events which may cause disruption to energy supplies. We have worked collaboratively with both the Department for Energy Security and Net Zero (DESNZ) and Ofgem to develop a range of supply and demand scenarios for last winter and to develop appropriate mitigations.
Network performance There is a risk that we fail to deliver the required level of network performance because of the unavailability, reliability or performance of an asset (or a combination of assets). This could lead to lasting reputational damage with customers and regulators, damage to investor confidence and potential disruption to GB energy supplies **Risk trend: no change**	We continue to manage the processes, policies and governance to drive performance and to mitigate any areas that could result in the network performance risk manifesting.
National Gas failure of IT assets There is a risk that the CNI and/or Enterprise IT system's used by National Gas fail because of a full-scale outage. This could result in potential regulatory fines, loss of license and loss of customer and regulator trust. **Risk trend: decreasing**	We have in place complete asset inventories that support the monitoring of the IT systems which National Grid support under a transitional service agreement (TSA). Detection and preventative controls are in place in addition to Business Resilience plans in the event of an outage taking place.
Climate change There is a risk that National Gas fail to manage the impacts of climate change and to meet our Net Zero Targets because of complex systems, aging assets and inadequate proactive planning leading to reputational damage, falling investor confidence, legislation non-compliance, enforcement actions and fines. **Risk trend: increasing**	We engage with Environmental Regulators in respect of our Regulator Returns and key topics such as the Medium Combustion Plant Directive (MCPD). We have refreshed our approach to NetZero as a standalone business and have the support of the Board as we build our plans to meet our stretching environmental targets.
Environment, social and governance There is a risk that National Gas' ESG vision is not achieved because the business does not adequately drive appropriate activity, leading to a potential reputational issue and threat of 'greenwashing'. **Risk trend: no change**	We have developed our Environmental, Social and Governance strategy for National Gas. We continue to manage the mitigation of this risk proactively through established performance reporting to the National Gas Executive Committee.
Occupational safety There is a risk that our employees, contractors or members of the public experience an occupational safety incident that results in a fatal or life changing injury because of immature or inconsistent safety culture, failure to follow procedures, inadequate risk assessments, ineffective competence management or human error/violations. This could lead to prosecution, fines, damage to reputation, loss of license, loss of trust from our employees and loss of investor confidence. **Risk trend: no change**	We have an established suite of Safety Management Documents that ensure that our employees, contractors and members of the public remain safe. We continue to manage the processes, policies and governance to drive performance as well the introduction of the rapid sharing of any safety events to support awareness and learning of any occurrences. Safety performance is monitored at every monthly executive meeting and through both the safety and sustainability committee and at the board.
Data management There is a risk that NGT does not have complete and accurate asset data which would affect NGT in managing its end-to-end business because incomplete or inaccurate data or records. This could lead to poor quality and absent specifications, leading to prosecution, financial loss or reputational damage. **Risk trend: decreasing**	We have continued to improve our data management systems and processes to minimise our exposure to the data risk. We have appointed a new chief data officer and are refreshing our data strategy to build robust new processes and systems to mitigate the data management risk.

Operational risks	Summary of mitigating actions
Security (cyber/physical/OT/IT/CNI) There is a risk that cyber and physical security controls on GT operational sites may not be operationally effective and provide the required levels of protection against either a Cyber or Physical Security breach, because of a systemic weakness within NGT's operational model (Systems, processes, people). This could result in a loss of confidentiality, availability or integrity of systems and/or operational data resulting in risks related to continuity of service, personal safety, reputation, regulatory standing, or financial loss **Risk trend: no change**	We continue to monitor security threats to National Gas and our Critical National Infrastructure to minimise our exposure to a security breach. Post the sale of National Gas we have established policies and procedures to ensure that there are improvements in the cyber asset management system. We have launched a Cyber security awareness training programme to all staff to improve overall understanding of cyber threats.
Compliance with external legislation There is a risk that we fail to achieve compliance with external legislation, due to the lack of understanding / accountability of obligations and/or ineffective controls. The consequences of this would be prosecution/ significant enforcement action (including financial penalty) increased regulator intervention, loss of trust and confidence in Gas Transmission. **Risk trend: increasing**	We have a robust programme of monitoring and assuring compliance with known regulatory and legislative obligations and a horizon scanning process to update the programme as legislation and regulation evolves.
Resilience There is a risk that we fail to appropriately plan to respond to an event requiring the resilience framework to be enacted because of weak, ineffective and immature plans and impact assessments, processes, meeting and governance structure in place. This could lead to NGT not being able to meet principal deliverables and adverse impacts upon the Business plan in place. **Risk trend: no change**	We have established a refreshed business resilience framework to reflect the standalone business needs of National Gas. We have retained our certification to the ISO:22301 Business Continuity Management standard for our Gas System Operator role and the NGS business.
Supply chain There is a risk that external market conditions prevent the ability to procure essential goods and services, due to disruptions in economic cycles, supplier performance, consumer demands, natural and man-made disasters. The consequences of this would be NGT failing to operate the network and deliver obligations through the ineffective operation and maintenance of our assets via the supply chain. **Risk trend: no change**	In response to the war in Ukraine and the impact of high energy price on the production of steel we have been proactively sourcing materials for our T2 work from new markets. To limit the number of materials we require and to open other routes to market we have begun responsibly challenging our approach on specifications which has minimised our exposure to the risk.

People risks

It is through the high-quality work of our employees that we will achieve our vision, respond to the changing needs of our stakeholders and create a competitive advantage. Building and fostering an engaged and talented team that has the knowledge, training, skills and experience to deliver our strategic objectives is vital to our success. We must attract, integrate and retain the talent we need at all levels of the business. These risks link to our strategic priority to 'Empower colleagues for great performance'.

People risks	Summary of mitigating actions
Talent and resourcing There is a risk that we do not attract, develop and retain a diverse talent pool with the capability to meet our business needs now and in future because of a lack of brand/identity for standalone National Gas and a lack of understanding as to why diverse talent is leaving the organisation as well as fierce competition for diverse talent within the recruitment market, leading to a less diverse and capable workforce which delivers sub-optimal financial results as well as impacting on our reputation and our ESG commitments. **Risk trend: increasing**	In National Gas we are continually capturing intelligence on workforce make up. On the back of this we have developed internal training programmes to support the onboarding and retention of staff. We continue to work with external recruitment partners to adapted our external recruitment approach for National Gas.

Financial risks

While all risks have a financial liability, financial risks are those which relate to financial controls and performance. Financial risk management is a critical process used to make investment decisions and aims to maximise investment returns and earnings for a given level of risk.

Financial risks	Summary of mitigating actions
T2 performance There is a risk that we are unable to achieve the financial commitments that the NGT have made for RIIO-T2 regarding underlying operating profit, asset growth, controllable cost reductions and return on equity outperformance. This could happen if performance, risk and opportunities have not been rigorously tracked and monitored with improvement plans being put in place to rectify deviations where appropriate, resulting in financial underperformance, shareholder dissatisfaction and credit metrics being impacted. **Risk trend: no change**	Process controls and governance is well established. A Performance Scorecard has been agreed with the Executive which aligns to our strategic objectives and business commitments.

Strategic and regulatory risks

Strategic risk is the risk of failing to achieve the Company's overall strategic business plans and objectives, as well as failing to have the 'right' strategic plan. We intentionally accept some risk so we can generate the desired returns from our strategy. Management of strategic risk focuses on reducing the probability that the inherent risk would materialise, while improving the Company's ability to effectively respond to the risk should it occur. The risk owners, executive leaders, and their teams develop and monitor actions to control the risk. These risks link to our strategic priorities of 'Shape the Gas Markets of the Future' and 'Deliver sustainable value for customers and stakeholders'. The political climate and policy decisions of our regulators were key considerations in assessing our risks.

The climate change related risk is classed as a strategic and regulatory risk but is also an operational risk, in particular as regards the impact of rising temperatures and widening temperature ranges on the performance and operation of our networks.

Strategic and regulatory risks	Actions taken by management
Transition to hydrogen There is a risk that we fail to achieve our strategic ambition to build, own and operate the UK's future hydrogen transmission network because we cannot demonstrate our assets are suitable, the UK hydrogen economy does not align with our plans, and we cannot articulate a realistic methane to hydrogen transition plan. **Risk trend: decreasing**	Activities to address transition to hydrogen include: • Demonstrate our assets can be used for H2 Transportation – Our FutureGrid project is constructing a test facility from decommissioned assets that will be used to carry out a wide range of hydrogen tests in an offline environment, to demonstrate its effect on our assets, as well as the operation of our network. • Influence the development of the UK hydrogen business model – Our response to BEIS' consultation on Hydrogen Transportation and Storage infrastructure was submitted in November 2022. • Develop and deliver a realistic and cost-efficient methane to H2 transition plan – Our Project Union Feasibility submission, was sent to OFGEM in December. Ofgem have approved funding for Project Union's feasibility.
Political direction There is a risk that national politics could pivot because of a General Election leading to an associated change in the direction of energy policy, such as financing, regulation and hydrogen. **Risk trend: increasing**	We are mapping influencers and liaising with advisers across the Conservative and Labour Parties to understand General Election strategic plans.
Policy decision There is a risk that policy decisions are delayed because of political uncertainty hindering decision-making in the Civil Service leading to outcomes which will impact the longer-term role of the gas networks. **Risk trend: no change**	We are working to re-assess relationships with the Energy Security Department and executing a public affairs programme.

Risk management continued

Strategic and regulatory risks	Actions taken by management
T3 securing the right outcome There is a risk that we fail to secure an acceptable RIIO-3 regulated settlement because we fail to provide sufficient evidence to Ofgem of the need for our proposed work scope, the efficiency of the costs and the benefits to consumers, as well as having a poor track record for RIIO-2 delivery leading to failure to deliver our strategic ambitions to build, own and operate the UK's future hydrogen transmission network, and deliver the necessary levels of network reliability throughout the energy transition. Risk trend: no change	The preparation work for the next regulatory period is well underway as we engage with Ofgem and stakeholders on shaping the T3 regulatory process. The Board has been fully engaged on our approach to T3 with regular updates to the Regulation and Strategy Committee
Customer and stakeholder There is a risk that we fail to deliver on the expectations of our customers/ stakeholders because of a lack of customer understanding and an organisation not effectively processing the needs of customers/ stakeholders. This could lead to low customer/ stakeholder performance e.g. against incentives, loss of future opportunity, loss of customer advocacy for our business plan, failure to deliver license obligations. Risk trend: no change	We have had a robust programme to proactively engage with all customers through the year and have a 3 year plan to change the Company's culture to be more customer and stakeholder focussed
External supplier capability There is a risk that we fail to maintain and secure future supplier capability that ensures that key engineering and operational capability and skills can be delivered, because of retirement of veteran skills and low uptake of roles within the construction and maintenance industries. This could lead to a lack of ability to deliver against our future investments and higher costs within the external market. Risk trend: increasing	• We held our first forum with CEOs from our supply chain to talk about our future workbook and allow them to start to consider how we can work together in the future; • We are in the very early stages in discussion on how we can support suppliers in development of key skills, such as welders; • Through a number of new framework agreements we have introduced new suppliers into our supply chain in order to tape into new resource pools; • We are building long term relationships through entering longer term arrangements (e.g., cyber) which allows our supply chain to hire people into their organisations

Section 172 statement

National Gas recognises the vital role that governance plays in driving our success, and our approach is firmly rooted in understanding and meeting the diverse needs of all stakeholders. We place a strong emphasis on maintaining trust and prioritising the interests of our customers, colleagues, investors, communities, the environment and the regulator.

How our Board engages

We believe that considering our stakeholders in key business decisions is not only the right thing to do but it is fundamental to our ability to drive long-term value creation.

The Directors are bound by their duties under the Companies Act 2006 (the "Act") to consider the interests of the Company's key stakeholders and is responsible for ensuring that it fulfils its obligations to those impacted by our business. The Directors acted in the way they considered, most likely to promote the long-term success of the Company for the benefit of its members, having regard to the matters set out in section 172 of the Companies Act 2006, for all decisions taken during the year.

The Boards assessment of the Company's key stakeholders and interactions with them are provided in the table below.

Stakeholders	Why they matter	Key priorities	How the business interacts	How the Board interacts
Our customers	Our customers are key to our business and ensuring continuing flow of gas to the NTS is a priority. We work closely with our customers to meet their needs and efficiently deliver outcomes that enables power to be generated and households across the country to stay warm	We have a responsibility to keep the NTS within safe operating limits and ensuring security of supply and safely and reliably supply gas to our customers	Regular meetings and interactions with key customers The Independent User Group continues to provide oversight of the Company's activities from the perspective of our stakeholders	Regular reporting to the Board on customer satisfaction scores and performance.
Our colleagues	We cannot operate and deliver our strategic goals without the wellbeing, engagement and input by our colleagues	The health, safety and wellbeing of our employees remains a main priority. This includes creating an inclusive and respectful culture where colleagues feel valued, supported and are able to share their views and input into decision making processes	Regular employee pulse surveys to provides insights into what is important to our employees and how they feel about working for the Company and the leadership team Employee Assistance Programme Wellbeing champions and a Wellbeing and Health Services support line Speaking up arrangements	The Board receives regular reports on employee health, safety and wellbeing The newly established Remuneration and Nominations Committee will oversee trends from the employee surveys The newly established Safety and Sustainability Committee will monitor employee wellbeing. The Audit and Risk Committee will consider and receive reports on the Code of Ethics
Our investors	Securing our shareholders' trust through continuous engagement ensures their continued investment and support	Delivery of long term sustainable and profitable growth.	The establishment of a positive and collaborate relationship with the shareholders by maintaining regular dialogue and proactive engagement	Our investors are represented on the Board and the interaction with them inside and outside the Board room ensures their continued input on the business' direction of travel. The Audit and Risk Committee ensures that the Company's internal control framework and risk appetite are sufficient to protect our shareholders' investment, and that the financial statements provide our investors with an accurate, fair and balanced view of performance, strategy and operations.

Stakeholders	Why they matter	Key priorities	How the business interacts	How the Board interacts
Communities	Supporting local charities to improve the wellbeing and opportunities for children and families within our local communities	Delivering positive and meaningful sustainable social impact to our local communities	This year, we formalised our partnership with The Albion Foundation with a £50,000 support package, as well as sharing our people's time and expertise to directly benefit vulnerable people and organisations within their network. We also agreed to a 3-year corporate charity partnership with Barnardo's with a goal of fundraising £100,000 but 2026. Fundraising and impact activity has recently started, with over 800 volunteering hours committed by our employees to date.	The Board receives regular updates on engagement with local community groups. The newly established Safety and Sustainability Committee will oversee the delivery of the ESG strategy and key community initiatives.
The environment	We strive to achieve minimal environmental impact across all our operations whilst seeking ways to enhance the local environment.	Ensuring that we meet our legislative RIIO-T2 environmental commitments and improve our performance across Scope 1,2 and 3 emissions.	We hosted both internal and external webinars, explaining our performance over 30 environment commitments. In addition to hosting a Sustainable Construction contractors forum. The executive received a climate change impacts briefing from a professional body. We published and gained stakeholder approval of our Annual Environmental Report.	The Board is committed to reducing the Company's environmental impact and achieving Net Zero. To support this work, the Board receives regular updates on environmental performance The newly established Regulation and Strategy Committee will support the development of the hydrogen strategy and the Board overseas the delivery of our hydrogen ambitions. The Safety and Sustainability Committee will oversee the delivery of ESG matters, the reduction of carbon emission targets.
Regulator	Our regulator, Ofgem, ensures that we fulfil our obligations under the Gas Transportation licence and approves the regulatory framework business plan	Successful execution of the business plan and compliance with our licence obligations	Maintaining a positive and interactive relationship with Ofgem through regular engagement on Price Control Deliverables, upcoming regulatory submissions and discussions on regulatory frameworks both current and future	The Board receives regular updates on interactions with Ofgem as part of the Chief Executives updates to the Board. The newly established Regulation and Strategy Committee will support our delivery of our licence conditions, the delivery of the business plan commitments and the hydrogen ambitions.
Government	The Government's energy security policy and Net Zero ambition	Ongoing conversations with Government to ensure that key priorities are aligned and the Company strategy supports the Government's Net Zero ambition.	Maintaining a regular and positive relationship with the Government and key Government departments to highlight our continuing efforts towards a clean energy transition. Industry collaboration to contribute to the policy and strategy developments.	The Board receives regular updates on meeting and interactions with Government as part of the Chief Executive's updates to the Board, specific areas of engagements are also considered by the relevant Board Committees.

The Strategic Report, including pages 1 to 22, was approved by the Board on 18 July 2023 and signed on its behalf by:

Jon Butterworth
Chief Executive Officer
18 July 2023

Governance

Our Board


Jon Butterworth,
Chief Executive Officer


Nick Hooper,
Chief Financial Officer

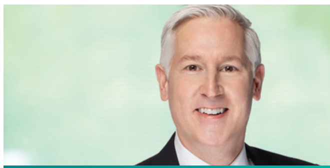

Dr Phil Nolan,
Chair & Sufficiently Independent Director


Cathryn Ross,
Sufficiently Independent Director


Will Price,
Shareholder Nominated Director


Mark Mathieson,
Shareholder Nominated Director


Howard Higgins,
Shareholder Nominated Director


Lincoln Webb,
Shareholder Nominated Director


Jerry Divoky,
Shareholder Nominated Director


Ben Wilson,
Shareholder Nominated Director


Katerina Tsirimpa,
Shareholder Nominated Director

Our new Board came into operation on 31 January 2023.

Jon Butterworth
Chief Executive Officer

Jon is an experienced leader with a strong track record of building and running successful businesses in both regulated and competitive energy markets across the UK, Europe and the US.

He began his career over 44 years ago in British Gas as an apprentice technician. Subsequent roles have included Managing Director of Northwest Gas running the UK Gas Emergency Service; Global Director of Safety, Health, Environment, Resilience and Incident Command for National Grid plc; and Chief Executive of National Grid Ventures, building £3 billion of growth in renewables across the USA and Europe.

Jon is a non-executive director of Pennon Group and Chair of the Pennon Health and Safety Committee.

Jon was awarded an MBE in 2009 for services to Britain's gas industry, and is currently President of the Pipeline Industries Guild – a national trade body covering a range of utility and energy sectors. In addition, he is a Fellow of the Institute of Directors, a Companion of the Institute of Gas Engineers and Managers and a Director of the National Gas Museum Trust.

Jon is passionate about public service, and for 12 years was an Ambassador for HM Young Offenders programme as well as serving as an Ambassador for Special Olympics Great Britain. He is currently a 4x4 Responder Volunteer, supporting NHS England.

Jon has been married for 37 years and has 3 children and 2 grandchildren.

Nick Hooper
Chief Financial Officer

Nick joined National Grid in 2014 and was the Chief Financial Officer for National Grid Ventures before taking on the role as the Chief Finance Officer for the National Grid Gas and Metering business (now NGT) in August 2021. Nick has held a number of senior finance roles, including eight years as Finance Director at Capita.

Dr Phil Nolan
Chair

Phil joined the Board and was appointed as the Chair of the Company and Sufficiently Independent Director on 31 January 2023.

Phil has served on the board of many public and private companies, both in an executive and non-executive capacity. He has industry experience as Executive Director of BG Group plc and Chief Executive of Transco plc between 1998 and 2000. Phil also led the demerger of Transco from BG Group plc, as the Chief Executive of Lattice Group.

Phil is currently the Chair of Associated British Ports, a leading UK ports group, and the Chair of Encyclis. He has also served as the Chair of John Laing between 2010 and 2018, Ulster Bank Limited and Ulster Bank Ireland Limited (a subsidiary of Ulster Bank Limited) between July 2013 and July 2017. Other previous roles include the Chair of Affinity Water; non-executive director of EnQuest PLC; Chair of Infinis; Chair of Sepura plc and Chief Executive of Eircom, Ireland's national telecommunications supplier.

Cathryn Ross

Cathryn joined the Board as a Sufficiently Independent Director on the National Grid Gas plc board in June 2019. She is interim co-CEO of Thames Water. Cathryn has extensive experience in strategy regulation having worked in regulatory roles for a number of large business, including BT Group plc, Ofwat, and the Office of Rail Regulation (now the Office of Rail and Road). Cathryn was also a non-executive director of the Institute of Customer Service and was the inaugural Chair of the Regulatory Horizons Council, an independent committee established by BEIS.

Will Price

Will joined the Board on 31 January 2023. Will is Head of Utilities in EMEA at Macquarie Asset Management. He has been involved in several utilities acquisitions, including Wales & West Utilities, Thyssengas, Czech Grid Holding, EP Infrastructure, Viesgo, CEZ Romania, and Southern Water. He has extensive experience in key asset management initiatives including regulatory resets and re-financings, a consensual restructuring of National Car Parks, separation and transition of EP Infrastructure and Czech Gas Networks, and the disposal of Viesgo. Will currently serves as a director on the board of Southern Water, EP Infrastructure, and Czech Grid Holding.

Mark Mathieson

Mark joined the Board on 31 January 2023. Mark was appointed as a Managing Director in Macquarie Asset Management in October 2018. Prior to that, he spent 26 years at SSE, including ten years as the Managing Director for their electricity network businesses. He serves the boards of Cadent Gas Networks, Nortegas Energia Grupo (Spain), and Distributie Energie Oltenia SA, an electricity distribution network in Romania.

Previously Mark was the Chief Executive at Green Highlands Renewables, the UK's leading developer of run-of-river hydro-electric schemes. Mark has over 30 years of executive and non-executive experience in energy utility sector, including non-executive director at the Smart DCC, the company responsible for the role out of the central infrastructure of the UK smart metering roll out, and chair of the Energy Networks Association and EA Technology. Mark is a Chartered Engineer, and a Fellow of the Institution of Engineering and Technology.

Howard Higgins

Howard joined the Board on 31 January 2023 and has played a key role in global energy and utility transactions and transitions undertaken by Macquarie Asset Management since he joined in 2003.

In his role as Senior Advisor, Howard provides specialist support on the acquisition, transition and management of energy and utility businesses and sits on a number of company boards within Macquarie Asset Management's investment portfolio.

Howard's prior roles include CEO of BG Storage and Operations Director of Transco and Cadent Gas Networks. Howard is a Chartered Engineer and a member of the Institution of Mechanical Engineers.

Lincoln Webb

Lincoln joined the Board on 31 January 2023 and is an Executive Vice President and Global Head of British Columbia Investment Management Corporation's (BCI) global Infrastructure & Renewable Resources group. Lincoln joined BCI in 2002 and leads the management of investments across 30 countries and all major infrastructure sectors.

He holds a number of different board positions for companies within BCI's investment portfolio, including roles on the presidential and supervisory boards of Open Grid Europe, and the boards of Cleco Corporation, Endeavour Energy, Glencore Agriculture, Teays River Investments LLC, TimberWest Forest Corporation, and Corix Infrastructure.

Jerry Divoky

Jerry joined the Board on 31 January 2023 and is a Vice President of British Columbia Investment Management Corporation's (BCI) global Infrastructure & Renewable Resources group with investments across 30 countries and all major infrastructure sectors.

He joined BCI in 2004 and is responsible for sourcing, executing and managing private direct investments in infrastructure with a focus on utilities, transportation and energy. Jerry has over 20 years experience in acquisitions including 10 years in energy & banking, He holds a number of different board positions for companies within BCI's investment portfolio, including Pacific National, Global Container Terminals, and Endeavour Energy. Prior board appointments include Thames Water, Translec, Dalrymple Bay Coal Terminal, Isagen, NTS, Arteris, and GCT Global Container Terminals Inc.

Ben Wilson

Ben joined the Board in November 2021 and was the chair of the Board until the end of January 2023. He is the Chief Strategy and External Affairs Officer of National Grid plc and has more than 25 years' experience in the energy sector. His focus areas include strategy, regulation, external affairs, stakeholder engagement, M&A, innovation and sustainability.

Prior to joining National Grid, Ben was the Chief Executive Officer of Australian Gas Infrastructure Group (AGIG), one of the largest utility infrastructure businesses in Australia; and the Director of Strategy & Regulation and Chief Financial Officer of UK Power Networks. Before moving into industry, Ben spent 15 years as an energy and utilities investment banker, working in Europe and Asia.

Katerina Tsirimpa

Katerina joined the Board on the 31 January 2023. She joined National Grid in 2014 and has over 14 years of experience within the world's leading energy companies. Her current role at National Grid plc is that of Group Head of Mergers & Acquisitions. Prior to joining National Grid plc, Katerina spent over seven years in different financial roles at BP plc. Katerina has a MSc in International Business Economics from KU Leuven in Belgium and has completed the Executive Corporate Finance Programme at London Business School.

Corporate governance statement

Group structure

Following the completion of the sale on 31 January 2023 a new National Gas group structure was established. The addition of GasT Topco Limited, GasT Pledgeco Limited and GasT Midco Limited as holding companies in the National Gas group structure is due to the financing arrangements of the group's investors.

Shareholders' Agreement

National Gas is a party to a private agreement between the shareholders of GasT TopCo Limited (the Shareholders' Agreement), which governs how the shareholders manage their investment in the NGT business. This includes a schedule of matters reserved for decision by the GasT TopCo Limited shareholders and the GasT TopCo Limited Board of Directors.

Governance

We continue to be guided in our approach to corporate governance through the application of the Wates Corporate Governance Principles for Large Private Companies (the Wates Principles). For the year ended 31 March 2023, the Board is satisfied that it was compliant throughout the year with all of the six Wates Principles. Prior to sale completion executive remuneration was governed by the remuneration committee of National Grid plc. The establishment of a Remuneration and Nominations Committee on 31 January 2023 means that executive remuneration is now a matter for the Board. This Corporate Governance Statement describes how we have applied the Wates Principles throughout the year and the Strategic Report provides details of our stakeholder relationship and engagements.

Our owners

The National Gas group is owned by the shareholders of GasT Topco Limited. 60% of the shares in GasT Topco Limited are owned by a consortium of investors comprised of Macquarie Asset Management and British Columbia Investment Management Corporation with the remaining 40% of the shares in GasT Topco Limited owned by the National Grid group.

Group structure as of 31 March 2023

Principle	Purpose & leadership	Board composition	Director responsibilities	Opportunity & risk	Remuneration	Stakeholder relationships and engagement
High level description	An effective board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose.	Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge. The size of a board should be guided by the scale and complexity of the company.	The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision-making and independent challenge.	A board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risk.	A board should promote executive remuneration structures aligned to the long-term sustainable success of a company, taking into account pay and conditions elsewhere in the company.	Directors should foster effective stakeholder relationships aligned to the company's purpose. The board is responsible for overseeing meaningful engagement with stakeholders.
Application	✔	✔	✔	✔	✔ Note: Up to 31 January 2023, remuneration matters were considered by the ultimate parent company, National Grid plc.	✔

Governance framework

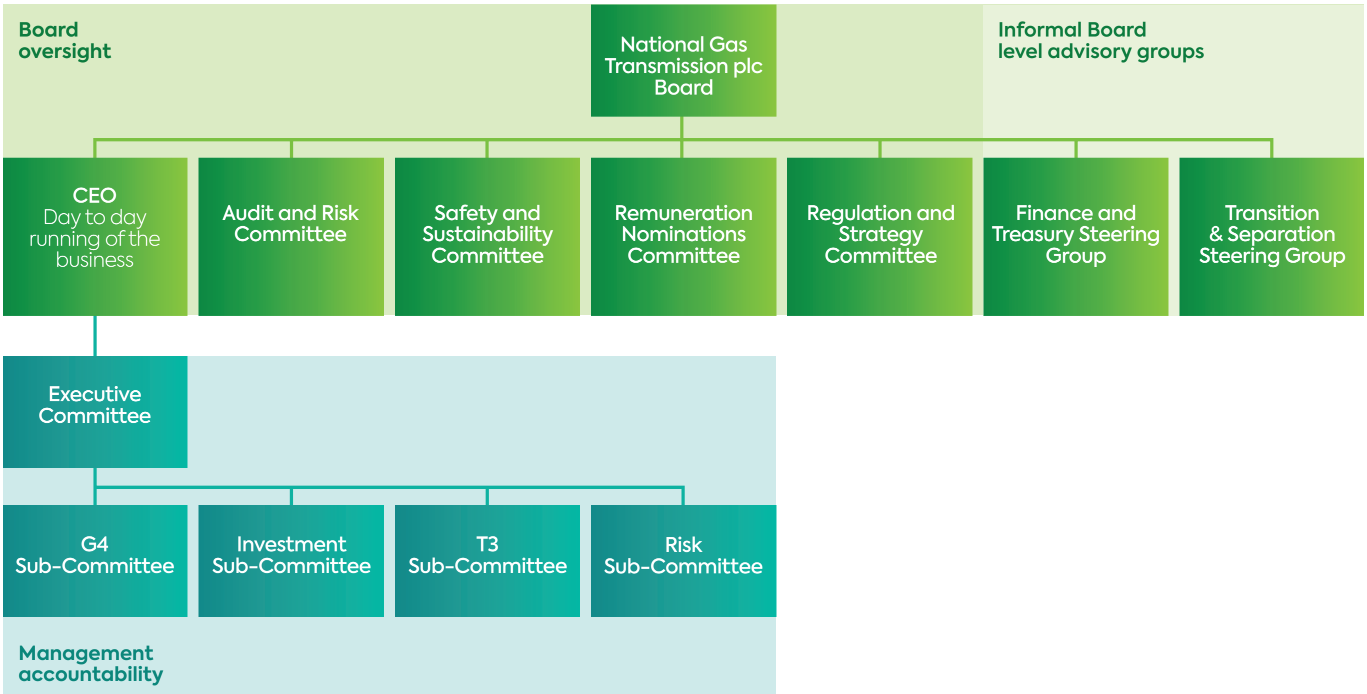
Our Board has the overall responsibility for ensuring long-term success of the business. Collectively the Board is also responsible for its governance and its effective oversight of the company, its business and compliance with its obligations under our Gas Transporter Licence.

Until the completion of the sale on 31 January 2023, our governance framework formed part of the wider National Grid plc's governance framework and the Board was supported by an Executive Committee, an Audit Committee and a Finance Committee. Up to 31 January 2023, the Company did not have a Nominations Committee and a Remuneration Committee as these functions were provided by National Grid plc. Safety, health and environment (SHE) matters, which is one of the main priorities of the Board, were delegated to a management committee which formed part of the wider National Grid plc group wide safety governance framework.

A new governance framework was introduced on 31 January 2023. Whilst the Board retains the overall responsibility for the delivery of National Gas' strategy, it has established a number of Board Committees to focus on key areas on behalf of the Board. The Committee meetings enable the Committee members to consider specific areas in more details, (and by gaining greater understanding of areas within the Committees' remit) it supports collaboration between Board members and senior executives.

The remit of each Committee is approved by the Board and each Committee reports back to the Board on matters discussed, decisions taken and makes recommendations to the Board on matters requiring Board approval. The diagram below outlines our governance framework as of 31 March 2023.

Governance structure as of 31 March 2023



Audit and Risk Committee	Safety and Sustainability Committee	Remuneration and Nominations Committee	Regulation and Strategy Committee
Assists the Board in discharging its responsibilities for the integrity of the Company's financial statements, risk management, assessment of the effectiveness of the system of internal control and the effectiveness of Internal and External Auditors.	Assists the Board in providing guidance and direction to the Company's safety, health and sustainability strategies and monitoring performance against the company's safety, health and sustainability ambitions.	Assists the Board by determining the Company's policy on the remuneration of Executive Directors, other members of the Executive Committee and the Sufficiently Independent Directors. Assists the Board by keeping the Board composition under review and makes recommendations in relation to Board appointments as well as overseeing Executive Director succession planning.	Assists the Board by overseeing the Company's compliance with its licence and other regulatory obligations. Assists the Board in overseeing the development of the new regulatory framework and hydrogen strategies.

The Board is also supported by two informal steering groups, the Finance and Treasury Steering Group and the Transition and Separation Steering Group. These groups do not have any decision-making authority but support management in the oversight of specific areas within their remits.

- **Finance and Treasury Steering Group**: provides oversight of the financial position across the National Gas Transmission group and develops proposals in relation to financial and treasury activities.
- **Transition and Separation Steering Group:** a time limited group which provides strategic oversight of the delivery of the separation plan entered into as part of the separation of the Company from National Grid plc.

Composition of the Board

The composition of the Board is essential to its success in providing strong and effective leadership and together the Directors bring a wide range of experience, skills and perspectives to Board deliberations.

Prior to the sale, the Board consisted of two Sufficiently Independent Directors, two National Grid group appointed non-executive directors and two executive directors, and was chaired by one of the National Grid group appointed non-executive directors.

Following the completion of the sale, the Board is made up of two Sufficiently Independent Directors, one of whom is the Chair, seven Shareholder Nominated Directors and two Executive Directors. From a governance perspective, the Sufficiently Independent Directors and the Shareholder Nominated Directors are non-executive directors. The Executive Directors do not have voting rights.

The composition of the Board is predominately determined by the Shareholders' Agreement. The Board may benefit from more diversity, however the Board does not operate a formal Board diversity policy since Board appointments are a matter reserved to the shareholders of GasT TopCo Limited, under the Shareholders' Agreement. During the year the composition of the Board has at all times been such that the Directors collectively bring a wealth of experience, knowledge and expertise from a broad range of backgrounds, including from the energy sector and other regulated industries. This depth and breadth of experience enables the Board to engage in constructive and challenging discussions, ensures that collectively the Board has a high-level of understanding relevant to the business and considers not only the interests of the shareholders but also of the wider range of stakeholders.

Chair

Prior to the sale the Board was chaired by Ben Wilson, the National Grid plc Chief Strategy & External Affairs Officer. Through his role at National Grid plc he was well placed to identify and facilitate the views of the ultimate shareholder and appropriate for a company that was part of a larger group. Ben stepped down as Chair on 31 January 2023 but has remained on the Board as a Shareholder Nominated Director.

Dr Phil Nolan was appointed non-executive chairman and a Sufficiently Independent Director as of 31 January 2023.

As per the Wates Principles, the roles of the chair and chief executive are separate.

Sufficiently independent directors

In accordance with our Gas Transporter Licence, we have two sufficiently independent directors (SID), appointed to provide independent challenge and input to the decision-making process. Cathryn Ross was appointed as a SID in June 2019 and remains in this role post sale completion. Dr Clive Elphick was appointed as a SID in 2014 and, following an assessment of his independence, his tenure was extended up to the completion of the sale on 31 January 2023. Dr Phil Nolan, the current Chair, replaced Clive as a SID.

Shareholder nominated directors

Our Board consists of seven shareholder nominated directors, representing members of the consortium of investors in GasT TopCo Limited. As per the Shareholders' Agreement, each of the Shareholder Nominated Directors can appoint alternate directors to participate in meetings in their absence.

Board activities

The Board normally holds six scheduled meetings per year. As a result of the sale of the business, the Board met five times between 1 April 2022 and to 31 January 2023, of which one meeting was to consider and approve specific items in relation to the sale. The new Board met twice during its first two months, of which one was an ad hoc meeting to consider specific governance items and for management to give an initial overview of the business.

The Board culture is one of openness and collaboration and the Chair ensures that all Directors have an opportunity to contribute to debates.

Prior to the sale of the business, the agenda of the Board largely reflected the Company's position as an operating company in the National Grid plc group. From sale completion, a more significant part of agenda is dedicated to strategic matters.

Each scheduled Board meeting includes a report from the Group Chief Executive, which covers health and safety, operational and overall business performance, and a report from the Chief Financial Officer covering financial performance. Regular updates are also provided on governance and legal matters. Any actions arising from meetings are overseen by the Company Secretariat and updated action lists form the agenda for the next scheduled meeting.

Other key items considered by the Board during the year:

Finance
- Budget and five-year plan
- Approval of annual report and accounts
- Reviewed and approved the going concern statement for inclusion in the annual report and accounts
- Declaration of dividends
- Regulatory compliance
- National Gas Metering Limited annual performance update

Operational
- Annual business plan
- Annual asset data assurance
- Risk appetite and corporate risk register
- Review of cyber security and threats
- Certifications required under the Company's gas transporter licence

Strategy
- Hydrogen strategy
- Customer and stakeholder strategy
- Ofgem's gas transportation charging regime

Sale of the Company
- Regular updates on National Grid plc's sale of the Company
- Governance of the new Group
- Establishment of a NGT Pension Scheme

Governance
- Approval of revised Board governance framework
- Board Committee updates
- Approval of Modern Slavery Statement
- Approval of NGT specific policies

All Directors utilise a dedicated secure app to access their papers. This provides them with immediate and secure access to documentation and ensures information can be provided in a timely manner and in a format and quality appropriate to enable the Board to discharge its duties effectively.

Board induction and training

The Board believes that an induction and continuous training and development supports Board effectiveness. It is committed to offering relevant training opportunities, tailored to each individual, that provide Directors with the necessary resources to refresh, update and enhance their skills, knowledge and capabilities. The extensive due diligence that was carried out as part of the sale of National Gas, meant that the Shareholder Nominated Directors appointed to the Board at the end of January already had an in depth understanding of the business and the environment in which it operates. Individual meetings with senior executives and site visits were scheduled at the request of the individual Directors and the new Chair

Board evaluation

Good governance provides that an evaluation of the performance of the Board and its committees, together with the effectiveness of the chair and the directors, should be carried out annually. Given the number of director changes that took place as a result of the sale of the business and the introduction of the new board governance framework, it was decided not to carry out an effectiveness review this year and a summary of the internal review that will be carried out during the 2023/24 will be provided in the next annual report.

Audit and Risk Committee

While ensuring that the Committee's core duties were discharged, there was particular focus on the transition of the Company to a standalone business and ensuring that appropriate financial and internal control systems and processes were in place for day one.

The Committee met five times in total, of which four were prior to the sale on 31 January 2023.

The Committee membership prior to the sale was made up of the two Sufficiently Independent Directors and one of the National Grid Group appointed non-executive directors. Following the sale, the membership consists of one of the Sufficiently Independent Directors and two members nominated by the Shareholder Nominated Directors. Temporarily, the committee is chaired by Cathryn Ross, who was a member of the Committee prior to the sale ensuring appropriate transfer and continuity of knowledge.

The Board is satisfied that the Committee Members possess relevant financial and industry experience and knowledge.

Meetings are regularly attended by the Chief Financial Officer, the Financial Controller, the Head of Risk and Assurance, the Head of Internal Audit, the General Counsel and the External Auditor. Other executives attend meetings when required to enable the Committee to gain a deeper level of insight on particular items of business.

The Committee Chair met with the External Auditor and Head of Internal Audit privately and these engagements provide an additional opportunity for open dialogue and feedback without management being present. Additional meetings with key executives are held to ensure the work of the Committee is focused on key and emerging issues.

Role of the Committee

The Committee provides independent challenge and oversight of the Company's financial reporting, including reviewing the significant financial reporting policies and judgements within them. It reviews the internal controls and risk management processes and considers changes to the principal risks. It maintains the relationship with the external auditor, including monitoring their independence and effectiveness. It reviews the effectiveness and independence of the internal audit function and oversees the policies and process for business integrity.

The Committee considered the usual cadence of activities relating to financial reporting, and considerable time was spent during the year to oversee the transition of finance functions and the strengthening of the financial reporting control environment. An in-depth review of the Company's risk management processes, assurance and internal controls was also carried out to ensure that they appropriately reflect the transition to a standalone business.

Key items considered included:

- Monitored the integrity of the annual and interim financial statements, with a focus on reviewing the significant financial reporting policies and judgements within them
- Assessed whether the annual report and accounts, taken as a whole, was fair, balanced and understandable
- Reviewed the internal controls and the establishment of a standalone finance function
- Considered changes to the principal risks, the risk appetite and risk framework
- Maintained the relationship with the external auditor, including monitoring their independence and effectiveness
- Reviewed outcomes of 2022/23 internal audit plan and approved the proposed Internal Audit plan for 2023/24, and considered the establishment of a standalone new internal audit function
- Reviewed the Company's whistleblowing, fraud, gifts and hospitality procedures.

Significant issues

The Committee assessed whether appropriate accounting policies have been adopted and whether management had made suitable judgements and estimates. Throughout the year, management provided regular updates on significant issues and how they were addressed.

Property, plant & equipment	The committee considered the company's judgement that the useful economic lives of the gas assets will extend beyond 2050 in light of the different goals, commitments and legislation relating to Net Zero. The committee confirmed that management's position was still appropriate due to the role gas will play in any future energy pathway as well as the expected emergence of substantial hydrogen infrastructure which could introduce another longer term role for Gas Transmission assets beyond 2050.
Impact of market factors	The Company experienced two significant market factors in 2022/23, the disparity between the allowances being collected for shrinkage costs and the costs actually being incurred and the considerable proportion of the Company's external debt book that is linked to RPI. These combined with a significant increase in exceptional costs as sale and separation of the business from National Grid plc have impacted profit before tax in 2022/23. The Committee debated the impact of these market factors and is satisfied that these factors are appropriately recognised in the financial statements.

Exceptional items	The Committee considered the classification of the sale and separation costs as exceptional items in the 2022/23 financial statements. The Committee confirmed that management's classification of Exceptional Items was appropriate.
Pension Scheme transfers	The sale of the National Gas business required a number of employees to move between the sections of the National Grid UK Pension Scheme. The transfers of past service assets and liabilities has resulted in a net income statement charge. To ensure the funding level of the schemes was to be maintained, the transfer values were determined on a scheme funding basis approved by the Trustees based on actuarial valuations. The Committee considered this with management and is satisfied that the basis of this is appropriate.
Meter measurement error	A meter measurement error by a Distribution Network company impacted Unaccounted for Gas costs in 2022/23. The committee was made aware of this issue that took place in July 2022 which required an independent expert report. The independent expert report concluded in June 2023 which led to an adjustment in the 2022/23 gas costs to reflect actual volumes. The report provided further evidence regarding appropriate costs incurred during the year.
Hedge accounting	The Company has entered into an interest rate cash flow hedge to fix the interest rate on debt. IFRS9 permits cash flow hedge accounting treatment for this type of hedge. An assessment was made to determine that the critical terms of the hedge instruments and hedged item match in such a way as to allow hedge accounting to be applied. This facilitates the booking of effectiveness impact of the hedge to the cash flow hedge reserve until the hedge ceases or is no longer permitted under the terms of IFRS9. This method of accounting therefore reduces income statement volatility. The Committee considered the impact on the income statement and is satisfied that this is appropriately disclosed in the financial statements and changes will be appropriately monitored by management and reported to the Committee.

External audit

The Committee is responsible for overseeing the relationship with the external auditors. Deloitte LLP was appointed auditor for the year and the Committee recommends that Deloitte be reappointed as the Company's statutory auditor for the 2023/24 financial year. It believes the independence and objectivity of Deloitte and the effectiveness of the audit process remains appropriate and are safeguarded. The independence and objectivity of the external auditor is also managed through a non-audit services policy.

Approval to engage the external auditor in non-audit services, excluding certain permissible services, must be obtained in advance from the Committee. Any non-audit work performed by Deloitte with fees in excess of £50,000 has to be approved by the Committee. Further details on non-audit services provided by Deloitte can be found on page 77 of the financial statements.

Internal Audit

Internal Audit is an independent assurance function available to the Board, Audit and Risk Committee and all levels of management, and is a key element of the Company's governance framework. In anticipation of the sale of the business, the Company established its own Internal Audit function, and in the autumn of 2022 the new internal audit function took over from the National Grid plc audit function. Their work is governed by an internal audit charter approved by the Committee and is conducted and managed in accordance with the IIA international standards for the Professional Practice of Internal Auditing.

Internal control framework

The Board is responsible for the effective management of risk, determining its risk appetite and ensuring that each business area implements appropriate internal controls to manage its risks. The risk management systems are designed to support the business in actively managing risk to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has delegated responsibility for reviewing the effectiveness of the Company's systems of internal control to the Committee, which includes financial, operational and compliance controls and risk management systems. The internal control environment was reviewed during the year and significantly strengthened to ensure that appropriate internal control functions are in place to support the Company as a standalone business. In its oversight, the Committee is supported by a number of sources of internal assurance.

Internal audit	Risk	Functional assurance	Operational oversight
The internal audit plan is aligned with the Company's strategic priorities and key risks and is reviewed regularly throughout the year to ensure that it remains relevant. The findings from the internal audit reviews are agreed with the relevant business function and are presented to the Committee. The Committee also oversees and approves satisfactory completion of any audit recommendations.	The Committee receives regular updates on risk management and reviews the corporate risk register ahead of it being considered by the Board. A major overhaul of the risk management framework was undertaken ahead of the transition to a standalone business to focus on the Company's risk profile under its new ownership. The Committee performed a robust review of the Company's principal and emerging risks and uncertainties during the year and the risk profile will continue to develop as the Company matures as a standalone business. The assessment of these risks is detailed on pages 41 to 45. Ad hoc deep dives into specific risk areas are also considered by the Committee.	The Company aims to ensure that a sound system of assurance and compliance processes are in place to support key risk areas across the business. An annual assurance plan is put in place and regular progress reports on the delivery of the plan are provided to the Committee. Where any failings or weaknesses are identified in the course of the reviews, management puts in place robust actions to address these on a timely basis. Details of non-compliances and control weaknesses are also reported to and monitored by the Committee.	A number of executive level committees and groups provide oversight on key risk areas and activities and the output of these discussions form parts of updates to the Board and the Board Committees.

Remuneration and Nominations Committee

The Committee's remit is to ensure we have a pay framework in place that rewards adherence to our values and delivery of our business performance targets and that we have the right leadership teams in place to drive the business forward.

The Committee met three times since its establishment on 31 January 2023. Prior to then its role was fulfilled through the National Grid plc remuneration and nomination committees.

The Committee membership is made up of Shareholder Nominated Directors and one of the Sufficiently Independent Directors and is chaired by William Price, one of the Shareholder Nominated Directors.

The Chief People Officer and the Chief Executive also attend (save for when their own remuneration is being discussed)

Role of the Committee

The Committee plays an important role in establishing the Company's pay framework and ensuring that practices are such that colleagues across the business are appropriately rewarded for their continued hard work and delivery of our short- and long-term strategic goals. In doing that the Committee will ensure that any incentives are subject to challenging yet motivational targets.

The other aspect of the Committee's remit is to review long- and short-term plans for succession of all Executive Directors, the Sufficiently Independent Directors and members of the Executive Committee.

In doing so, the Committee will keep under review the balance and diversity of skills, knowledge, experience of Board and Executive members and those in these roles.

The Committee's main focus has been to ensure that the right basic remuneration and incentives were put in place for the executive team to reflect the transition to a standalone business and to align them with the Company's business strategy whilst driving the right culture and behaviours.

Key items considered include:

- The development and approval of the NGT remuneration policy
- Executive Director salary review and market benchmarking
- Approval of proposed remuneration package for the Chief Executive, Chief Financial Officer, the Chair/Sufficiently Independent Director, the sufficiently Independent Director and members of the Executive Committee
- The treatment and outcome of short- and long-term incentives awards made by National Grid plc to senior management for periods prior to sale completion.
- The establishment of new short- and long-term incentive plans
- Recommendation of the appointment of Chief Executive and the Chief Financial Officer as Executive non-voting Directors and the appointment of the Chair/Sufficiently Independent Director to the Board
- Management salary budget for 2023 pay review
- The gender pay gap reporting for 2022/23

Safety and Sustainability Committee

The Committee's role is to support the continuing delivery of world class safety performance and ensure that sustainability is embedded at the heart of everything we do and the delivery of our Net Zero ambitions.

The Committee met once since its establishment on 31 January 2023.

The Committee membership is made up of Shareholder Nominated Directors and is chaired by Howard Higgins, one of the Shareholder Nominated Directors.

Remit

The remit of the Committee is to support and guide on safety and sustainability performance and risks and provide assurance to the Board that the Company is effectively managing its legal, regulatory, and moral obligations in relation to the environment, sustainability, wellbeing and safety.

At the Committee's inaugural meeting, the main focus was on gaining a deeper level of insight into the current strategies and frameworks in place for safety, health and sustainability and agree an approach to future reporting to the Committee

Key items considered include:

- Overview of the current safety (and health) strategy and plan
- Approval of the Workplace Health and Safety policy
- Overview of the sustainability strategy
- Review risks relating to safety, health and sustainability
- Approved the safety, health and sustainability related internal audit reviews to be included in the 2023/24 internal audit plan
- Considered the safety, health and sustainability internal audit reviews from the 2022/23 internal audit plan

Regulation and Strategy Committee

The Committee's role is to assist the Board by overseeing the Company's compliance with its licence and other regulatory obligations set by the Ofgem.

The Committee has met once since its establishment on 31 January 2023.

The Committee membership is made up of Shareholder Nominated Directors and is Chaired by Cathryn Ross, one of the Sufficiently Independent Directors.

Remit

The Committee's remit is to oversee compliance with our licence and other regulatory obligations set by Ofgem. This includes the delivery of price control outcomes specified in the relevant regulatory period, the development of the next regulatory framework, the relationship with Ofgem and the development and implementation of the regulatory and hydrogen strategies.

At its inaugural meeting, the Committee members considered the Company's position in relation to the delivery of the commitments under the current regulatory framework, the proposed approach to the next framework and hydrogen developments.

Key items considered include:

- Performance against our current regulatory business commitments
- An overview of the Company's relationship with the regulator and key communications timeline
- Development of the regulatory framework post 2026 and the related implementation plans.
- The development of interim and longer-term hydrogen business models.

Finance Committee

This Committee met twice before it was disbanded on 31 January 2023 and has been superseded by the Finance and Treasury Steering Group. The Committee met in common with National Grid plc's Finance Committee and the membership consisted of the Chief Financial Officer and the National Grid plc's Group Treasury, who was also a member of the Board.

The Committee's role was to set policy and grant authority for financing decisions, credit exposure, hedging and foreign exchange transactions, guarantees and indemnities. It also approved other treasury, taxation and pension funding matters, as well as having responsibility for the governance of the Company's pensions schemes and the Company's insurance strategies, and where appropriate recommend these to the Board for consideration.

Directors' Report

The Directors present their Annual Report & Accounts for the Company, together with the consolidated financial statement, for the year ended 31 March 2023.

The Directors' Report for the year ended 31 March 2023 comprises pages 57 to 58 of this report, together with the sections of the Annual Report incorporated by reference and, accordingly, should be read as part of this report.

As permitted by legislation, some of the matters required to be included in the Directors' Report have instead been included in the Strategic Report on pages 22 to 59, as the Board considers them to be of strategic importance. Specifically these are:

	Page reference
Employee engagement and involvement	13
Diversity	28
Financial instruments	88
Principal activities and business review	11
Risk management	32
Relationship with customers and stakeholders	46
Strategy for responding to climate change	31

Directors

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

Name	Position	Appointment date
Dr Phil Nolan	Chair & Sufficiently Independent Director	31 January 2023
Jon Butterworth[1]	Chief Executive	pre-existing
Jerry Divoky	Shareholder Nominated Director	31 January 2023
Howard Higgins	Shareholder Nominated Director	31 January 2023
Nick Hooper[1]	Chief Financial Officer	pre-existing
Mark Mathieson	Shareholder Nominated Director	31 January 2023
William Price	Shareholder Nominated Director	31 January 2023
Cathryn Ross	Sufficiently Independent Director	pre-existing
Katerina Tsirimpa	Shareholder Nominated Director	31 January 2023
Lincoln Webb	Shareholder Nominated Director	31 January 2023
Benjamin Wilson[2]	Shareholder Nominated Director	pre-existing
Mia Agoumi	Alternate Director	31 January 2023
Kylee Dickie	Alternate Director	31 January 2023
Natalie Humphries – New	Alternate Director	31 January 2023
Timothy Keeling	Alternate Director	20 March 2023
Rhian Kelly	Alternate Director	31 January 2023
Christy Pham	Alternate Director	5 March 2023

Former Directors	Position	Resignation date
Clive Elphick	Sufficiently Independent Director	31 January 2023
Alexandra Lewis	National Grid plc appointed non-executive director	31 January 2023

1 Non-voting Board member
2 Benjamin Wilson was the Chair of the Company until 31 January 2023, but remains on the Board as a Shareholder Nominated Director.

Director's insurance and indemnities

The Company maintains Directors' and Officers' liability insurance for the benefit of its Directors and officers. As permitted by the Company's Articles of Association (the 'Articles'), and to the extent permitted by law, GasT Topco Limited indemnifies each of the Directors and other officers of the Company and the National Gas Group against certain liabilities that may be incurred as a result of their positions with the group. The indemnities were in force throughout the tenure of each Director during the financial year and are currently in force.

Director's conflict of interests

The General Counsel and Company Secretary maintains a register of Directors' interests and the Board reviews and considers any potential conflicts of interest as they arise. Our Directors are conscious of their statutory duties in relation to conflicts of interest and their duty to make the Board aware of any situations which may create a conflict of interest.

Political donations and expenditure

It is the Company's policy position that we do not support any political party and do not make what are commonly regarded as donations to any political party or other political organisations. The wide definition of donations in the Political Parties, Elections and Referendums Act 2000, however, covers activities which form part of the necessary relationship between the Company and our political stakeholders. This can include promoting the Group's activities at political events and forums, as well as stakeholder engagement in Westminster. During the year, the Group incurred expenditure of £28k (2021/22 £0) as part of these engagements.

Dividends

A dividend of £290 million was declared and subsequently paid in July 2022 in respect of the year ending 31 March 2022. A further £215 million was paid on 31 January 2023. In July 2023, the board agreed and approved the declaration of the final dividend of £49 million in respect of the year ending 31 March 2023.

Share capital

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

Major shareholdings

As of 31 March 2023, the Company's share capital was held by National Gas Transmission Holdings Limited. The ultimate parent company is Luppiter Consortium Limited.

Areas of operation

During the financial year the Company's activities and operations were all in the UK.

Going concern

In adopting the going concern basis for preparing the financial statements, the Directors have considered the business activities, the financial position of the Company, its cash flows, liquidity position and borrowing facilities as set out in the Financial Review on pages 37 to 40, the financial risk management objectives and exposures to liquidity and financial risks as set out in note 29 to the financial statements, as well as the Company's principal risks and uncertainties as set out on pages 41 to 45.

The Directors consider that the Company has adequate resources to continue in operational existence for the period to 31 March 2024 and therefore considers it appropriate for the Company to adopt the going concern basis in preparing its financial statements.

Post balance sheet events

There were no significant events after the statement of the financial position date.

Annual General Meeting

Notice of the Company's Annual General Meeting for 2023 will be issued separately to the shareholder.

Disclosure of information to the auditor

Each of the Directors at the date of approval of this report confirms that:

- So far as they are aware, there is no relevant audit information of which the Company's auditors is unaware; and
- that they have taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The Directors' Report was approved by the Board on 18 July 2023 and signed on its behalf by:

Nick Hooper
Chief Financial Officer
18 July 2023

National Gas Transmission plc,
Warwick Technology Park,
Gallows Hill, Warwick, CV34 6DA

Registered in England and Wales Number 0200600

Statement of Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year.

Under that law the directors are required to prepare the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards ("IFRS"). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the 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 IFRSs (as adopted by the UK), have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. The Directors 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.

Each of the current Directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; 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 are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

This responsibility statement was approved by the Board on 18 July 2023 and signed on its behalf by:

Nick Hooper
Chief Financial Officer
18 July 2023

Playing a critical role in Britain's energy system

Financial statements

Introduction to the financial statements

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

Notes

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

Independent auditor's report to the members of National Gas Transmission Plc

Report on the audit of the financial statements

1. Opinion

In our opinion:

- **the financial statements of National Gas Transmission Plc (the "parent company") and its subsidiaries ("the Group") give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2023 and of the Group's profit for the year then ended;**
- **the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);**
- **the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and**
- **the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.**

We have audited the Group's financial statements which comprise:

Group:

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

Parent company:

- the parent company balance sheet;
- the parent company statement of changes in equity; and
- the related notes 1 to 22 to the company financial statements.

The financial reporting framework that has been applied in the preparation of the Group's financial statements is applicable law, United Kingdom adopted international accounting standards and IFRSs as issued by the IASB. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

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

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group for the year are disclosed in note 4(e) to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group and the parent company.

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

3. Summary of our audit approach

Key audit matters	We have identified one key audit matter, being the impact of climate change on property, plant and equipment, which is consistent in risk level as prior year.
Materiality	The materiality that we used for the Group financial statements was £20 million which represents 6% of adjusted profit before tax.
Scoping	We focused our Group audit scope on the parent company, which accounts for 100% of the Group's revenue and 98% of the Group's adjusted profit before tax.
Significant changes in our approach	The only change in our audit approach is the removal of treasury derivative transactions as a key audit matter based on a reassessment of the risk involved.

4. Conclusions relating to going concern

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

Our evaluation of the directors' assessment of the Group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- assessing the financing facilities including the nature of facilities, repayment terms and covenants;
- testing the clerical accuracy and appropriateness of the model used to prepare the forecasts;
- assessing the assumptions used in the forecasts, including the impact of the current macroeconomic environment;
- assessing management's identified potential mitigating actions and the appropriateness of the inclusion of these in the going concern assessment;
- assessing the historical accuracy of forecasts prepared by management;
- reperforming management's sensitivity analysis; and
- evaluating whether the Group's disclosures in respect of going concern within the financial statements, meet the requirements of IAS 1.

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

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

5. Key audit matters

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

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

5.1 Impact of climate change on property, plant and equipment

Key audit matter description	**Account balance: Property, plant and equipment. Refer to note 10 financial statements** The UK government have enacted legislation and established targets in respect of Net Zero carbon emissions by 2050. In addition, the Group aspires to align its emission reduction targets to Net Zero emissions by 2040 under the new Consortium led ownership structure. Accordingly, climate change represents a strategic challenge to meet targets for reducing direct greenhouse gas emissions by the same date. When burned, natural gas emits carbon dioxide and is considered a greenhouse gas. Therefore, the strategic challenge relates to the potential future use of the Group's assets used to facilitate gas transmission services in the period approaching 2050 and beyond. The remaining useful economic life of the Group's gas assets is up to 50 years, extending well beyond the 2050 "Net Zero" commitment date. As the continued use of natural gas as a primary energy source beyond 2050 appears to be in conflict with Net Zero targets and the impact of shortening the useful lives of the gas assets to 2050 has a material impact on annual depreciation, there is an audit risk that management judgements taken to determine the useful lives of gas assets in the context of the Net Zero commitments are not reasonable. As described in note 10 to the financial statements, changing the useful economic lives of all of the Group's gas assets would impact the annual depreciation expense as followed: • Should gas assets be fully depreciated by 2050, this would be an increase in the annual depreciation expense of £44 million • Should gas assets would be fully depreciated by 2060, this would be an increase in the annual depreciation expense of £15 million • Should gas assets would be fully depreciated by 2070, this would be an increase in the annual depreciation expense of £1 million. Management performed a detailed assessment of the potential uses for the gas assets within their plan for fossil-free heat targets in a hybrid approach. Management's assessment included an overview of the legislative changes in the UK in response to carbon reduction targets and an evaluation of the future use of the gas assets that would result in changes to estimates, judgements or disclosures, particularly regarding gas asset lives. NGT owns and operates the NTS. Pipelines represent the vast majority of the value that will not be fully depreciated by 2050. Having analysed the potential decarbonisation pathways, management has identified numerous potential uses for the Group's gas pipeline assets in a Net Zero energy system including 100% fossil-free network by delivering renewable natural gas and green hydrogen and targeted electroficiation. Management concluded that the National Transmission System pipeline assets in the UK will continue to have an economic use until 2070. Management determined that disclosure of a key judgement in relation to the potential future use of the Group's gas assets post-2050 and disclosure of the gas asset lives as a key estimate as disclosed in note 1E to the financial statements along with disclosure of sensitivity analysis in note 10 to the financial statements.

How the scope of our audit responded to the key audit matter	We challenged management's judgement that the useful lives of the Group's gas assets extend beyond 2050 in light of the different goals, commitments and legislation relating to Net Zero by: • assessing potential strategic pathways to achieve Net Zero targets; • obtaining and reading government plans in the UK for achieving Net Zero which we compared to the potential strategic pathways; • evaluating information from the regulators, including price controls in the UK, to consider whether they presented any contradictory evidence; • performing an assessment of the likelihood of occurrence of alternative scenarios for achieving Net Zero targets; • considering the potential for re-purposing the Group's gas networks for alternative uses, and in particular for transporting hydrogen; and • reading a number of external reports, such as the Net Zero Review, and searching for contradictory evidence in respect of management's judgements. We have reviewed management's key assumptions and challenged the viability of some of the technological advances presented within the strategic pathways, including the suitability of existing gas infrastructure for transporting hydrogen. We assessed the disclosures set out in note 1E to the financial statements and the sensitivity analysis set out in note 10 to the financial statements regarding the carrying value of the useful economic lives of the Group's gas assets.
Key observations	We observe that whilst some indicators do exist suggesting that the useful economic lives of the Group's gas assets may be limited to 2050, these are mitigated by other statements by governments and advisory bodies which suggest gas, and therefore gas transmission assets, will continue to have a role beyond 2050. Furthermore, the emergence of a substantial hydrogen infrastructure could introduce another potential longer term role for NGT gas assets past 2050, if technological developments allow the utilisation of existing assets in this infrastructure. We note that there is no alignment between the useful lives of the Group's gas assets for IFRS depreciation purposes, and the period of recovery of the regulatory asset value under regulation. Nevertheless, we conclude that it is reasonable to assume that there will be a valuable use for these assets until 2070. We consider the disclosures in note 1E to the financial statements and the sensitivity analysis in note 10 to the financial statements to be appropriate. We are satisfied that management's other disclosures in the Annual Report and Accounts relating to the uncertainty surrounding the future use of the Group's gas assets are consistent with the financial statements and our understanding of the business.

6. Our application of materiality

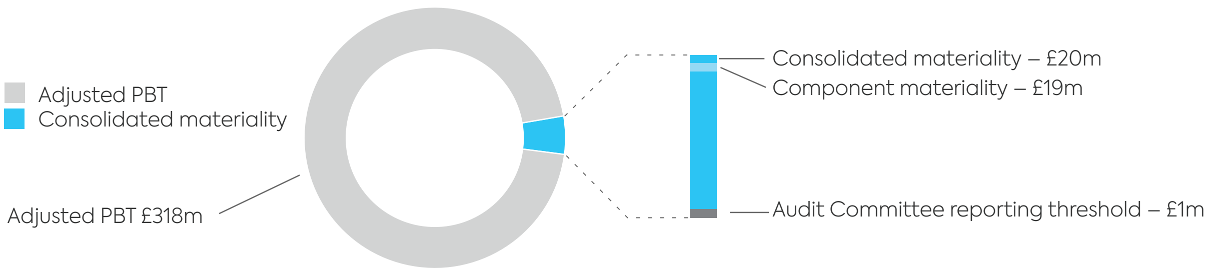
6.1. Materiality

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:

	Consolidated financial statements	Company only financial statements
Materiality	£20 million (2022: £19 million).	£19 million (2022: £18 million).
Basis for determining materiality	Our determined materiality represents 6% of adjusted profit before tax. The prior year materiality was determined based on 5% of adjusted profit before taxon a three-year average basis. Adjusted profit before tax is profit before tax, certain exceptional items and remeasurements as disclosed in the consolidated income statement.	Our determined materiality represents 6% of adjusted profit before tax and interest from continuing operations. The prior year materiality was determined based on 4.75% of adjusted profit before tax on a three-year average basis and considered in the context of statutory profit before tax. Adjusted profit before tax is profit before tax, certain exceptional items and remeasurements as disclosed in the income statement.
Rationale for the benchmark applied	We consider adjusted profit before tax to be an important benchmark of the performance of the Group. We consider it appropriate to adjust for certain exceptional items and remeasurements as these items are volatile and not reflective of the underlying performance of the Group. We adopted an adjusted profit before tax benchmark to determine our current year materiality. We conducted an assessment of which line items we understand to be the most important to investors and analysts by reviewing analyst reports and the Group's communications to shareholders and lenders, as well as the communications of peer companies. This assessment resulted in us considering the financial statement line items above. Whilst not an IFRS measure, adjusted profit is one of the key metrics communicated by management in the Group's results. It excludes some of the volatility arising from changes in fair values of financial assets and liabilities as well as "adjusted items" and this was the key measure applied in the prior year.	

6.1. Materiality (continued)



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.

	Consolidated financial statements	Company only financial statements
Performance materiality	70% (2022: 70%) of Group materiality	70% (2022: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: • Our cumulative experience from prior year audits; • The change in ownership structure; • The level of corrected and uncorrected misstatements identified; • Our risk assessment, including our understanding of the entity and its environment; • Our assessment of the Group's overall control environment; and • Our evaluation of the level of change in the business from the prior year.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1 million (2022: £1 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1 Identification and scoping of components

The Group audit was scoped by obtaining an understanding of the Group and its environment, including entity level controls, and assessing the risks of material misstatement. We focused our audit scope on the Parent company which was subject to a full scope audit and was executed at a component materiality of £19 million (2022: £18 million). This accounts for 100% of the Group's revenue (2022: 99%) and 98% of the group's adjusted profit before tax (2022: 95%).

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

7.2 Our consideration of the control environment

In line with our audit plan we have relied on management's controls in key business cycles, including in revenue, property, plant and equipment and intangible assets. We tested controls through a combination of inquiry, observation, inspection and re-performance. For any deficiencies identified in relation to controls operating in key business cycles, we considered the impact, updated our audit plan and communicated to the audit committee.

The Group's financial systems environment relies on a high number of applications. In the current year we scoped ten IT systems as relevant to the audit, which are all directly or indirectly relevant to the entity's financial reporting process.

We relied on the General IT Controls (GITCs) associated with these systems where GITCs were appropriately designed and implemented and operated 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. For any deficiencies identified in relation to GITCs, we considered the impact, updated our audit plan and communicated to management.

7.3 Our consideration of climate-related risks

Climate change impacts the business in a number of ways as set out in the strategic report of the Annual Report and Accounts and note 1 of the financial statements. It represents a key strategic consideration of management.

We reviewed management's climate change risk assessment, including developments post COP27 and evaluated the completeness of identified risks and the impact on the financial statements. We also considered the impact of climate change in our own risk assessment procedures. Both management's and our risk assessment identified the useful economic lives of the gas assets, as the key risk to the financial statements. Our response to this risk is documented in our Key Audit Matter.

In addition to the procedures in respect of the Key Audit Matter mentioned above, we assessed the climate-related statements made by management (as disclosed in 'The Environment' section of the 'Our commitment to being a responsible business' in the Strategic Report) and considered whether these were in line with our understanding of management's approach to climate change and the narrative reporting was in line with financial statements and the knowledge obtained throughout the audit.

8. Other information

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

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

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

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

We have nothing to report in this regard.

9. Responsibilities of directors

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

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

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

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

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

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

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

11.1. Identifying and assessing potential risks related to irregularities

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

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

In common with all audits under ISAs (UK), we are required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, United Kingdom adopted international accounting standards, IFRS as issued by the IASB, FRS 101, pensions and tax legislation.

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

11.2 Audit response to risks identified

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

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud.

In addressing the risk of fraud through management override of controls, our procedures included:

- making inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- using our data analytics tools, we selected and tested journal entries and other adjustments made at the end of a reporting period or which identified activity that exhibited certain characteristics of audit interest;

11.2 Audit response to risks identified (continued)

- assessing whether the judgements made in making accounting estimates are indicative of a potential bias;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud; and
- considering whether there were any significant transactions that are outside the normal course of business, or that otherwise appear to be unusual due to their nature, timing or size.

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

Report on other legal and regulatory requirements

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

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

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

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

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

13.1 Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

13.2 Directors' remuneration

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

We have nothing to report in respect of this matter.

14. Other matters which we are required to address

14.1 Auditor tenure

We became independent and commenced our audit transition on 1 January 2017 whilst the Group formed part of National Grid plc. 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. Following the change in control of the Company from National Grid plc to a Macquarie-led consortium, which includes BCI of Canada, on 31 January 2023, we have been appointed by the Shareholders to audit the financial statements for the year ending 31 March 2023 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments of the firm is six years, covering the years ending 31 March 2018 to 31 March 2023.

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

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

15. Use of our report

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

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements will form part of the European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

Jacqueline Holden FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor
London, United Kingdom
18 July 2023

Consolidated income statement

for the years ended 31 March

	Notes	2023 £m	2023 £m	2022 £m	2022 £m
Revenue	2 (a)		**1,918**		1,374
Operating costs	4		**(1,299)**		(862)
Operating profit					
Before exceptional items	2 (b)	**619**		512	
Exceptional items	5	**(42)**		(13)	
Total Operating Profit	2 (b)		**577**		499
Finance income	6		**138**		51
Finance costs					
Before remeasurements	6	**(365)**		(239)	
Remeasurements	5, 6	**4**		9	
Total finance costs	6		**(361)**		(230)
Profit before tax					
Before exceptional items and remeasurements		**392**		324	
Exceptional items and remeasurements	5	**(38)**		(4)	
Total profit before tax			**354**		320
Tax					
Before exceptional items and remeasurements	7	**(84)**		(66)	
Exceptional items and remeasurements	5, 7	**8**		(144)	
Total tax	7		**(76)**		(210)
Profit after tax					
Before exceptional items and remeasurements		**308**		258	
Exceptional items and remeasurements	5	**(29)**		(148)	
Profit after tax			**279**		110
Total profit for the year attributable to owners of the parent			**279**		110

Consolidated statement of comprehensive income

for the years ended 31 March

	Notes	2023 £m	2022 £m
Profit for the year		**279**	110
Other comprehensive income:			
Items that will never be reclassified to profit or loss			
Remeasurement gains/(losses) on pension assets and post-retirement benefit obligations	22	**(245)**	309
Net losses on financial liability designated at fair value through profit and loss attributable to changes in own credit risk		**—**	(1)
Tax on items that will never be reclassified to profit or loss	7	**61**	(92)
Total items that will never be reclassified to profit or loss		**(184)**	216
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Net gains/(losses) in respect of cash flow hedges and cost of hedging		**9**	1
Tax on items that may be reclassified subsequently to profit or loss		**(2)**	—
Total items that may be reclassified subsequently to profit or loss		**7**	1
Other comprehensive income/(loss) for the year, net of tax		**(177)**	217
Total comprehensive income for the year attributable to owners of the parent		**102**	327

Consolidated statement of financial position

as at 31 March

	Notes	2023 £m	2022 £m
Non-current assets			
Intangible assets	9	**118**	136
Property, plant and equipment	10	**4,774**	4,618
Other non-current assets	11	**11**	21
Financial and other investments	12	**3,426**	3,426
Derivative financial assets	13	**65**	87
Pensions asset	22	**412**	664
Total non-current assets		**8,806**	8,952
Current assets			
Inventories and current intangible assets	14	**14**	12
Trade and other receivables	15	**294**	214
Financial and other investments	16	**557**	438
Derivative financial assets	13	**—**	6
Cash and cash equivalents	17	**10**	—
Total current assets		**875**	670
Total assets		**9,681**	9,622
Current liabilities			
Borrowings	18	**(805)**	(843)
Derivative financial liabilities	13	**(1)**	–
Trade and other payables	19	**(478)**	(360)
Contract liabilities	20	**(33)**	(31)
Current tax liabilities	7	**(21)**	(31)
Provisions	23	**(6)**	(33)
Bank overdraft	17	**—**	—
Total current liabilities		**(1,344)**	(1,298)
Non-current liabilities			
Borrowings	18	**(3,760)**	(3,327)
Derivative financial liabilities	13	**(31)**	(21)
Other non-current liabilities	21	**—**	(1)
Contract liabilities	20	**(96)**	(102)
Deferred tax liabilities	7	**(749)**	(770)
Pension Liability	22	**(1)**	—
Provisions	23	**(40)**	(41)
Total non-current liabilities		**(4,677)**	(4,262)
Total liabilities		**(6,022)**	(5,560)
Net assets		**3,659**	4,062
Equity			
Share capital	24	**45**	45
Share premium account		**204**	204
Retained earnings		**2,078**	2,488
Other reserves	25	**1,332**	1,325
Shareholders' equity		**3,659**	4,062

The consolidated financial statements set out on pages 68 to 113 were approved by the Board of Directors and authorised for issue on **18 July 2023**. They were signed on its behalf by:

Jon Butterworth
Director

Nick Hooper
Director

National Gas Transmission plc
Registered number: 2006000

Consolidated statement of changes in equity

for the years ended 31 March

	Share capital £m	Share premium account £m	Retained earnings £m	Other reserves[1] £m	Shareholders' equity £m
At 1 April 2021	**45**	**204**	**2,450**	**1,325**	**4,024**
Profit for the year	—	—	110	—	110
Total other comprehensive income for the year	—	—	217	—	217
Total comprehensive income for the year	**—**	**—**	**327**	**—**	**327**
Equity dividends	**—**	**—**	**(295)**	**—**	**(295)**
Share-based payments	**—**	**—**	**6**	**—**	**6**
At 31 March 2022	**45**	**204**	**2,488**	**1,325**	**4,062**
Profit for the year	—	—	279	—	279
Total other comprehensive income/(loss) for the year	—	—	(184)	7	(177)
Total comprehensive income for the year	**—**	**—**	**95**	**7**	**102**
Equity dividends	**—**	**—**	**(505)**	**—**	**(505)**
At 31 March 2023	**45**	**204**	**2,078**	**1,332**	**3,659**

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

Consolidated cash flow statement

for the years ended 31 March

	Notes	2023 £m	2022 £m
Cash flows from operating activities			
Total operating profit	2 (b)	**577**	499
Adjustments for:			
Exceptional items	5	**42**	17
Depreciation, amortisation and impairment		**222**	222
Share-based payment charge		**—**	6
Changes in working capital			
(Increase)/decrease in inventories		**(2)**	—
(Increase)/decrease in receivables		**(106)**	28
Increase/(decrease) in payables		**128**	37
Net increase/(decrease) in accounts payables to related undertakings		**(18)**	58
Change in provisions		**(25)**	(7)
Loss on disposal of property, plant and equipment and intangible assets		**17**	16
Changes in pensions and other post-retirement benefit obligations		**(3)**	—
Cash flows relating to exceptional items		**(6)**	(12)
Cash generated from operations		**825**	864
Tax paid		**(34)**	(39)
Net cash inflow from operating activities		**791**	825
Cash flows from investing activities			
Purchases of intangible assets		**(14)**	(55)
Purchases of property, plant and equipment		**(290)**	(164)
Disposals of property, plant and equipment		**4**	7
Interest received		**61**	46
Movement in short-term financial investments		**(59)**	861
Net cash flow from / (used in) investing activities		**(298)**	695
Cash flows from financing activities			
Proceeds from loans		**972**	—
Repayment of loans		**(852)**	(977)
Net movement in short-term borrowings		**—**	(476)
Cash inflows on derivatives		**4**	414
Cash outflows on derivatives		**—**	(87)
Payments of lease liabilities		**(5)**	(7)
Interest paid		**(96)**	(93)
Dividends paid to shareholders		**(505)**	(295)
Net cash flow (used in) / from financing activities		**(483)**	(1,521)
Net (decrease) / increase in cash and cash equivalents		**10**	(1)
Net cash and cash equivalents at the start of the year		**—**	1
Net cash and cash equivalents at the end of the year	17	**10**	—

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

1. Basis of preparation and recent accounting developments

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

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

National Gas Transmission plc's principal activities involve the transmission of gas in Britain. The Company is a public limited company incorporated and domiciled in UK, with its registered office at National Grid House Warwick Technology Park, Gallows Hill, Warwick CV34 6DA.

These consolidated financial statements were approved for issue by the Board of Directors on 18 July 2023.

These consolidated financial statements have been prepared in accordance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and related interpretations as issued by the International Accounting Standards Board (IASB) and IFRS as adopted by the UK. They are prepared on the basis of all IFRS accounting standards and interpretations that are mandatory for periods ended 31 March 2023 and in accordance with the Companies Act 2006. The comparative financial information has also been prepared on this basis.

The consolidated financial statements have been prepared on a historical cost basis, except for the recording of pension assets and liabilities, revaluation of derivative financial instruments and certain commodity contracts, and financial assets and liabilities measured at fair value.

These consolidated financial statements are presented in pounds sterling, which is also the functional currency of the Company.

The notes to the financial statements have been prepared on a continuing basis unless otherwise stated.

Our income statement and segmental analysis separately identify financial results before and after exceptional items and remeasurements. This is consistent with the way that financial performance is measured by management and reported to the Board and the Executive Committee, and assists users of the financial statements to understand the results. The inclusion of total profit for the period from continuing operations before exceptional items and remeasurements is used to derive part of the incentive target set annually for remunerating certain Executive Directors and accordingly we believe it is important for users of the financial statements to understand how this compares to our results on a statutory basis and period on period.

A. Going concern

The Directors considered it appropriate to prepare the financial statements on a going concern basis, having considered the Company's cash flow forecasts with respect to business planning and treasury management activities. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements are signed.

The Directors have assessed the principal cash flow risks, including by modelling both a base case and a reasonable worst-case scenario. The main cash flow impacts identified in the reasonable worst-case scenario are:

- adverse impact from actual versus forecast variations on working capital requirements related to shrinkage and our gas transmission licence obligations including residual balancing and operating margins;
- adverse impacts of inflation on our assets and liabilities;
- adverse impact from actual versus forecast variations on working capital requirements; and
- adverse fluctuations in interest rates.

As part of their analysis the Board also considered the following potential levers at their discretion to improve the financial and liquidity position identified by the reasonable worst-case scenario should debt capital market funding be unavailable:

- adjustments to dividend plan; and
- access to £735 million of undrawn existing committed Revolving Credit Facility bank facilities

Having considered the reasonable worst-scenario, further levers at the Board's discretion and the impact on covenants, the Directors of the Company conclude that there is sufficient headroom against the available facilities under the reasonable worst-case scenario.

B. Basis of consolidation

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

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

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

C. Foreign currencies

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

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

D. Acquisition of UK Gas Transmission

On 31 January 2023, 60% equity interest in National Gas Transmission Holdings Limited was sold by National Grid plc to a consortium comprised of Macquarie Asset Management and British Columbia Investment Management Corporation in exchange for £4 billion cash consideration. On 27 March 2022, National Grid also entered into a Further Acquisition Agreement (FAA) for the potential sale of the remaining 40% stake. The FAA is a put option that can be exercised by the purchaser in the period between 1 April and 31 July 2023.

E. Areas of judgement and key sources of estimation uncertainty

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

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

- review of residual lives, carrying values and impairment charges for other intangible assets and property, plant and equipment, in particular the estimates made regarding the useful economic lives of our gas network assets due to the length over which they are being depreciated and the potential for significant technological change over that period – note 10.
- categorisation of certain items as exceptional items or remeasurements and the definition of adjusted earnings (see notes 5 and 6). In applying the Company's exceptional items frameworks, we have considered a number of key matters, as detailed in note 5.
- the judgement that notwithstanding legislation enacted and targets committing the UK to achieving Net Zero greenhouse gas emissions by 2050, there is still potential use of the gas transmission network beyond 2050 in maintaining security, reliability and affordability of energy.

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

- estimation of liabilities for pensions and other post-retirement benefits include; estimates in discount rate, RPI and changes in life expectancy – note 30.
- estimation of decommissioning and other provisions – note 23.

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

F. Accounting policy choices

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

- Presentational formats: we use the nature of expense method for our income statement and aggregate our statement of financial position to net assets and total equity. In the income statement, we present subtotals of total operating profit, profit before tax and profit after tax, together with additional subtotals excluding exceptional items. Exceptional items and remeasurements are presented separately on the face of the income statement.
- Financial instruments: we normally opt to apply hedge accounting in most circumstances where this is permitted (see note 29(e)).

G. New IFRS accounting standards and interpretations effective for the year ended 31 March 2023

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

- Amendments to IFRS 3 'Business Combinations' – Reference to the Conceptual Framework;
- Annual Improvements to IFRS Standards 2018-2020 cycle:
- IFRS1 'First-time Adoption of International Financial Reporting Standards',
- IFRS 9 'Financial Instruments'
- IFRS 16 'Leases' - Amendment to illustrative examples
- IAS 41 'Agriculture'
- Amendments to IAS 16 'Property, Plant and Equipment' – Proceeds before intended use;
- Amendments to IFRS 4 'Insurance Contracts'
- Amendment to IFRS 16 'Leases' -COVID-19-Related Rent Concessions;
- Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets';
- IFRS 17 'Insurance Contracts'
- Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors';
- Amendments to IAS 12 'Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction';

H. New IFRS accounting standards and interpretations not yet adopted

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

- Amendments to IAS 1 'Presentation of Financial Statements'
- Amendments to IFRS 16 'Leases' -Lease Liability in a Sale and Leaseback;

Effective dates will be subject to the UK endorsement process.

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

2. Segmental analysis

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

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

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

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

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

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

(a) Revenue

	2023			2022		
	Total sales £m	Sales between segments £m	Sales to third parties £m	Total sales £m	Sales between segments £m	Sales to third parties £m
Operating segment:						
Gas Transmission	1,718	(6)	1,712	1,166	(4)	1,162
Metering	206	–	206	212	–	212
Total revenue	1,924	(6)	1,918	1,378	(4)	1,374

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

	2023 £m	2022 £m
Customer A	128	164

No other single customer contributed 10% or more to the Gas Transmission group revenue in either 2023 or 2022.

(b) Operating profit

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

	Before exceptional items and remeasurements		After exceptional items and remeasurements	
	2023 £m	2022 £m	2023 £m	2022 £m
Operating segment:				
Gas Transmission	486	375	444	364
Metering	133	137	133	135
Total operating profit	619	512	577	499
Reconciliation to profit before tax:				
Operating profit	619	512	577	499
Finance income	138	51	138	51
Finance costs	(365)	(239)	(361)	(230)
Profit before tax	392	324	354	320

2. Segmental analysis (continued)

(c) Capital expenditure

	Net book value of property, plant and equipment and intangible assets		Capital expenditure		Depreciation, impairment and amortisation	
	2023 £m	2022 £m	**2023 £m**	2022 £m	**2023 £m**	2022 £m
Operating segment:						
Gas Transmission	**4,725**	4,569	**358**	242	**202**	201
Metering	**167**	185	**24**	27	**20**	22
Total	**4,892**	4,754	**382**	269	**222**	223
Asset type:						
Property, plant and equipment	**4,774**	4,618	**364**	212	**184**	184
Intangible assets	**118**	136	**18**	57	**38**	39
Total	**4,892**	4,754	**382**	269	**222**	223

3. Revenue

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

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

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

Gas Transmission

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

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

The transmission of gas encompasses the following principal activities:

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

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

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

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

3. Revenue (continued)

Other activities

Revenue for the year ended 31 March 2023	Gas Transmission £m	Other £m	Total £m
Revenue under IFRS 15	1,711	206	1,917
Revenue under other standards	1	–	1
Total revenue	1,712	206	1,918

Other is primarily revenue for our Metering business. The sales value for the provision of gas metering services is largely derived from monthly charges for the provision of individual meters under contractual arrangements.

Revenue for the year ended 31 March 2022	Gas Transmission £m	Other £m	Total £m
Revenue under IFRS 15	1,155	217	1,372
Revenue under other standards	2	—	2
Total revenue	1,157	217	1,374

Revenue to be recognised in future periods, presented as contract liabilities of £129 million (2022 : £133 million) (see note 20).

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

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

4. Operating costs

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

	Before exceptional items and remeasurements		Exceptional items and remeasurements		Total	
	2023 £m	2022 £m	**2023 £m**	2022 £m	**2023 £m**	2022 £m
Depreciation, impairment and amortisation	222	223	—	—	222	223
Profit and Loss on Disposal	17	16	—	—	17	16
Payroll costs[1]	90	124	1	2	91	126
Purchases of gas	637	237	—	—	637	237
Rates	84	85	—	—	84	85
Property Costs	40	33	—	—	40	33
Inventory consumed	11	9	—	—	11	9
Research and development expenditure	14	7	—	—	14	7
Other	184	128	41	11	225	139
	1,299	862	42	13	1,341	875

1 2021/22 payroll costs included an allocation of employees working within group shared services across NGT (National Gas Transmission, previously known as National Grid Gas), NGET (National Grid Electricity Limited) & NGESO (National Grid Electricity System Operator). This year's cost reflects the directly employed gas transmission and gas metering employees for the separated standalone organisation.

4. Operating costs (continued)

(a) Payroll costs

	2023 £m	2022 £m
Wages and salaries	**81**	99
Social security costs	**13**	17
Defined contribution scheme costs	**11**	10
Defined benefit pension costs	**8**	7
Charges from other group defined benefit schemes	**—**	1
Share-based payments	**2**	6
	115	140
Less: payroll costs capitalised	**(24)**	(15)
Total payroll costs	**91**	126

(b) Number of employees, including Directors

	31 March 2023 Number	31 March 2022 Number	Monthly average 2023 Number	Monthly average 2022 Number
Gas Transmission and Other[1]	**1,656**	2,118	**1,581**	2,151

1 2021/22 included an allocation of employees working within National Grid Group Shared Services across NGT, National Grid Electricity Transmission and National Grid Electricity System Operator. This year's report reflects the directly employed Gas Transmission and Gas Metering employees for the separated standalone business and excludes FTEs currently working under Transition Service Agreements who are currently employees of National Grid.

(c) Key management compensation

	2023 £m	2022 £m
Salary and short-term employee benefits	**2**	2
Share-based payment	**—**	2
	2	4

Key management comprises the Board of Directors of the Company who have managerial responsibility for National Gas Transmission plc.

(d) Directors' emoluments

The aggregate amount of emoluments (excluding social security, pensions and share-based payment) paid to the Directors of the company in respect of qualifying services for 2023 was £2,376,321 (2022: £1,839,006).

During the year one Director who is also the highest paid Director exercised share options (2022: Six Directors).

During the year, retirement benefits were accrued to one (2022: three) Director under a defined benefit scheme.

The aggregate emoluments (excluding social security, pensions and share-based payment) for the highest paid Director was £1,179,640 for 2023 (2022: £519,219) and total accrued annual pension during the year for the highest paid Director was £42,366 (2022: £nil).

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

The Chair, who is also a Sufficiently Independent Director (SID) receives a fee of £250,000 per annum. The fees for other SID's ranged between £20,000 to £101,000 per annum (2022 £20,000).

(e) Auditors' remuneration

	2023 £m	2022 £m
Audit services		
Audit fee of Company	**1.4**	0.6
Other services[1]		
Fees payable to the Company's auditors for audit related assurance services	**0.1**	1.3

1 Other services supplied represents fee payable for regulatory agreed upon procedures and debt issuance comfort letters

5. Exceptional items and remeasurements

To monitor our financial performance, we use a profit measure that excludes certain income and expenses. We call that measure 'adjusted profit'.

Adjusted profit (which excludes exceptional items and remeasurements as defined below) is used by management to monitor financial performance as it is considered that it aids the comparability of our reported financial performance from year to year. We exclude items from adjusted profit because, if included, these items could distort understanding of our performance for the year and the comparability between periods. This note analyses these items, which are included in our results for the year but are excluded from adjusted profit.

Exceptional items and remeasurements

	2023 £m	2022 £m
Included within operating profit:		
Exceptional items:		
Cost efficiency and restructuring programmes	1	3
Sale of business	41	10
	42	13
Included within finance income and costs:		
Remeasurements:		
Net gain on derivative financial instruments	(4)	(14)
Net loss on financial liabilities held at fair value through profit and loss	—	5
	(4)	(9)
Total included within profit before tax	38	4
Included within taxation:		
Exceptional charge arising on items not included in profit before tax:		
Tax on exceptional items	(9)	(3)
Deferred tax arising on the reversal of the reduction in UK corporation tax rate	—	144
Tax on remeasurements	1	3
	(8)	144
Total exceptional items and remeasurements after tax	29	148
Analysis of total exceptional items and remeasurements after tax:		
Total exceptional items after tax	32	13
Total remeasurements after tax	(3)	135
Total exceptional items and remeasurements	29	148

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

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

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

5. Exceptional items and remeasurements (continued)

Sale of Business

60% of National Gas plc was sold by National Grid on 31 January 2023, the cost relating to separation has been deemed appropriate to be classified as exceptional and primarily relate to professional fees incurred, IT separation severance and pension costs.

These costs were incurred as part of a wider separation project over several years. In 2022/23, NGT incurred £41 million (before tax) associated with the sale of the business, this included a £27 million accounting impact (non cash) of pension scheme transfers due to transfer of National Grid employees between different pension schemes to ensure alignment with their future employment.

Remeasurements

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

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

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

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

Once the fair value movements are realised (for example, when the derivative matures), the previously recognised fair value movements are then reversed through remeasurements and recognised within earnings before exceptional items and remeasurements.

Financial statements

6. Finance income and costs

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

Finance income and costs remeasurements include certain unrealised gains and losses on certain assets and liabilities now treated at FVPL. The interest income, and interest expense on these items are included in finance income and finance costs before remeasurements, respectively.

	2023 £m	2022 £m
Finance income		
Interest income on financial instruments:		
Bank deposits and other financial assets	**122**	49
Net interest on pension asset	**16**	2
	138	51
Finance costs		
Interest expense on financial liabilities held at amortised cost:		
Bank loans and overdrafts	**(12)**	(32)
Other borrowings	**(412)**	(226)
Interest expense on financial liabilities held at fair value through profit and loss	**—**	(12)
Derivatives	**5**	16
Unwinding of discount on provisions	**(1)**	(1)
Tax related interest	**(1)**	—
Less: interest capitalised[1]	**57**	16
	(365)	(239)
Remeasurements - Finance costs		
Net gain/(loss) on financial liabilities held at fair value through profit and loss	**—**	(5)
Net gains/(losses) on derivative financial instruments:[2]		
Derivatives designated as hedges for hedge accounting	**10**	5
Derivatives not designated as hedges or ineligible for hedge accounting	**(5)**	9
	4	9
Total remeasurements - Finance income and costs	**(223)**	(179)
Finance income	**138**	51
Finance costs[3]	**(361)**	(230)
Net finance costs	**(223)**	(179)

1 Interest on funding attributable to assets in the course of construction was capitalised during the year at a rate of 9.5% (2022: 3.6%). Capitalised interest qualifies for a current year tax deduction with tax relief claimed of £11 million (2022: £3 million).
2 Includes a net foreign exchange gain on financing activities of £1 million (2022: £1 million gain) offset by foreign exchange losses and gains on derivative financial instruments measured at fair value.
3 Finance costs include principle accretion on inflation linked liabilities of £318 million (2022: £158 million).

7. Taxation

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

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

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

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

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

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

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

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

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

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

Tax charged to the income statement

	2023 £m	2022 £m
Tax before exceptional items and remeasurements	**(84)**	(66)
Tax on total exceptional items and remeasurements (note 5)	**8**	(144)
Total tax charge	**(76)**	(210)

Tax as a percentage of profit before tax

	2023 %	2022 %
Before exceptional items and remeasurements	**21.5**	20.1
After exceptional items and remeasurements	**21.5**	65.9

7. Taxation (continued)

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

	2023 £m	2022 £m
Current tax:		
Corporation tax at 19% (2022: 19%)	35	42
Corporation tax adjustment in respect of prior years	4	—
Total current tax	39	42
Deferred tax:		
UK deferred tax	28	17
Impact of change in tax rate	9	151
Total deferred tax	37	168
Total tax charge	76	210

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

	2023 £m	2022 £m
Current tax:		
Share-based payments	(1)	—
Deferred tax:		
Share-based payments	1	(2)
Movement in Cash Flow Hedges, Cost of Hedging and Own Credit Reserves	2	(1)
Remeasurements of net retirement benefit obligations	(61)	94
Total tax recognised in the statement of other comprehensive income	(59)	91

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

	Before exceptional items and remeasurements 2023 £m	After exceptional items and remeasurements 2023 £m	Before exceptional items and remeasurements 2022 £m	After exceptional items and remeasurements 2022 £m
Profit before tax				
Before exceptional items and remeasurements	392	392	324	324
Exceptional items and remeasurements	—	(38)	—	(4)
Profit before tax	392	354	324	320
Profit before tax multiplied by UK corporation tax rate of 19% (2022: 19%)	74	67	62	61
Effect of:				
Adjustments in respect of prior years	4	4	—	—
Expenses not deductible for tax purposes	2	1	1	2
Movement in unrecognised deferred tax	(1)	(1)	—	—
Capital allowance super-deductions	(4)	(4)	(3)	(3)
Deferred tax impact of change in UK tax rate	9	9	6	151
Total tax	84	76	66	211
Effective tax rate	21.5%	21.5%	20.1%	65.9%

7. Taxation (continued)

Factors that may affect future tax charges

An increase in the main corporation tax rate from 19% to 25% with effect from 1 April 2023 was substantively enacted on 24 May 2021. Deferred tax balances as at 31 March 2023, that are expected to reverse after 1 April 2023, have been calculated at 25%.

Tax included within the statement of financial position

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

Deferred tax (assets)/liabilities

Tax included within the statement of financial position

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

	Pensions £m	Accelerated tax depreciation £m	Share based payment £m	Financial instruments £m	Other net temporary differences £m	Total £m
1 April 2021	**67**	**450**	**(1)**	**(6)**	**—**	**510**
Charged/(credited) to income statement	4	160	(1)	4	1	168
Charged/(credited) to other comprehensive income and equity	95	—	(3)	—	—	92
31 March 2022	**166**	**610**	**(5)**	**(2)**	**1**	**770**
Deferred tax assets at 31 March 2022	—	(24)	(1)	(2)	(9)	(36)
Deferred tax liabilities at 31 March 2022	166	634	(4)	—	10	806
31 March 2022	**166**	**610**	**(5)**	**(2)**	**1**	**770**
Charged/(credited) to income statement	(2)	39	—	—	—	37
Charged/(credited) to other comprehensive income and equity	(61)	—	1	2	—	(58)
31 March 2023	**103**	**649**	**(4)**	**—**	**1**	**749**
Deferred tax assets at 31 March 2023	—	(19)	(4)	—	(4)	(27)
Deferred tax liabilities at 31 March 2023	103	668	—	—	5	774
31 March 2023	**103**	**649**	**(4)**	**—**	**1**	**749**

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net. The deferred tax balances (after offset) for statement of financial position purposes consist solely of deferred tax liabilities of £749 million (2022: £770 million). At the balance sheet date there were no material current deferred tax assets or liabilities (2022: £nil).

8. Dividends

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

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

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

	2023		**2022**	
	pence (per ordinary share)	**£m**	pence (per ordinary share)	£m
Ordinary dividends				
Final dividend in respect of the prior year	7.35p	**290**	—	—
Interim dividend paid in the year	5.45p	**215**	—	—
Total Dividend paid in 2022/23		**505**		**—**

The directors proposed a final dividend for the year ended 31 March 2022 of 7.35p per share that absorbed £290 million of shareholders' equity. This was declared after the year end during the 19 July 2022 board meeting, as a result this was not included within the 2021/22 Financial Statements. An interim dividend of £215 million per ordinary share of 5.45p was declared for 2022/23 and paid on 31 January 2023.

The directors are proposing a final dividend for the year ended 31 March 2023 of 1.24p per share that will absorb approximately £49 million of shareholders' equity (assuming all amounts are settled in cash. This was declared after the year end during the 18 July 2023 board meeting, as a result this was not included within the financial statements.

9. Intangible assets

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

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

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

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

Cloud computing arrangements are reviewed to determine if NGT has control of the software intangible asset. Control is considered to exist where NGT has the right to take possession of the software and run it on its own or a third party's computer infrastructure or if NGT has exclusive rights to use the software such that the supplier is unable to make the software available to other customers.

Costs relating to configuring or customising the software in a cloud computing arrangement are assessed to determine if there is a separate intangible asset over which NGT has control. If an asset is identified, it is capitalised and amortised over the useful economic life of the asset. To the extent that no separate intangible asset is identified, then the costs are either expensed when incurred or recognised as a prepayment and spread over the term of the arrangement if the costs are concluded to not be distinct.

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

	Software £m	Assets in the course of construction £m	Total £m
Cost at 31 March 2021	**377**	**27**	**404**
Additions	5	52	57
Reclassifications	44	(44)	—
Disposals	(5)	—	(5)
Transfers	9	1	10
Cost at 31 March 2022	**430**	**37**	**467**
Additions	1	17	18
Reclassifications	53	(53)	—
Other	3	—	3
Cost at 31 March 2023	**487**	**—**	**487**
Accumulated amortisation at 1 April 2021	**(298)**	**—**	**(298)**
Amortisation charge for the year	(38)	—	(38)
Disposals	5	—	5
Accumulated amortisation at 31 March 2022	**(331)**	**—**	**(331)**
Amortisation charge for the year	(40)	—	(40)
Impairment	2	—	2
Accumulated amortisation at 31 March 2023	**(369)**	**—**	**(369)**
Net book value at 31 March 2023	**118**	**—**	**118**
Net book value at 31 March 2022	99	37	136

10. Property, plant and equipment

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

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

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

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

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

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

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

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

Gas asset lives

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

The gas mains, services and regulating assets relating to the National Transmission System (NTS) were subject to a detailed review in January 2019. The most material components of these are our pipeline assets, which are due to be fully depreciated by 2070, with other assets being depreciated over various periods between now and then. That review was undertaken prior to the UK enacting legislation committing to Net Zero by 2050, but considered scenarios which included an extension of the emissions reduction targets (80% emissions reduction target at the time of the report). The review concluded that the most likely outcome was for the NTS network assets to remain in use beyond 2050, including in those scenarios where the greenhouse gas emissions of gas networks were largely eliminated.

Since 2019, NGT has not changed its operational and maintenance practices and continues to work in line with industry standards. The UK Government's ambition for hydrogen production and use in the UK has increased significantly, with it's own production target being doubled to 10GW in April 2022 (due to longer term concerns over UK energy security following the reduction of Russian gas supplies to Europe). In conclusion, we believe that our pipelines will be used for gas or alternative fuels beyond 2070.

NGT continue to perform a review of asset lives on an annual basis and given the uncertainty described relating to the UELs of our gas assets, we have provided a sensitivity analysis on the depreciation charge were a shorter UEL is presumed:

	Increase in depreciation expense £m
UELs limited to 2050	44
UELs limited to 2060	15
UELs limited to 2070	1

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

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

10. Property, plant and equipment (continued)

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

	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipments £m	Total £m
Cost at 31 March 2021	**327**	**8,412**	**450**	**258**	**9,447**
Additions	8	15	187	2	212
Disposals	(27)	(63)	—	(14)	(104)
Reclassifications	—	52	(66)	14	—
Transfers	—	—	(10)	—	(10)
Cost at 31 March 2022	**308**	**8,416**	**561**	**260**	**9,545**
Additions	8	—	354	2	364
Disposals[2]	(6)	(597)	—	(3)	(606)
Reclassifications[1]	20	159	(205)	26	—
Other	(1)	(28)	(2)	4	(27)
Cost at 31 March 2023	**329**	**7,950**	**708**	**289**	**9,276**
Accumulated depreciation at 01 April 2021	**(201)**	**(4,408)**	**(6)**	**(209)**	**(4,824)**
Depreciation charge for the year	(9)	(156)	—	(17)	(182)
Disposals	23	45	—	14	82
Reclassifications	(5)	5	—	—	—
Impairment	—	(2)	(1)	—	(3)
Accumulated depreciation at 31 March 2022	**(192)**	**(4,516)**	**(7)**	**(212)**	**(4,927)**
Depreciation charge for the year	(8)	(157)	—	(23)	(188)
Disposals[2]	3	579	—	2	584
Other	(10)	34	—	—	24
Impairment	—	1	3	—	4
Accumulated depreciation at 31 March 2023	**(207)**	**(4,059)**	**(4)**	**(233)**	**(4,502)**
Net book value at 31 March 2023	**122**	**3,891**	**704**	**56**	**4,774**
Net book value at 31 March 2022	116	3,900	554	48	4,618

1 Reclassifications represent commissioning of assets from assets under construction into usage.
2 2022/23 also Includes disposals relating to adjustments in relation to prior year balances identified as part of the implementation of the new SAP S4 finance system in the UK businesses

Right-of-use assets

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

10. Property, plant and equipment (continued)

Included within the net book value of property, plant and equipment at 31 March 2023 are right-of-use assets, split as follows:

	Land and buildings £m	Motor vehicles and office equipments	**Total £m**
Net book value at 31 March 2021	**16**	**3**	**19**
Additions	—	2	2
Disposals	(7)	—	(7)
Depreciation charge	(3)	(2)	(5)
Depreciation on disposals	2	—	2
Net book value at 31 March 2022	**8**	**3**	**11**
Additions	8	2	10
Disposals	(4)	(3)	(7)
Depreciation charge	(2)	(2)	(4)
Depreciation on disposals	—	2	2
Net book value at 31 March 2023	**10**	**2**	**12**

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

	2023 £m	2022 £m
Included within revenue:		
Lease income	**1**	2

The associated lease liabilities are disclosed in note 18.

11. Other non-current assets

Other non-current assets include assets that do not fall into any other non-current asset category (such as property, plant and equipment) where the benefit to be received from the asset is not due to be received until after 31 March 2023.

	2023 £m	2022 £m
Prepayments[1]	**11**	21

[1] Represents amounts paid in advance to a number of undertakings for the demolition of gas-holders (see note 23).

12. Non-current financial and other investments

Other non-current assets include assets that do not fall into any other non-current asset category (such as property, plant and equipment) where the benefit to be received from the asset is not due to be received until after 31 March 2023.

	2023 £m	2022 £m
Loans and receivables - amounts owed by parent undertaking[1]	**3,426**	3,426

[1] The fair value of the amount owed by parent undertaking is approximate to book value.

13. Derivative financial instruments

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

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

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

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

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

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

	2023			2022		
	Asset £m	Liabilities £m	Total £m	Asset £m	Liabilities £m	Total £m
Interest rate swaps	13	(29)	(16)	26	(19)	7
Cross-currency interest rate swaps	52	(2)	50	67	—	67
Foreign exchange forward contracts[1]	—	(1)	(1)	—	(2)	(2)
	65	(32)	33	93	(21)	72

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

The maturity profile of derivative financial instruments is as follows:

	2023			2022		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Current						
Less than 1 year	—	(1)	(1)	6	—	6
	—	(1)	(1)	6	—	6
Non-current						
In 1 - 2 years	—	(8)	(8)	—	(2)	(2)
In 2 - 3 years	1	(21)	(20)	—	—	—
In 3 - 4 years	—	—	—	2	—	2
In 4 - 5 years	5	(1)	4	—	—	—
More than 5 years	59	(1)	58	85	(19)	66
	65	(31)	34	87	(21)	66
	65	(32)	33	93	(21)	72

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

	2023 £m	2022 £m
Interest rate swaps	(274)	(274)
Cross-currency interest rate swaps	(616)	(146)
Foreign exchange forward contracts	(47)	(33)
	(937)	(453)

14. Inventories and current intangible assets

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

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

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

	2023 £m	2022 £m
Raw materials, spares and consumables	**11**	9
Current intangible assets – emission allowances	**3**	3
	14	12

Raw materials, spares and consumables includes £6 million (2022: £4 million) of gas stocks to support network flows and shrinkage losses on the network.

There is a provision for obsolescence of £1 million against inventories as at 31 March 2023 (2022: £1 million).

15. Trade and other receivables

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

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

	2023 £m	2022 £m
Trade receivables	**92**	32
Amounts owed by subsidiaries of National Grid plc	**—**	20
Contract assets	**174**	113
Prepayments	**14**	33
Other receivables	**14**	16
	294	214

Trade receivables are non-interest bearing and generally have a 30 to 90 day term. Due to their short maturities, the fair value of trade and other receivables approximates their carrying value. The maximum exposure of trade receivables to credit risk is the gross carrying amount of £92 million (2022: £32 million).

Contract assets are all current and have very short maturities.

Provision for impairment of receivables (netted off within trade receivables)

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

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

	2023 £m	2022 £m
At 1 April	**(3)**	(3)
Movement in provision	**(1)**	—
At 31 March	**(4)**	(3)

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

16. Financial and other investments

The financial and other investments balance of £557 million primarily comprises of Money Market Funds and includes current loans to fellow group undertakings.

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

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

	2023 £m	2022 £m
Current		
Financial assets at FVTPL	462	—
Financial assets at amortised cost	84	428
Restricted cash	11	10
	557	438

	2023 £m	2022 £m
Financial assets at FVTPL comprise the following:		
Money Market Funds	462	—
Financial assets at amortised cost:		
Loans and receivables - amounts due from other group companies	84	428
Restricted balances:		
NIC/SIF Restricted cash	11	10
	557	438

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

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

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

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

17. Cash and cash equivalents

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

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

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

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

	2023 £m	2022 £m
Cash at bank and short-term deposits	—	—
Cash and cash equivalents excluding bank overdrafts	10	—
Net cash and cash equivalents less bank overdrafts	10	—

18. Borrowings

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

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

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

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

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

	2023 £m	2022 £m
Current		
Bank loans and overdrafts	**760**	294
Bonds	**25**	544
Lease liabilities	**4**	4
Borrowings from National Gas Group undertakings	**15**	—
Other loans	**1**	1
	805	843
Non-current		
Bank loans	**206**	—
Bonds	**3,420**	3,184
Lease liabilities	**9**	7
Other loans	**125**	136
	3,760	3,327
Total borrowings	**4,565**	4,170

Total borrowings are repayable as follows:

	2023 £m	2022 £m
Less than 1 year	**805**	843
In 1 – 2 years	**85**	—
In 2 – 3 years	**225**	87
In 3 – 4 years	**—**	15
In 4 – 5 years	**26**	—
More than 5 years:		
By instalments	**52**	49
Other than by instalments	**3,372**	3,176
	4,565	4,170

18. Borrowings (continued)

The fair value of borrowings at 31 March 2023 was £4,361 million (2022: £5,123 million). The fair value of borrowings (Level 1) was nil (2022: £1,590 million). The fair value of borrowings (Level 2) was £4,361 million (2022: £3,533 million), calculated by discounting cash flows at prevailing interest rates. The notional amount outstanding of the debt portfolio at 31 March 2023 was £4,610 million (2022: £4,166 million).

At 31 March 2023, we had committed credit facilities of £946 million (2022: £350 million) of which £735 million was undrawn (2022: £350 million undrawn). All of the facilities at 31 March 2023 and at 31 March 2022 are available for liquidity purposes.

Included within borrowings repayable in less than 1 year, the Company has a £750 million GBP loan which was repaid in April 2023.

Lease liabilities

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

	2023 £m	2022 £m
Gross lease liabilities are repayable as follows:		
Less than 1 year	4	4
1 to 5 years	9	6
More than 5 years	—	1
	13	11
Less: finance charges allocated to future periods	(1)	—
	12	11
The present value of lease liabilities are as follows:		
Less than 1 year	4	4
1 to 5 years	8	6
More than 5 years	—	1
	12	11

19. Trade and other payables

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

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

	2023 £m	2022 £m
Trade payables	179	170
Amounts owed to subsidiaries of National Grid plc	—	50
Amounts owed to subsidiaries of National Gas plc	25	—
Deferred income	2	9
Social security and other taxes	64	36
Other payables	207	95
	478	360

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

The increase in other payables is primarily due to an increase in customer deposits held at 31 March 2023 vs 31 March 2022 due to higher revenues as a result of additional transit gas volumes.

Financial statements

20. Contract liabilities

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

	2023 £m	2022 £m
Current	33	31
Non-current	96	102
	129	133

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

	2023 £m	2022 £m
As at 1 April 2022	133	136
Revenue recognised that was included in the contract liability balance at the beginning of the period	(40)	(24)
Increase due to cash received, excluding amounts recognised as revenue during the period	36	21
At 31 March 2023	129	133

21. Other non-current liabilities

Other non-current liabilities include deferred income which will not be recognised as income until after 31 March 2023. It also includes payables that are not due until after that date.

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

	2023 £m	2022 £m
Other payables	–	1
	–	1

22. Pensions and other post-retirement benefits

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

Defined contribution plan

Employees are eligible to join the Gas Transmission & Metering Retirement Plan (GTMRP), a section of a Master Trust arrangement managed by Legal & General. NGT pays contributions into the GTMRP to provide DC benefits on behalf of its employees, generally providing a double match of member contributions up to maximum Company contribution of 12% of salary.

This plan is DC in nature and is designed to provide members with a pension pot for their retirement. Investment risks are borne by the member and there is no legal or constructive obligation on NGT to pay additional contributions in the instance that investment performance is poor. Payments to this DC plan are charged as an expense as they fall due.

Defined benefit plan

National Gas Transmission plc sponsors Section B of National Grid UK Pension Scheme (Section B of NGUKPS), a DB pension plan which is now closed to new members and it has some unfunded pension obligations. This plan is managed by a Trustee company with a board consisting of company- and member-appointed directors and holds its assets in separate Trustee administered funds. The net defined pension asset of the pension plan is reflected within the Company's statement of financial position. National Gas Transmission plc also has some unfunded pension obligations.

The pension plan is subject to independent actuarial funding valuations every three years and following consultation and agreement with the Company, the qualified actuary certifies the employers' contributions, which, together with the specified contributions payable by the employees and proceeds from the plans' assets, are expected to be sufficient to fund the benefits payable. The Company is in the process of agreeing the actuarial valuation as at 31 March 2022. The equivalent valuation as at 31 March 2019, led to a funding shortfall for the plan which was expected to be removed by September 2020. The Company continues to fund the cost of future benefit accrual (over and above member contributions), with the aggregate level of ongoing contributions in the year to March 2023 totalling £14 million (2022: £16 million; 2021: £20 million) and pays contributions in respect of plan administration costs and the Pension Protection Fund (PPF) levies.

The Company has also agreed to the provision of contingent security to the plan, whereby up to £600 million of letters of credit, surety bonds or cash held in escrow, are implemented on specified credit rating or gearing triggers. Once implemented, this security is payable to Section B of NGUKPS in specific circumstances including insolvency, failure to pay scheme contributions and loss of regulatory license.

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

Actuarial assumptions

On retirement, members of the plan receive benefits whose value is dependent on factors such as salary and length of pensionable service. The Company's obligations are calculated by projecting the estimated amount of future benefit payments that employees have earned for their pensionable service in the current and prior periods. These future benefit payments are discounted to determine the present value of the liabilities. Current service cost and any unrecognised past service cost are recognised immediately.

Advice is taken from independent actuaries relating to the appropriateness of the key assumptions applied, including life expectancy, expected salary and pension increases, and inflation. Comparatively small changes in the assumptions used may have a significant effect on the amounts recognised in the consolidated income statement, the consolidated statement of other comprehensive income and the net liability recognised in the consolidated statement of financial position. Remeasurements of pension assets and post-retirement benefit obligations are recognised in full in the period in which they occur in the consolidated statement of other comprehensive income.

The company has applied the following financial assumptions in assessing DB liabilities.

	2023 %	2022 %
Discount rate - past service	**4.80**	2.80
Discount rate - future service	**4.80**	2.85
Rate of increase in salaries	**3.10**	3.60
Rate of increase in RPI - past service	**3.15**	3.60
Rate of increase in RPI - future service	**3.05**	3.30

Single equivalent financial assumptions are shown here for presentational purposes, although full yield curves have been used in our calculations. The discount rate is determined by reference to high-quality UK corporate bonds at the reporting date. The rate of increase in salaries has been set with a further promotional scale also applying. The rates of increases stated are not indicative of historical increases awarded or a guarantee of future increase, but merely an appropriate assumption used in assessing DB liabilities. Retail Price Index (RPI) is the key assumption that determines assumed increases in pensions in payment and deferment in the plan.

The table below sets out the projected life expectancies adopted for the Company's pension arrangements:

	2023 Years	2022 Years
Assumed life expectations for a retiree age 65		
Males	**21.2**	21.6
Females	**23.3**	23.5
In 20 years:		
Males	**22.5**	22.9
Females	**24.8**	25.0

The weighted average duration of the DB obligation for the plan is 11 years.

As at the reporting date, the present value of the funded obligations split according to member status, was approximately 3% active members (2022: 6%); 12% deferred members (2022: 14%) and 85% pensioner members (2022: 80%).

For sensitivity analysis see note 30.

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

Amounts recognised in the consolidated statement of financial position

	2023 £m	2022 £m
Present value of funded obligations	**(3,690)**	(4,844)
Fair value of scheme assets	**4,102**	5,508
Net defined benefit asset	**412**	664
Present value of unfunded obligations	**(1)**	—
Net defined benefit asset	**411**	664
Represented by:		
Liability	**(1)**	—
Asset	**412**	664
	411	664

The recognition of the pension assets reflects legal and actuarial advice that we have taken regarding recognition of surpluses under IFRIC 14. The Company has an unconditional right to a refund in the event of a winding up. The NGUKPS Trustee must seek the agreement of the Company to any benefit augmentation beyond the provisions set out in the plan Rules.

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

	2023 £m	2022 £m
Included within operating costs		
Administration costs	**3**	4
Included within payroll costs		
Current service cost	**5**	9
Past service cost - augmentations	**3**	—
Past service cost - redundancies	**—**	2
Special termination benefit cost - redundancies	**—**	4
Included within exceptional costs		
Settlements cost	**27**	—
	35	15
Amounts charged to National Grid group undertakings	**—**	(8)
Total amount included within payroll costs	**35**	7
Total of operating costs	**38**	11
Included within finance income and costs		
Net interest income	**(16)**	(2)
Total included in the consolidated income statement	**22**	9
Actuarial (gains)/losses on defined benefit obligations	**(975)**	(24)
Return on assets greater than discount rate (gain)/losses	**1,220**	(285)
Total included in the consolidated statement of other comprehensive income	**245**	(309)

The £27 million settlement cost is the net of liabilities extinguished of (£49 million) and assets distributed of £76 million. This was due to the separation of NGT from the National Grid Group during the year. The assets and liabilities extinguished and distributed relate to members transferring out of the Section B Scheme and into other Schemes.

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

Reconciliation of the net defined benefit asset

	2023 £m	2022 £m
Opening defined benefit asset	664	356
Net (charge)/credit recognised in the consolidated income statement	(22)	(9)
Amounts recharged to National Grid group undertakings	—	(8)
Remeasurement effects recognised in the consolidated statement of other comprehensive income	(245)	309
Employer contributions	14	16
Closing net defined benefit asset	**411**	664

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

	2023 £m	2022 £m
Opening defined benefit obligations	(4,844)	(5,090)
Current service cost	(5)	(9)
Interest cost	(113)	(24)
Actuarial losses - experience	(92)	(181)
Actuarial gains/(losses) - demographic assumptions	47	14
Actuarial gains/(losses) - financial assumptions	1,020	191
Past service cost in respect of augmentations	(3)	—
Past service cost in respect of redundancies	—	(2)
Special termination benefit cost - redundancies	—	(4)
Net Liabilities extinguished on Settlement	49	—
Benefits paid	250	261
Closing defined benefit obligations	**(3,690)**	(4,844)

The table below shows the movement in defined benefit assets over the year (including unfunded obligations)

	2023 £m	2022 £m
Opening fair value of scheme assets	5,508	5,446
Interest income	129	26
Return on assets (lower)/greater than assumed	(1,220)	285
Administration costs	(3)	(4)
Employer contributions	14	16
Net assets distributed on settlement	(76)	—
Benefits paid	(250)	(261)
Closing fair value of scheme assets	**4,102**	5,508
Actual return on scheme assets	**(1,091)**	311
Expected contributions to scheme in the following year	**10**	17

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

Main defined benefit risks

The Company underwrites the financial and demographic risks associated with the plan. Although the Trustee has sole responsibility for setting investment strategies and managing risks, the Company closely works with and supports the Trustee, to assist in mitigating the risks associated with the plan and to ensure that the plan is funded to meet its obligations.

The most significant risks associated with the DB plan are:

- Investment risk – the plan invests in a variety of asset classes, with actual returns likely to differ from the underlying discount rate adopted, impacting the funding position of the plan through the net balance sheet asset or liability. The plan seeks to balance the level of investment return required with the risk that it can afford to take, to design the most appropriate investment portfolio;
- Changes in bond yields – liabilities will fluctuate as yields change. Volatility of the net balance sheet asset or liability is controlled through liability-matching strategies. The investment strategies allow for the use of synthetic as well as physical assets to be used to hedge interest rate risk;
- Inflation risk – changes in inflation affect the current and future pensions but are partially mitigated through investing in inflation-matching assets and hedging instruments as well as bulk annuity buy-in policies. The investment strategies allow for the use of synthetic as well as physical assets to be used to hedge inflation risk;
- Member longevity – Improvements in life expectancy will lead to pension payments being paid for longer than expected and benefits ultimately being more expensive. This risk has been partly mitigated by recent scheme investment transactions including the bulk annuity policy.
- Counterparty risk – is managed by having a diverse range of counterparties and through having a strong collateralisation process. Measurement and management of counterparty risk is delegated to the relevant investment managers. For our bulk annuity policy, various termination provisions were introduced in the contract, managing our exposure to counterparty risk. The insurer's operational performance and financial strength is monitored on a regular basis;
- Default risk - Debt investments are predominantly made in regulated markets in assets considered to be of investment grade. Where investments are made either in non-investment grade assets or outside of regulated markets, investment levels are kept to prudent levels and subject to agreed ranges, to control the risk;
- Liquidity risk - the pension plan holds sufficient cash to meet benefit requirements, with other investments being held in liquid or realisable assets to meet unexpected cash flow requirements such as collateral calls. The plan does not borrow money, or act as guarantor, to provide liquidity to other parties (unless it is temporary).
- Currency risk – fluctuations in the value of foreign denominated assets due to exposure to currency exchange rates is managed through currency hedging carried out by some of the investment managers.

Defined benefit plan investment strategy

The Trustee, after taking advice from professional investment advisors and in consultation with NGT, set their key principles, including expected returns, risk and liquidity requirements. They formulate an investment strategy to manage risk through diversification, taking into account expected contributions, maturity of the pension liabilities, and the strength of the covenant. This strategy allocates investments between return-seeking assets such as equities and property, and liability-matching assets such as government securities, corporate bonds and the bulk annuity policy which are intended to protect the funding position.

The approximate asset allocation of the plan as at 31 March 2023 is as follows:

	2023 %	2022 %
Return - seeking assets	**22**	21
Liability - matching assets	**78**	79
	100	100

The allocation of assets by asset class is set out below. Within these asset allocations, there is significant diversification across regions, asset managers, currencies and bond categories.

	2023			2022		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities	**253**	**162**	**415**	382	192	574
Corporate bonds	**939**	**—**	**939**	1,606	—	1,606
Government securities	**1,183**	**—**	**1,183**	1,390	—	1,390
Property	**—**	**180**	**180**	—	237	237
Diversified alternatives	**—**	**325**	**325**	—	364	364
Liability-matching assets[1]	**—**	**990**	**990**	—	1,248	1,248
Cash and cash equivalents	**—**	**70**	**70**	—	89	89
	2,375	**1,727**	**4,102**	3,378	2,130	5,508

1 This is in respect of a bulk annuity policy held by the Trustees with a total value of £990 million (2022: £1,248 million). Included above is £29 million (2022: £510 million) of repurchase agreements. These are used to increase the market exposure of the liability-matching portfolios.

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

The Trustee generally delegates responsibility for the selection of specific bonds, securities and other investments to appointed investment managers. Investment managers are selected based on the required skills, expertise in those markets, process and financial security to manage the investments. Their performance is regularly reviewed against measurable objectives, consistent with the pension plan's long-term objectives and accepted risk levels.

The extreme volatility of the UK gilt market during 2022 led to significant liquidity pressures on DB pension schemes, with large collateral calls from LDI fund managers requiring some schemes to either sell illiquid assets at short notice or reduce their level of hedging. These liquidity calls were met by the plan. However, the Company took the strategic decision to provide the plan with a loan for £200 million to ensure no reduction in hedging levels would be required should further increases in gilt yields occur. This loan was repaid in January 2023. The plan continues to review its strategy for hedging interest rates and inflation, ensuring it is not exposed to undue risk in the instance of further future market volatility.

The plan has a Responsible Investment (RI) Policy, which takes into account Environmental, Social and Governance (ESG) factors and incorporates the six UN-backed Principles for Responsible Investment (UNPRI). The Trustee board believes that ESG factors can be material to financial outcomes and should therefore be considered alongside other factors. They recognise that their primary responsibility remains a fiduciary one, i.e. their first duty is to ensure the best possible return on investments with the appropriate level of risk. However, they also recognise the increasing materiality of ESG factors and that they have a fiduciary and regulatory duty to consider RI, including ESG factors and their potential impact on the quality and sustainability of long-term investment returns.

23. Provisions

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

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

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

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

Changes in the provision arising from revised estimates or discount rates or changes in the expected timing of expenditures that relate to property, plant and equipment are recorded as adjustments to their carrying value and depreciated prospectively over their remaining estimated useful economic lives; otherwise such changes are recognised in the income statement.

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

	Decommissioning £m	Environmental £m	Restructuring £m	Other £m	Total provisions £m
At 1 April 2021	**60**	**12**	**1**	**31**	**104**
Additions	—	—	3	4	7
Unused amounts reversed		(2)	—	(2)	(4)
Unwinding of discount	1	—	—	—	1
Utilised	(21)	—	(2)	(4)	(27)
Other movements	—	—	—	(7)	(7)
At 31 March 2022	**40**	**10**	**2**	**22**	**74**
Additions	—	—	—	6	6
Unused amounts reversed	—	—	—	(1)	(1)
Utilised	(10)	—	(1)	(6)	(16)
Other movements	(15)	—	(2)	—	(17)
At 31 March 2023	**15**	**10**	**—**	**21**	**46**

	2023 £m	2022 £m
Current	**6**	33
Non-current	**40**	41
	46	74

23. Provisions (continued)

Decommissioning provision

The decommissioning provision represents expenditure relating to the demolition of gas-holders expected to be incurred until 2026.

Following the sale of the Gas Distribution business in 2016, the company sold 78 surplus land sites to a number of fellow National Grid Group undertakings and a legal agreement was entered into with National Gas Transmission plc to demolish the non-operational gas holders on these sites, creating a constructive obligation for the Company.

The undiscounted provision based on 0.5% real discount rate was £15 million (2022: £40 million). In year movements included £15 million due to the sale of interest in the JV with the Berkeley Group (relating to St William), where 15 sites were sold and obligation held for these sites released. The remaining £10 million relates to utilisation.

Environmental provision

The environmental provision represents the estimated restoration and remediation costs relating to operational sites owned by the Company. Cash flows are expected to be incurred until 2075, with £2 million expected to be incurred in the next 10 years.

A number of estimation uncertainties affect the calculation of the provision, including the impact of regulation, the accuracy of site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and changes in the real discount rate. This provision incorporates our best estimate of the financial effect of these uncertainties, but future changes in any of the assumptions could materially impact the calculation of the provision. The undiscounted amount is the undiscounted best estimate of the liability having regard to these uncertainties.

The undiscounted provision based on 0.5% real discount rate was £10 million (2022: £10 million)

Restructuring provision

In 2023, there was no increase in the provision (2022: £3 million). The income statement expense relating to the provision has been treated as an exceptional item, and details are provided in note 5.

Other provisions

Other provisions at 31 March 2023 includes; £10 million (2022: £10 million) in respect of legacy provisions recognised following the sale of the Gas Distribution (GD) business (timing of settlement of tax due to HMRC is still on-going).

24. Share capital

Ordinary share capital represents the total number of shares issued.

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

	Number of shares 2023 millions	Number of shares 2022 millions	**2023 £m**	2022 £m
At 31 March – ordinary shares 1.13p each				
Allotted, called-up and fully paid	**3,944**	3,944	**45**	45

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

25. Other equity reserves

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

Other equity reserves comprise the cost of hedging reserve, the capital redemption reserve, cash flow hedge reserve and own credit reserve. The capital redemption reserve arose from the refinancing and restructuring of the Lattice Group in 1999. It represents the amount of the reduction in share capital of the Company as a consequence of that restructuring. Cost of hedging equity reserve arose as a result of the adoption of IFRS 9 on 1 April 2018. Cash flow hedge represents the Group's cash flow hedging activities (see note 29).

25. Other equity reserves (continued)

As the amounts included in other equity reserves are not attributable to any of the other classes of equity presented, they have been disclosed as a separate classification of equity.

	Cash flow hedge £m	Cost of hedging £m	Own credit £m	Capital redemption £m	Other equity £m
At 1 April 2022	**(4)**	**(3)**	**—**	**1,332**	**1,325**
Net gains/(losses) taken to equity	3	4			7
Transferred (from)/to profit or loss	1	1	—	—	1
Tax	(1)	(1)	—	—	(2)
At 31 March 2023	**(1)**	**1**	**—**	**1,332**	**1,332**

26. Net debt

Net debt represents the amount of cash and financial investments held, less borrowings, overdrafts and related derivatives.

Funding and liquidity risk management is carried out by the treasury function under policies and delegations approved by the Board. The Finance Committee is responsible for the regular review and monitoring of treasury activity.

The primary objective of the treasury function is to manage our funding and liquidity requirements. A further important objective is to manage the associated financial risks, in the form of interest rate risk and foreign exchange risk, to within pre-authorised parameters. Details of the main risks arising from our financing activities can be found in note 29 to the consolidated financial statements.

Investment of surplus funds, usually in short-term fixed deposits is subject to our counterparty risk management policy.

(a) Reconciliation of net cash flow to movement in net debt

	2023 £m	2022 £m
Increase/(decrease) in cash and cash equivalents	**10**	(1)
Increase/(decrease) in financial investments	**59**	(861)
(Increase)/decrease in borrowings and related derivatives	**(119)**	1,133
Net interest paid on the components of net debt	**35**	47
Change in net debt resulting from cash flows	**(15)**	318
Changes in fair value of financial assets and liabilities and exchange movements	**12**	11
Net interest charge on the components of net debt	**(295)**	(204)
Other non-cash movements	**(7)**	(5)
Movement in net debt (net of related derivative financial instruments) in the year	**(305)**	120
Net debt (net of related derivative financial instruments) at the start of the year	**(3,660)**	(3,780)
Net debt (net of related derivative financial instruments) at the end of the year	**(3,965)**	(3,660)

Composition of net debt

Net debt is summarised as follows:

	2023 £m	2022 £m
Cash, cash equivalents	**567**	438
Borrowings and bank overdrafts	**(4,565)**	(4,170)
Financial Derivatives	**33**	72
	(3,965)	(3,660)

26. Net debt (continued)

(b) Analysis of changes in net debt

	Cash and cash equivalents £m	Financial investments £m	Borrowings and Bank Overdrafts £m	Financial derivatives £m	Total debt £m
At 1 April 2021	**1**	**1,295**	**(5,494)**	**418**	**(3,780)**
Cash flow	(1)	(906)	1,562	(337)	318
Fair value gains and losses	—	—	39	(19)	20
Foreign exchange movements	—	—	(9)	—	(9)
Interest income/(charges)	—	49	(269)	16	(204)
Other non-cash movements	—	—	1	(6)	(5)
At 31 March 2022	**—**	**438**	**(4,170)**	**72**	**(3,660)**
Cash flow	10	(3)	(12)	(10)	(15)
Fair value gains and losses	—	—	46	(34)	12
Foreign exchange movements	—	—	1	—	1
Interest income/(charges)	—	122	(423)	5	(296)
Other non-cash movements	—	—	(7)	—	(7)
At 31 March 2023	**10**	**557**	**(4,565)**	**33**	**(3,965)**
Balances at 31 March 2023 comprise:					
Non-current assets	—	—	—	65	65
Current assets	10	557	—	—	567
Current liabilities	—	—	(805)	(1)	(806)
Non-current liabilities	—	—	(3,760)	(31)	(3,791)
	10	**557**	**(4,565)**	**33**	**(3,965)**

27. Commitments and contingencies

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

Future capital expenditure

	2023 £m	2022 £m
Future capital expenditure		
Contracted for but not provided	**162**	205

Other commitments, contingencies and guarantees

The value of other commitments and guarantees at 31 March 2023 amounted to £82 million (2022: £52 million), including energy purchase commitments amounting to £58 million (2022: £27 million). Energy purchase commitments relate to contractual commitments to purchase electricity or gas that are used to satisfy physical delivery requirements to our customers or for energy that we use ourselves (i.e. normal purchase, sale or usage) and hence are accounted for as ordinary purchase contracts.

Security arrangements in favour of NGUKPS Trustees are disclosed separately in note 22.

Litigation and claims

Through the ordinary course of our operations, we are party to various litigation, claims and investigations. We do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on our results of operations, cash flows or financial position and claims.

28. Related party transactions

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

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

	2023 £m	2022 £m
Income:		
Goods and services supplied	—	12
Expenditure:		
Services received	25	6
Corporate services received	5	9
Charges in respect of pensions costs	(1)	18
Interest received on borrowings from fellow subsidiaries	(117)	(46)
	(88)	(13)
Outstanding balances at 31 March in respect of income, expenditure and settlement of corporation tax:		
Amounts receivable	84	20
Amounts payable	39	93
Advances to ultimate parent (due within one year)	—	403
At 31 March	—	403
Advances to parent company (due after more than one year):[1]	3,426	3,426
At 31 March	3,426	3,426

1 Immediate parent company is National Gas Transmission Holdings Limited (NGTH).

Services received include expenses incurred under the TSA (Transitional Services Agreement) with National Grid UK Limited, majority of these costs relate to IT.

Amounts receivable from or payable to related parties in respect of sales and expenditure are ordinarily settled one month in arrears. The advance to the parent due after more than one year is interest bearing. Advances to and borrowings from subsidiaries are repayable on demand and bear interest at commercial rates.

No amounts have been provided at 31 March 2023 (2022: £nil) and no expense has been recognised during the year (2022: £nil) in respect of bad or doubtful debts for related party transactions.

Details of guarantees provided in respect of related parties are provided in note 27.

Details of key management compensation are provided in note 4(c).

29. Financial risk management

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

Risk management related to financing activities is carried out by the treasury department under policies and actions approved by the Board. The objective of the treasury department is to manage funding and liquidity requirements, including managing associated financial risks, in line within Treasury Policy and Board resolutions.

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

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

29. Financial risk management (continued)

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

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

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

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

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

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

(a) Credit risk

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

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

At 31 March 2023, we had a number of exposures to individual counterparties. In accordance with our treasury policies, counterparty credit exposure utilisations are monitored daily against the counterparty credit limits. Based on expected credit loss probabilities, management does not expect any significant losses from non-performance by these counterparties.

Wholesale

Our principal commercial exposure in the UK is governed by the credit rules within the Uniform Network Code. These set out the level of credit relative to the RAV for each credit rating. We are committed to measuring, monitoring, minimising and recording counterparty credit risk in our wholesale business. The utilisation of credit limits is regularly monitored and collateral is collected against these accounts when necessary. Management does not expect any significant losses of receivables that have not been provided for as shown in note 15.

Offsetting financial assets and liabilities

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

Financial assets and liabilities on different transactions would only be reported net in the balance sheet if the transactions were with the same counterparty, a currently enforceable legal right of offset exists, and the cash flows were intended to be settled on a net basis.

Amounts which do not meet the criteria for offsetting on the statement of financial position, but could be settled net in certain circumstances, principally relate to derivative transactions under ISDA agreements, where each party has the option to settle amounts on a net basis in the event of default of the other party.

For bank account balances and bank overdrafts there are no pooling arrangements and no 'Gross amounts offset'. Offsetting arrangements for GBP have been discontinued.

29. Financial risk management (continued)

The gross amounts offset for trade payables and receivables, which are subject to general terms and conditions, are insignificant.

As at 31 March 2023	*Gross carrying amounts* £m	*Gross amounts offset* £m	Net amount presented in statement of financial position £m	Related amounts available to be offset but not offset in statement of financial position: Financial instruments £m	Cash collateral received/ pledged £m	Net amount £m
Assets						
Derivative financial instruments	**65**	**—**	**65**	**(4)**	**—**	**61**
	65	**—**	**65**	**(4)**	**—**	**61**
Liabilities						
Derivative financial instruments	**(32)**	**—**	**(32)**	**4**	**—**	**(28)**
	(32)	**—**	**(32)**	**4**	**—**	**(28)**
Total	**33**	**—**	**33**	**—**	**—**	**33**

As at 31 March 2022	*Gross carrying amounts* £m	*Gross amounts offset* £m	Net amount presented in statement of financial position £m	Related amounts available to be offset but not offset in statement of financial position: Financial instruments £m	Cash collateral received/ pledged £m	Net amount £m
Assets						
Derivative financial instruments	93	—	93	(6)	—	87
	93	—	93	(6)	—	87
Liabilities						
Derivative financial instruments	(21)	—	(21)	6	—	(15)
	(21)	—	(21)	6	—	(15)
Total	72	—	72	—	—	72

(b) Liquidity risk

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

We believe our contractual obligations, including those shown in commitments and contingencies in note 27 can be met from existing cash and investments, operating cash flows and internal or external financing that we reasonably expect to be able to secure in the future, together with the use of committed facilities if required.

Our debt agreements and banking facilities contain covenants, including those relating to the periodic and timely provision of financial information by the issuing entity, restrictions on disposals and financial covenants. Failure to comply with these covenants, or to obtain waivers of those requirements, could prevent shareholder distributions, require early repayment of some of our debt, and restrict our ability to draw upon our facilities to access the capital markets.

29. Financial risk management (continued)

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

At 31 March 2023	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due 3 years and beyond £m	Total £m
Non-derivative financial liabilities					
Borrowings, excluding finance lease liabilities	(768)	(82)	(228)	(3,519)	(4,597)
Interest payments on borrowings[1]	(149)	(123)	(118)	(1,223)	(1,613)
Lease liabilities	(4)	(3)	(3)	(2)	(12)
Other non-interest bearing liabilities	(384)	—	—	—	(384)
Derivative financial liabilities					
Derivative contracts – receipts[2]	517	21	21	579	1,138
Derivative contracts – payments[2]	(537)	(36)	(41)	(590)	(1,204)
Derivative financial assets					
Derivative contracts – receipts[2]	34	225	162	39	460
Derivative contracts – payments[2]	(26)	(209)	(150)	(30)	(415)
Total at 31 March 2023	(1,317)	(207)	(357)	(4,746)	(6,627)

At 31 March 2022	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due 3 years and beyond £m	Total £m
Non-derivative financial liabilities					
Borrowings, excluding finance lease liabilities	(808)	—	(82)	(3,266)	(4,156)
Interest payments on borrowings[1]	(89)	(76)	(76)	(1,062)	(1,303)
Lease liabilities	(4)	(3)	(2)	(2)	(11)
Other non-interest bearing liabilities	(265)	(1)	—	—	(266)
Derivative financial liabilities					
Derivative contracts – receipts[2]		26			26
Derivative contracts – payments[2]	(2)	(31)	(6)	(111)	(150)
Derivative financial assets					
Derivative contracts – receipts[2]	61	25	238	178	502
Derivative contracts – payments[2]	(43)	(16)	(208)	(151)	(418)
Total at 31 March 2022	(1,150)	(76)	(136)	(4,414)	(5,776)

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

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

29. Financial risk management (continued)

(c) Currency risk

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

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

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

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

	2023				
	Sterling £m	**Euro £m**	**Dollar £m**	**Other £m**	**Total £m**
Cash and cash equivalents	**10**	**—**	**—**	**—**	**10**
Financial investments	**557**	**—**	**—**	**—**	**557**
Borrowings	**(4,414)**	**—**	**—**	**(151)**	**(4,565)**
Pre-derivative position	**(3,847)**	**—**	**—**	**(151)**	**(3,998)**
Derivative effect	**(128)**	**7**	**3**	**151**	**33**
Net debt position	**(3,975)**	**7**	**3**	**—**	**(3,965)**

	2022				
	Sterling £m	Euro £m	Dollar £m	Other £m	Total £m
Cash and cash equivalents	—	—	—	—	—
Financial investments	438	—	—	—	438
Borrowings	(3,983)	—	—	(187)	(4,170)
Pre-derivative position	(3,545)	—	—	(187)	(3,732)
Derivative effect	(127)	12	—	187	72
Net debt position	(3,672)	12	—	—	(3,660)

There was no significant currency exposure on other financial instruments, including trade receivables and payables and other receivables and payables.

Hedge accounting for currency risk

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

Cash flow hedging of currency risk of capital expenditure is designated as hedging the exposure to movements in the spot translation rates only; the timing of forecasted transactions is not designated as a hedged risk. Gains and losses on hedging instruments arising from forward points and foreign currency basis spreads are excluded from designation and are recognised immediately in profit or loss, along with any hedge ineffectiveness. Where a non-financial asset or a non-financial liability results from a forecast transaction or firm commitment being hedged, the amounts deferred in reserves are released directly to the initial measurement of that asset or liability.

Hedges of foreign currency funding are designated as cash flow hedges or fair value hedges of forward exchange risk (hedging both currency and interest rate risk together, where applicable). Hedge accounting for funding is described further in the interest rate risk section below.

29. Financial risk management (continued)

(d) Interest rate risk

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

We also consider inflation risk and hold some inflation-linked borrowings. We believe that these provide a partial economic offset to the inflation risk associated with our UK inflation linked revenues.

The table in note 18 (Borrowings) sets out the carrying amount, by contractual maturity, of borrowings that are exposed to interest rate risk before taking into account interest rate swaps.

As at 31 March 2023 and 2022, net debt was managed using derivative instruments to hedge interest rate risk as follows:

	2023				
	Fixed rate £m	**Floating rate £m**	**RPI £m**	**Other £m**	**Total £m**
Cash and cash equivalents	—	10	—	—	10
Financial investments	—	557	—	—	557
Borrowings	(1,102)	(986)	(2,477)	—	(4,565)
Pre-derivative position	(1,102)	(419)	(2,477)	—	(3,998)
Derivative effect	207	(179)	6	(1)	33
Net debt position	(895)	(598)	(2,471)	(1)	(3,965)

	2022			
	Fixed rate £m	Floating rate £m	RPI £m	Total £m
Cash and cash equivalents	—	—	—	—
Financial investments	—	438	—	438
Borrowings	(1,169)	—	(3,001)	(4,170)
Pre-derivative position	(1,169)	438	(3,001)	(3,732)
Derivative effect	253	(203)	22	72
Net debt position	(916)	235	(2,979)	(3,660)

Hedge accounting for interest rate risk

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

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

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

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

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

The IFRS amendments impact fair value and cash flow hedges of interest rate risk and related hedging instruments. The notional values of hedging instruments, for each type of hedging relationship impacted, are shown in the hedge accounting tables in note 29(e). These amounts also correspond to the exposures designated as hedged.

29. Financial risk management (continued)

(e) Hedge accounting

In accordance with the requirements of IFRS 9, certain additional information about hedge accounting is disaggregated by risk type and hedge designation type in the tables below:

Year ended 31 March 2023	Fair value hedges of foreign currency and interest rate risk £m	Cash flow hedges of foreign currency and interest rate risk £m	Cash flow hedges of foreign currency risk £m
Consolidated statement of comprehensive income			
Net gains/(losses) in respect of:			
Cash flow hedges	—	3	—
Cost of hedging	5	—	—
Transferred to profit or loss in respect of:			
Cash flow hedges	—	1	—
Cost of hedging	—	—	—
Consolidated statement of changes in equity			
Other equity reserves – cost of hedging balances	—	1	—
Consolidated statement of financial position			
Derivatives – carrying value of hedging instruments[1]			
Assets – current	—	—	—
Assets – non-current	56	6	—
Liabilities – current	—	—	—
Liabilities – non-current	(27)	(2)	—
Profiles of the significant timing, price and rate information of hedging instruments			
Maturity range	Jan 2025 – May 2038	May 2028 – Apr 2030	Apr 2023 – Aug 2023
Spot FX range			
GBP USD	GBP USD 1.64 – 1.66	GBP USD n/a	1.22
GBP EUR	GBP EUR n/a	GBP EUR 1.14	GBP EUR 1.07 – 1.12
Interest rate range			
GBP	Pay-float GBP SONIA +42bps/+432bps	Pay-fixed GBP 1.795% – 4.3%	n/a

1 The use of derivatives may entail a derivative transaction qualifying for more than one hedge type designation under IFRS 9. Therefore, the derivative amounts in the table above are grossed up by hedge type, whereas they are presented net at an instrument level in the statement of financial position.

29. Financial risk management (continued)

Year ended 31 March 2022	Fair value hedges of foreign currency and interest rate risk £m	Cash flow hedges of foreign currency and interest rate risk £m	Cash flow hedges of foreign currency risk £m
Consolidated statement of comprehensive income			
Net losses in respect of:			
Cash flow hedges	—	5	—
Cost of hedging	(3)	(2)	—
Transferred to profit or loss in respect of:			
Cash flow hedges	—	(4)	—
Cost of hedging	1	—	—
Consolidated statement of changes in equity			
Other equity reserves – cost of hedging balances	(5)	1	—
Consolidated statement of financial position			
Derivatives – carrying value of hedging instruments			
Assets – current	6	—	—
Assets – non-current	49	30	—
Liabilities – current	—	—	—
Liabilities – non-current	(14)	—	(1)
Profiles of the significant timing, price and rate information of hedging instruments			
Maturity range	Jan 2023 – May 2038	Mar 2029 – Nov 2029	Aug 2023
Spot FX range			
GBP USD	1.64	1.65 – 1.66	n/a
GBP EUR	n/a	n/a	1.07
Interest rate range			
GBP	SONIA +42bps/+432bps	1.795%	n/a

The following tables show the effects of hedge accounting on financial position and year-to-date performance for each type of hedge:
(i) Fair value hedges of foreign currency and interest rate risk on recognised borrowings as at 31 March 2023:

At 31 March 2023	**Balance of fair value hedge adjustments in borrowings**			**Change in value used for calculating ineffectiveness**		
Hedge type	**Hedging instrument nominal £m**	**Continuing hedges £m**	**Discontinued hedges £m**	**Hedged item £m**	**Hedging instrument £m**	**Hedge ineffectiveness £m**
Foreign currency and interest rate risk on borrowings[1]	**(316)**	**83**	**(34)**	**35**	**(32)**	**3**

1 The carrying value of the hedged borrowings is £251 million, of which £Nil million is current and £251 million is non-current.

At 31 March 2022	Balance of fair value hedge adjustments in borrowings			Change in value used for calculating ineffectiveness		
Hedge type	Hedging instrument nominal £m	Continuing hedges £m	Discontinued hedges £m	Hedged item £m	Hedging instrument £m	Hedge ineffectiveness £m
Foreign currency and interest rate risk on borrowings[1]	(274)	52	(41)	22	(21)	1

1 The carrying value of the hedged borrowings is £307 million, of which £18 million is current and £289 million is non-current.

29. Financial risk management (continued)

(ii) Cash flow hedges of foreign currency and interest rate risk as at 31 March 2023:

As at 31 March 2023		**Balance in cash flow hedge reserve**		**Change in value used for calculating ineffectiveness**		
Hedge type	**Hedging instrument nominal £m**	**Continuing hedges £m**	**Discontinued hedges £m**	**Hedged item £m**	**Hedging instrument £m**	**Hedge ineffectiveness £m**
Foreign currency and interest rate risk on borrowings	**(536)**	**(2)**	**—**	**(1)**	**2**	**1**
Foreign currency risk on forecasted cash flows	**(7)**	**—**	**—**	**—**	**—**	**—**

As at 31 March 2022		Balance in cash flow hedge reserve		Change in value used for calculating ineffectiveness		
Hedge type	Hedging instrument nominal £m	Continuing hedges £m	Discontinued hedges £m	Hedged item £m	Hedging instrument £m	Hedge ineffectiveness £m
Foreign currency and interest rate risk on borrowings	(108)	(5)	—	(10)	5	(5)
Foreign currency risk on forecasted cash flows	(11)	(1)	1	—	—	—

(f) Fair value analysis

Included in the statement of financial position are financial instruments which have been measured at fair value. These fair values can be categorised into hierarchy levels that are representative of the inputs used in measuring the fair value. The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used.

	2023				2022			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets								
Derivative financial instruments	**—**	**65**	**—**	**65**	—	93	—	93
	—	**65**	**—**	**65**	—	93	—	93
Liabilities								
Derivative financial instruments	**—**	**(32)**	**—**	**(32)**	—	(21)	—	(21)
	—	**(32)**	**—**	**(32)**	—	(21)	—	(21)
	—	**33**	**—**	**33**	—	72	—	72

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

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

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

Our Level 1 financial liability held at fair value is valued using quoted prices from liquid markets.

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

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

29. Financial risk management (continued)

(f) Fair value analysis (continued)

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

	Financing derivatives 2023 £m	2022 £m
At 1 April	**—**	(65)
Net gain for the year[1]		65
At 31 March	**—**	—

[1] £Nil (2022: £19 million loss) is attributable to derivative financial instruments held at the end of the reporting period and has been recognised in finance costs in the income statement.

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

	Financing derivatives 2023 £m	2022 £m
+20 basis points change in LPI (Limited Price Inflation) market curve[1]	**—**	—
-20 basis points change in LPI market curve[1]	**—**	—

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

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

(g) Capital Risk Management

The capital structure of the Gas Transmission group consists of shareholders' equity, as disclosed in the consolidated statement of changes in equity, and net debt (note 26). Our objectives when managing capital are: to safeguard our ability to continue as a going concern, to remain within regulatory constraints of our regulated operating company and to maintain an efficient mix of debt and equity funding thus achieving an optimal capital structure and cost of capital. We regularly review and manage the capital structure as appropriate in order to achieve these objectives.

Maintaining appropriate credit ratings for our regulated company is an important aspect of our capital risk management strategy and balance sheet efficiency. We monitor our balance sheet efficiency by regulatory asset value (RAV) gearing calculated as net debt expressed as a percentage of RAV, which indicates the level of debt employed to fund our regulated business. It is compared with the level of RAV gearing indicated by Ofgem as being appropriate for our business, at around 60%. The RAV gearing ratio at 31 March 2023 was 56% (2022: 51%).

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

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

These restrictions are subject to alteration in the normal licence review process.

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

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

30. Sensitivities

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

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

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

(a) Sensitivities on areas of estimation uncertainty

The table below sets out the sensitivity analysis for certain areas of estimation uncertainty set out in note 1E. These estimates are those that have a significant risk of resulting in a material adjustment to the carrying values of assets and liabilities in the next year.

		2023		2022
	Income statement £m	Net assets £m	Income statement £m	Net assets £m
Pensions obligations benefit (pre-tax)[1]				
Discount rate change of 0.5%[2]	3	196	1	357
RPI rate change of 0.5%[3]	—	161	1	286
Long-term rate of increase in salaries change of 0.5%	—	3	—	14
Change of one year to life expectancy at age 65	5	148	—	227

1 The sensitivities shown in 2022 are the net change in the annual pension or other post-retirement benefit service charge and the net change in the defined benefit obligations. The sensitivities shown in 2023 are the net change in the Income Statement and the net change in the defined benefit obligations. We have changed the approach in 2023 because the sensitivity of the service charge to these changes is now immaterial.

2 This net asset shows the impact of the change in the discount rate on the liabilities only. A change in the discount rate is likely to occur as a result of changes in bond yields and as such would be expected to be offset to a significant degree by a change in the value of the bond assets held by the plan. For the purpose of the Income Statement sensitivity it is assumed that the change in assets and liabilities offset each other.

3 The net assets show the impact of the change in RPI on the liabilities only. The projected impact resulting from a change in RPI reflects the underlying effect on pensions in payment, pensions in deferment and resultant increases in salary assumptions. In practice, as the plan hedges inflation risk we would expect any change in liabilities to be offset to a significant degree by a change in the value of the inflation linked assets held by the plan. For the purpose of the Income Statement sensitivity it is assumed that the change in assets and liabilities offset each other.

Pensions and post retirement benefits assumptions

Sensitivities have been prepared to show how the defined benefit obligations and annual service costs could potentially be impacted by changes in the relevant actuarial assumption that were reasonably possible as at 31 March 2023. In preparing sensitivities the potential impact has been calculated by applying the change to each assumption in isolation and assuming all other assumptions remain unchanged. This is with the exception of RPI where the corresponding change to increases to pensions in payment, increases to pensions in deferment and increases in salary are recognised.

(b) Sensitivities on financial instruments

We are further required to show additional sensitivity analysis under IFRS 7 and these are shown separately in the subsequent table due to the additional assumptions that are made in order to produce meaningful sensitivity disclosures.

Our net debt as presented in note 26 financial instruments is sensitive to changes in market variables, being UK interest rates and the UK RPI. These impact the valuation of our borrowings, deposits and derivative financial instruments. The analysis illustrates the sensitivity of our financial instruments to reasonably possible changes in these market variables.

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

- the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio, and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 March 2023 and 2022 respectively;
- the statement of financial position sensitivity to interest rates relates to items presented at their fair values: derivative financial instruments; our investments measured at fair value through profit and loss (FVTPL) and fair value through other comprehensive income; and our liability measured at FVTPL. Further debt and other deposits are carried at amortised cost and so their carrying value does not change as interest rates move;
- the sensitivity of interest to movements in interest rates is calculated on net floating rate exposures on debt, deposits and derivative instruments;
- changes in the carrying value of derivatives from movements in interest rates of designated cash flow hedges are assumed to be recorded fully within equity.

30. Sensitivities (continued)

(b) Sensitivities on financial instruments (continued)

	2023		2022	
	Income statement £m	**Other equity reserves £m**	Income statement £m	Other equity reserves £m
Financial risk (post-tax)				
UK RPI rate change of 0.5%	**10**	**—**	12	—
UK Interest rate changes of 0.5%	**3**	**13**	1	3

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

	2023		2022	
	Income statement £m	**Net assets £m**	Income statement £m	Net assets £m
Assets and liabilities carried at fair value (post-tax):				
10% fair value change in derivative financial instruments[1]	**3**	**3**	6	6

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

31. Ultimate parent company

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

National Gas Transmission plc's immediate parent company is National Gas Transmission Holdings Limited. The ultimate parent company and controlling party is Luppiter Consortium Limited. These companies are incorporated in Britain and are registered in England and Wales. The Luppiter Consortium consolidates the financial statements of National Gas Transmission plc. Copies of the consolidated financial statements may be obtained from the Company Secretary at the registered office, C/O Alter Domus (Uk) Limited 10th floor, 30 St Mary Axe London, EC3A 8BF (www.alterdomus.com).

32. Subsidiary undertakings, joint ventures and associates

While we present consolidated results in these financial statements as if we were one company, our legal structure is such that there are a number of different operating and holding companies that contribute to the overall result. This structure has evolved through acquisitions as well as regulatory requirements to have certain activities within separate legal entities.

Subsidiary undertakings

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

	Principal activity		Holding
National Gas Metering Limited (incorporated in England and Wales)	Gas Metering Services	Direct	100%
National Grid House Warwick Technology Park, Warwick			

Other equity investments

The list below contains all other equity investments included within the National Gas Transmission plc.

	Principal activity	Holding
PRISMA European Capacity Platform GmbH (incorporated in Germany)	Trading platform	12%
Joint Radio Company Limited (incorporated in England and Wales)	Consultancy services	25%
Xoserve Limited (incorporated in England and Wales)	IT systems, management for gas transportation	11%

PRISMA European Capacity Platform GmbH is based at Reichsstraße 1-9, Leipzig, Saxony 04109, Germany.

Joint Radio Company Limited is based at Friars House, Manor House Drive, Coventry, England, CV1 2TE.

Xoserve Limited is based at Lansdowne Gate, 65 New Road, Solihull B91 3DL.

33. Events after the reporting period

There are no post balance sheet events.

Company balance sheet
as at 31 March

	Notes	2023 £m	2022 £m
Non-current assets			
Intangible assets	5	**113**	130
Property, plant and equipment	6	**4,777**	4,621
Investments	7	**1**	1
Debtors (amounts falling due after more than one year)	9	**3,443**	3,453
Derivative financial instruments (amounts falling due after more than one year)	10	**65**	87
		8,399	8,292
Current assets			
Cash at bank and in hand	14	**10**	—
Stocks and other current assets	8	**14**	12
Debtors (amounts falling due within one year)	9	**291**	606
Derivative financial instruments (amounts falling due within one year)	10	**—**	6
Financial assets and other investments	11	**557**	34
Post employment benefits pension asset	16	**412**	664
		1,284	1,322
Creditors (amounts falling due within one year)	12	**(1,473)**	(1,382)
Net current assets		**(189)**	(60)
Total assets less current liabilities		**8,210**	8,232
Creditors (amounts falling due after more than one year)	13	**(3,892)**	(3,455)
Provisions for liabilities	17	**(796)**	(846)
Net assets		**3,522**	3,931
Equity			
Share capital	18	**45**	45
Share premium account		**204**	204
Other equity reserve	19	**1,332**	1,325
Profit and loss account		**1,941**	2,357
Total shareholders' equity		**3,522**	3,931

The Company financial statements set out on pages 114 to 126 were approved by the Board of Directors and authorised for issue on 18 July 2023. They were signed on its behalf by:

Jon Butterworth Director

Nick Hooper Director

National Gas Transmission plc
Registered number: 2006000

Company statement of changes in equity

for the years ended 31 March

	Share capital £m	Share premium account £m	Retained earnings £m	Other reserves £m	Shareholders' equity £m
At 1 April 2021	45	204	2,329	1,325	3,903
Profit for the year		—	99	—	99
Total other comprehensive income for the year	—	—	217	—	217
Total comprehensive income/(loss) for the year	—	—	316	—	316
Equity dividends	—	—	(295)	—	(295)
Share-based payments	—	—	6	—	6
At 31 March 2022	**45**	**204**	**2,356**	**1,325**	**3,930**
Profit for the year		—	274	—	274
Total other comprehensive income for the year	—	—	(184)	7	(177)
Total comprehensive income for the year	—	—	90	7	97
Equity dividends	—	—	(505)	—	(505)
At 31 March 2023	**45**	**204**	**1,941**	**1,332**	**3,522**

The Company is prohibited from declaring a dividend or other distribution unless it has certified that it is in compliance in all material respects with certain regulatory obligations, including a requirement to ensure it has sufficient financial resources and facilities to enable it to carry on its business and a requirement to use reasonable endeavours to maintain an investment grade credit rating.

The Company has not presented its own profit and loss account and related notes as permitted by section 408 of the Companies Act 2006. The Company's profit after taxation was £274 million (2022: £99 million).

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

Notes to the Company financial statements

1. Company accounting policies

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

A. Basis of preparation of individual financial statements under FRS101

National Gas Transmission plc's principal activities involve the transmission of gas in Britain. The Company is a public limited company incorporated and domiciled in UK, with its registered office at National Grid House Warwick Technology Park, Gallows Hill, Warwick, CV34 6DA.

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

In accordance with the exemption permitted by section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account or statement of comprehensive income.

As permitted by FRS 101, the company has taken advantage of exemptions from the requirements of IFRS in relation to the following elements:

- presentation of a cashflow statement and related notes;
- disclosures in respect of share based payment;
- disclosures in respect of capital management;
- disclosures required by IFRS 13 *'Fair Value Measurement'*;
- disclosures required by IFRS 7 *'Financial Instruments: Disclosures'*;
- presentation of comparative information in respect of certain assets;
- the effect of standards not yet effective; and
- related party transactions.

Where required, equivalent disclosures are given in the Group financial statements of National Gas Transmission plc, which are available to the public and can be obtained as set out in note 31 to the consolidated financial statements.

These individual financial statements of the Company have been prepared on an historical cost basis, except for the revaluation of financial instruments, and are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates. The 2022 comparative financial information has also been prepared on this basis.

The individual financial statements have been prepared on a going concern basis following the assessment made by the Directors as set on page 57.

2. Auditors' remuneration

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

	2023 £m	2022 £m
Audit services		
Audit fee of Company	**1.3**	0.4
Other services		
Fees payable to the Company's auditors for audit related assurance services[1]	**0.1**	1.3

[1] Other services supplied represents fee payable for regulatory agreed upon procedures and debt issuance comfort letters

3. Number of employees, including Directors

	2023 Monthly Average number	2022 Monthly average number
Gas Transmission[1]	**1,399**	1,927

[1] 2021/22 included an allocation of employees working within National Grid Group Shared Services across NGT, National Grid Electricity Transmission and National Grid Electricity System Operator. This year's report reflects the directly employed Gas Transmission and Gas Metering employees for the separated standalone business and excludes FTEs currently working under Transition Service Agreements who are employees of National Grid.

4. Key management compensation and Directors' emoluments

Key management comprises the Board of Directors of the Company who have managerial responsibility for National Gas Transmission plc. Details of key management personnel compensation are provided in note 4(c) to the consolidated financial statements.

Details of Directors' emoluments are provided in note 4(d) to the consolidated financial statements.

5. Intangible assets

	Software £m	Assets in the course of construction £m	Total £m
Cost at 1 April 2022	**446**	**—**	**446**
Additions	—	17	17
Reclassifications	53	(53)	—
Other	3	—	3
Cost at 31 March 2023	**502**	**(36)**	**466**
Accumulated amortisation at 31 March 2022	(316)	—	(316)
Amortisation charge for the year	(39)	—	(39)
Impairment	2	—	2
Accumulated amortisation at 31 March 2023	**(353)**	**—**	**(353)**
Net book value at 31 March 2023	**149**	**(36)**	**113**
Net book value at 31 March 2022	130	—	130

6. Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Assets in the course of construction £m	Motor vehicles and office equipment £m	Total £m
Cost at 1 April 2022	**307**	**8,417**	**560**	**261**	**9,545**
Additions	8	—	353	2	363
Disposals[2]	(4)	(597)	—	(3)	(604)
Reclassifications[1]	19	159	(204)	26	—
Other	—	(28)	(2)	4	(26)
Cost at 31 March 2023	**330**	**7,951**	**707**	**290**	**9,278**
Accumulated depreciation at 1 April 2022	**(191)**	**(4,512)**	**(6)**	**(215)**	**(4,924)**
Depreciation charge for the year	(8)	(157)	—	(23)	(188)
Disposals[2]	1	579	—	2	582
Other	(10)	34	—	—	24
Impairment	—	1	3	—	4
Accumulated depreciation at 31 March 2023	**(208)**	**(4,055)**	**(3)**	**(236)**	**(4,502)**
Net book value at 31 March 2023	**122**	**3,897**	**704**	**54**	**4,777**
Net book value at 31 March 2022	116	3,906	554	46	4,622

1 Reclassifications represent commissioning of assets from assets under construction into usage.
2 2022/23 also Includes disposals relating to adjustments in relation to prior year balances identified as part of the implementation of the new SAP S4 finance system in the UK businesses

Financial statements

6. Property, plant and equipment (continued)

The net book value of land and buildings comprised:

	2023 £m	2022 £m
Freehold	111	103
Long Leasehold	—	11
Short leasehold (under 50 years)	11	2
	122	116

Right-of-use assets

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

The table below shows the movements in the net book value of right-of-use assets included within property, plant and equipment at 31 March 2023 and 31 March 2022, split by category.

	Land and buildings £m	Motor vehicles and office equipment £m	Total £m
Net book value at 1 April 2021	**15**	**3**	**18**
Additions	—	2	**2**
Disposals	(4)	—	**(4)**
Depreciation charge for the year	(3)	(2)	**(5)**
Net book value at 31 March 2022	**8**	**3**	**11**
Additions	8	2	**10**
Disposals	(4)	(2)	**(6)**
Depreciation charge for the year	(2)	(2)	**(4)**
Depreciation on Disposals	1	1	**2**
Net book value at 31 March 2023	**11**	**2**	**13**

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

	Total £m
Included within revenue:	
Lease income[1]	2

1 Relates to Lansdowne Gate

The associated lease liabilities are disclosed in note 15.

7. Investments

	2023 £m	2022 £m
Shares in subsidiary undertakings	1	1

The names of the subsidiary undertakings and joint ventures are included in note 32 to the consolidated financial statements.

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

8. Stocks and other current assets

	2023 £m	2022 £m
Raw materials and consumables	**11**	9
Other current assets – emission allowances	**3**	3
	14	12

There is a provision for obsolescence of £1 million against inventories as at 31 March 2023 (2022: £1 million).

9. Debtors

	2023 £m	2022 £m
Amounts falling due within one year:		
Trade debtors	**92**	32
Amounts owed by fellow subsidiary undertakings	**1**	415
Other debtors	**11**	13
Contract assets	**173**	113
Prepayments	**14**	33
	291	606
Amounts falling due after one year:		
Amounts owed by immediate parent undertaking[1]	**3,426**	3,427
Other debtors	**17**	26
	3,443	3,453
Total debtors	**3,734**	4,059

1 Amounts owed by immediate parent, National Gas Transmission Holdings Limited (NGTH), repayable 1 April 2035. Interest is payable at the reference rate plus a margin.

The carrying values stated above are considered to represent the fair values of the assets.

10. Derivative financial instruments

The fair values of derivative financial instruments are:

	2023			2022		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Amounts falling due within one year	**—**	**(2)**	**(2)**	6	—	6
Amounts falling due after more than one year	**65**	**(31)**	**34**	87	(21)	66
	65	**(33)**	**32**	93	(21)	72

For each class of derivative the notional contract amounts[1] are as follows:

	2023 £m	2022 £m
Interest rate swaps	**(274)**	(274)
Cross-currency interest rate swaps	**(616)**	(146)
Foreign exchange forward currency	**(47)**	(33)
	(937)	(453)

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

For details on fair value techniques and assumptions, refer to note 29 to the consolidated financial statements.

11. Financial assets and other investments

	2023 £m	2022 £m
Amounts due from fellow subsidiaries	84	24
Financial Investments	473	—
NIC restricted cash deposits	—	10
	557	34

12. Creditors (amounts falling due within one year)

	2023 £m	2022 £m
Derivative financial instruments (note 10)	2	—
Borrowings (note 15)	937	985
Trade creditors	121	100
Amounts owed to fellow subsidiary undertakings	46	40
Corporation tax	21	31
Other taxation and social security	66	38
Other creditors	232	120
Deferred income	46	68
	1,471	1,382

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

	2023 £m	2022 £m
Derivative financial instruments (note 10)	—	21
Borrowings (note 15)	3,760	3,327
Other creditors	5	6
Contract assets and Liabilities	127	101
	3,892	3,455

14. Cash and cash equivalents

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

	2023 £m	2022 £m
Cash and cash equivalents excluding bank overdrafts	10	—
Net cash and cash equivalents less bank overdrafts	10	—

15. Borrowings

The following table analyses the Company's total borrowings:

	2023 £m	2022 £m
Amounts falling due within one year:		
Bank loans and overdrafts	**760**	293
Bonds	**25**	544
Lease liabilities	**4**	4
Borrowings from National Grid subsidiary undertakings	**—**	143
Borrowings from National Gas Group undertakings	**147**	—
Other loans	**1**	1
	937	985
Amounts falling due after more than one year:		
Bank loans	**206**	—
Bonds	**3,420**	3,185
Lease liabilities	**9**	6
Other loans	**124**	136
	3,759	3,327
Total borrowings	**4,696**	4,312
Total borrowings are repayable as follows:		
Less than 1 year	**936**	985
In 1 - 2 years	**85**	—
In 2 - 3 years	**225**	88
In 3 - 4 years	**—**	15
In 4 - 5 years	**26**	—
More than 5 years by instalments	**52**	49
More than 5 years, other than by instalments	**3,371**	3,175
	4,696	4,312

The notional amount outstanding of the Company's debt portfolio at 31 March 2023 was £4,741 million (2022: £4,309 million).

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

15. Borrowings (continued)

Lease liabilities

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

	2023 £m	2022 £m
Gross lease liabilities are repayables as follows:		
Less than 1 year	4	4
1 to 5 years	9	7
More than 5 years	—	2
	13	13
Less: finance charges allocated to future periods	(1)	—
	12	13
The present value of lease liabilities are as follows:		
Less than 1 year	4	3
1 to 5 years	8	—
More than 5 years	—	7
	12	10

16. Pensions

NGT's employees are members of either Section B of NGUKPS, a DB pension scheme, or the Gas Transmission & Metering Retirement Plan (GTMRP), a DC plan, which acts as the qualifying plan for automatic enrolment of new hires.

Further details of Section B of NGUKPS and the actuarial assumptions used to value the associated assets and pension obligations are provided in note 22 to the consolidated financial statements.

Amounts recognised in the Company balance sheet

	2023 £m	2022 £m
Present value of funded obligations	**(3,690)**	(4,844)
Fair value of scheme assets	**4,102**	5,508
Present value of unfunded obligations	**(1)**	—
Net pension defined benefit asset	**411**	664
Changes in the present value of defined benefit obligations		
Opening defined benefit obligations	**(4,844)**	(5,090)
Current service cost	**(5)**	(9)
Interest cost	**(113)**	(24)
Actuarial losses – experience	**(92)**	(181)
Actuarial gains/(losses) – demographic assumptions	**47**	14
Actuarial gains/(losses) – financial assumptions	**1,020**	191
Past service cost – redundancies	**—**	(2)
Past service cost – augmentations	**(3)**	—
Net obligations distributed on Settlement	**49**	—
Special termination benefit cost – redundancies	**—**	(4)
Benefits paid	**250**	261
Closing defined benefit obligations	**(3,690)**	(4,844)
Changes in the fair value of scheme assets		
Opening fair value of scheme assets	**5,508**	5,446
Interest income	**129**	26
Return on assets greater than assumed	**(1,220)**	285
Administration costs	**(3)**	(4)
Employer contributions	**14**	16
Benefits paid	**(250)**	(261)
Net Assets distributed on settlement	**(76)**	—
Closing fair value of scheme assets	**4,102**	5,508

17. Provisions for liabilities

	Decommissioning £m	Environmental £m	Restructuring £m	Deferred taxation £m	Other £m	Total £m
At 1 April 2021	**60**	**12**	**1**	**512**	**31**	**616**
Additions	—	—	3	169	2	174
Transferred to reserves	—	—	1	92	—	93
Utilised	(21)	—	(2)	—	(4)	(27)
Unused amounts reversed[1]	—	(2)	—	—	(2)	(4)
Unwinding of discount	1	—	—	—	—	1
Other Movements	—	—	—	—	(7)	(7)
At 31 March 2022	**40**	**10**	**3**	**773**	**20**	**846**
Additions	—	—	—	36	6	42
Transferred to reserves	—	—	—	(58)	—	(58)
Unused amounts reversed	—	—	—	—	(1)	(1)
Utilised	(10)	—	(1)	—	(6)	(16)
Other movements	(15)	—	(2)	—	—	(17)
At 31 March 2023	**15**	**10**	**—**	**751**	**19**	**796**

Decommissioning provision

The decommissioning provision represents expenditure relating to the demolition of gas-holders expected to be incurred until 2026.

Following the sale of the Gas Distribution business in 2016, the company sold 78 surplus land sites to a number of fellow National Grid Group undertakings and a legal agreement was entered into with these NGT companies to demolish the non-operational gas holders on these sites, creating a constructive obligation for the Company.

The undiscounted provision based on 0.5% real discount rate was £15 million (2022: £60 million). In year movements included £15 million due to the sale of interest in the JV with the Berkeley Group (relating to St William), where 15 sites were sold and obligation held for these sites released. The remaining £10 million relates to utilisation.

Environmental provision

The environmental provision represents the estimated restoration and remediation costs relating to operational sites owned by the Company. Cash flows are expected to be incurred until 2075, with £2 million expected to be incurred in the next 10 years.

A number of estimation uncertainties affect the calculation of the provision, including the impact of regulation, the accuracy of site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and changes in the real discount rate. This provision incorporates our best estimate of the financial effect of these uncertainties, but future changes in any of the assumptions could materially impact the calculation of the provision. The undiscounted amount is the undiscounted best estimate of the liability having regard to these uncertainties.

The undiscounted provision based on 0.5% real discount rate was £10 million (2022: £13 million).

Restructuring provision

In 2023, there was no increase in the provision (2022: £3 million). The income statement expense relating to the provision has been treated as an exceptional item, and details are provided in note 5 of the consolidated accounts.

Deferred tax

Deferred taxation comprises:

	2023 £m	2022 £m
Accelerated capital allowances	**651**	613
Other timing differences	**100**	160
	751	773

Other provisions

Other provisions at 31 March 2023 include £10 million (2022: £10 million) in respect of legacy provisions recognised following the sale of the Gas Distribution (GD) business (timing of settlement of tax due to HMRC is still on-going).

18. Share capital

	Number of shares 2023 millions	Number of shares 2022 millions	2023 £m	2022 £m
At 31 March – ordinary shares 1.13p each				
Allotted, called-up and fully paid	3,944	3,944	45	45

19. Other equity reserves

	Capital Redemption £m	Own credit £m	Cash flow hedge £m	Cost of hedging £m	Total £m
At 31 March 2022	1,332	—	(4)	(3)	1,325
Transferred to reserves	—	—	4	5	9
Tax	—	—	(1)	(1)	(2)
At 31 March 2023	**1,332**	**—**	**(1)**	**1**	**1,332**

Other reserves comprise the capital reserve, own credit reserve and the cost of hedging reserve. The capital redemption reserve arising from the refinancing and restructuring of the Lattice Group in 1999 represents the amount of the reduction in the share capital of the Company as a consequence of that restructuring.

As the amounts included in other reserves are not attributable to any of the other classes of equity presented, they have been disclosed as a separate classification of equity.

20. Capital and other commitments

Commitments are those amounts that we are contractually required to pay in the future as long as the other party meets its obligations. These commitments primarily relate to energy purchase agreements and contracts for the purchase of assets which, in many cases, extend over a long period of time. Commitments previously included operating lease commitments but on transition to IFRS 16, which was effective from 1 April 2019, substantially all lease commitments are included on the balance sheet as right-of-use assets (see note 6) and lease liabilities (see note 15). Therefore, only low-value leases and short-term leases are off-balance sheet commitments, both of which are immaterial. We also disclose any contingencies, which include guarantees that companies have given, where we pledge assets against current obligations that will remain for a specific period.

(a) Future capital expenditure

	2023 £m	2022 £m
Contracted for but not provided	160	200

(b) Operating lease commitments

The Company had no future lease payments under non-cancellable operating leases in the current or prior financial years.

21. Contingent liabilities

(a) Other commitments, contingencies and guarantees

The value of other commitments and guarantees at 31 March 2023 amounted to £52 million (2022: £52 million), including energy purchase commitments amounting to £27 million (2022: £27 million). Energy purchase commitments relate to contractual commitments to purchase electricity or gas that are used to satisfy physical delivery requirements to our customers or for energy that we use ourselves (i.e. normal purchase, sale or usage) and hence are accounted for as ordinary purchase contracts.

Security arrangements in favour of NGUKPS Trustees are disclosed separately in note 22 to the consolidated financial statements.

(b) Litigation and claims

Through the ordinary course of our operations, we are party to various litigation, claims and investigations. We do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on our results of operations, cash flows or financial position and claims.

22. Related parties

The following transactions are with joint ventures and a former subsidiary of the Company which are not wholly owned by GasT TopCo Limited and are in the normal course of business. Other related party transactions are not disclosed in accordance with the exemptions available under FRS 101.

	2023 £m	2022 £m
Goods and services supplied	—	12
Services received	30	15
Amounts receivable at 31 March	1	11
Amounts payable at 31 March	60	83

Amounts payable or receivable are ordinarily settled one month in arrears. No amounts have been provided at 31 March 2023 (2022: £nil) and no expense has been recognised during the year (2022: £nil) in respect of bad or doubtful debts from the above related party transactions.

Glossary and definitions

References to the 'Company', 'we', 'our', and 'us', refer to National Gas Transmission plc itself or to National Gas Transmission plc and its subsidiaries collectively, depending on context.

EU	European Union
FRS	UK Financial Reporting Standard
GAAP	Generally accepted accounting principles
GDNs	The four gas distribution networks which serve consumers at household and business level, these being Cadent, Northern Gas Networks, SGN and Wales & West Utilities
GHG	Greenhouse Gas
GW	Gigawatt, 10^9 watts
GWh	Gigawatt hours
HSE	Health and Safety Executive
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Standard Interpretations Committee
IFRS	International Financial Reporting Standard
KPI	Key Performance Indicators
LNG	Liquefied natural gas
Lost time injury (LTI)	A work-related injury which causes a person to be away from work for at least one normal shift after the shift on which the injury occurs, because the person is unfit to perform his or her duties
National Gas Transmission	The Group consists of; National Gas Metering Limited, National Gas Transmission plc, National Gas Transmission Holdings Limited, PledgeCo, MidCo and GasT TopCo Limited, (ultimate parent Company),
NTS	National Transmission System
Ofgem	The Office of Gas and Electricity Markets which regulates the energy markets in the UK.
Other regulated assets	Other regulated assets relates to regulatory revenue timing differences. These are costs that are either due to NGT or owed to Ofgem and arise due to timing (for example shrinkage, under or over recovery and passthrough costs). Regulatory Revenue differences arise from the difference between allowed revenue and collected revenue, pass through costs allowances and actual pass through costs, incentives allowances and incentives earned and CPIH indexation forecast in our allowed revenue versus actual indexation in year. These amounts are then trued up between NGT and the Regulator.
PCD	Price Control Deliverable – a set of regulatory outputs defined by the energy regulator Ofgem
Regulated controllable operating costs	Total operating costs under IFRS less depreciation and certain regulatory costs where, under our regulatory agreements, mechanism are in place to recover such costs in current or future periods
Regulatory asset value (RAV)	The RAV is a regulatory construct that reflects a company's historical investment, adjusted for inflation (currently CPIH). The RAV is calculated by summing an estimate of the initial market value of each company's regulated asset base at privatisation and all subsequent allowed additions to it at historical cost and deducting annual depreciation amounts.
RIIO	Revenue = Incentives + Innovation + Outputs, the regulatory framework for energy networks issued by Ofgem which started on 1 April 2021.
RoE (Return on Equity)	A performance metric measuring returns from the investment of shareholders' funds. It is a financial ratio of a measure of earnings divided by an equity base. UK regulated return on equity is a measure of how a business is performing operationally against the assumptions used by Ofgem. These returns are calculated using the assumption that the businesses are financed in line with the regulatory adjudicated capital structure, at the assumed cost of debt and that UK taxation paid is at the level assumed by Ofgem.
RPI	UK Retail Prices Index
STEM	Science, Technology, Engineering & Mathematics
tonnes CO_2 equivalent	Measure of greenhouse gas emissions in relation to the impact of carbon dioxide
TW	Terawatt, 10^{12} watts
TWh	Terawatt hours

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