Securing Britain's Energy.

National Gas Transmission plc
Annual Report and Accounts
2023/24

Company number
02006000

Welcome to our Annual Report and Accounts

Strategic report

Corporate governance

Financial statements

Other information

About this report
This report has been produced in landscape format to optimise the reading experience online. The information contained in this report is relevant for the Company's reporting period which is from 1 April 2023 to 31 March 2024.

www.nationalgas.com/ngt-annual-report-2024

See National Gas Annual Report →

The National Gas app
Our app provides near real-time insight into Britain's gas network. Scan the QR to download the app on iOS and Android devices.

iOS

Android

Highlights at a glance

Business highlights

5.5%
Mean gender pay gap, lower than UK average of 14.9%

6m
Number of gas meters managed by National Gas Metering

0.01
Industry-leading lost time injury frequency rate per 100,000 hours

100%
Reliability of our network during the year

33.1%
UK annual electricity generated from gas

~3x
NTS annually delivers up to three times the energy transported by the electricity grid

99%
Percentage of gas used in Great Britain that goes through the NTS

£9.52
Annual impact on the consumer bill*

Financial performance

£1,778m
Revenue

£853m
Operating profit

£7,304m
Regulated Asset Value (RAV)

£479m
Capital investment

Financial information

Financial information	2024 £m	2023 £m
Revenue	**1,778**	1,918
Operating profit before exceptional items	**895**	619
Exceptional items	**(42)**	(42)
Total operating profit	**853**	577
Profit before tax	**839**	354
Cash generated from operations	**1,188**	825
Capital expenditure	**479**	382
Regulated asset value	**7,304**	7,075

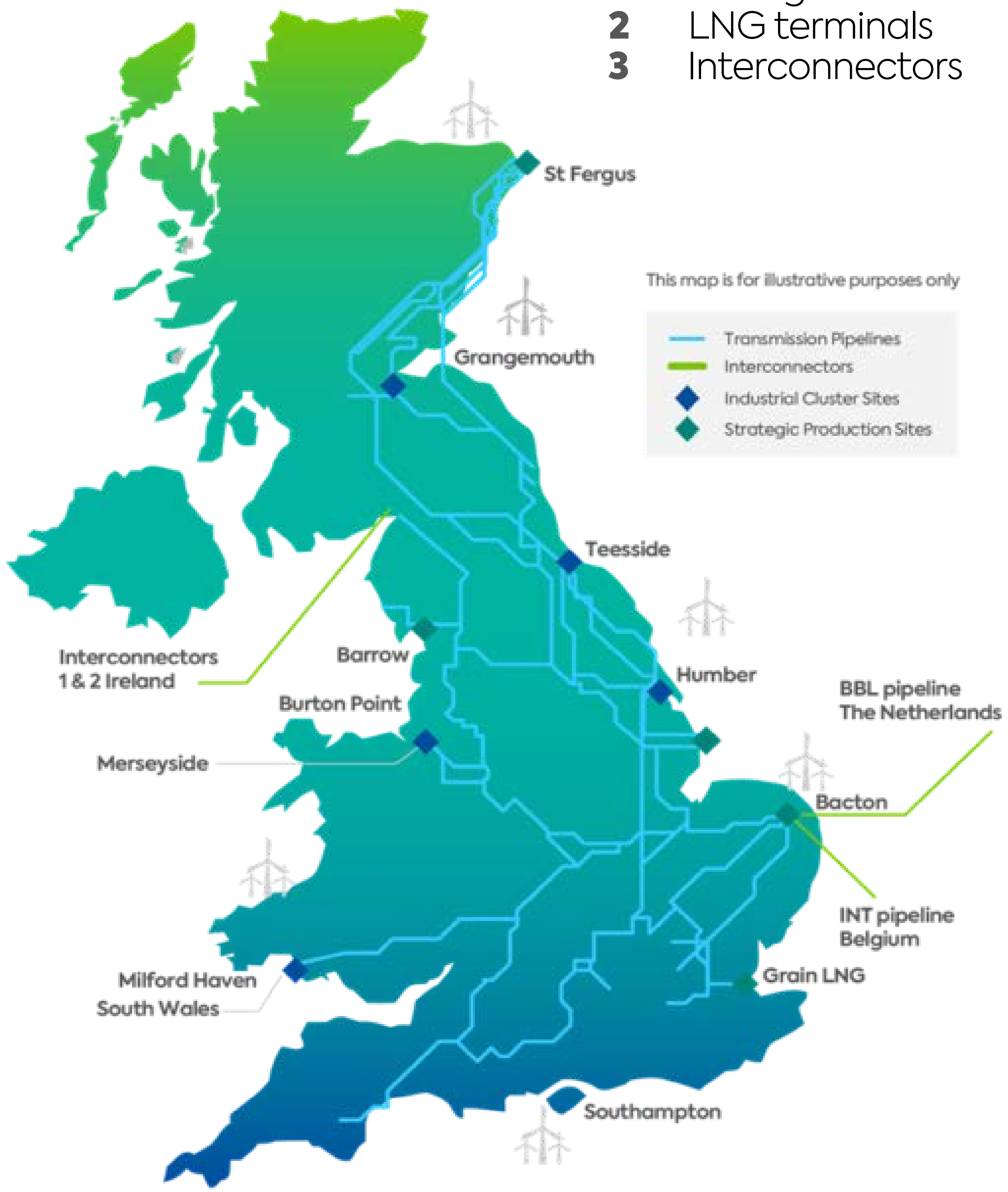
*In line with the Ofgem methodology for calculating network costs.

National Transmission System (NTS)

Read more: Our business at a glance →

We operate the NTS which connects:

- **129** Distribution offtakes
- **15** Industrial users
- **35** Power stations
- **9** Storage sites
- **2** LNG terminals
- **3** Interconnectors



Securing energy to power Britain, achieve net zero and maintain industrial competitiveness.

Strategic report

Our business at a glance

National Gas is responsible for transporting gas to more than half a million businesses and 23 million homes through nearly 5,000 miles of pipes across Britain. We are the national gas network, providing secure energy to power Britain, achieve net zero and maintain our industrial competitiveness.

The gas transported in our pipelines plays a critical role in meeting Britain's energy needs

Our organisation comprises three businesses:

1

National Gas Transmission owns and operates the high-pressure national gas network (National Transmission System, or the NTS) that transports gas safely and reliably to wherever it's needed in Britain.

2

National Gas Metering manages and maintains millions of gas meters throughout Great Britain.

3

National Gas Services provides nationally important pipeline repair and maintenance services to ensure the gas keeps flowing.

Together, our track record of innovation combined with our expertise in operating critical energy infrastructure means we are playing a key role in the UK's transition to a clean energy future.

Gas provides the energy security to support renewable electricity generation, and we are looking to develop our infrastructure to transport hydrogen and carbon dioxide across the country.

Read more: Gas energy landscape →

national gas transmission

National Gas Transmission
Owns, operates and maintains the gas National Transmission System (NTS), comprising almost 5,000 miles of high-pressure pipelines and associated assets. The NTS transports natural gas to power stations and major industries, storage facilities, interconnectors, and to the Gas Distribution Networks (GDNs) that take gas into homes and businesses. Our NTS is the motorway network for gas, transporting energy safely and reliably to every part of the country – every minute of every day.

c.5,000 miles
The NTS comprises almost 5,000 miles of pipeline

national gas metering

National Gas Metering
Maintains and oversees millions of metering assets across Great Britain. From connection and installation to ongoing management and maintenance, our accredited engineers ensure the safe, reliable, precise operation of diverse and often complex metering equipment used by homes and businesses.

6 million
We manage and maintain around 6 million metering installations

national gas services

National Gas Services
The UK's trusted authority in pipeline repair, maintenance and intervention. Our specialists carry out planned and emergency pipeline inspection, repair and maintenance work across the gas network. Our vital work keeps all of the UK's gas networks safe and keeps gas flowing securely and reliably to every part of the country.

24/7
We provide a 24/7 emergency response service

Our business at a glance

Continued

Key facts:

>1,800
employees

c.5,000
miles of pipeline

>60
compressors across 21 compressor sites

>500
above-ground installations

Customers directly connected to the NTS:

2
LNG terminals

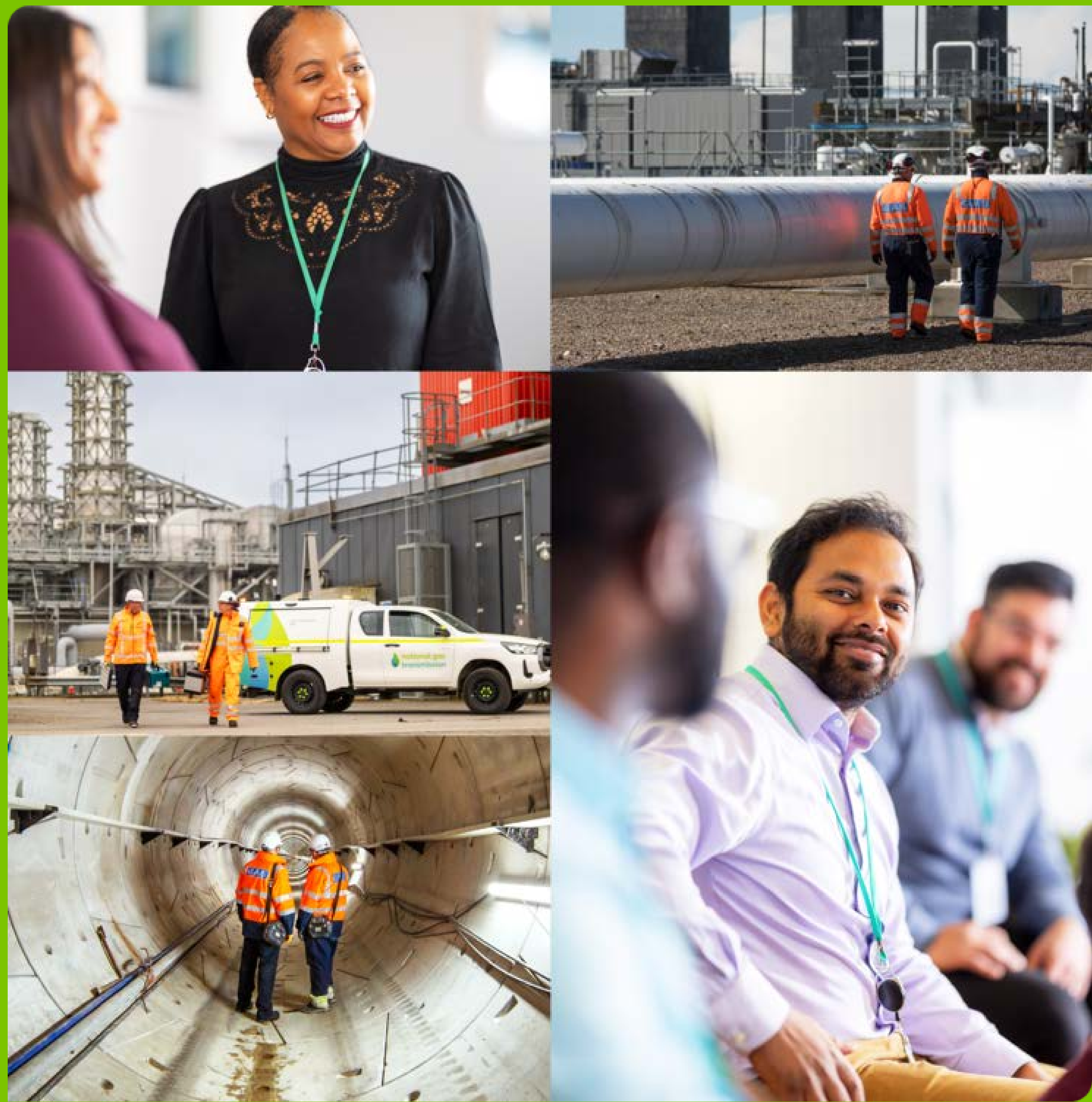
3
interconnectors
(connecting with Belgium, the Netherlands and Ireland)

129
distribution offtakes

35
power stations

15
industrial users

9
storage sites



Chair's message

Throughout our reporting year, National Gas continued to play its 'hidden hero' role, keeping people warm and the lights on. Gas transported by our National Transmission System continued to power industry, generate around a third of Britain's electricity and contribute significantly to energy security.

Following my first full year as Chair, I would like to recognise the invaluable contribution made by my colleagues across National Gas as we look to achieve even greater success in the future.

Dr Phil Nolan
Chair

£479m

Our capital investment during the year totalled £479 million, up £97 million on 2022/23

Welcome to our Annual Report and Accounts for 2023/24, the first full year for National Gas as a stand-alone business. This has been an exciting time for us, as we continue our critical role of providing secure energy to power Britain, achieve net zero and maintain our country's industrial competitiveness. My heartfelt thanks are due to the National Gas Executive team and to National Gas employees, our supply chain partners and the wider industry for making this year such a successful period.

Financial results

Our financial performance in 2023/24 included profit before tax of £839 million (£892 million before exceptional and remeasurements) compared with £354 million in 2022/23 (£392 million before exceptional and remeasurements). Higher profit before tax was primarily due to the recovery of prior year gas shrinkage costs (refer to the Financial Review section for further details). We made a return on equity (RoE) of 8.5%, which was 1.1% higher compared with the result achieved in 2022/23. Our capital investment during the year totalled £479 million, up £97 million on 2022/23.

Detailed planning is already underway for our submission to Ofgem later this year as part of the RIIO-GT3 price control period, which will be effective from 2026-2031.

Progress has continued in the transfer of ownership from National Grid plc to the consortium comprising Macquarie Asset Management and British Columbia Investment Management Corporation. Following the acquisition of a 60% equity stake in the business by the consortium on 31 January 2023, the consortium acquired a further 20% during 2023/24. The consortium has now entered into a new option agreement with National Grid for the potential acquisition of the remaining 20% shareholding in the National Gas group.

Safety performance

We care deeply about the health, safety and wellbeing of our workforce, our supply chain partners and the public. In delivering our capital programme and our substantial maintenance programme, it is paramount that we stay safe. In 2023/24, against our safety performance indicator of lost-time incidents per 100,000 hours, we improved our industry-leading performance by achieving a rate of 0.01. We remain relentless in looking for new ways of ensuring that we sustain this level of safety performance.

Environmental, social and governance

We have retained and pursued our goal to promote sustainable, inclusive growth for our customers, employees and society as a whole. Our dedication to the environment and the communities in which we operate is central to our business strategy.

We are proud to integrate environmental sustainability into our activities wherever we can, whether it is by reducing emissions from our network or seeking ways to deliver improvements for our local communities. We believe such work strengthens our business and creates long-term value for our customers. In addition, we have increased our focus on social partnerships, alongside a growing employee volunteering programme.

National Gas also has ambitious plans to deliver a core hydrogen network, taking hydrogen to where it needs to be across the whole of Great Britain. It's great to see the Climate Change Committee and National Infrastructure Commission backing hydrogen transportation infrastructure. This will be critical for protecting the future competitiveness of British industry, and the jobs that rely on it. . We achieved a major milestone in March 2024 as we flowed 100% hydrogen for the first time into our FutureGrid test facility in Cumbria. This followed Ofgem approval last May for the initial phase of our wider hydrogen backbone for Britain, supporting further feasibility work on our proposed 1,500-mile hydrogen transmission network.

Our proposed SCO_2T Connect project would be Scotland's first CO_2 onshore transportation network, and is a crucial component in achieving the UK Government's vision for a new, competitive carbon capture and storage (CCS) market in the UK by 2035.

People and culture

At National Gas, we are passionate about ensuring everyone feels a sense of belonging, in a workplace where diversity and inclusion are celebrated in meaningful and substantial ways. At the end of 2023/24, we set up a new Belonging Hub, a 'one-stop-shop' for all diversity, equity and inclusion (DEI) resources.

We want our workforce to represent the communities we serve, for everyone to feel valued and included, and to have the opportunities they need to thrive. Not only is this good for our people, our customers and our success as an organisation, it also helps us to attract and retain the best talent in our industry.

Outlook

As we move into the next fiscal year, we will continue to harness the collective strength of our people, specialised operations and innovation. We believe the business is well positioned to deliver its objectives over the coming year, and a number of exciting developments lie ahead, maintaining and improving our network to make it cleaner and even more secure.

We will continue to deliver our regulated capital programme, maintaining energy security for our customers and investing more than £2billion directly into the UK's economy; and we will work closely with Ofgem on our RIIO-GT3 submission, as the regulator starts to assess business plans for the next price control period.

Gas will continue to play a vital role in Britain's energy system for decades to come, as a crucial component in a diverse and secure energy supply. We look forward to welcoming and working with the National Energy System Operator (NESO) when it comes into being later this year. We have contributed to its formation over the past year by dedicating people and time from our business to help ensure the appropriate level of gas system expertise and knowledge in the new organisation.

We are passionate that everyone feels a sense of belonging in a workplace where diversity and inclusion are celebrated

CEO's review

The past financial year saw us continue to safeguard Britain's energy security as the world adjusted to new global gas supply patterns. Looking to the future, we flowed 100% hydrogen for the first time through our FutureGrid test facility in Cumbria – a vital first step in creating a core hydrogen network to take this clean gas across Britain.

Throughout the past year, I have been impressed yet again by the passion, innovation, teamwork and sense of ownership amongst our people, contributing towards energy security now and in the future. And so it is with a feeling of great pride that I thank my colleagues across National Gas for embracing so many changes and yet continuing to provide a sterling service in such a challenging year.

Jon Butterworth
Chief Executive Officer

We have made substantial progress in our first full year as a stand-alone company, with the focus fully on our five strategic priorities:

1

Operate safely, reliably and flexibly: doing the job we're here to do, running our networks and businesses to the highest standards, never compromising on the safety of our people or customers.

2

Deliver sustainable value for customers and stakeholders: listening and responding to customers, to make sure we deliver what they need in a commercial environment.

3

Drive positive environmental and community impact: thinking about our surroundings and the wider environment, we need to think green when maintaining, improving, decommissioning or buying in assets.

4

Invest in our people, grow our capability and value everyone's contribution: we're nowhere without our teams, and our business can only be as good as our people.

5

Shape the gas market of the future: we're at the centre of the gas market of the future, working to decarbonise and secure energy supply, and leading the hydrogen and carbon capture and storage (CCS) transition for gas networks.

We continue to make progress across all five areas, and these will be covered in detail in the first half of our report.

Recognition of our important role in securing Britain's energy came in November when Prime Minister, Rishi Sunak, visited our gas terminal in Bacton

Highlights of 2023/24

Most of the year was again characterised by a strong focus on enabling energy security and facilitating continued exports to continental Europe. There were hints of greater stability in the energy market through the winter, as price differentials narrowed and forward price curves reduced. Nevertheless, we know how quickly that can change. We continue to monitor the market closely for any developments that may impact our activities, such as the government's recommitment to gas-fired power stations – recognising their continued role in the security of power supply to complement the growth of renewables.

Recognition of our important role in securing Britain's energy came in November when Prime Minister, Rishi Sunak, visited our gas terminal in Bacton, which facilitates interconnection with the Belgian and Dutch energy systems. The Prime Minister came away describing Bacton as "the hidden hero of our energy sector" – a testament to the endeavour of our Operations teams across the country.

There is no room for complacency, however. Factors beyond our control, such as the weather, global market developments and the wholesale cost of gas, will all influence the prevailing gas supply and demand situation in Britain. We always remain prepared to respond.

Our engineers have also focused heavily on the resilience of each part of our network. In the summer, when we see relatively low gas demand, our dedicated field teams carried out the largest transmission maintenance programme in the current regulatory period on the National Transmission System (NTS). We allowed greater access to the network throughout the summer, which enabled us to carry out 23 network isolations and three pressure restrictions to make various improvements to asset health. We also carried out 18 station outages to help improve our asset reliability and commissioned new compression units at Peterborough and Huntingdon.

Within National Gas Transmission is a critical and highly specialised division that prepares and maintains the high-pressure pipelines across the United Kingdom. It was a pleasure in June 2023 to launch our third critical business within National Gas, when we rebranded the former Pipelines Maintenance Centre as National Gas Services. The rebrand marks far more than a change of name, and signals the beginning of a strategy that will enable National Gas Services to develop its position as a world leader in high-end technical pipelines.

We are active across the UK with ambitious plans to re-purpose a pipeline for the Scottish Cluster and hydrogen innovation activities across the country. As we get ready for hydrogen, whilst equally securing Britain's energy today, we are committed to both retraining existing skills and creating exciting opportunities to build new skills and employment across our industry.

However, we can't do all of this on our own. We have worked with our supply chain this year to deliver energy security and resilience of the network. Our supply chain partners are critical to our success and we are working to put our suppliers right at the heart of our business.

We also continue to work closely with international partners to enable energy security and efficient cross-border trade. We participated in the Ostend declaration at the North Sea Summit between the nine Transmission and System Operators in north-west European countries, attended by the then DESNZ Secretary of State, Grant Shapps, and his EU counterparts. One result of implementation could be enabling interoperability between the developing hydrogen networks on each side of the North Sea, something which we committed to publicly in December when we signed a Memorandum of Understanding with Fluxys, our counterparts in Belgium.

CEO's review

Continued

Transforming our energy future

We are proud of the role we play in securing Britain's energy. We recognise, though, that things cannot continue exactly as they have done before. To ensure the resilience of energy to British heavy industry and protect tens of thousands of jobs, we must play our part in achieving net zero to ensure we keep the lights on.

That's why, as well as providing critical energy security through natural gas now, National Gas has ambitious plans to deliver a core hydrogen network across Britain. This would effectively act as a 'hydrogen motorway', taking hydrogen to where it needs to be, across the whole of Great Britain, ensuring that all parts of the country can directly benefit from the hydrogen economy.

We've made excellent progress in this area. In May, Ofgem approved funding for feasibility work on our hydrogen backbone for Britain. This will support further work through 2024/25 on our proposed 1,500-mile hydrogen transmission network. The decision was just reward for the expertise and persistence of our Innovation teams, who have worked relentlessly to prove the need for, and benefits of, the project.

We reached perhaps the largest milestone of the year for our hydrogen programme in March 2024, when for the first time we were able to introduce a 100% hydrogen flow into our FutureGrid test facility. This followed the programme receiving a 2023 Project of the Year award at the Gas Industry Awards. In the same month, Ofgem awarded us funding from the Strategic Innovation Fund for five of the seven innovation projects we submitted.

We ensured a strong future-facing presence at both the Conservative and Labour political party conferences in October, and co-hosted an exhibition stand on our hydrogen future. Later that month, we welcomed the National Infrastructure Commission's (NIC) recommendation to create core pipeline networks for hydrogen and carbon dioxide across Great Britain. Whilst at the time of writing, we anticipate a general election to be called by January 2025, we expect the government – or an incoming government – to respond to the NIC's recommendations.

Our colleagues in National Gas Metering (NGM) are also extending our expertise beyond natural gas metering into hydrogen, and aim to support any business wanting to make the transition. Customers will need safe and highly accurate metering equipment when they come to connect, and the Metering team is ready to help Britain's businesses and industry make the change to hydrogen.

Jon Butterworth pictured with Pascal De Buck (CEO of Fluxys) at the UK Embassy in Brussels to mark the collaboration between National Gas and Fluxys to decarbonise the gas infrastructure

During the year, our Metering business once again achieved accreditation as a 'Great Place to Work' from the leading authority on workplace culture, following an independent survey of colleagues. NGM is also ranked in the top ten among medium-sized organisations in the UK as a great place to work for women. Both accolades were much-deserved recognition for the hard work the business has put in to creating an ethos of trust, care and agility which guides everything it does.

Our Gas System Operations (GSO) teams have provided substantial resources to support the creation of the National Energy Systems Operator (NESO), which is expected to launch in 2024, and aims to deliver its first 'whole energy system transmission network plan' by the end of 2026. We will continue to support NESO as it develops its capability in gas.

As we deliver our programme in 2024/25, we continue to progress on both our energy present and energy future. We remain committed to our work to improve Britain's energy resilience; we continue to develop our hydrogen programme, including FutureGrid and Project Union, and the government continues to support the need for an integrated core hydrogen network.

Over the year ahead, we will continue to do what we do best – providing secure energy to power Britain, achieve net zero and maintain our industrial competitiveness.

1,500-mile

Ofgem approved feasibility work on our 1,500-mile core hydrogen network, called Project Union

100% hydrogen

flow at FutureGrid – a vital first step in creating a core hydrogen network

Our business model

National Gas is here to provide secure energy to power Britain, achieve net zero and maintain our country's industrial competitiveness. Our vision is Securing Britain's Energy and we are guided in our pursuit of this by our purpose – leading a clean energy future for everyone.

Driven by consumer priorities, we aim to continue ensuring a safe and reliable gas network throughout the net zero transition

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 and carbon capture and storage (CCS) networks and will continue to grow our business in areas where we can leverage our unique skills and expertise .

Our purpose, values and priorities

Consumer priorities
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 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.

How we are regulated

We are regulated by both financial and non-financial regulators, and remain committed to the most collaborative relationships to ensure the cost-effective and environmentally responsible operation and impact of our business.

During the regulatory review process our spending plans are scrutinised and benchmarked to ensure allowances are efficient and competitively costed

The economic regulatory regime, overseen by Ofgem, applies to all aspects of our National Gas Transmission business (NGT). Whilst this page refers explicitly to our economic regulatory framework, we also collaborate closely with our wider regulatory stakeholders, including the Health and Safety Executive, the Environment Agency, the Scotland's Environmental Protection Agency (SEPA) and Natural Resources Wales.

Our statutory powers and obligations

Our licence to participate in gas transmission activities is established under the Gas Act 1986, as amended. This requires us to develop, maintain and operate economic and efficient networks and to facilitate competition in the supply of gas in Britain. The licence also gives us statutory powers, including the right to bury our pipes under public highways and the ability to use compulsory powers to purchase land so that we can conduct our business.

As the owner of the national gas transmission network in Great Britain, we're classed as a 'natural monopoly'. The purpose of the regulatory regime is to simulate the effects of competition, so that we deliver outcomes that are in the interests of both current and future energy consumers. For example, Ofgem sets price controls that limit the amount we can earn from charges for the use of our network. Price controls balance the relationship between investment in the network, allowing us to earn fair returns that properly reflect the risks faced in the prevailing financial market conditions and ensuring that the amount that can be charged for operating our network represents value for consumers.

Ofgem regulatory framework: RIIO

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 for the five-year period.

During the regulatory review process our spending plans are scrutinised and benchmarked to ensure allowances are efficient and competitively costed. Further, the regulatory regime comprises 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).

The transmission regulatory framework is called RIIO (Revenue = Incentives + Innovation + Outputs)

Capex allowances

We have a good relationship with Ofgem, with constructive engagement ahead of the regulator's RIIO-GT3 decisions, that will deliver significantly more capital investment annually than the previous regulatory period which ran from 2013 to 2021.

Annual totex allowances (including Uncertainty Mechanism (UM totex)) are expected to increase from £360 million in RIIO-T1 to c. £540 million in RIIO-T2 (2018/19 prices), driven by increased investment in asset maintenance, compressor replacement and cyber-security obligations.

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, efficiently and in a cost effective manner.
National and regional government	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 it's needed. Whilst not directly interacting with consumers we ensure we focus on what's important to consumers through research and engaging with 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.

Read more: Operating in a regulated environment →

Strategic priorities

National Gas comprises three businesses: National Gas Transmission (NGT), National Gas Metering (NGM) and National Gas Services (NGS). The following page presents our performance for the National Gas business as a whole, followed by a focus on NGM and NGS.

As hydrogen has the potential to play a larger part in our energy mix, the contribution of the gas sector to our wider economy will remain key

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

- Providing a critical part of Britain's energy needs today;
- Playing a leading role in the UK's journey to a clean energy future, to support the UK government's net zero goals; 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 National Transmission System (NTS) that we are able to move gas to where it is needed in an affordable and efficient manner. Security of energy supply is something many of us take for granted, but delivering it is a responsibility we take incredibly seriously.

At the same time, we are looking to the future by developing the hydrogen and carbon dioxide transportation networks of tomorrow. We are using our unique expertise to develop a core network to deliver hydrogen across the country, to power stations, major industrial businesses that cannot otherwise decarbonise their operations, and to long duration energy storage. With carbon dioxide transportation, we can support the transition to hydrogen, and provide decarbonisation pathways for existing gas-powered generation and industry through Carbon Capture and Storage (CCS). By using our existing infrastructure and expertise, we are proud to play a leadership role in delivering energy security for the future and supporting the UK's net zero ambitions.

Providing the energy needed by businesses and homes is not the only way we are delivering for Britain. Our NTS for gas powers jobs and fuels growth – both directly and through our extensive supply chain. The UK employs more than 200,000 people in the oil and gas sector, and millions more jobs are supported by the half a million businesses throughout the country that use gas. Many of these jobs are highly skilled and provide individuals and families across the country with financial security.

As hydrogen and CCS become 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 play a crucial role in enabling the growth of UK industry and its ability to remain competitive in the face of global headwinds. By operating at scale and lowering barriers to access, our core hydrogen network will become a vital enabler of the UK's future industrial and economic competitiveness.

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 GB energy consumers, to understand their priorities and what they want from our network. We have five strategic business priorities – the areas we will focus our efforts on 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 businesses 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.

Performance overview

National Gas, including National Gas Transmission

Our achievements in 2023/24 aligned to our Priorities

Our priorities	Achievements
Operate safely, reliably and flexibly	• Over the year, our customers, and therefore Britain's energy consumers, experienced zero supply interruptions, meaning that we continued to keep industry fuelled, homes warm and the lights shining. There was 100% reliability of our network, which was the same as 2022/23. • In April 2023, we published our Summer Outlook. This set out an asset maintenance programme, which was the most extensive we had ever undertaken. Through careful phasing of maintenance work to minimise the impacts on network resilience and maintain operational flexibility, we delivered pipeline intervention activities with zero days of change to the agreed plan on customer-impacting outages. • Alongside senior leaders from Ofgem, the Department for Energy Security and Net Zero (DESNZ) and the Electricity System Operator, we held a successful Resilience Summit in May 2023. This summit resulted in the agreement of several recommendations, all aimed at ensuring the resilience of the National Transmission System as the backbone of the British energy system. • In September 2023, we published our Winter Outlook. Our preparations for winter helped to ensure strong asset performance, with 94.6% availability of seasonal critical compressors vs 92% in 2022/23. • In October 2023, we successfully delivered our annual network emergency exercise 'Exercise Everest'. The exercise, in which more than 400 industry participants across 50 organisations took part, demonstrated that the gas industry is prepared and able to meet its obligations in the event of a Network Gas Supply Emergency. • We submitted our self-attestation for compliance with the Cyber Assessment Framework Basic Profile in December 2023. Alongside this, we have continued to contribute to cross-government initiatives aimed at safeguarding the industry from cyber and security threats. • Throughout the year, we worked hard to keep our people, and the communities we serve, safe from harm.. Our Lost Time Injury Frequency Rate (LTIFR) per 100,000 hours was 0.01 in 2023/24 compared to 0.03 in 2022/23.
Deliver sustainable value for our customers and shareholders	• We managed the gas transmission system efficiently to minimise constraints, maximising capacity releases on the system and saving money for our direct customers and consumers more broadly. Our customers experienced zero unplanned outages and therefore no interruption to their gas supply. • During 2023/24, we provided accurate demand forecasts, helping our customers make informed decisions. This year, there was a 7.87mcm/d difference in our forecast accuracy versus the daily demand, compared to 8.97mcm/d in 2022/23. • We worked to make sure our customers can rely on us to provide a balanced gas system, matching supply and demand to deliver maximum value for consumers. In 2023/24, ~1.6 million cubic metres of gas was required each day to balance the system, compared to 2 million cubic metres in 2022/23. • We continued to keep our annual impact on consumer bills low, being around £9.50 per year for the year ending March 2024. • Throughout the year, we maintained our focus on delivering for our customers, which continues to pay off. Our Customer Satisfaction Score was 8.56 (79 responses) for 2023/24 vs 8.6 (113 responses) in 2022/23 and our Stakeholder Satisfaction Score was 8.75 (40 responses) in 2023/24 compared to 8.69 (84 responses) in 2022/23. This resulted in a capacity constraint management incentive performance of £4.49m in 2023/24 compared to £4.8m in 2022/23. • During 2023/24, we continued to make progress in delivering the commitments and outputs agreed with Ofgem in this price-control period. These include investments 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 (PCD) and is monitored by Ofgem over the course of the price control period. • In July 2023, we submitted our second Regulatory Reporting Pack of the RIIO-T2 price control period to Ofgem. This report focused on what we have delivered against our allowances in 2022/23 and provided context for our performance during that year.
Shape the energy markets of the future	• We continue to build critical knowledge and evidence to support the transition to net zero. Our innovation programme has continued to grow, securing significant funding to enable the energy transition: – 26 Strategic Innovation Fund (SIF) projects led, of a total project cost of £62m and SIF funding awarded of £48m. – 21 Strategic Innovation Fund projects supported, with £62k Strategic Innovation funding awarded to NGT. – 72 Network Innovation Allowance projects, with £34m funding awarded. – One NIC funded project of £12.7m funding awarded. – 19 net zero Use-It-Or-Lose-It (UIOLI) Pre-Reopener Funds, totalling £4.3m. – 23 projects from other global funding partners, totalling £3.9m. • We continue to demonstrate significant investment in the future of our network and the role it can play now and in the future. Over the course of 2023/24, HyNTS FutureGrid – our bespoke test facility constructed from decommissioned assets – has enabled us to undertake a wide range of hydrogen testing. This testing is critical to our understanding of working with hydrogen and will enable us to develop processes and procedures to allow us to run a safe and reliable national hydrogen network in the future. In 2023/24, we completed Phase 1 of FutureGrid which saw us undertake and complete testing of up to 100% hydrogen. • Over 2023/24, we continued to shape Project Union – our project to connect hydrogen production, storage and demand centres, to enable a hydrogen economy in the UK. Using the learning from FutureGrid, we plan to use existing pipelines to create a low-cost hydrogen 'backbone' by the early 2030s and connect to the proposed European hydrogen backbone. • We also continued to work closely with DESNZ to develop the Hydrogen Transportation Business Model (HTBM), helping to shape the regulatory model at each stage of its development. • Our maturity as a carbon transporter also continues to develop with the SCO_2T Connect Project which intends to deploy a first of a kind onshore CO_2 transportation network in Scotland. We plan to support the capture of up to five million tonnes of CO_2 per annum in the 2030s and we are targeting deployment for 2030. The core project aims to enter its Front End Engineering Design (FEED) phase in 2024, with a series of innovation projects to ensure carbon can be transported safely and reliably.
Drive positive environmental and community impact	• As part of our Environmental Action Plan (EAP) we are striving to reduce our emissions across RIIO-T2 (2021/22 to 2025/26), supporting the transition to net zero. – Compressor station and terminal NO_x emissions for 2023/24 were 5.42 kilogrammes per compressor unit run hour, a decrease of 0.86kg/hour from 2022/23. • This year, our staff have contributed more than 1,900 volunteering hours and raised more than £35,000 for our corporate charity partner, Barnardo's. • We have contributed £50,000 to The Albion Foundation, which supports disadvantaged communities across the Midlands. • Following the success of the Early Careers programme in 2023/24, which saw 27 Graduates and Apprentices join the business, we plan to increase the number of Early Careers positions in 2024/25 to over 80.
Invest in our people, grow our capability, and value everyone's contribution	• Our staff make our business. We ensure that they have all the tools, knowledge and skills to deliver, while being healthy, happy and supported. • In 2023/24, our Employee Net Promoter Score (eNPS) improved, rising to +22 with 95% of respondents to our Culture and Engagement Survey voicing their commitment to helping National Gas achieve its strategic objectives. • We know that diversity within our workforce can only help us to deliver – but we know that we still have work to do in this area to ensure we meet the diversity targets that we have set ourselves. • 27.3% gender diversity compared against a target of 28%. • 18.6% ethnic diversity against a target of 17%. • 49.4% of our external hires are diverse vs 48.4% in 2022/23. • 41.9% of resignations who are diverse vs 51.1% in 2022/23.

Performance overview

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.

National Gas Metering manages and maintains over 6 million traditional gas meters across Great Britain – ranging from meters in homes through to major industrial facilities

Managing and maintaining millions of metering installations – including some of high complexity – NGM is responsible for keeping a large proportion of Great Britain's homes and businesses connected to gas networks. As an experienced manager of gas metering equipment, NGM's expertise spans domestic, commercial and industrial installations, along with designing and building new connections to local Gas Distribution Networks.

Below is a summary of National Gas Metering achievements during 2023/24:

- **Standards of service –** NGM measures 20 service standards relating to domestic and industrial and commercial meter work, queries and complaints. In the year ending 31 March 2024, all 20 of these standards were achieved.
- **Efficiency –** Efficiency is driven by continuous review of installation, running and overhead costs, whilst maintaining the required level of operational and safety performance. Cost efficiency is ensured through robust tendering of meter work services and products in line with National Gas Procurement's Category Management process. Operational efficiency is monitored and driven through proactive contract management, whereby key performance indicators are tracked and supported by both incentive and liability payments.
- **Safety, health and environment –** The Company measures its safety performance in line with National Gas Transmission's 12 Risk Control Standards. NGM continues to focus on behavioural safety, competence, data quality and human factors encouraging staff and contractors alike to recognise hazards, reporting and sharing lessons learnt. NGM is proud to be accredited as a Great Place to Work for Wellbeing, demonstrating the Company's commitment to its people. In addition, 100% of all waste from meters is reused or recycled, with nothing going to landfill. In 2024/25, the Company will continue its drive towards achieving a Safety Generative culture.

Last year we achieved our highest ever customer satisfaction and net promoter scores, and 100% of customer standards were delivered to target

Our 2023/24 customer satisfaction and net promoter scores

+89 Customer satisfaction

90% Trust

92% Ease of doing business

+71 Net promoter score

Customer satisfaction and net promoter scores are on a scale that ranges from -100 to +100

Performance overview

National Gas Services

Previously known as Pipelines Maintenance Centre (PMC), National Gas Services (NGS) is the UK's trusted authority in planned and emergency pipeline maintenance and repair solutions.

We are a key supply chain partner to the UK pipeline industry, enabling security of supply

National Gas Services (NGS) provides a rapid response whenever needed (with six depots strategically placed across England, Scotland and Wales) and offers comprehensive services for strategic gas assets nationwide. NGS, generated £62 million revenue for 2023/24, is the UK's trusted authority in pipeline repair, maintenance and intervention.

Our extensive expertise in both emergency and planned solutions ensures a rapid 24/7 response, along with a full range of maintenance, inspection and repair services.

We have an efficient, integrated modern delivery unit of strategic gas assets. We 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 National Gas and other companies both inside and beyond the gas networks. We provide Centralised Emergency Materials and Equipment (CEME) across the UK and Ireland, 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.

Below is a summary of the achievements for National Gas Services in 2023/24:

- Found new efficiencies and innovation to enable a 24% increase in external customer profit since 2022/23 (£13 million from £10.5 million).
- Continued to improve resource utilisation levels, now up to 90%.
- Successful CEME contract win in Ireland.
- Digitalisation of NGS beginning to drive efficiency improvements.
- Delivered £31.5 million of capex works
- Customer Satisfaction score – 9.2 out of 10, against a target of 8.0
- Refreshed Regional Operational Management to provide specific regional leadership and exceptional customer service
- Introduction of new suppliers pilot (National Gas Delivery Partnership).
- Increased presence at industry events in the UK and beyond to support brand promotion and build market awareness of NGS capability.

We are constantly striving to improve our business through the following pillars:

- Safety – putting safety at the forefront of everything we do, to ensure all our people go home safely to their loved ones
- Innovation – investing in products, research and development in new innovations to stay ahead of the competition and improve our delivery with exciting new technology
- Efficiency – ensuring all work is planned and executed as per our customers' expectation that keeps our transmission system safe
- Digitalisation – delivering on our operational technology transformation programme to allow us to become a more modern, data driven, business:

NGS, which generated £62 million revenue in 2023/24, is the UK's trusted authority in pipeline repair, maintenance and intervention

Achievement highlights for National Gas Services in 2023/24

9.2/10
Customer satisfaction score

181
Full time employees 2023/24

£31.5m
Delivery of capex works

£62m
Revenue generated

Gas energy landscape

We are the national gas network. We provide secure energy to power Britain, achieve net zero and maintain our industrial competitiveness.

The National Transmission System is vital for Britain's energy security. It is the only way to move high quantities of gas quickly across the country, ensuring gas power stations can continue to complement the growth of renewables and industry can maintain economic output

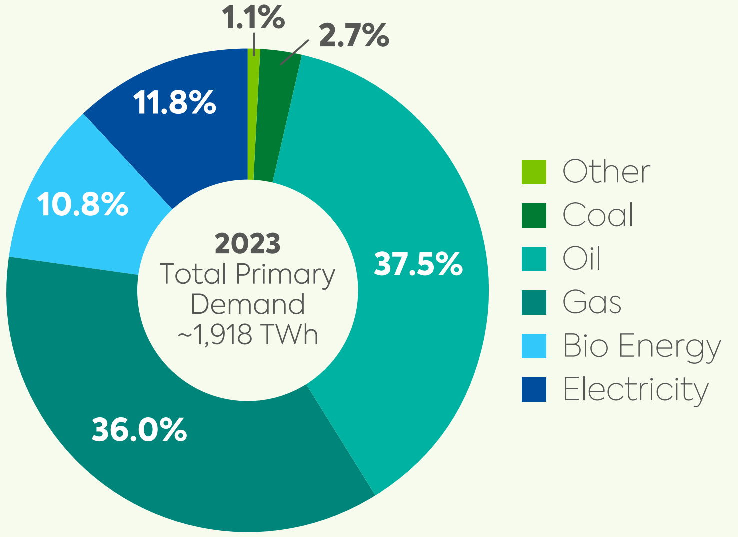
Our role in the industry

As owner and operator of the country's National Transmission System (NTS) for gas, almost every gas molecule consumed in Great Britain passes through our network. Gas is an essential part of a secure energy supply in Britain and will continue to play a vital role in the energy system for decades to come. More than ever, we need the security that gas brings: to keep the lights on, businesses running and to protect jobs.

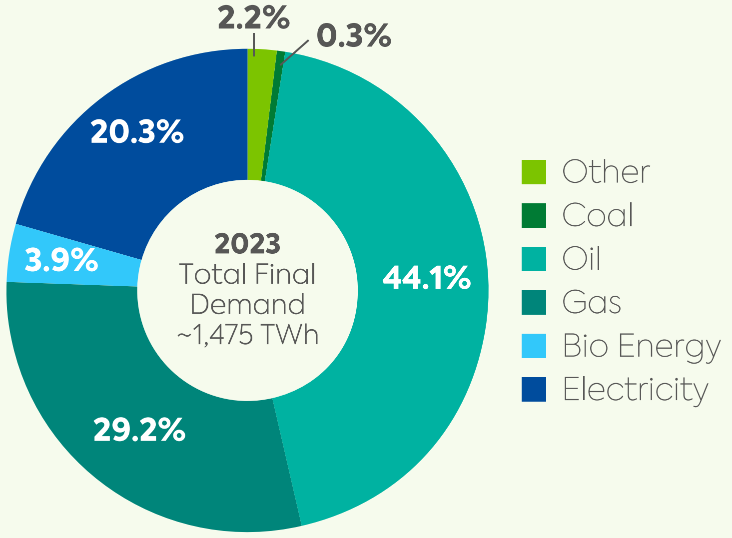
Value of gas to UK

The UK's energy sector is critical to economic growth, is deeply interlinked, and must be looked at as a holistic system. Natural gas makes up 36% of total UK primary energy consumption and almost 30% of final demand. Currently, peak demand for gas is roughly four times higher than electricity. Gas was also used to generate 33.1% of GB electricity in 2023/24, and at times was responsible for >60% of all electricity generation. There were the equivalent of 199 days in 2023/24 where, without gas in the electricity power mix, we would have had insufficient electricity supply to meet demand.[1]

UK Primary Energy Demand (%)



UK Final Energy Demand (%)



Great Britain's gas grid is comprised of two different systems:

National Transmission System (NTS)

The NTS consists of almost 5,000 miles of large, high-quality steel pipes that can transport large volumes of gas at high speed. Gas is fed into the NTS at any of eight gas terminals across Great Britain. National Gas is the sole operator and owner of this entire system. The NTS is the only gas system with compression facilities – there are more than 60 gas turbines (industrial versions of jet engines) across the country that compress and direct gas through the network.

Gas Distribution Networks (GDN)

The GDNs are the smaller pipes that run underneath streets and feed gas directly into homes and small businesses. The NTS feeds gas into these networks – which then distribute it through their pipes at much lower speeds and volumes. There are eight separate gas distribution regions across Britain operated by four separate companies – Cadent, SGN, Wales & West Utilities, and Northern Gas Networks.

The NTS acts as the 'motorway' of the gas network – transporting large volumes of gas safely and reliably across the country.

[1] National Grid ESO data for 2023, National Gas Transmission analysis

Gas energy landscape

Continued

Without gas backing up renewables, we face the genuine prospect of blackouts.

Claire Coutinho, Secretary of State for Energy and Net Zero (March 2024)

Gas transportation and delivery

The NTS transports gas into five sectors:

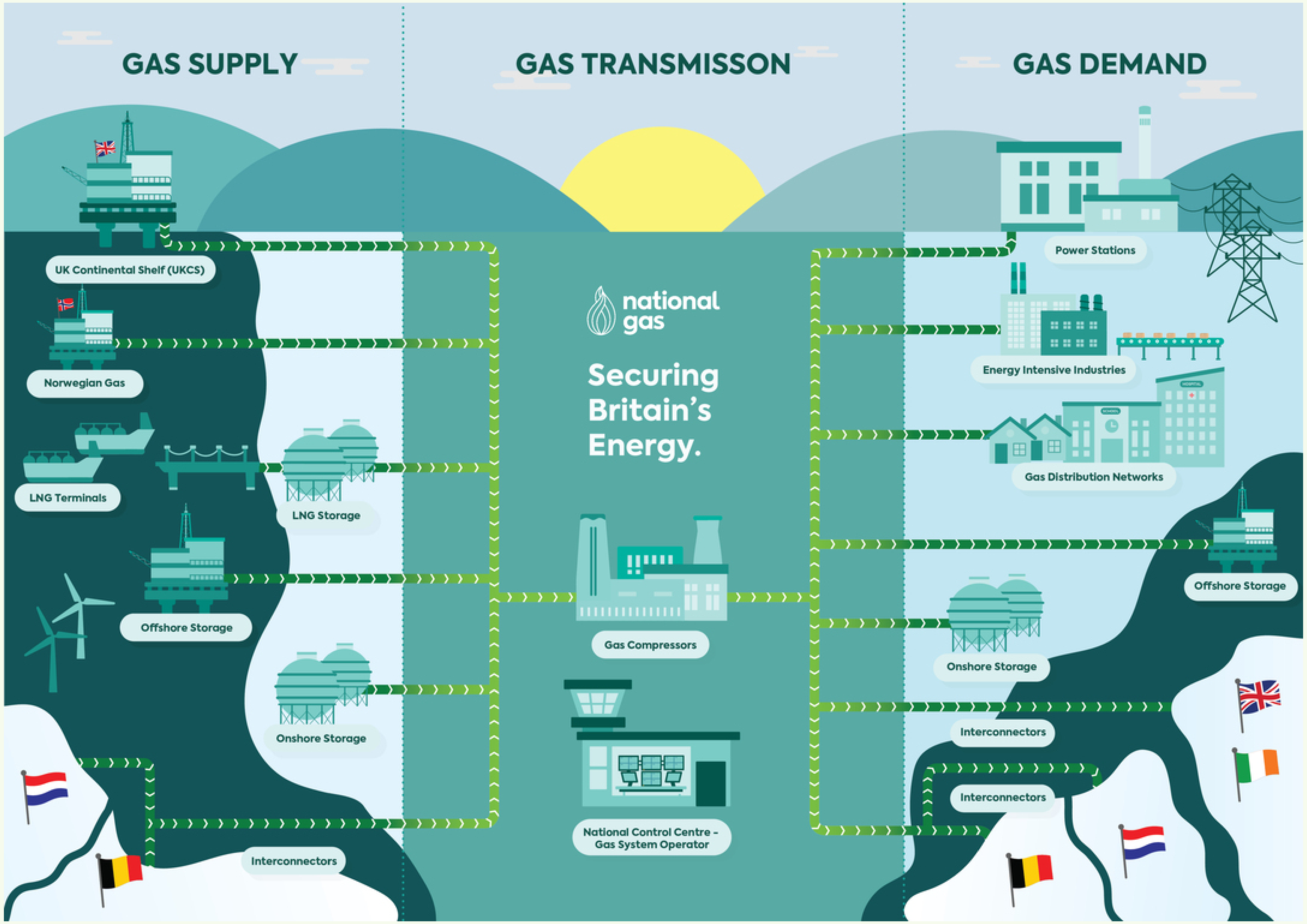
1. **Gas distribution networks**
Approximately 50% of the gas in the NTS goes into the GDNs. This gas then goes into businesses and homes. Around 500,000 businesses and 23 million homes receive gas in this way.

2. **Exports**
Up to 25% of the gas in the NTS can be exported into Europe. All gas exported out of Britain into Europe goes through the Bacton Gas Terminal in Norfolk, from where it reaches Belgium and the Netherlands. This has been a particular feature in the past two years, owing to increased exports into European gas storage following Russia's invasion of Ukraine. A smaller proportion, typically less than 10%, is exported to the island of Ireland, via Moffatt in South West Scotland.

3. **Power stations**
Around 20% of the gas in the NTS is fed into power stations. There are 35 power stations across Great Britain that are directly connected to the NTS and rely on high volumes of gas to generate electricity. In 2023, gas was used to generate around a third of the country's electricity.

4. **Storage**
Approximately 3% of the gas in the NTS is fed into storage sites. There are nine storage sites that are directly connected to the NTS in Great Britain – which act as a formal supply of gas for a number of days during cold periods. We can also store gas within the pipes themselves, referred to as 'linepack'.

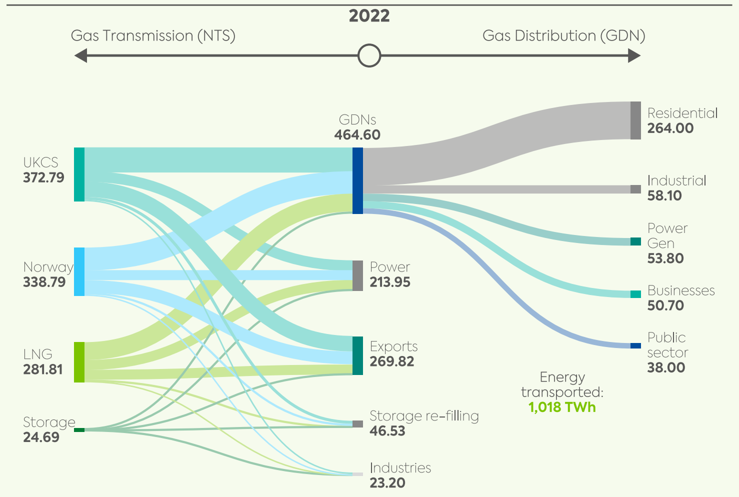
5. **Industry**
Approximately 2% of the gas in the NTS is fed directly into large industrial plants, such as those manufacturing glass, paper and chemicals. These industries require high levels of thermal energy which, whilst supplied by gas today, it will be possible to decarbonise through either CCS or hydrogen in the future.

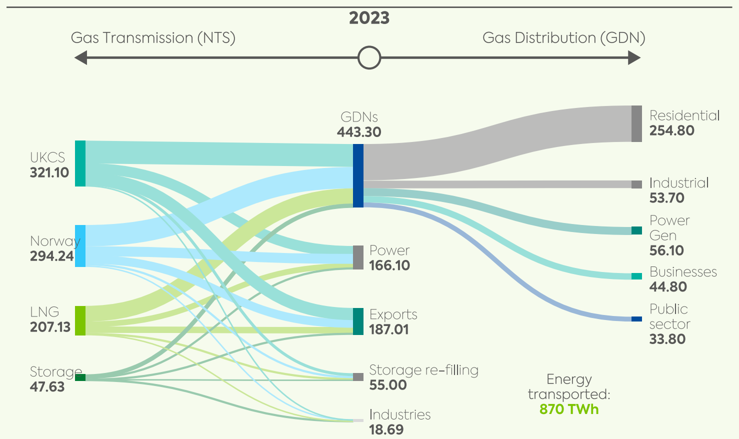


Gas energy landscape

Continued

Gas flows through the NTS



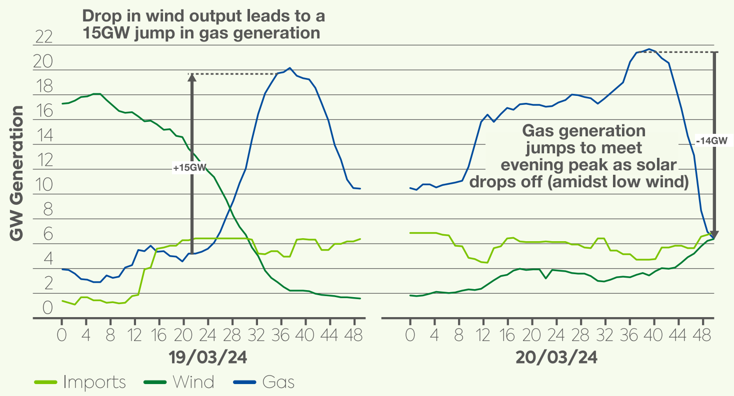


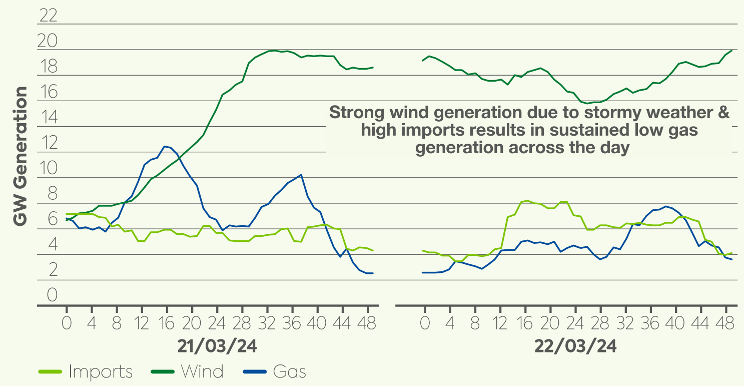
The role of gas in the GB power system

The flexibility of gas generation is critical to the electricity system. The role of gas in the GB power system has evolved, from providing a peaking role to supplement nuclear and coal-fired generation during the 1990s to becoming more of a baseload supply from 2010. It is now transitioning to supplement increasing renewable generation capacity.

As one of the few remaining dispatchable power generation technologies, gas plays a significant role in electricity generation since the retirement of coal plants[2]. This means that gas plants are flexible and can respond quickly to meet the needs of the GB power system. There were approx. 33 days in 2023, where gas's share in the power generation mix averaged more than 60% during the course of the day.

Furthermore, the scale and duration of system balancing needs mean that batteries and other forms of flexibility cannot deliver what gas plants can. The image below illustrates the intra-day flexibility of gas plants to balance the GB power system due significant volatility in wind generation over a few days in March 2024[3].





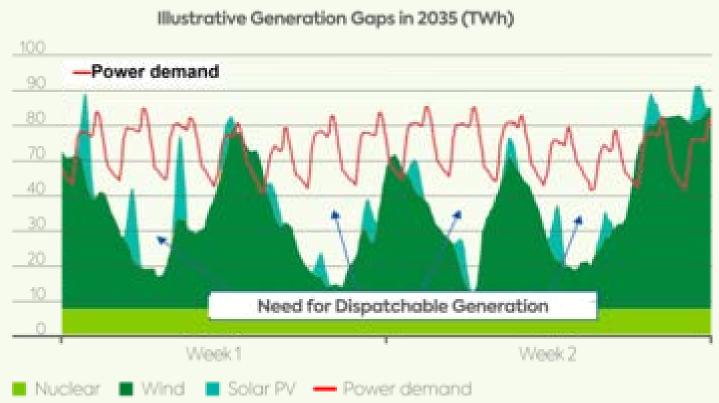
Those large swings in gas generation (+/– 15GW) across a few hours are only possible due to the flexibility provided by the NTS from an energy storage perspective, due to linepack – this is the volume of gas that is always in the NTS to keep gas moving within it. A ~15GW jump in gas-fired generation would require an additional 60-65mcm/d of gas flows to those plants, which for this time of the year equates to around 20% of total daily gas demand.

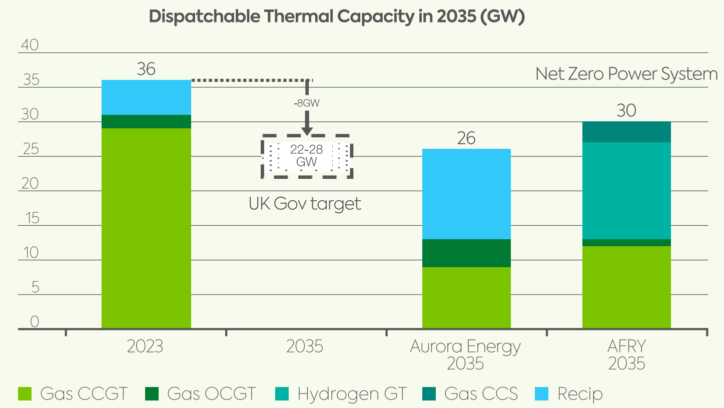
The UK has ambitious targets to decarbonise its power system by 2035, to be on track to achieve net zero by 2050. This includes growing offshore wind generation capacity from 15GW today to 50GW by 2030 and even 90GW by 2035[4]. However, to ensure security of supply and meet periods of low renewable output, the UK will still require significant thermal generation capacity to provide the necessary dispatchable generation to meet peak demand periods — particularly during 'dunkelflaute' event[5]). This dispatchable generation could come in the form of unabated natural gas plants, hydrogen turbines and/or gas plants with CCS.

The government recently emphasised the need for up to 28GW of unabated gas generation capacity in 2035, including a minimum 5GW of new or refurbished gas capacity to provide dispatchable flexibility for the electricity system.

The need for unabated gas capacity recognises both the expected delay in low-carbon technologies, and the fact that gas plants are the most deployable technology at present. The range of thermal capacity highlighted by the government has also been validated by leading independent analysts, based on their modelling for an optimised net zero power system by 2035. A Climate Change Committee (CCC) report in 2023, using analysis from AFRY, concluded that '... a power system without unabated gas in 2035 would be likely to increase costs and delivery risks...'

The graph below shows dispatchable thermal generation capacity forecasted by leading external analysts for an optimised power system in 2035. It shows that while the composition of thermal plants (i.e., combined cycle gas turbine [CCGT] or hydrogen) is different from today, the overall capacity of thermal plants is not too much lower, despite the significant growth in renewable generation[6].





To realise the ambitions for hydrogen power plants, a viable hydrogen network needs to be in place to transport hydrogen molecules from production and storage to the power plants.

Read more: Strategy in action →

[2] The last coal fired power station in the UK, Ratcliffe on Soar, will shut by October 2024
[3] Source: NGESO data
[4] NG ESO's Future Energy Scenarios has 89GW of offshore wind installed in its Leading the Way scenario
[5] AFRY analysis for CCC: https://afry.com/sites/default/files/2023-03/ccc_report_netzeropowerandhydrogen_v500.pdf (page 51)
[6] Source: Aurora Energy Research, Committee for Climate Change, DESNZ

Gas energy landscape

Continued

National Energy System Operator (NESO)

The creation of the National Energy System Operator (NESO), currently due to launch in 2024, is one of the most significant institutional changes to Britain's energy system governance in recent times.

A new independent and impartial public corporation, the NESO, will be responsible for the strategic planning of Britain's energy networks taking a whole system approach, and operating the electricity system. The NESO will provide the UK Government, Ofgem and the energy industry with expert independent advice to inform the development of energy policy, systems and markets to support the vision of a safe, secure and affordable transition to net zero.

Aims of the NESO:

- to strengthen energy security
- to help deliver net zero
- to ensure household bills are affordable in the long-term

Within their joint consultation, launched in July 2021, Ofgem and the UK Government's Department for Energy Security and Net Zero (DESNZ) set out a case for change with regards to Britain's energy system operation. In October 2023, following industry consultation, the Energy Act 2023 was passed, legislating for the creation of a Future System Operator (now referred to as the NESO).

Responsibilities of the NESO

Borne out of the current Electricity System Operator (ESO), the NESO will undertake all roles currently fulfilled by the ESO, plus a number of additional whole-system responsibilities:

- Network planning: plan the gas and electricity networks, and provide a whole-system view of the energy sector
- Resilience: identify gaps, risks, interactions and opportunities within the whole energy system, and coordinate emergency response
- Security of supply: enable electricity security of supply and advise on gas security of supply, and enable energy security across Britain's whole energy system
- Market development: support DESNZ with market development across gas and electricity, and advise on whole energy market strategy
- Net zero energy insights: deliver energy insights and advice to government for the existing energy system and its development, including new vectors such as hydrogen

These responsibilities and associated specific obligations are of strategic and/or operational significance to National Gas Transmission:

- Strategic network planning – identification of NTS investment needs based on a view of long-term supply and demand, which will inform future Ofgem decisions
- Resilience and emergency management – whole energy system resilience given the increasingly inter-related nature of the gas and electricity systems
- Medium range gas security of supply assessment – publication of an annual assessment of Britain's gas supplies in line with a defined methodology, the outcome of which will inform actions required to help achieve Britain's energy security
- Gas market strategy – optimising and evolving gas market arrangements in partnership with all gas market participants
- Long-term forecasting – development of energy scenarios for the future against a defined and consulted on methodology, to include an illustration against which Britain can achieve net zero

Securing the future role and investment required to maintain a flexible and resilient energy system to safeguard Britain's energy security, despite the uncertainty over the pathway to net zero, is an objective that we believe National Gas and the NESO share. We look forward to working in partnership with the NESO to secure this outcome to provide a safe, secure and affordable gas transmission system.

Strategy in action

Our strategy in action connects the critical components of supply, storage, and demand.

In all pathways to net zero, it is essential that energy security is maintained at an affordable price for consumers

National Gas is here to provide energy security to power Britain, achieve net zero and maintain our industrial competitiveness. Our strategy, which was approved by our Board in November 2023, sets a clear direction for us to achieve our purpose.

Our approved strategy enables us to:

- continue to provide a critical part of the UK's energy needs today
- play a leading role in enabling the UK to deliver its net zero commitments, at an affordable price for consumers

Our strategy is for all of our businesses – National Gas Transmission, National Gas Metering and National Gas Services – and covers the next five to ten years. It deliberately looks beyond our five-year regulatory cycles so that our strategy always informs and leads our approach to operational performance, regulatory engagement, business development and innovation.

Our role today

We are essential in providing British and European consumers with secure access to energy, both gas and electricity. We connect the critical components of supply, storage and demand to keep businesses running, keep exports flowing, keep homes warm and, through flexible gas-fired generation, keep the lights on.

Achieving net zero

There are a range of whole-energy-system pathways that the UK could take to achieve net zero. Each will use combinations of gas, electricity and newer technologies, such as hydrogen and carbon capture and storage. The need for these technologies in the UK's future energy mix is widely recognised:

- *'Future demand for hydrogen and carbon capture and storage is uncertain. But they will be needed to achieve net zero and support the UK's industrial activity as buyers increasingly demand low-carbon products.'* The Second National Infrastructure Assessment – October 2023
- *'To meet carbon budgets and net zero we will need to see the large-scale deployment of Carbon Capture, Utilisation and Storage (CCUS) within the next ten years, which relies on delivering on transport and storage business models and industrial cluster ambitions.'* National Grid ESO Future Energy Scenarios – July 2023
- *'Hydrogen-based solutions have the potential to play a crucial role in the decarbonisation of the power sector and wider economy'* AFRY - Net Zero Power and Hydrogen: Capacity Requirements for Flexibility - A report to the Climate Change Committee, March 2023

In all pathways to net zero, it will be essential that energy security is maintained, at an affordable price for consumers. The reliable connectivity that we provide will continue to be essential for a successful transition to net zero, in whichever whole-energy-system pathway the UK takes to get there.

The £12.7 million HyNTS FutureGrid NIC project at DNV's Spadeadam Test and Research Centre

Our focus

We will continue to operate today's natural gas transmission system safely and efficiently, maintaining reliable energy supplies for power stations, major industries, and for the distribution networks that take gas into homes and businesses.

At the same time, we will work with the NESO and our partners from across the energy landscape to create the policy, infrastructure and market conditions for a positive transition to net zero. This will involve developing the hydrogen and carbon transportation networks of tomorrow, connecting production sites, industrial clusters, and storage facilities, supporting a whole-energy-system approach to decarbonisation.

How will we do it?

Everything we do will be led by three guiding principles: Protect, Grow and Innovate:

- Protect our network and assets so they can continue to serve customers.
- Grow our business by developing in new areas and building new capabilities.
- Innovate new energy solutions.

Our innovation themes

Our innovation themes remain 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.

In RIIO-T2, we focus on regulatory innovation as well as 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 ensure our transitioned network is optimised to deliver energy at the lowest cost and with the highest levels of safety.

£34m

As part of this price control period National Gas has been provided with £34 million of Network Innovation Allowance funding and awarded £52 million of the available £450 million via the Strategic Innovation Funding competition, led by our economic regulator, Ofgem.

Strategy in action

Continued

Storage and release of hydrogen within relevant timescales is going to be vital to ensuring a consistent energy source and improved resilience

Network Innovation Allowance (NIA)

The NIA provides funds to 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 learnings (3) Customers and Strategy – focusing on solutions that deliver benefits to our customers.

Key highlights of 2023/24:

31

A further 31 NIA projects have been approved with 26 projects moved through contract to delivery.

84

A total of 84 projects have now been progressed through RIIO-T2.

49

49 NIA projects have successfully completed in the RIIO-T2 period.

NIA projects

Impact of hydrogen and hydrogen blends on linepack

The NTS transports large volumes of natural gas from terminals to offtakers across Great Britain. The flows of gas are managed by pipeline compressors. Compression also allows the pressure of the gas in the pipelines to be increased, allowing more gas to be stored in the NTS. This is called linepack. Linepack is normally measured in million cubic meters (mcm) of gas. Linepack varies throughout the day depending on supply and demand and is a key element to managing the NTS, as it increases the resilience and security of supply to customers. A section of the NTS was modelled using natural gas and several supply and demand scenarios, including a low, average and peak scenario. This model was then used to determine the loss of linepack energy for hydrogen blends and 100% hydrogen in that section of the network.

Read more: Impact of hydrogen and hydrogen blends on linepack →

Blending infrastructure of the NTS

This project looks to understand the design of the infrastructure required to allow blending into the NTS. There are multiple scenarios where hydrogen could be blended and options needed to be considered; high flow industrial blue hydrogen injection, medium flow large electrolyser sites, and low flow curtailment management opportunities. The project has determined the infrastructure, potential locations and supported our first blending demonstration on the NTS.

Read more: Blending infrastructure for the NTS →

Multi-gas detection

National Gas currently operates a system of safety sensors to detect flammable gases in enclosed spaces and work areas. In addition, we are now trialling new installations of fugitive emission detectors to help us in our drive towards net zero operations, and to help us reduce network shrinkage. These new sensors can detect extremely low concentrations of both natural gas and hydrogen from a single calibration, meaning we can get to work detecting and repairing leaks today and in the future – on a blended and 100% hydrogen network. We have partnered with Nevada Nano Technology to trial their MPS sensors at two of our sites: FutureGrid and Bacton Gas Terminal. Nevada Nano's sensors are installed in arrays with an anemometer, for continuous and remote leak detection, quantification and location.

We can view sensor data live from any internet device, through the dedicated 'Emissions Track' portal. Following a technology landscape assessment and laboratory trials, Nevada Nano was chosen as the ideal solution - as it can offer detection of both natural gas and hydrogen.

Read more: Multi gas detection →

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 that focus on encouraging cross-industry collaboration.

Key highlights of 2023/24:

1

Successful applications for two Round 1 Beta projects: HyNTS Compression and HyNTS Deblending, which started delivery in 2023/24 and support the continued development of the FutureGrid test facility.

2

Successful applications for two Round 2 Alpha projects, which were completed at the end of April 2024. The topics covered waste heat recovery and hybrid storage solutions.

3

Successful applications for five Round 3 Discovery projects, covering a range of topics including maritime, aviation, linepack, offshore energy hubs and modelling of power-to-gas operability.

Total spend for 2023/24 was £8.346m (2023/24 Price Base).

HyNTS Compression (Beta)

This project provides the technical and safety evidence to enable repurposing of the NTS compression assets. The project aims to determine the technical and commercial feasibility, provide a technical demonstration and create a strategy for UK NTS Compression System transition. Discovery and Alpha phases have investigated the key challenges associated with compression of hydrogen and hydrogen blends. The Beta phase will demonstrate the proposed solutions. This project will enable a reduction in the cost of the energy transition by eliminating the need to replace entire compression systems (which are one of the most expensive assets on the network), while ensuring the gas network is able to support the whole energy system. The results of this project will feed into Project Union and our business compression strategy to enable the energy system to transport energy from supply to demand and use hydrogen as an energy storage mechanism. This project is now live and construction activities will begin at the end of 2023/24.

HyNTS Deblending for Transport (Beta)

Demonstrating a future new industry where hydrogen refuelling stations are directly connected to the gas network. This will enable them to benefit from a secure supply of low-cost, high-purity hydrogen, helping to promote the hydrogen transport sector and serve the large-scale needs of rail, bus, heavy haulage, marine and aviation sectors. Demonstration of this opportunity is vital to enabling hydrogen refuelling infrastructure and should be commenced now to align with the Industrial Cluster and Project Union activities, due to begin construction in 2025/2026. This project is now live and construction activities will begin at the end of 2023/24.

Strategy in action

Continued

Project Union will support a whole energy system approach to decarbonisation, by providing critical resilience and flexibility to the electricity system

HyNTS Hybrid Storage (Alpha)

The storage and release of hydrogen within relevant timescales will be vital to ensuring a consistent energy source and improved resilience. Compressed gas storage is a method used today to support green hydrogen production, however, the large scale space requirements and safety of these systems are limited. Alternative technologies, such as solid-state or liquid hydrogen storage, provide benefits in storage density and safety, but have challenges in the release rates of the hydrogen. It is believed that a hybrid storage system of solid and gaseous storage managed by an artificially intelligent management network, HyAI, could provide a safe and reliable opportunity.

HyNTS Waste Heat Recovery for Electrolysis (Alpha)

The use of solid oxide electrolysers to produce green hydrogen is more efficient than using conventional PEM/alkaline electrolysers. However, they must operate at high temperatures to realise this efficiency advantage. This project looks to investigate the use of waste heat (produced from the transportation of network gases at compressor stations) to improve the efficiency of solid oxide electrolysers for green hydrogen production.

HyNTS FutureGrid Phase 1

The £12.7 million HyNTS FutureGrid NIC project at DNV's Spadeadam Test and Research Centre has completed testing trials of 2%, 5%, 20% and 100% hydrogen. Final reports are due in July 2024. The project has demonstrated that the NTS can transport hydrogen, ready for Project Union (the GB 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 2024, we had completed more than 30,000 cycles without any observed changes.

Project Union

Project Union is a pioneering project led by National Gas, which will create a hydrogen transmission backbone for Great Britain, facilitating the transport of 100% hydrogen. By the mid-2030s, the backbone will connect strategic hydrogen production sites, industrial clusters and hydrogen storage facilities, while serving major industrial customers and power generation sites directly, as well as through GDN connections.

Through a combination of repurposed existing assets and new infrastructure, a hydrogen backbone of up to 1,500 miles will be created. This hydrogen backbone will be at the heart of a net zero future, acting as a key enabler for developing a hydrogen economy and realising key UK Government net zero targets.

Project Union will support a whole energy system approach to decarbonisation, by providing critical resilience and flexibility to the electricity system.

Project Union will create a hydrogen transmission backbone for Great Britain.

In 2023, Project Union was awarded funding to carry out the feasibility phase of the project. The feasibility phase had three key outcomes:

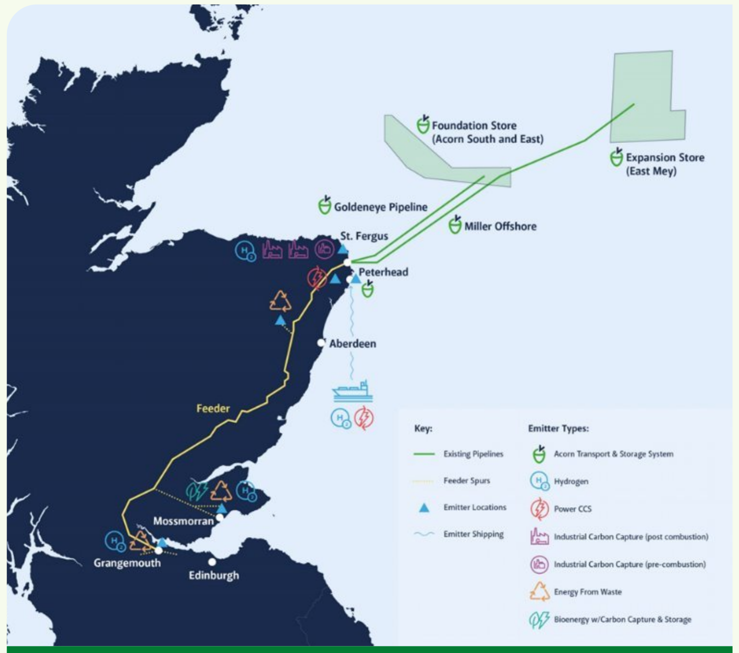
- Phasing strategy, including prioritisation and timing for delivery of each section of the hydrogen backbone, while ensuring security of supply on the remaining natural gas network. It will also deliver a staged approach to project delivery and funding.
- Pre-FEED activities for a full hydrogen backbone, delivering an appraised set of routing options, a constructability assessment and a planning and consenting strategy based on enhanced cost estimates and asset data. A full engineering policy review will also be undertaken.
- Hydrogen market enabling activities, including a supply chain assessment and ongoing customer and stakeholder engagement.

SCO_2T Connect

In late 2023, the UK Government announced its Carbon Capture, Utilisation and Storage (CCUS) Vision to develop a new competitive market by 2035 to unlock investment, drive economic growth, support 50,000 jobs by 2030 and add £5 billion to the economy by 2050. To achieve its target, the government recognises that "Central to deploying CCUS is establishing the infrastructure to transport and permanently store the captured CO_2".

In Scotland, the market is evolving with emitters, offshore storage operators and government aligning to deploy the Scottish Cluster from the late 2020s. Our SCO_2T Connect project will be a crucial component in enabling the Scottish Cluster by combining 170 miles of repurposed assets with 35 miles of new-build pipeline to develop Scotland's first CO_2 onshore transportation network.

Pre-FEED activities have been completed, and in May 2024 we submitted an application for funding through Ofgem's Strategic Innovation Fund for the next phase of development spend. This next phase of work will include front-end-engineering-design (FEED), land and consenting, and wider commercial and regulatory development, and will deliver a step change in our project maturity.



SCO_2T Connect will be Scotland's first CO_2 onshore transportation network

c.124 miles

The first section of Project Union aims to repurpose c.124 miles of the current gas transmission pipelines to unlock the potential of connecting industrial clusters to hydrogen supply

Stakeholder engagement

Our entire business has a relentless focus on external stakeholder engagement. The Corporate Affairs team lead an extensive senior engagement programme for our CEO and Executive team, and our Customer and Stakeholder (C&S) team deliver on an engagement strategy to bring our wider stakeholder ecosystem into our strategic planning process

Stakeholder discussions delve into critical industry issues, with National Gas at the forefront of these conversations

Fostering robust stakeholder engagement

National Gas fosters a robust and tailored stakeholder engagement strategy. We use a variety of channels to cultivate productive dialogue with a wide range of stakeholders, including UK and devolved government officials from across the political spectrum, various customers that are directly connected to the NTS, industry experts, and many more. Forums, VIP visits, executive-level meetings, and informative webinars serve as key platforms for these interactions, in addition to a range of bi-lateral meetings.

Discussions delve into critical industry issues, with National Gas at the forefront of these conversations. This guiding position within industry is evidenced through our keynote addresses, facilitating code changes and commercial evolution, exploring sustainable construction practices, and ensuring transparent access to energy data. We also address network operational updates, methane emission reduction strategies, the burgeoning regulatory framework for hydrogen and CCUS, and the advancement of innovative solutions.

We actively champion initiatives like FutureGrid, Project Union and SCO_2T Connect, alongside key priority policies including the blending of hydrogen and resilience of our existing methane network, all while remaining committed to achieving a clean energy transition that fosters a positive environmental and social impact.

Since our last published strategy, we have engaged with our stakeholders on an ongoing basis and through various forums, including via the Gas Operation Forum, the Gas Data Portal User Community, meetings with regulators and other government bodies, and customer workshops.

Other recent examples of senior engagement activities include the participation of National Gas CEO Jon Butterworth at the 2023 Conservative and Labour Party conferences, senior Government official visits to National Gas sites, and a range of Ministerial engagements, including with the Deputy Prime Minister, the Prime Minister and a number of the Shadow Ministerial team.

Rishi Sunak MP (Prime Minister), meets apprentices and operations teams during a visit to our Bacton Gas Terminal as a part of the King's Speech

Pat McFadden MP (Shadow Chancellor of the Duchy of Lancaster) meets Jake Tudge (Corporate Affairs Director) at the Scottish Labour Party Conference

Claire Coutinho MP (Secretary of State for Energy Security and Net Zero) meets Jon Butterworth (CEO) to discuss the role of National Gas in securing Britain's energy and delivering net zero

Lord Callanan (Minister for Energy Efficiency and Green Finance) and officials from the Department for Energy Security and Net Zero with Martin Cook (Chief Commercial Officer) and Ian Radley (System Operations Director) at National Gas HQ

Pat McFadden MP, Sarah Jones MP (Shadow Minister for Industry and Decarbonisation), Richard Parker MP (Labour Party candidate for West Midlands Mayor) and Maxine Long (Metering Director), at the Labour Party West Midlands Business Reception

Bill Esterson MP (Shadow Minister for Business and Industrial Strategy) and Andrew Pakes (Labour Party candidate for Peterborough and Deputy General Secretary of the Prospect Union) tour Peterborough Compressor Station with Jake Tudge

Stakeholder engagement

Our customers and end consumers are at the heart of all our operations, and we have designed our engagement strategy to ensure that their voices and values are incorporated into our activities.

National Gas prioritises a comprehensive stakeholder engagement strategy centred on understanding and aligning with stakeholder priorities

A key aspect of our engagement strategy is understanding what matters most to our stakeholders. To achieve this, we have developed a comprehensive engagement plan with a variety of ways to obtain stakeholder input. This includes external surveys, workshops, insightful interviews with industry experts, informative webinars and collaborative brainstorming sessions.

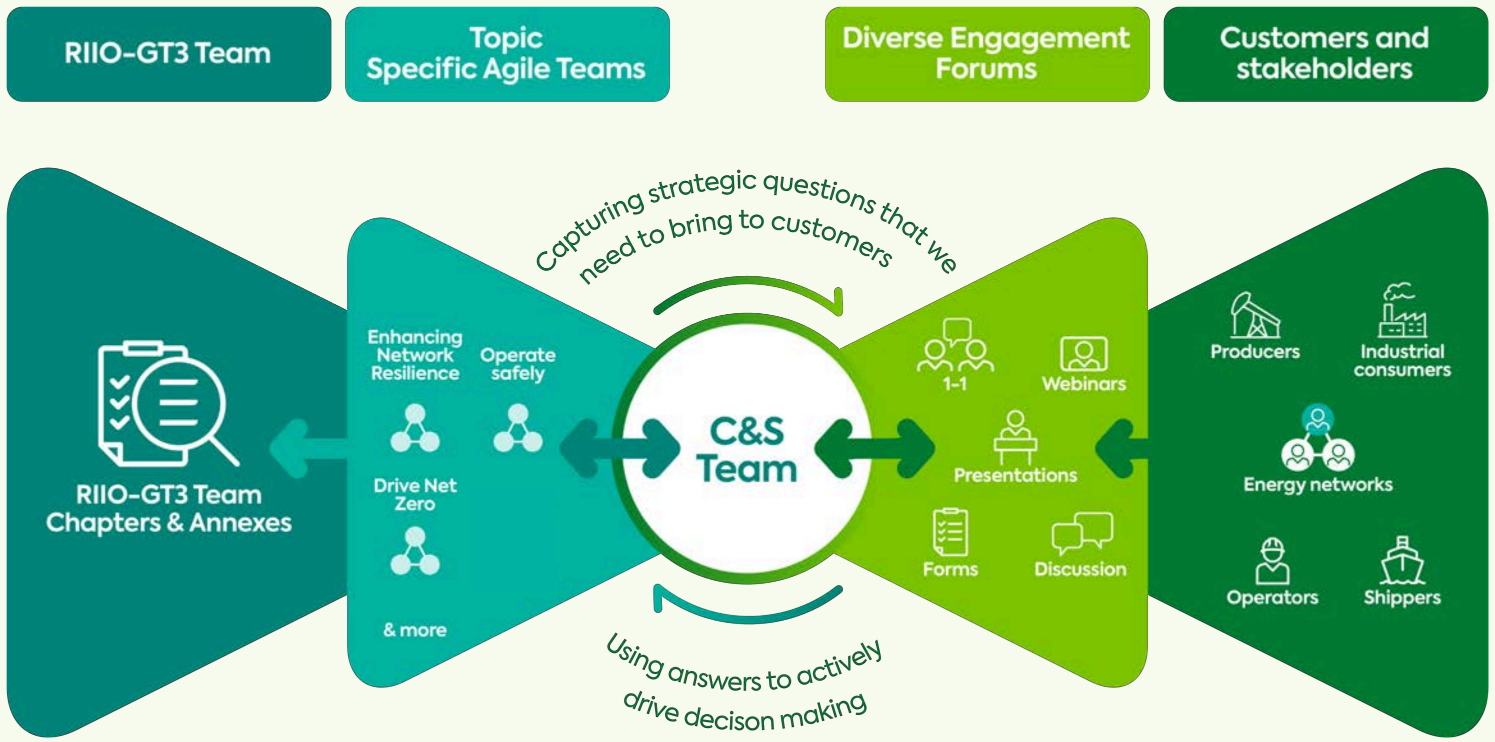
To date, we have held six interactive workshops, more than 70 1-to-1 deep-dive interviews, and stakeholder engagement sessions reaching 35 organisations and 43 senior stakeholders. We further foster large-scale engagement events to convene key stakeholders, including Ofgem representatives. Internally, we champion topic-specific discussions and ensure alignment between different business areas and the overarching vision of 'Shaping the Future of Gas.'

Stakeholder outcomes and priorities

We prioritise a comprehensive stakeholder engagement strategy, centred on understanding and aligning with stakeholder priorities. This multi-faceted approach uses diverse engagement channels to capture both priorities and potential pain points.

Analysing this rich data informs the development of strategic questions within the C&S team. This ensures that investment requests across National Gas directly address the needs and aspirations of the market. Through our engagement efforts, we have identified key stakeholder priorities. These priorities directly influence our strategic direction including:

- Clear and affordable bills: stakeholders seek clear and affordable bills that accurately reflect their energy use
- Understanding energy sources: stakeholders are interested in understanding where their energy comes from
- Safe and reliable energy service: consistent and dependable energy service is a critical priority
- Sustainability solutions: stakeholders share our commitment to finding sustainable solutions for the future
- Valued customer service: high quality customer service that keeps stakeholders informed and supported is essential
- Support in a changing market: stakeholders require support navigating the complexities of the energy market



We want to evolve from a traditional asset owner into a comprehensive platform for the energy industry

Broad stakeholder engagement

We recognise the importance of engaging with a broad range of stakeholders including energy industry participants, consumers, network and asset decision makers, and policy influencers. By listening to diverse voices, we gain a well-rounded perspective on stakeholder needs which ultimately informs our strategy.

This engagement strategy fosters a continuous feedback loop, facilitating targeted interactions with stakeholders. Stakeholder input is used to refine proposals and ensure they address stakeholder concerns. Additionally, the Independent Stakeholder Group will provide ongoing opportunities for us to review and adapt our approach, based on stakeholder insight throughout the RIIO-GT3 submission process, ensuring alignment with stakeholder needs.

Our commitment goes beyond simply meeting regulatory requirements. We strive to deliver real value to stakeholders. Our goal is to transform from a traditional asset operator into a comprehensive platform for the energy industry. This platform would empower market participants to interact seamlessly and efficiently, fostering improved communication on behalf of the communities we serve. Stakeholders will benefit from enhanced collaboration and innovation opportunities, allowing them to adapt and thrive in a dynamic energy ecosystem.

Since listening to our stakeholder priorities, we have taken swift action to respond. For instance, in response to our biomethane customers wanting cheaper and more timely connections, we are looking to drive down costs for biomethane connections by developing a suite of standardised connection designs, stockpiling assets with long lead times, as well as working with Ofgem and DESNZ to develop subsidies and certification.

Furthermore, the Electricity System Operator's (ESO) 'turn down at peak service' for reducing gas usage at peak times was initially a plan that was advocated to increase confidence on the demand side. However, we've considered feedback that highlighted concerns for vulnerable customers and are developing another piece of work that can build confidence in a demand side produce, while capturing all our customers' concerns.

6
Number of interactive workshops held

70+
Number of 1-to-1 deep-dive interviews

40+
Number of senior stakeholders we have engaged with

Stakeholder engagement

Our customer-centric approach is vital to ensure that everyone is supported as we transition to meet our net zero targets.

As a customer-focused business, we have continued to be responsive to market demands and consumer priorities

Stakeholder type	Who we have engaged with	
Our customers	Power generation	RWE, SSE EPUKi
	Directly connected industrials	INEOS, CF Fertiliser, Centrax, Inovyn
	Gas Distribution Networks	Cadent, Northern Gas Networks, SGN, Wales & West Utilities
	Gas storage	Centrica, SSE Thermal, Humby Grove
	Terminals and interconnectors	BBL, Interconnector UK
Our consumers	End consumers (homes, businesses)	Citizens Advice
Our wider stakeholders	Regulators	Ofgem
	Environmental interest groups/ consultancies	Waters Wye, Greenpeace
	Innovators and academics	E3G, Regen
	Supply chain	NSMP
	Other trade bodies	Energy UK

Stakeholder types

Data and information

Energy industry participants

Technically savvy professionals using data for daily operations and decision-making. They need data on their connections, assets and network operations.

Policy influencers

Those working in regulatory bodies or influential organisations who use data for industry oversight, policy making, and promoting digitalisation. They need access to regulatory data and long-term datasets.

Enquiring minds

A diverse group including the public, academia, and innovators interested in the energy sector. They use data for various purposes and may require unique datasets.

Network and asset decision makers

Those responsible for network operations and asset management. They require a wide range of data to support their activities, including asset details, operational data, and performance metrics.

Stakeholders benefit from enhanced collaboration and innovation opportunities, allowing them to adapt and thrive in a dynamic energy ecosystem

How stakeholders' insights influence the plan

The C&S engagement strategy is a customer-, consumer- and stakeholder-led plan to help us lead a clean energy future for everyone. Our two-way approach begins with capturing more than 100 strategic questions to explore with our stakeholders. In turn, we will use the answers we receive to actively drive decision making. Revamped engagements include a biomethane forum, additional 1-to-1s, the Operational Liaison Forums, 'Shaping the Future' webinars, RIIO-GT3 engagements, and hydrogen blend stakeholder interactions. Continuous feedback, facilitated by our diverse and developed engagement channels, ensures our plans and decisions remain responsive and evolve alongside stakeholder priorities. This agility cultivates strong relationships between National Gas and our stakeholders, leading to collaborative and future-proofed plans.

As a customer-focused business, we have continued to be responsive to market demands and consumer priorities. Consequently, National Gas has incorporated several new steps to ensure that we remain adaptable and flexible to the rapidly changing energy landscape and stakeholder needs. This encompasses mobilising our account management function, building NESO-embedded relationships, improved data-sharing, streamlining processes and costs for green gas connections, provision of connections incentives, and utilising an engagement and insights-led approach (our RIIO-GT3 approach). Furthermore, we have successfully utilised customer satisfaction (CSAT) data to drive improvements within the organisation. This includes new offerings and system improvements, such as an improved customer relationship management (CRM) process, a new complaints procedure, enhanced international information-sharing capabilities, and the development of a Gas Customer Hub. Moreover, we have continued to exceed expectations in our service, for example in streamlining communications through single points of contact and engaging in industry specific webinars.

35
Number of organisations we have reached

100
Number of strategic questions we aim to have explored by the end of engagement

Read more: Section 172 →

Being a responsible business

We are committed to ensuring sustainability is at the heart of our business. It is embedded within our purpose – leading a clean energy future for everyone. Environmental, social and governance (ESG) factors represent risks and opportunities that will influence our ability to deliver our purpose.

Following internal and external stakeholder engagement, we identified and ranked 20 priority ESG factors which were mapped onto a materiality matrix

Key highlights

+22
Employee Net Promoter Score of +22 vs target of between +10 and +20

8.56
Customer Satisfaction Score of 8.56 – exceeding Ofgem financial incentive cap

0
No public safety injuries

£35,000
Over £35,000 donated to our corporate charity partner, Barnardo's

1,900
Over 1,900 colleague volunteering hours delivered

£36,000
Over £36,000 invested in local communities through our Community Grant Fund

381 ktCO_2e
Scope 1 and scope 2 carbon emissions

76%
Percentage of our top 50 suppliers with carbon reduction targets in place

0.01
Industry-leading lost time injury frequency rate of 0.01 per 100,000 hours

Placing sustainability at the heart of our business

By recognising ESG factors that are important to our business, we can proactively manage commercial risks and embrace opportunities beyond statutory and regulatory compliance to create sustainable value. Our ESG strategy sets out this approach. Aligned to our overall purpose, priorities and values, it identifies our most important ESG issues and actions to address these, with firm commitments and specific time-bound targets. It also outlines governance and reporting structures to track progress and ensure transparency and accountability. We are working to embed ESG within our decision making at all levels, every day. Our ESG strategy continues to develop as we respond to the evolving challenges of the energy industry and global climate change ambitions. By deepening our understanding of our duty of care to both the planet and its people, we can focus on those activities where we can achieve lasting positive environmental and societal impact, while operating as an ethical and responsible business.

We believe our ESG strategy defines who we are and who we want to become – both culturally and in terms of our strategic direction. It ensures we continue to play a vital role at the heart of Britain's energy industry – today, in 2050, and beyond.

Our ESG strategy ensures our decision making is sound, our leaders are accountable and our workforce build value together, to ensure we lead a clean energy future for everyone

Identifying our material ESG issues

We conducted our first ESG materiality assessment in summer 2023 to help us better understand the ESG factors that are critical to us and have the biggest impact on our communities and the environment.

Following internal and external stakeholder engagement, we identified and ranked 20 priority ESG factors that were then mapped onto a materiality matrix. Of these, 12 were ranked in the 'focus area' of the materiality matrix, including environmental factors, security of supply, employee rights and regulatory compliance. These align with our business culture and priorities, the legislative and media environment and the strategic challenges facing an energy company.

Top three material issues, as identified by our materiality assessment:

1
Employee health, safety and wellbeing

2
Climate change

3
Decarbonisation of the energy system

Being a responsible business

Continued

Our ESG framework
The results from our materiality assessment have been used to shape our ESG delivery framework.

Environmental
Improving the environment

We strive to **achieve minimal adverse environmental impacts** across all our operations whilst also seeking ways to **enhance the local environment**

Air quality	Climate change	Responsible asset use	Caring for the natural environment	Leadership for change

Social
Acting with a social conscience

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

Charitable giving	Community engagement	Future skills & education	Employee health & wellbeing	Customer engagement & protection

Governance
Running our business responsibly

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

Structure & oversight	Transparency & reporting	Ethics & compliance	Financial & operational risk	Supply chain management

During 2023/24, 21 metrics have been established to track progress against our material ESG topics, including colleague diversity, safety, carbon and NO_x emissions, charitable giving and community engagement. The metrics are reported to the Safety and Sustainability Committee.

Safe every day
The safety, health and wellbeing of our workforce, our supply chain partners, the public and our assets remains an integral part of how we work at National Gas and a top priority within our overall business strategy.

Our lost time injury frequency rate (LTIFR) is industry leading. The LTIFR at the end of 2023/24 was 0.01 (based on 100,000 hours). LTIFR is a measure that we take seriously, as it reflects our dedication to creating a workplace where everyone can go home safely and without harm. There have been no public safety injuries in 2023/24. Throughout RIIO-T2, we also focused on leading indicators to support more proactive safety management, including good-catch and near-miss reporting (both of which are actively encouraged), action closure and investigation quality to support earlier intervention and remediation.

Lost time injury frequency rate at end 2023/24 – 0.01 (based on 100,000 hours)

Safety of the public is a priority at National Gas – we had zero injuries to the public in 2023/24

To ensure this performance, we have been driving legislative compliance through value-protect activities, alongside continually improving how we operate, through value-add activities. Examples of health, safety and wellbeing deliverables completed to date in RIIO-T2 are:

- Increased focus on process safety, including re-establishing the Process Safety Performance Group and reviewing leading process safety indicators to support earlier intervention and remediation.
- An in-depth review of the National Gas Safety Management System and ongoing completion of associated improvements.
- A change to the investigation methodology to ensure human factors are fully considered.
- A reset of the occupational and process safety risk profiles.
- Simplification and improvement of key standards, for example management of change.
- Roll out of an electronic competency management system.
- Expansion of the Employee Assistance Programme to family members within the same household.

As we move into the RIIO-GT3 price-control period, we will build on our ambition to be 'Safe Every Day', which will support the embedding of a proactive safety culture while we drive for the highest level of safety maturity.

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.

We are committed to achieving net zero by 2050, with an ambition of 2040 for our scope 1 and 2 emissions

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 extremely 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, while 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 the 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 the sector.
- Supporting the transition to an environmentally sustainable low-carbon energy system.

We strive to achieve minimal environmental impact across all our operations, while also seeking ways to enhance the local environment

Environmental Action Plan

Our Environmental Action Plan and targets set out how we will demonstrate how we work together with our employees and stakeholders to reduce our impact on the environment.

It includes five pillars and 30 commitments which help us to measure how we are doing. The commitments are in place until the end of this regulatory period (RIIO-T2) which concludes in 2026.

Below is a breakdown of these five pillars and examples of what we are doing in these areas:

Read more: Environmental Action Plan →

1. Air quality

We are working to reduce nitrogen oxide (NO_x) emissions from our operations by the end of RIIO-T2. This includes replacing some of the older compressors in our network with cleaner technology, so we can improve local air quality.

2. Climate change

In October 2023 we achieved our key commitment within this pillar of developing a Science-Based Target initiative aligned pathway for carbon reduction for our scope 1 and 2 emissions. We have established a commitment to achieving net zero by 2050 with an ambition of 2040.

3. Responsible asset use

We are managing our redundant assets in a manner that contributes to a sustainable, lower-carbon future by decommissioning them responsibly, refurbishing for re-use where viable, or changing their purpose where possible.

We are also working closely with our suppliers to implement a more sustainable approach when purchasing goods or services and are working hard to minimise waste generated and maximise waste recycling and re-use.

4. Caring for the natural environment

Whenever we deliver construction and decommissioning projects, there is a requirement to ensure initiatives are developed to protect and promote biodiversity.

We are enhancing the value of natural assets on non-operational land that we own, through habitat enhancement.

5. Leadership for change

We are embedding sustainability in our decision making, continuing to be transparent on our progress and working with the industry to drive forward the sustainability agenda.

Our environmental commitments

Continued

We have identified the opportunity to calculate and estimate additional emissions associated with our gas-specific processes and equipment

Highlights of the year

We have maintained our focus on climate change risk management and established environmental targets that deliver carbon reduction. In 2023/24, we achieved the following:

Declared our commitment to achieve net zero by 2050, with an ambition to 2040 for scope 1 and 2 emissions, supported by a bespoke glidepath to net zero

Secured Ofgem funding to purchase equipment that will reduce the need to vent gas during routine operations, enable us to trial technology that will allow captured vented gas to be re-compressed into the network, and facilitate the expansion of our leak-detection programme

Published our second Annual Environmental Report discussing our progress against environmental targets that will deliver carbon reductions within the RIIO-T2 price control period

Broadened our climate change risk management to include both target and performance monitoring, and mitigation plans to manage our vulnerable assets

Read more: Annual Environmental Report 2022/23 →

Read more: Climate-related financial disclosures →

For information regarding progress against our hydrogen strategy can be found under 'Strategy in action'.

Read more: Strategy in action →

We published our second Annual Environmental Report discussing our progress against environmental targets within the RIIO-T2 price control period

Streamlined Energy and Carbon Reporting (SECR)

To effectively monitor our greenhouse gas emissions (GHGs) we report our business carbon footprint (BCF) annually and monitor this internally on a monthly basis. The BCF focuses on our scope 1 and 2 emissions in $ktCO_2e$.

Prior to separation, the National Gas BCF was incorporated in to the National Grid Group BCF, albeit as a small component – ~7% of the total. Now, as a stand-alone business, over the past financial year we have been reviewing the emission sources included within our BCF for improvement opportunities. We have identified the opportunity to calculate and estimate additional sources of scope 1 emissions associated with our gas-specific processes and equipment. We have included these additional sources of scope 1 emissions in this year's BCF.

We also report business travel and waste generated in operations as scope 3 categories. We are currently investigating ways to increase the number of applicable scope 3 emissions that we report on in the coming years, .

GHG reporting

The scope 1 and 2 emission sources included within our 2023/24 BCF are below:

Scope	Emission	Category
Scope 1	Energy consumption (excluding electricity)	Energy consumption
	Transport	Direct commercial vehicle
		Business mileage
	Fugitive emissions	Leak detection & repair
		Pipeline and AGIs*
	Venting emissions	Venting (compressor only)
		Venting (Others)*
		Incidents*
	Fuel combustion	Diesel*
		Natural gas
		Other minor combustion*
Scope 2	Electricity consumption	Electricity consumption
		(including fleet & company EVs)

Venting (Others) includes Maintenance Venting, Gas Using Devices, Pipeline Venting, PIG Trap Venting

*Additional sources of scope 1 emissions identified for 2023/24 BCF

Data sources

As of our 2023/24 BCF, our data sources include direct measurements from invoices and emission monitoring reports, modelled data using industry methodology and National Gas specific measurements We are always looking to improve our carbon accounting, whether reviewing emission sources, seeking data that was not previously available or maturing our methodology. We recognise the importance of our BCF being as complete as possible, particularly as we monitor our emissions in line with the reductions required to meet our net zero target.

Greenhouse gas (GHG) emissions

The table below details our BCF for 2022/23 (as previously reported, excluding additional sources of scope 1 emissions) and 2023/24 (including additional sources of scope 1 emissions).

Scope of emissions	Units	2022/23	2023/24
Scope 1	$ktCO_2e$	367.5	343.1*
Scope 2	ktCO2e	37.7	37.4
Scope 3**	$ktCO_2e$	0.6	0.9
Total BCF	$ktCO_2e$	405.8	381.4

*Please note this total includes 2 estimated categories of other venting (maintenance venting and gas using devices) which total 37.2ktCO2e. Total Scope 1 excluding these categories is 306ktCO2e.

**based on two reported Scope 3 categories

The table below shows an updated 2022/23 BCF including some additional sources of scope 1 emissions, which have been retrospectively calculated.

Scope of emissions	Units	2022/23
Scope 1 inclusive of additional sources*	$ktCO_2e$	443.3

*Emissions from 'incidents' and 'other minor combustion' have been calculated and included in our BCF from 2023/24 only.

Our environmental commitments

Continued

	Current reporting year 2023/24	Comparison reporting year 2022/23
Energy consumption used to calculate emissions: kWh	Invoiced gas – 2,170,454 kWh Invoiced electricity – 180,157,031 kWh Fuel for operational fleet – 6,969,106 kWh Compressor fleet & Minor Combustion Plant (Diesel & Natural Gas) – 1,033,197,428 kWh	Invoiced gas – 2,643,978 kWh Invoiced electricity – 194,875,629 kWh Fuel for operational fleet – 7,042,563 kWh Compressor fleet & Diesel Minor Combustion Plant – 1,545,780,863 kWh
Emissions from combustion of gas tCO_2e (scope 1) (Includes invoiced gas in buildings and compressor fleet combustion (& natural gas minor combustion plant from 2023/24 onwards)	192,322	308,470
Emissions from combustion of fuel for transport purposes tCO_2e (scope 1) (Includes operational fleet and business mileage)	2,276	2,392
Emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel tCO_2e (scope 3)	233	207
Emissions from purchased electricity tCO_2e (scope 2, location-based) (Excluding EV's)	37,306	37,695
Total gross tCO_2e based on above	231,821	348,764
Intensity ratio: tCO_2e gross figure based from mandatory fields above /mcm throughput of natural gas	3.04	3.7
Methodology	Data sources aligned to comparison year with use of 2023 DESNZ/BEIS conversion factors for tCO_2e conversions. There is a minor difference between the reporting and comparison year with inclusion of natural gas minor combustion plant data for 2023/24.	Data sources include energy invoices, meter reads, run hours and supplier reports. The above figures have been converted into kWh from litres or TJ or from activity data to tCO_2e using the 2022 DESNZ/BEIS conversion factors.

We are working to develop the future infrastructure to transport low-carbon hydrogen to replace natural gas

Energy efficiency

The most energy intensive activity within National Gas is the operation of our gas-fuelled compressors, which are operated in line with supply and demand. However we still want to ensure that we are making improvements and therefore in the period covered by the report, National Gas has installed LED lighting, replaced a heating, ventilation and air conditioning (HVAC) system and upgraded building insulation.

Leading the way to a net zero future

We are looking to the future by developing the hydrogen transmission system of tomorrow – building the capability and flexibility required for a clean energy future.

Our gas transmission specialists are creating the infrastructure to transport low-carbon hydrogen as a replacement for natural gas, and to transport carbon dioxide for carbon capture and storage (CCS). By applying our expertise to develop the energy systems of the future, we are proud to play a leading role in delivering the UK's net zero ambitions.

Net zero pathway

Natural gas contributes a third of the UK's carbon budget and, as such, National Gas is a key enabler for the UK Government to reach its net zero goals. As such, we are committed to developing a business model that is consistent with the objectives of the Paris Agreement, We have a commitment to achieve net zero by 2050 with an ambition of 2040, for scope 1 and 2 emissions.

A bespoke decarbonisation strategy and glidepath to net zero were completed in October 2023. The development of our glidepath included mapping four potential pathways to achieve net zero carbon, two by 2050 and two by 2040, using the 2022 System and Customer Transformation Future Energy Scenarios. National Gas has adopted the System Transformation approach. The glidepath is aligned to the Science Based Target initiative (SBTi) Corporate Standard methodology and will be updated once the oil and gas sector specific methodology is published.

As part of our RIIO-GT3 planning, we are confirming where investments are required to support our net zero ambitions.

Climate-related financial disclosure

Effective for periods commencing on or after 6 April 2022, the Climate-related Financial Disclosure (CFD) Regulations 2022 have been introduced in the UK to report on material climate-related matters.

For the year ended 31 March 2024, the Group meets the relevant threshold of having more than 500 employees and a turnover of more than £500m. The Group has therefore set out below the CFDs covering how climate change is addressed in corporate governance, the principal climate risks and opportunities and their potential impacts, how climate-related risks and opportunities are identified, assessed and managed, and the performance metrics and targets applied in managing these issues.

In the first full year for the Group as a stand-alone business, we undertook a gap analysis on our previous disclosures against the CFD guidance and are taking action accordingly, to ensure that we have a solid foundation to build upon as we progress each year towards demonstrating leadership in this area. We are working with a third party consultancy to enhance our disclosure for the coming year (2024/25).

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

As our foundation progresses, we continue to monitor developments, engage with stakeholders and evolve our approach to identify and manage climate-related risks and opportunities.

Governance

Board

As of the date of this report, the Board is made up of seven Shareholder Appointed Directors, three Sufficiently Independent Directors (or 'SIDS'), our Chief Executive Officer, Jon Butterworth, and Chief Finance Officer, Nick Hooper. The full composition of the Board can be seen on page 55. The Board meets six times a year with a particular focus on the strategic direction of our business.

The Board has overall responsibility for setting the long-term strategic direction of the Group, and in doing this considers factors related to climate change. The Board has delegated the setting of the Group's climate-related strategy and achievement of associated initiatives and targets to the Safety and Sustainability Committee. Its remit includes providing guidance in respect of environmental matters, including climate-related risks and opportunities, and monitoring the Group's pathway to achieving its net zero carbon ambitions.

Committees

Safety and Sustainability Committee: Assists and supports the Board in fulfilling its responsibilities and commitments to climate initiatives. Assists the Board in providing guidance and direction to the Group's safety, health and sustainability strategies and monitoring performance against the Group's safety, health and sustainability ambitions including climate-related risks and opportunities..

Audit and Risk Committee: Supports the Board in ensuring that the sustainability and climate-related risks and opportunities are effectively managed. The Safety and Sustainability Committee reviews the environment risk and recommends any changes to its risk profile to the Board.

Remuneration & Nominations Committee: Ensures alignment of the Executives' remuneration to the Group's climate-related targets by incorporating environmental measures into their short and long-term incentives.

Regulation and Strategy Committee: Oversees the Group's compliance with its licence and other regulatory obligations. Through its work in overseeing the development of the Group's business plan, for the next regulatory framework, they will ensure commitments in the plan support the Group's ambitions.

Management

The CEO and Executive Committee have day-to-day responsibility for sustainability and climate-related matters and are responsible for the strategy for responding to climate change.

The Safety and Sustainable Committee was established in February 2023, and met three times during the year. Progress against our climate change related commitments, as set out in our Environmental Action Plan, was an integral part of the Committee's agenda throughout the year. The Environmental Action Plan was developed pre-separation from National Grid. Since separating, a review has been completed to align the action plan to the Group's specific commitments. The committee will oversee these commitments and associated milestones to ensure that they remain appropriate to the size and scope of the Group's operations as a stand-alone business.

The membership of the Safety and Sustainability Committee consists of three members, all of which are Non-Executive Shareholder Nominated Directors or members appointed by the shareholders. The committee is chaired by Howard Higgins, who is one of the Shareholder Nominated Directors. All Board members can attend the meetings and the Committee Chair reports back to the Board after every meeting on key discussions and decisions taken.

The Board has overall responsibility for oversight of risk and for maintaining a robust risk management and internal control system. It monitors our strategic, reputational, financial, and operational risks, and other longer-term threats, trends and challenges facing us. Climate change is one aspect of the environment risk, which is one of our eight principal risks, and will be reviewed as part of the Board's annual review of the Group's risk profile.

The Chief Executive, the Chief Financial Officer, the Asset Director, the Head of SHE, the General Counsel and the Head of ESG attend meetings and provide management oversight.

The Committee considers the impact of the Group's operations on the environment, workforce, communities and other stakeholders with whom it interfaces, and how it adapts its business with respect to climate change. It provides guidance and recommendations to the Board and ensures that the safety and sustainability strategy is embedded in both business-as-usual practices and the Group's overall business strategy.

The Committee advises the Board on the following areas with regards to climate change:

- Risk: review risks relating to the climate and recommend any changes to the risks and the risk profiles to the Board for approval.
- Legislation: report on forthcoming legislation and other requirements relating to climate-related risks and opportunities likely to affect the Group and consider how it will comply.
- Net zero: consider and challenge the Group's climate-related performance, including the reduction of carbon emissions target and the progress made against the ambition to reach net zero.
- KPIs: review performance of the key performance indicators and other reporting measures being adopted by the Group in relation to climate-related risks and opportunities.
- Strategy: challenge and approve the Group's sustainability strategy.
- Concerns: consider regular reports on performance and key issues relating to climate and challenge the extent to which the Group's sustainability strategy is deployed.
- Resourcing: monitor and review adequacy of resourcing in key environmental and sustainability roles.
- Investigations: oversee key issues relating to material environmental incidents as a result of the Group's business operations.

Strategy

Risks and opportunities

National Gas has three climate-related risks. These risks consider the impact the Group has on the environment and reducing the carbon emissions associated with operating its business and also the impact a changing climate may have on its assets.

When considering assessment of physical climate risks the Group defines the time period associated with these to be in alignment with availability of UK climate projection scenarios and the frequency with which these are updated.

It considers risks associated with changing climate up to 2030 to be short term, up to 2050 medium term and 2100 long term. In consideration of physical climate risk, we have also taken account of the return period included within the climate projections; i.e.. the likelihood of a climate-related extreme weather event occurring.

Transition Technological Risk (short & medium term) – There is a risk that the Group fails to manage the impacts of climate change and to meet its 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.

Transition Reputational & Policy Risk (short & medium term) – There is a risk that the Group fails to meet its net zero by 2040 ambition because of no clear glidepath 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 and fines.

Climate-related financial disclosures

Continued

Acute Environmental Risk (short, medium & long term) - There is a risk that a climate change event will cause harm (damage) to a National Gas 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.

Since the last disclosure, the Group has undertaken a review of its scope 1 and 2 emissions performance and the viability of its net zero by 2040 ambition. The Group has now committed to achieving net zero by 2050 for its scope 1 and 2 emissions while maintaining a 2040 ambition. A decarbonisation strategy and glidepath aligned to the Science Based Target Initiative (SBTi) corporate standard has been developed and the Group is now in the process of reviewing the glidepath against its investment plan, operational processes and risk management culture to identify emission reductions that are expected to be achieved through these, and what additional measures will be required to meet the glidepath.

Short-term or no-regret adaptation and resilience measures will be considered where there is a present and immediate risk posed by a climate variable. Medium-term measures include site surveys and desk-based studies to verify the climate modelling and asset climate risk assessments being undertaken. Long-term measures relate to reviewing and updating climate risk assessments and adaptation and resilience measurements as UK climate scenarios are updated and climate science evolves.

The National Gas RIIO-T2 Environmental Action Plan (EAP), which is detailed within the Annual Report and Accounts, includes a number of climate-related opportunities. For example, in relation to procurement of electricity from renewable sources, increasing recycling rates, reducing water usage and implementing the ISO20400 sustainable sourcing process.

Business strategy

Consideration of physical climate risk and the potential impact on the safe and resilient operation of transmission system has been embedded within the Asset Management Strategic Objectives for the Group. Dedicated asset management objectives associated with environmental impact and energy transition are within our RIIO-T2 commitments and are continuing as we consider our RIIO-GT3 plans and commitments. For the regulated business, strategy and financial planning is linked to the regulatory process with the Office of Gas and Electricity Markets (Ofgem) which is a five-yearly cycle.

Opportunities arising from climate change are embedded within documents such as the RIIO-T2 Environmental Action Plan.

We continue to demonstrate significant investment in the future of our network and the role it can play now and in the future. As part of this price-control period, National Gas has been provided with £34 million of Network Innovation Allowance (NIA) funding and been awarded £52 million of the available £450 million through the Strategic Innovation Funding (SIF) competition.

Over the course of 2023/24, HyNTS FutureGrid – our bespoke test facility constructed from decommissioned assets – has enabled us to undertake a wide range of hydrogen testing. This testing is critical to our understanding of working with hydrogen and will enable us to develop processes and procedures to allow us to run a safe and reliable national hydrogen network – one day in the future. In 2023/24, we completed Phase 1 of FutureGrid, which saw us undertake and complete testing of up to 100% hydrogen.

Over 2023/24, we continued to shape Project Union - our project to connect hydrogen production, storage and demand centres, to enable a hydrogen economy in the UK. Using the learning from FutureGrid, we plan to use existing pipelines to create a low-cost hydrogen 'backbone' by the early 2030s and connect to the proposed European hydrogen backbone. More information on our hydrogen research and development can be seen under 'Strategy in action' on page 20.

National Gas educates employees, including management, on climate-related issues relevant to the business. To date, 91% of employees have completed this training.

Scenario analysis

Transition Risk To understand the climate-related risks and opportunities that could impact our business in the future, we have carried out an initial transition scenario analysis. We have considered scenarios up to 2050, aligning with our net zero pathway and our medium-term risk timescale. Whilst both scenarios present significant risks to the business which must be appropriately managed, there are also opportunities to adapt our network and operations to support the net zero transition.

<u>Rapid Decarbonisation Scenario (low temperature increase) – 1.5 degrees</u>

This scenario assumes that global warming is limited to 1.5 degrees above pre-industrial levels by 2100, as per the Paris Agreement. On this route to net zero, demand for methane for power and consumer heat will fall as renewable energy expands. Electricity is in the ascendancy, but there is uncertainty that it will be able to deliver the scale of investment required.

In this scenario, we envisage new sectors for hydrogen storage and production arising, alongside other decarbonisation technologies. As such, methane for reformation into blue hydrogen, once established, may be needed for decades, alongside the transportation of carbon dioxide to support Carbon Capture, Usage and Storage (CCUS). Alongside renewable options, infrastructure may be required to support potential consumer transition from methane to hydrogen.

However, there is a risk that the hydrogen economy does not develop at the scale envisaged, materially impacting our business, leading to potential stranded assets, and falling investor confidence.

These changes will be driven by complex policy, behavioural, market and infrastructure interactions. The scale of these uncertainties will introduce new dynamics for strategic planning. The need to maintain a safe resilient network (or networks) will always remain a priority, but we anticipate that planning will need to become more responsive to emerging market information. To help us inform and manage this risk we are working closely with UK Governments, the regulator, and the wider industry to better understand the evolving landscape.

<u>Slow Decarbonisation Scenario (high temperature increase) – 4 degrees</u>

This scenario assumes a 4°C increase in global warming by 2100, caused by continued reliance on fossil fuels and ineffective and/or slow changes in climate-related policy and regulation. Fossil fuel emissions remain high leading to an increased frequency of extreme climate-related events such as hotter summers and more severe winters. Future energy needs will increasingly fluctuate across seasonal and weather cycles, which may not correlate with the availability of electricity directly from renewables and nuclear.

In this scenario, we envisage that a gas transmission network (methane or hydrogen) will be required to ensure that the UK's national energy supply is secure. However, this scenario also presents significant physical risk to our assets such as coastal and inland flooding, and increased extreme temperatures, from increasingly unpredictable weather events. Further analysis of these physical risks is outlined below.

Physical Risk National Gas undertook its last physical climate risk assessment as part of its Third Round Adaptation Reporting Power (ARP3) report to the Department of Environment, Food and Rural Affairs (DEFRA) in October 2021. As a critical national infrastructure owner National Gas is invited to report typically on a five yearly cycle. The Climate Change Act 2008 gives the Secretary of State the power to direct reporting authorities (bodies with 'functions of a public nature' and 'statutory undertakers') to produce reports on what they are doing to adapt to climate change. The power is referred to as the 'Adaptation Reporting Power'. The Government's Adaptation Sub-Committee review the outputs of the ARP process which in turn supports the Government's National Adaptation Programme and future UK Climate Change Risk Assessments.

National Gas has been invited to report again at the end of 2024 (an amended schedule in 2024 to align to national climate adaptation plan reporting cycle). A copy of our 2021 report can be found here.

In the 2021 report National Gas formally assessed forty-one climate related risks and scored these on a likelihood/impact matrix which was common and agreed amongst GB gas networks. In ARP3 reporters were asked by DEFRA to consider a present risk score and then an assessment of a 2050 risk score based on business as usual.

Climate-related financial disclosures

Continued

To inform its members climate risk assessments the Energy Network Association commissioned the Met Office to undertake a review of the UKCP18 data and existing studies to understand the changes in potential impact to energy infrastructure assets from climate change. The report from this research was used to assess the risks to National Gas. The Met Office study the highest Representative Concentration Pathways (RCP8.5) was used to provide a worst-case scenario and timeframes out towards the end of the century.

The National Gas ARP3 report concluded that raised temperatures posed a present-day high risk to National Gas assets and considering expected climatic changes in a high emission scenario, flooding and erosion would also become high risk alongside raised temperatures by 2050.

While high risks have been identified, the National Gas assessment was consistent with previous ARP1 and ARP2 reports and those of our ENA partners. The business remains inherently resilient but recognises the need to continually reappraise its climate risks and engage with regulators on financing adaptation measures to ensure it remains so.

In parallel with preparation for reporting in ARP4 by the end of 2024 National Gas is completing site specific climate change risk assessments for all compressor stations on the transmission system to fulfil a specific requirement set by the Environment Agency.

We must prepare for a wide range of possible futures. Our network and assets have flexibly adjusted over many decades and will continue to do so. Going forward we need to be agnostic about the route to net zero, but be adaptable through shaping the interactions of methane, hydrogen and CCS, in order to deliver a low cost, and secure, transition to net zero through cost effective re-purposing of our existing network.

Our network remains inherently resilient to changes in climate however we recognise this requires review as climate projections are updated and climate science develops. We will continue to engage our customers, stakeholders including regulators on our approach to climate risk assessment and seek to finance and implement climate adaptation where necessary to maintain the climate resilience of our network.

National Gas is in the process of undertaking more quantitative physical climate risk assessment using the UKCP18 RCP8.5 high emission scenario and 4 degree warming by 2100. In undertaking this assessment, we are also assessing the 2030 and 2050 intermediate warming steps to reach this scenario, and changes in physical climate variables associated with it. We consider this to be a more credible strategy to assess and manage the impact of climate change by taking a 'worst case' approach and planning adaptation and resilience measures accordingly, to ensure safe and resilient operation of the NTS.

We are currently in the process of developing an offset strategy to allow the Group to react to varying future scenarios related to the changing cost of carbon offsetting.

Climate-related risk management

Risk identification

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 our 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.

However, the current internal risk process does not use a granular taxonomy that specifically identifies physical and transition climate risks. We are implementing process markers to support the identification of environmental, social and governance risks as part of ongoing refinements to our risk management process, aligned with ISO31000.

To further support the development of our risk capability and improve transparency, we will also be implementing operational risk taxonomies. The environmental taxonomy will be rolled out to the business in line with ongoing improvements to the risk management process. As part of the roll out of the environmental taxonomy to business areas, they will be asked to review their risks and raise any additional risks where appropriate.

Risk management

Climate change risks are considered as part of our Enterprise Risk Management (ERM) process. The ERM process is the framework through which National Gas identifies, assesses, manages, monitors and reports risks. This process includes the identification of a series of company-wide controls and actions to mitigate the environmental risks.

The environmental risks are owned by the Director of Asset, Steven Vallender. These risks form the foundation of our climate risk adaptation and mitigation, which will continue to mature over the next 12 months. Emerging risks are managed under our risk management framework with results reviewed by senior leadership.

Climate-related risks are an integrated part of the operational risk framework and will be allocated against the environmental taxonomy once implemented.

The risk assessment process has been designed to be clear and practical, giving the business readily measurable principles aligned with our purpose and values. It enables us to assess what we are, and are not, willing to do to deliver on our strategy, so that we can provide robust assessments of the risk, which includes environmental and climate risks. These processes are refreshed annually.

Risk integration

We operate an integrated risk management framework which manages all categories of risk across the business i.e. strategic, financial, operational and emerging. Within 2023/24 a new system has been implemented to make managing risk centrally more accessible for the entire business. The roll out of business taxonomies and process markers will further integrate climate considerations into the overall risk management framework.

Metrics and targets

Risk metrics

National Gas has 21 ESG metrics used in the business across all three pillars of Environment, Social and Governance. Each metric has a business process owner and an accountable lead on the Executive team. Four out of 21 metrics are deemed to be related to climate change risks and opportunities. These are detailed in the table below:

Metric	Target 2023/24	Achieved 2023/24
NO_x from compressor unit combustion	6 kg/hour	5.42 kg/hour
Scope 1 and scope 2 carbon emissions	462 ktCO_2e	381 ktCO_2e
Percentage of employees who have completed environmental training	95%	91%
Percentage of top 50 suppliers with carbon reduction targets in place	75%	76%

138 employees did not complete the environmental training. While system and manual reminders were sent, some employees reported they could not find the training within their assigned learning. The Environment team will work with the Training team to ensure future mandatory Environment & Sustainability training courses are correctly assigned.

National Gas also uses the metric of network reliability to ensure that service levels are not being reduced by climate-related events. In 2023/24 we achieved a network reliability of 100%.

GHG emissions

National Gas measures and reports on its scope 1, 2 & 3 emissions on an annual basis.

Read more: GHG reporting →

Risk targets

National Gas has set out 30 targets in its Environmental Action Plan (EAP) across the pillars of Climate, Leadership, Air Quality, Resources and Nature.

Read more: EAP →

Partnering with others to help our communities

During the year we supported a range of charitable and community organisations, both in areas close to our major construction works and operational sites, and nationally.

Our colleagues have donated children's clothes, toys, equipment, school uniforms, Easter eggs, Christmas presents and Mother's Day gifts to support our Barnardo's charity partnership

Our colleagues have chosen Barnardo's as our corporate charity partner, pledging to fundraise £100,000 for the charity over three years. As well as raising more than £35,000 during the course of the year, we offered local support to the Frankley Plus Children's Centre in Birmingham, which is managed by Barnardo's.

Our colleagues have donated children's clothes, toys and equipment, school uniforms, Easter eggs, Christmas presents and Mother's Day gifts to support the families the centre works with.

Hundreds of Christmas presents were gifted to under-privileged children via the Tree of Joy project

In 2023, we launched a Community Grant Fund to support communities in the vicinity of our construction and operational sites. The fund offers grants of up to £20,000 to support projects that deliver environmental, social or economic benefits to the local community. In the first round of applications, we approved grants to the value of £36,239 supporting projects including renewable energy generation and community initiatives to promote social inclusion. Furthermore, in areas where we are undertaking major infrastructure work, we assign 0.3% of the overall project funding to deliver community-led improvement activities.

We have partnered with The Albion Foundation – the official charity partner of West Bromwich Albion Football Club – to support their work in delivering well-being, behaviour change and active lifestyles to communities across the Sandwell borough. In 2023/24, our support helped The Albion Foundation to deliver more than 21,000 sessions engaging 13,060 participants in activities including disability football, 1:1 behavioural change mentoring, SEND sports sessions, holiday clubs and residential programmes.

Our colleagues volunteered 1,911 hours in 2023/24, directly supporting local communities through a range of activities. Our volunteering included colleagues in Gas Construction supporting the Uniform Exchange in Huddersfield, helping to sort and prepare donated school uniforms for children and parents in need, while colleagues based at our Wormington Compressor Station spent a day tidying gardens and graves, and levelling surfaces, at the local church, St Katherine's.

Alongside supporting local good causes, we have also worked with our charity and community partners to identify opportunities for our people to add value through volunteering their time and skills. Our Asset team supported The Albion Foundation at the Stoney Lane Day Centre, a place for adults with learning disabilities and additional needs, working in the garden, clearing a bank, and laying gravel to improve the appearance for those who use the centre. Members of our General Counsel, again working with The Albion Foundation, spent a day at the Bangladeshi Islamic Centre in Smethwick, helping to decorate three rooms in the community centre.

As part of the National Gas partnership, participants in The Albion Foundation's primary school programmes are gifted tickets to a West Bromwich Albion home match as a reward for behavioural improvements.

The primary school programmes support children who need interventions to help them get the most from their education. These interventions focus on supporting children with individual identified needs through the power of football, allowing the children to speak about how they may be feeling and helping them to identify what might trigger their behaviour in school.

A Year 6 pupil was rewarded by National Gas with four tickets to watch West Bromwich Albion vs Bristol City, following his behavioural improvements, as a result of taking part in the 'Can Do Club' run by the Foundation at the school. The club helps to improve social, behavioural and physical skills through the use of sport, and focuses on supporting children who may struggle with academic lessons.

Albion Foundation Coach, Josh, has worked closely with another Year 6 pupil who was gifted tickets to watch West Bromwich Albion take on Coventry City as a reward for his behavioural transformation since starting with the Foundation's football-focused interventions at school.

£35,000

Over £35,000 donated to our corporate charity partner, Barnardo's

1,900

Employee volunteering hours completed

Powering our people

Our employees are our greatest asset. We believe that our future success is predicated on our ability to attract, recruit, develop and engage a capable, diverse, safe and healthy workforce who will deliver our business strategy and maximise the opportunities ahead of us.

Employee Value Proposition:
We believe that our Employee Value Proposition (EVP) – a clear and honest statement of what our people should expect from National Gas in exchange for their effort and loyalty – should sit at the heart of our organisation.

Be the energy behind the change

Our Employee Value Proposition

In 2023, we launched our new EVP, with the aim of both attracting new employees - and retaining existing talent - and making National Gas an employer of choice.

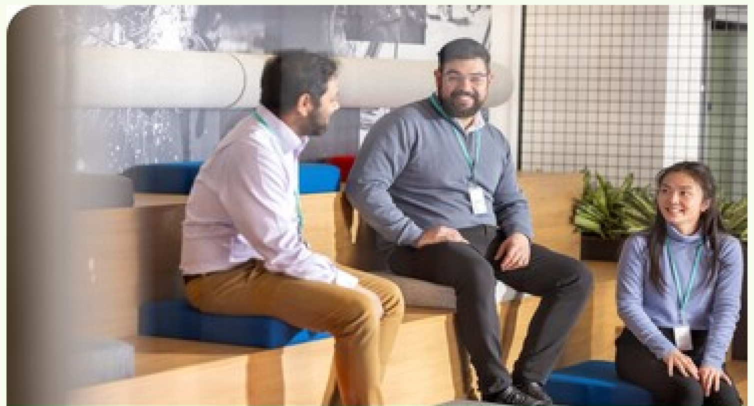
Using existing data sources and engaging directly with a cross section of people across the organisation, five clear pillars emerged which our colleagues have told us make National Gas a good place to work today, and could make us an employer of choice in the future.

The pillars set out the most important aspects of what it's like to work at National Gas. They're the building blocks of what makes us, 'us'.

Purpose
We lead a clean energy future for everyone. We are responsible for transporting gas to more than half a million businesses and 23 million homes. We are the national gas network, providing secure energy to power Britain, achieve net zero and maintain our industrial competitiveness.

Flexibility
Having some flexibility around when, where and how we work helps us all manage the demands of our lives at home and work, whether that's hybrid working, varying shift patterns or more formal adjustments to our working hours.

Growth
We want everyone to have the opportunity to develop, both personally and professionally. That means room for growth through clear pathways, development programmes and opportunities for our people to build their career on their terms.



Inclusivity
We have a supportive and inclusive culture where everyone is heard, valued and supported to reach their full potential. An environment where we can connect and collaborate and are all encouraged to be the best we can be.

Caring
We work towards our important goals together, while looking out for each other.

Powering our people

Continued

Since separating from National Grid we have transformed our approach to employee communications, taking more of a dialogue-based approach

Employee engagement

Since separating from National Grid we have transformed our approach to employee communications, taking more of a dialogue-based approach. Our overarching aim is to engage in a two-way conversation with employees, wherever possible. Our senior leadership team enjoys engaging directly with our people, both at a local level; through our corporate inductions; and at larger set pieces, such as our annual leadership summit and quarterly town halls.

We continue to enjoy good relationships with our four Trade Union Full Time Officers and local employee representatives. We work proactively with the unions on employee terms and conditions, as well as on topics where they can add value to a collective discussion of mutual benefit, such as hydrogen and the impact on future skills and green jobs.

In addition to our comprehensive annual employee survey, we are conducting regular eNPS surveys – a more agile means of assessing employee sentiment, giving us scope to act quickly and make timely improvements, while celebrating successes.

Learning and development

Attracting and retaining talent is critical to the success of our business. We are passionate about developing the skills and capabilities of our people – both to enable them to leverage personal growth opportunities and to accelerate the development of our talent.

Aligned to our value of simplicity, our learning and development proposition centres around four key building blocks: personal development, professional development, team development and leadership development.

All employees have access to LinkedIn Learning, which allows them to develop at their own pace in areas that are relevant to them. LinkedIn Learning gives free access to more than 15,000 on-demand resources covering business, leadership, creative and technology skills. Colleagues can set learning skills for the next six to twelve months to align to both their Personal Development Plan and a weekly learning goal, while dedicated Learning Pathways help develop ways of working in line with our values and leadership skills, including a focus on leading through change.

We have devised a new talent framework to connect our talent management processes to our succession planning for specific roles. At a team level, we have created a high-performing teams toolkit which provides business leaders with a suite of team development interventions, relevant to their specific context and team dynamic, with the support of both internal and external facilitation.

As our capability requirements evolve, we will continue to develop our training offerings to reskill as appropriate.

Diversity, equity and inclusion

We are committed to creating a place where diversity, equity and inclusion (DEI) are celebrated through meaningful actions, helping us to attract and retain the best talent in our industry, and reflect the communities we serve.

We have begun building strong and sturdy foundations this year as we grow into our own business, and have started to build DEI into our business as usual.

We have taken a dual-approach to embedding DEI, establishing an organisation-wide belonging plan that focuses on the following key areas:

- Hiring diverse talent.
- Developing diverse talent.
- Increasing colleague knowledge of DEI.
- Reviewing and improving internal processes.

We have also established local belonging plans for each area of the business, which set out bespoke actions to address challenges and opportunities for the directorate.

Both are underpinned by our five aspirations, set out in our Belonging Strategy:

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**

Developing diverse talent

We are committed to ensuring that everyone is set up for success in their career at National Gas, which is why we have launched three pilot development programmes for colleagues from under-represented groups:

1 → **A Women's Development Programme to support confidence, overcome imposter syndrome, build personal brands and develop career plans.**

2 → **A pilot Women's Sponsorship Programme with two members of our Executive team over a 12-month period to help increase the visibility of highly talented women and to support their development into leadership roles.**

3 → **Our Elevate Leadership Development Programme for highly talented colleagues from ethnically diverse backgrounds who are looking to move into or are at the beginning of their leadership role.**

Improving DEI understanding

We launched our new internal Belonging Hub, where colleagues are able to access DEI resources, inclusion moments for team meetings and information about our strategy and Belonging Forum. We have grown the number of colleagues involved in our Belonging Forum – a group of passionate volunteers from across the organisation. We support them with actions, provide advice and insights, and support the embedding of DEI into their business area by building colleague knowledge of DEI through team meetings and building resources. We have also held a number of internal events covering a range of topics, from menopause to mental health, and neurodiversity to allyship.





Diversity, equity and inclusion

Continued

External partnerships
Our external partnerships with Women Utilities Network (WUN) and Business in the Community (BITC) provide us with external expertise to further support our employees and our overall DEI progress.

Monitoring our progress
We track and regularly monitor our DEI progress internally, with a focus on gender and ethnicity, as this is where our self-declaration rates are most robust. This information is shared at an Executive level. We are looking to expand the data we monitor to include information from across the spectrum of diversity. All members of the Executive team have DEI objectives, which are regularly monitored.

Gender pay gap
The gender pay gap is the difference in average earnings between women and men and shows 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.

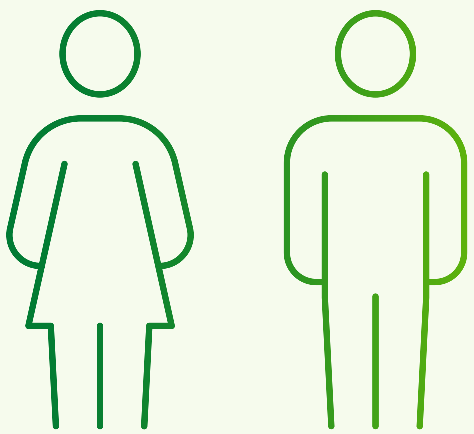
We understand the business benefits of a diverse workforce and we know that being open to different perspectives helps us to better understand and support our customers, innovate and manage risk.

In 2023, our mean pay gap has increased slightly from last year from 4.3% to 5.5%, but remains significantly lower than the UK average of 14.9% as reported by the Office for National Statistics for 2022. Our median pay gap decreased from 0.5% in 2022 to -0.2% in 2023.

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.

Read more: Gender Pay Gap Report 2023 →

26.8% **73.1%**



The gender split of the whole organisation showed that **73.1% of colleagues were males** and **26.8% of colleagues were females**, with 0.1% preferring not to state their gender.

Gender pay gap 2*

Gender	Mean	Median	% Female for each part of the regulation
Hourly pa	5.5%	-0.2%	22.3%
Incentive pa	31.9%	4.3%	24.4%

*We are required to report on the gender pay gap, the data and information was compiled using standard methodologies set out in the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017, and with reference to the ACAS guidelines where appropriate

We recognise that there is more to do, both in terms of closing the pay gap further, and attracting women into what is a traditionally male-dominated industry. That is why we have committed to the following actions:

Action plan

Continuing to increase **female representation** at more senior levels.

Creating a **DEI 'calendar' of positive events** to celebrate across the organisation - such as International Women's Day and National Inclusion Week.

Developing bitesize inclusion development interventions to **support leader upskilling** in creating an inclusive environment and managing diverse teams.

Using recruitment, promotion and attrition/exit data to inform priorities for a **business-wide DEI plan** supported by local DEI action plans for each business area, based upon specific challenges.

Partnering with Women's Utilities Network to offer free mentoring to female colleagues.

Developing an **Inclusion Toolkit** for recruiting managers to reinforce removal of bias from recruitment processes, as well as encouraging the use of positive action initiatives.

Running our business ethically

We recognise that upholding and demonstrating high standards of business conduct are critical to maintaining internal and external confidence and endeavour to continue achieving such standards.

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

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 (the ABC 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 ABC Policy applies to all employees and those working on our behalf and sets out our zero-tolerance approach to bribery, fraud, money laundering, tax evasion and other corrupt business practices. These policies 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 ABC 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. We have augmented our Code of Ethics with a Speak-Up Policy to encourage open reporting, and we have a confidential, externally managed 'Speak-Up' helpline, which 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 an annual anonymous colleague listening survey to measure our ethical culture and the confidence that our employees have in raising ethical concerns and target actions based on the survey outcomes.

Operating in a regulated environment

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-T2, came into effect on 1 April 2021 and will run for five years until 31 March 2026. Both RIIO-T1 and RIIO-T2 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

Under RIIO, the outputs we deliver are explicitly articulated and our allowed revenues are linked to their delivery

Our gas transmission and system operator business operates 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 Gas 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-T2 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.

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 Consumer Price Index with Housing Costs (CPIH) in RIIO-T2. For RIIO-T2, 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 £14.79 million of allowed revenue across the RIIO-T2 regulatory period (2021-26), with a downside of £16.99 million (2018/19 prices).

Key parameters from Ofgem's RIIO-T2 determinations

	Gas Transmission
Allowed return on equity*	5.09% (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-T2 additions and retrospectively to 2002-2021 additions. Note for the SO a seven-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% NGT element
Core baseline allowances in 2018/19 prices (cumulative for the 5 years of RIIO-T2)	£2.1 billion

*The cost of equity in RIIO-T2 is subject to annual adjustments that are calculated using the Capital Asset Pricing Model, through indexation of the 'risk-free rate' parameter.

Next price control

In October 2023 Ofgem published their decision on the Future Systems and Networks Regulation (FSNR) consultation, which confirmed that a regulatory framework approach similar to RIIO-T2 would be adopted for the new RIIO-GT3 price control. Following this, Ofgem published their Sector Specific Methodology Consultation (SSMC) in December 2023 which set out and sought feedback on the methodologies they would apply for setting the RIIO-GT3 price controls. We have engaged extensively with Ofgem and the wider Industry to support the development of these methodologies and submitted our response to the SSMC in March 2024. Ofgem will look to publish a RIIO-GT3 Sector methodology decision (SSMD) in Q2-Q3 2024 which will apply to the electricity transmission, gas transmission and gas distribution sectors from 1 April 2026 – 31 March 2031.

Risk management

A new Head of Risk and Assurance was appointed in October 2023 to continue building on control and risk management across enterprise risk management. The risk management framework has been refreshed to increase its profile across the Company and to provide a clear line of sight to the executive and the Board of the key risks that we manage.

Our move to a separate entity provides us with both new and existing challenges

Risk management

The National Gas Board is committed to protecting and enhancing our reputation and assets, while safeguarding the interests of our stakeholders.

Areas of focus

Our move to a separate entity provides us with both new and existing challenges. The ongoing war in Ukraine and Houthi attacks in the Red Sea impact on supply chain and heighten security risks, adding pressure to our long-term ambitions. The continued acceleration of major trends around digital disruption, data threats and the climate and biodiversity crises could impact our ability to create value.

Our business is exposed to a variety of uncertainties that could have a material adverse effect on its short- to 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 framework is designed to be comprehensive and consistent with our broader criteria for success. It has been designed to be clear and practical, giving the business readily measurable principles aligned with our purpose and values to assess what we are, and are not, willing to do to deliver on our strategy, so that we can provide robust assessments of the risks we face today and those that will impact tomorrow.

Risk governance

The Board has overall responsibility for enterprise risk management, which includes approval of the risk management framework and internal control systems and processes set by the second line Risk and Assurance function. The Board delegates the enterprise risk management oversight to the Audit and Risk Committee (ARC) and the Safety and Sustainability Committee (SSC). Both the ARC and SSC support the Board by regularly reviewing the principal risks with proposed changes presented for endorsement.

National Gas operates a three lines approach to risk management. Responsibility for managing risk rests with each separate, first-line business function. The Executive own and maintain risk for their function; they are responsible for conducting regular risk assessment reviews and ensuring the adequacy of their controls and mitigations in place to manage the risks. First-line Executive committees manage oversight of the individual business functions.

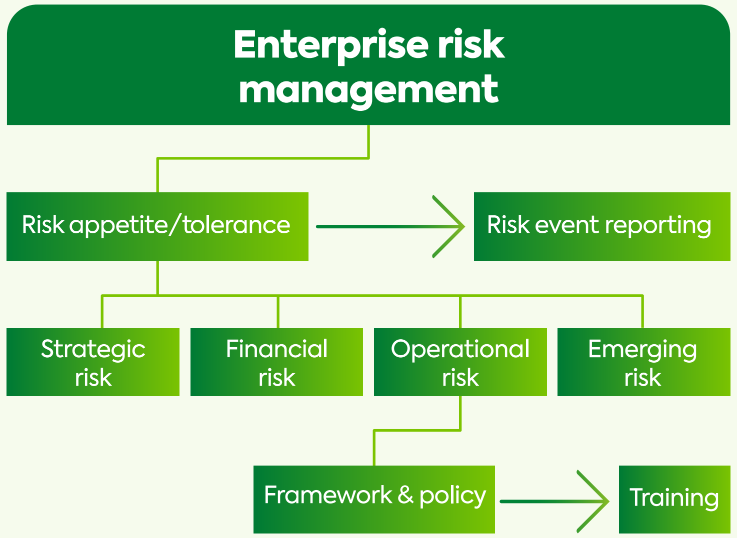
The process is underpinned by our Risk and Assurance functions in the second line, with additional governance from the Gas Executive Risk Committee (GERC) who escalate to the ARC and SSC. A third line of defence is provided by Internal and External Audit functions.

Read more: Corporate governance →

Risk management framework

Our enterprise risk management (ERM) process provides a framework to identify, assess, manage, monitor and report risks.

Our strategy and high-level objectives drive all risk management activity with our Board setting and monitoring the amount of risk we are prepared to take in delivering our business objectives – our risk appetite.



Since last year, work has taken place to develop an understanding of our tolerance to risk and to capture this within our risk assessment process (see the Risk management process). Understanding our tolerance to risk helps us to identify where the outcomes of a potential risk could impact our ability to meet our objectives. Once formalised this will enhance our risk event reporting i.e. the occurrence of risk.

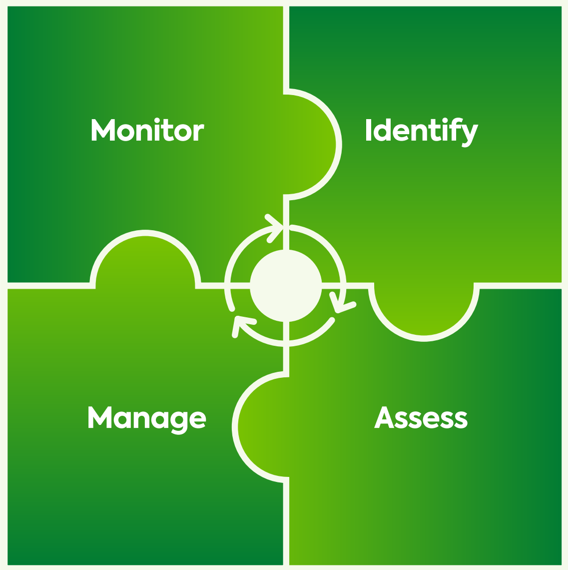
Put simply, operational risks are the risks of doing business, they are the risks businesses face from ineffective or failed internal processes, people, systems, or external events.

Operational risks, if realised, can lead to serious losses. Ensuring we understand the specifics of our operational risk can help us to achieve our strategic objectives, while ensuring business continuity in the event of disruptions to operations, and helps us to proactively identify and control threats and vulnerabilities that could impact the business negatively.

A framework of operational risk categories has been developed to enable improved reporting and analysis and provides the business with a clear consistent overview of our operational threats, comfort areas and opportunities. We will continue to refine our processes, tools and training to further improve our risk management framework and ensure it remains appropriate for the business.

Risk management process

We identify, assess, manage, and monitor the main risks that we face in delivering our strategic priorities. Risks are assessed based on impact and likelihood, taking account of the inherent position, residual position and any future target requirements, where required, with mitigating actions and timelines.



Controls are implemented by first line business areas and monitored across first line, second line assurance and third line audits. Metrics in the form of key risk indicators (KRIs), key control indicators (KCIs) and key performance indicators (KPIs) support our understanding of our risk and control environment and ensure effective monitoring.

Our risk and monitoring framework gives the second line the capability to report and provide comfort to the committees and Board that we are managing our environment.

Emerging risk

We have a process to identify and monitor emerging risks. The process is designed to ensure we are aware of and capture new potential threats on our horizon. The principal method is the alertness of individual teams operating within their fields of expertise and reporting the changes in risk environment. As well as reporting through the management structure, there are various prompts for risk-based conversations within our governance structure and operating model.

Through identification, adequate steps can be taken to prevent the occurrence of a threat or to manage the impact of risks.

Risk profile

Our principal risks provide an overarching picture of our risk landscape. The principal risks and their related risks remain under regular review with changes mapped through the relevant governance structure. The operational risk framework supports the identification of the everyday risks that can impact our strategic goals.The risk profile of the business continues to evolve as the business develops. In 2023/24 there was a review of our principal risks with a consolidation of the risks aligned to our business objectives. This has lead to a reduction in the principal risks from 22 to 8. Principal risks now align to the key business objectives.

The risk profile of the business continues to evolve as the business develops

Risk management

Continued

We identify, assess, manage and monitor the main risks that we face in delivering our strategic priorities

Principal risks

Changes to principal risks

There has been one new risk captured over the course of the last year to acknowledge the separation of National Gas Transmission from National Grid.

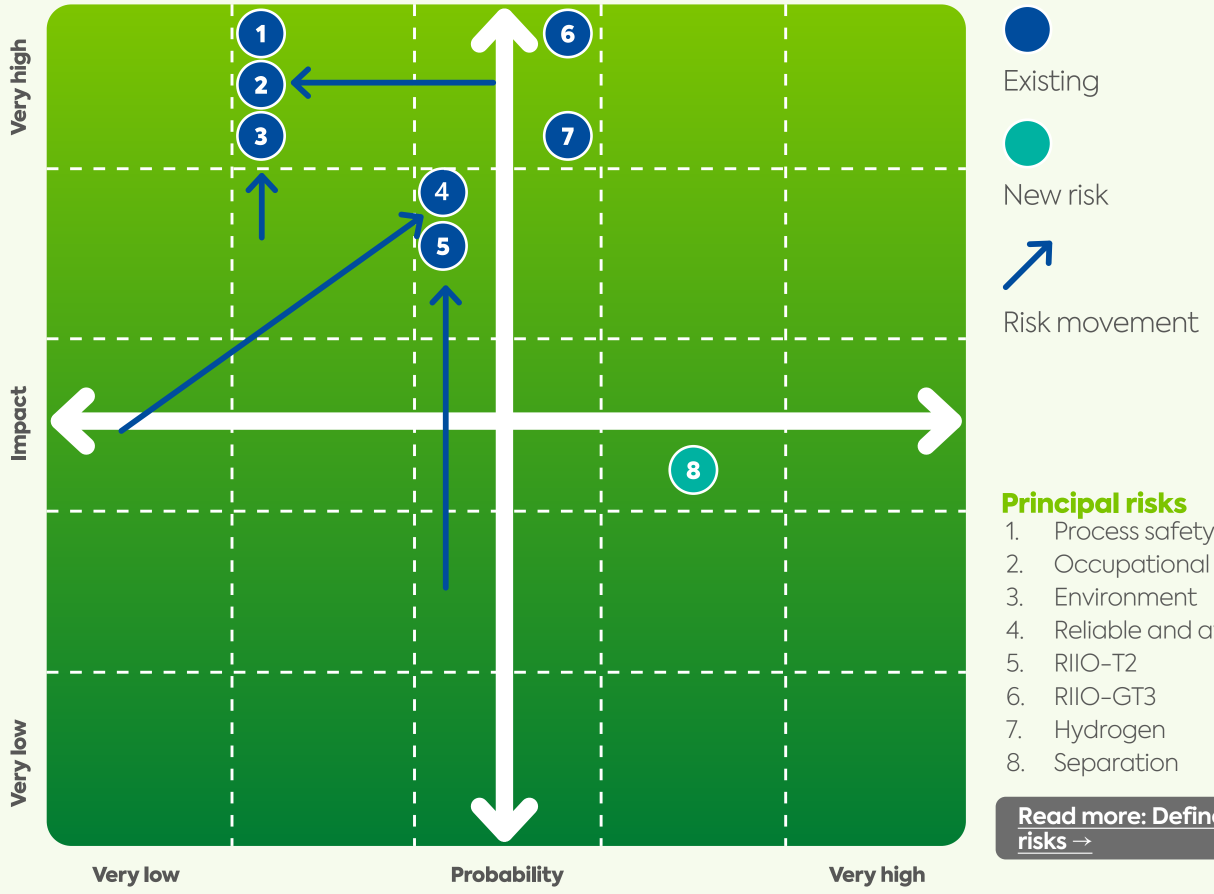
Rationale for the changes in scoring

Occupational safety has increased in impact and likelihood. The traffic and congestion on our sites is increasing as a result of the ageing network. There has been an increase in near-miss reporting, which reflects improved processes of identification. The risk scoring changed following reflection of the severity that this risk carries and a reassessment of the overarching scores.

The environment risk decreased in likelihood as the Environmental Action Plans are now well underway and the Annual Report and Accounts provides insight into our environmental, social and governance activities. Increased stakeholder engagement has also reduced the likelihood of failing to achieve this objective.

The reliable and available network risk increased in impact as the risk saw a combination of two previous principal risks (energy disruption and network performance) which were reported at the previous highest levels of impact recorded.

The RIIO-T2 delivery has seen an increase in impact. As we come closer to March 2026, when the RIIO-T2 period will end, the potential risk of non-delivery increases. Strong controls exist to continue to manage the likelihood.



Principal risks

1. Process safety
2. Occupational safety
3. Environment
4. Reliable and available network
5. RIIO-T2
6. RIIO-GT3
7. Hydrogen
8. Separation

Read more: Defined principal risks →

Appetite	Definition
Averse	National Gas seeks to avoid risk in this area due to uncertainty, capacity, and impacts on our objectives.
Cautious	National Gas takes a balanced approach to risk, with a preference for limited impact and uncertainty. Risk benefits must outweigh potential negative impacts.
Tolerant	National Gas may take on risk that is justified and with some expected uncertainty. Actions must be taken to manage the downside impacts.

Mitigations

Process safety, occupational safety and the environment continue to remain key priorities for the business with audit and assurance programmes in place to highlight any improvements required. Actions are tracked and monitored to completion. 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 monitor asset performance and people competency to minimise risk of an asset failure and the impact of any potential disruption. We 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 winter preparedness.

Network performance is managed and mitigated. We have an established Centre of Excellence to reflect the standalone business resilience needs of NGT. We have retained our certification to the ISO:22301 Business Continuity Management standard for our Gas System Operator role and the NGS business.

There is a great deal of focus by the business on RIIO-T2 delivery and the RIIO-GT3 risk management as they are critical to delivering our strategic ambitions. Process controls and governance are well established, a performance scorecard which aligns to our strategic objectives and business commitments is regularly reviewed by the Executive.

The separation risk is scheduled for completion by mid 2024/25.

Full details of how our financial risks are managed is captured within the financial sections of this report.

Read more: Financial statements →

Risk management

Continued

Defined principal risks

Ref	Risk category	Appetite	Description	Link to business priorities	Assessment
1	**Process safety**		There is a risk that National Gas suffers a significant Process Safety event because of a failure of process safety control, an asset failure due to poor asset management, an environmental event leading to a significant safety event, asset damage, lasting reputation impact (Legal, Regulatory and Stakeholder), damage to investor confidence, potential disruption of energy supplies in Great Britain and potential penalty, financial impact.		Impact: Low – High; Likelihood: Low – High
2	**Occupational safety**		There is a risk that National Gas suffers a significant occupational safety or health event because of a systemic failure, human error or a violation leading to significant ill health/injury, lasting reputational impact (Legal, Regulatory, and Stakeholder), damage to investor confidence and potential prosecution/financial impact.		Impact: Low – High; Likelihood: Low – High
3	**Environment (including climate change)**		There is a risk that National Gas fails to protect and enhance the environment because of a systemic failure, external influencing factors, human error or violation leading to environmental damage, lasting reputational impact (Legal, Regulatory, and Stakeholder), poor investor confidence and potential prosecution/financial impact.		Impact: Low – High; Likelihood: Low – High
4	**Reliable and available network**		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 unavailability of an asset, or a combination of assets, or inadequate supply to meet demand leading to a loss of services to our consumers, reputational damage to customers, regulator and politicians, material financial losses and damage to investor confidence.		Impact: Low – High; Likelihood: Low – High
5	**RIIO-T2 delivery (Revenue = Incentives + Innovation + Outputs) Term 2**		There is a risk that we are unable to achieve the financial commitments that National Gas has 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.		Impact: Low – High; Likelihood: Low – High
6	**RIIO-GT3 (Revenue = Incentives + Innovation + Outputs) Term 3**		There is a risk that we fail to secure an acceptable RIIO-GT3 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-T2 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.		Impact: Low – High; Likelihood: Low – High
7	**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.		Impact: Low – High; Likelihood: Low – High
8	**Separation**		There is a risk that National Gas does not have the appropriate frameworks, policies, processes, technology, or people in place to successfully perform the activities currently provided by National Grid under the Transitional Service Agreement (TSA). Risk: National Gas fails to exit the TSA and separate from National Grid on time. Impact: Higher direct separation costs; Higher charges for term extensions; Higher people costs (contract extensions); Potential regulatory fines and/or enforcement action.		Impact: Low – High; Likelihood: Low – High

Read more: Strategic priorities →

Section 172 statement

The Directors are required to act in good faith to promote the long-term success of the Company for the benefit of its shareholders, while having due regards to the matters set out in section 172(1) of the Companies Act 2006.

The Board has identified the Company's key stakeholders to be its employees, regulators, customers, suppliers, end consumers, investors and the local community.

The Board believes considering our stakeholders in key business decisions is not only the right thing to do but is fundamental to our ability to drive long-term value creation whilst ensuring that business is conducted ethically and responsibly. Our ongoing stakeholder engagement also supports transparency and allows us to build strong and trusting relationships.

The Company's decision-making framework focuses on delivering sustainable value for our key stakeholders, and the table below outlines how the Board discharges its duty under s172 followed by some specific examples of how stakeholder factors have been considered for some of the decisions made by the Board during the year. A list of key items considered by the Board and its Board Committees can be found in the Corporate Governance report from page 51.

S172 factors		
s172(1)(a) **Considering long-term consequences**	The Company's long-term success will not only create value for our investors but will have a positive impact on our customers, end consumers, the environment and society. The longer-term strategic direction for the business that the Board agreed in November 2023 recognises this and the Board will regularly assess the delivery of the corporate strategy to ensure long-term sustainable success. The Directors are aware of their responsibilities as Directors and the need to consider the duty under section 172. In addition to the Board strategy day, the Board considers strategic items at each meeting and all Directors are expected to constructively challenge and contribute to discussions, and in doing so offer additional perspectives and strategic guidance. This enables the Board to regularly assess the strategic priorities and consider where additional value can be generated for its key stakeholders. The Sufficiently Independent Directors bring their extensive experience in other regulated sectors to provide strong independent challenge and judgement from the perspective of non-investor stakeholders.	• Our business model: page 10 • Strategy in action: page 20 • Gas energy landscape and market trends: page 16 • Risk management: page 41
s172(1) (b) & (c) **Fostering stakeholder relationships**	Constructive engagement with our employees, customers, suppliers, consumer groups and our principal regulators, (Ofgem, HSE, the Environmental Agency and the Scottish Environmental Agency) is vital and supports the business in delivering its priorities and identifying and addressing issues as they arise. These relationships are also key to the Company's ability to deliver long-term value to all its stakeholders. The Company's strategy and success are dependent on the talent, contribution and values of the people it employs. The safety and health of our employees and contractors is one of our key priorities, and performance and initiatives to maintain and improve areas of safety are considered by the Safety and Sustainability Committee. Our engagement with regulators is vital in making sure our views are considered in the development of energy, safety and environmental related national level policies. The Board recognises that customer engagement is essential to ensure that the Company is responsive to market demands and priorities. Security of supply and the transition to a decarbonised energy system in a fair and affordable way is a regular focus by the Board. The Board receives updates on key initiatives to delivery sustainable customer values at each Board meeting and monitors the performance against the customer satisfaction targets. Our success also relies on our supply chain, and we work with partners to ensure effective collaboration and deployment of their capabilities in delivering projects. The Executives manage the relationship with these stakeholder groups and the Board or its Committees receive regular updates on this engagement, allowing them to debate and challenge as appropriate and use the information in their decision making.	• Strategy in action: page 20 • Stakeholder engagement: page 23 • Operating in a regulated environment: page 40 • Powering our people: page 35 • Partnering with others to help our communities: page 34
s172(1)(d) **Impact on the community and the environment**	The Company recognises the positive impact that delivery of the net zero ambitions will have on the environment and society as a whole. Engagement with Government, Ofgem and other key organisations on the development of the national hydrogen and carbon capture and storage agenda helps to further the Company's net zero-focused priorities that will deliver environmental benefits for all.	• Our environmental commitments: page 28 • Climate-related financial disclosure: page 31 • Partnering with others to help our communities: page 34
s172(1)(e) **High standards of business conduct**	The Board leads and monitors the Company's culture, by setting the tone and framework within which agreed values and accepted behaviours can be embraced by employees. The Audit and Risk Committee has oversight of policies and processes in place to ensure the Company and its employees adhere to the highest standards of business integrity.	• Powering our people: page 35 • Running our business ethically: page 39
s172(1)(f) **Members of the Company**	The Shareholder Nominated Directors of the Board represent our investors, and regular dialogues between the Shareholder Nominated Directors outside the meetings ensures that the interests of our investors are taken into account in day-to-day business decisions and when developing proposals for the Board. The Company's long-term success is dependent on financial stability and our ability to remunerate our investors for their investment is supported by well managed finance and treasury activities. The Finance and Treasury Steering Group meetings enable our investors to consider immediate financial proposals as well as longer-term financial priorities.	• Our business model: page 10 • Performance overview: page 13 • Dividend: page 88

Section 172 statement

Continued

Examples of how the Board have considered section 172(1) matters	
Long-term strategy The Board approved the long-term strategic direction of the Company.	**Appointment of Chief Operating Officer** Following a review of the Executive structure, the role of Chief Operating Officer (COO) was created and Matt Steele was appointed to the role, and joined the business in April 2024.
Relevant stakeholders	
• Employees • Regulators • Customers • Suppliers • End consumers • Investors	• Employees • Regulators • Customers • Suppliers • End consumers • Investors
In November 2023, the Board held its first strategy day and agreed the longer-term strategic direction for the business. In doing this it also identified areas where additional value can be generated for its key stakeholders. The Board acknowledges the need for the business to be performance driven, but also ensure it delivers its sustainability aims and runs the business ethically. Successful execution of the strategy will support the business in delivering its net zero ambitions whilst ensuring value growth and enhancing its reputation. The Board considered the impact and benefits that the long-term strategy will have on the environment and the benefits it will have on job opportunities in Great Britain. The Company's strategy provides clarity to employees on the priorities which will support internal planning and execution of the strategy. It also provides clarity on the skills and capabilities that will be required to deliver the priorities and will increase the availability of jobs and training opportunities.	Following the transition to a standalone Company and a review of the Executive structure it was agreed that it could be strengthened by the creation of a COO role. The key selection criteria included in the role profile developed by the Remuneration and Nominations Committee was to identify an experienced leader in delivering large capital projects who has extensive operational and construction experience. Proven track records in leading and delivering organisational strategy was also a differentiating factor. Following a thorough recruitment and selection process, Matt Steele was offered the position. Matt's excellent commercial and customer-facing experience together with his leadership skills will support the long-term success of the Company for the benefit of all our stakeholders. Matt's experience and contribution to the Company will bring benefits to all our key stakeholder groups.

Read more: Stakeholder engagement →

Non-financial and sustainability information statement

Our Annual Report contains a range of non-financial and sustainability information. To comply with the non-financial reporting requirements (NFR), contained in sections 414CA and 414CB of the Companies Act 2006, we are providing the details below to help stakeholders understand our key non-financial and sustainability matters.

	Reference in 2023/24 Annual Report and Accounts	Our policies and other relevant documents	Read more on our website
a. Environmental matters	Our environmental commitments: page 28	National Gas Environmental Sustainability Policy	https://www.nationalgas.com/document/145461/download
	Climate-related financial disclosure: page 31	National Gas Environmental Action Plan	
		National Gas Annual Environmental Report	
b. Our people	Powering our people: page 35	National Gas Gender Pay Gap Report 2023	https://www.nationalgas.com/document/145331/download
	Diversity, equity and inclusion: page 37	National Gas Code of Ethics and Speak-Up Policy	https://www.nationalgas.com/document/145371/download
	Being a responsible business: page 26		
	Our Board: page 55		
c. Anti-bribery and corruption	Running our business ethically: page 39	National Gas Anti-Bribery and Corruption Policy	https://www.nationalgas.com/document/143731/download
		National Gas Modern Slavery and Human Trafficking Statement 2023	https://www.nationalgas.com/document/145326/download
d. Social matters	Partnering with others to help our communities: page 34	National Gas Community Grant Fund	https://www.nationalgas.com/ourcommunities
e. Risk	Risk management: page 41		
f. Other matters	Our business at a glance: page 5	National Gas Supplier Code of Conduct	https://www.nationalgas.com/document/143151/download
	Our business model: page 10	National Gas Tax Strategy, March 2024	https://www.nationalgas.com/document/145351/download
	Our group structure and ownership: page 53	National Gas Privacy Policy	https://www.nationalgas.com/privacy-policy
	Stakeholder engagement: page 23		
	Operating in a regulated environment: page 40		

Financial review

2023/24 was the first full year for National Gas and its subsidiaries as a stand-alone entity after the acquisition of National Gas Transmission Holdings by GasT MidCo on the 31st January 2023. A Consortium of Macquarie Asset Management and British Columbia Investment Management Corporation acquired a 60% stake in GasT TopCo (indirect subsidiary of NGT), on 31 January 2023. The Consortium acquired a further 20% during 2023/24.

The Consortium also entered into a new option agreement with National Grid for the potential acquisition of the remaining 20% shareholding in GasT TopCo.

Operating profit for the financial year 2023/24 was £853 million (2022/23: £577 million) after operating expenses, and before interest and taxes have been deducted. Revenue reduced by £140 million to £1,778 million, primarily due to lower regulated income driven by lower demands as a result of milder winter temperatures and impacts of lower power generation. This was partly offset by increased prices to collect shrinkage under-recovery in 2022/23. Operating costs reduced by £416 million to £883 million primarily due to lower prices and throughput in purchases of gas costs (shrinkage).

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, and 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 restructuring, are also reflected in budgets and forecasts. We separately monitor and disclose the excluded items as a component of our overall financial performance.

Reconciliation 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 2024 and 31 March 2023. These related to the business continuing to establish our standalone operating model, further details can be found in note 5.

Unadjusted and adjusted profit figures are provided below:

	Years ended 31 March	
	2024	2023
	£m	£m
Adjusted operating profit	**895**	619
Exceptional items[1]	**(42)**	(42)
Total operating profit	**853**	577

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

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

	Years ended 31 March	
	2024	2023
	£m	£m
Adjusted operating profit	**895**	619
Adjusted net finance costs	**(3)**	(227)
Adjusted profit before tax	**892**	392
Adjusted taxation	**(230)**	(84)
Adjusted profit after tax	**662**	308
Adjusted profit after tax (earnings)	**662**	308
Exceptional items after tax and remeasurements	**(40)**	(29)
Profit after tax (earnings)	**622**	279

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 within the Revenue (note 3).

	Years ended 31 March	
	2024	2023
	£m	£m
Adjusted operating profit excluding timing differences	**670**	668
Timing differences[1]	**225**	(49)
Adjusted operating profit	**895**	619
Exceptional items	**(42)**	(42)
Total operating profit	**853**	577

[1] The over recovery of £225 million in 2023/24 compared with an under recovery of £49 million in 2022/23 is mainly due to the recovery of the 2022/23 gas shrinkage costs that were under-collected, partly offset by the repayment of the 2022/23 revenue over-collection.

Financial review

Continued

Consolidated income statement

The commentary below describes the continuing business results for the year ending 31 March 2024.

	Years ended 31 March	
	2024	2023
	£m	£m
Revenue	**1,778**	1,918
Operating costs	**(883)**	(1,299)
Adjusted operating profit	**895**	619
Exceptional items	**(42)**	(42)
Finance income	**274**	138
Finance costs:		
Before remeasurements	**(277)**	(365)
Remeasurements	**(11)**	4
Profit before tax	**839**	354
Taxation:		
Before exceptional items and remeasurements	**(230)**	(84)
Exceptional items and remeasurements	**13**	8
Profit after tax	**622**	**279**

Revenue

Revenue for the year ended 31 March 2024 reduced by £140 million to £1,778 million, primarily due to £354 million lower revenue in the Gas Transmission segment of the business, driven by reduced capacity revenue. This was due to lower demand as a result of milder winter temperatures and impacts of lower power generation demands, further impacted by reduced revenue from auction premiums (which were abnormally high in 2022/23 due to the Ukraine/Russia conflict).

This is partly offset by £216 million higher Gas System Operator revenue due to an increase in commodity revenue, driven by an increase in allowed revenue due to recovery of prior year shrinkage under-collection.

Operating costs

Operating costs reduced by £416 million to £883 million, primarily due to reduced gas prices and lower gas demand in the UK and Europe resulting in lower in-year shrinkage costs.

Operating profit

Adjusted operating profit for the year ended 31 March 2024 of £895 million represents an increase against last year of £276 million, primarily due to significantly reduced operating costs driven by lower shrinkage costs partly offset by a reduction in revenue.

Net finance costs

For the year ended 31 March 2024, net finance costs before exceptional items and remeasurements reduced by £224 million to £3 million. This is primarily due to higher interest income (higher floating rate on loan to parent) and fall in accretion (lower RPI rates) on the RPI-linked debt compared to 2022/23. Exceptional items and remeasurements reduced by £15 million to an £11 million loss for the year ended 31 March 2024. This reduction was primarily driven by mark to market on RPI to CPI index linked swaps included within remeasurements.

Taxation

The tax charge on profits before exceptional items and remeasurements of £230 million is £146 million higher than 2022/23 due to the increase in profit before tax and the increase in Corporation Tax rate from 19% to 25%. The tax credit in respect of exceptional costs of £13 million is £5 million higher than last year due to the increase in the level of exceptional costs.

Consolidated statement of financial position

	Year ended 31 March	
	2024	2023
	£m	£m
Non-current assets	**8,925**	8,806
Current assets	**1,268**	875
Total assets	**10,193**	9,681
Current liabilities	**(791)**	(1,344)
Non-current liabilities	**(5,541)**	(4,677)
Total liabilities	**(6,332)**	(6,022)
Net assets	**3,861**	3,659

Non-current assets

The £119 million increase in non-current assets is primarily due to a £245 million increase in property, plant and equipment, partly offset by reduction in pension asset of £99 million and £25 million lower derivative financial assets.

Property, plant and equipment

Property, plant and equipment increased by £245 million to £5,019 million as at 31 March 2024. This was primarily driven by in-year capital expenditure of £421 million, partly offset by £169 million of depreciation and net disposals of £18 million.

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

Financial and other investments

Financial and other investments comprise of 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 £6 million to £5 million due to gas demolition provision utilisation.

Current assets

The increase of £393 million in current assets is primarily due to £435 million increase in financial and other investments, partly offset by a reduction in trade and other receivables of £57 million.

Trade and other receivables

Trade and other receivables have decreased by £57 million to £237 million at 31 March 2024. Largest movements relates to accrued income due to decreases in entry and exit commodity accruals and timing of other receivables.

Financial and other investments

Financial and other investments have increased by £435 million to 992 million at 31 March 2024 this was due to the placement of higher money market funds and also includes interest from parent company based on floating interest rates.

Current liabilities

Current liabilities reduced by £553 million mostly due to reduction in borrowings of £635 million partly offset by higher trade and other payables £56 million and increase in current provisions of £16 million.

The reduction in borrowings of £635 million was due to a bank loan of £750 million (notional), which was refinanced in April 2023 with a long-term loan Euro 550 million (repayable 5 April 2030) and GBP £250 million (repayable 5 April 2035).

Trade and other payables

Trade and other payables increased by £56 million primarily due to £57 million higher group tax relief, £48 million higher trade payables, partly offset by reduction in customer deposits due to lower transit gas volumes.

Financial review

Continued

Non-current liabilities

The increase of £864 million in non-current liabilities is driven mainly by an increase of £810 million in borrowings due after more than 12 months (primarily accretion on RPI debt and refinancing of a £750 million debt, as mentioned within current liabilities above) and higher deferred tax liabilities of £54 million.

Current and deferred tax liabilities

The net deferred tax liability increased by £54 million to £803 million. This is predominantly driven by the increase in the deferred tax liability on fixed asset timing differences as a result of the acceleration of current tax relief from capital allowance full expensing, offset in part by the reduction in the deferred tax liability on the pension surplus due to the reduction in the gross pension surplus carried forward.

The current tax liability decreased by £10 million in 2023/24 to £11 million, due to the settlement of prior and current year corporation tax liabilities.

Net debt

Net debt has increased by £246 million primarily due to increase in the cash flow of £343 million offset by increase in net interest charge of £82 million and exchange and non-cash movements of £15 million. For detailed movements see net debt note 26.

Provisions

Total provisions were reported at £70 million. This was £24 million higher than prior year due to £37 million increase in additions, partly offset by £13 million utilisation in-year.

Additions in-year included £17 million related to land remediation and restoration costs at a former Viking Gas Terminal at Theddlethorpe (the lease for this site ended and the lessee paid £17 million for the restoration of the site and transferred the obligation back to the company).

Six new operational sites were also acquired in urban areas to support the Hydrogen strategy. The new sites were acquired at a cost of £10 million. An environmental provision was recorded at a discounted value of £9 million to reflect the future land remediation works required on these sites.

Utilisation in-year included £6 million on the Decommissioning provision, £5 million on Crop and Quarry provisions and £2 million relating to Environmental provision.

Contract liabilities

Contract liabilities increased by £8 million to £137 million due to increase in customer funded, connections and diversions.

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	2024 £m	2023 £m
As at 1 April 2023	**411**	664
Current service cost	**(3)**	(5)
Augmentations	**—**	(3)
Net interest credit	**21**	16
Administration costs[1]	**(6)**	(3)
Settlements cost	**—**	(27)
Actuarial gains/(losses):		
On plan assets	**(147)**	(1,220)
On plan liabilities	**27**	975
Employer contributions	**8**	14
As at 31 March 2024	**312**	411

1 Includes £2.6 million of administration costs related to the separation of our pension scheme from National Grid booked to exceptional items.

The overall pension asset reduced by £99 million to a closing asset of £312 million, reflecting latest valuation performed as at 31 March 2024. 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 2024. 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

	2024 £m	2023 £m
Cash generated from operations	**1,188**	825
Capital expenditure	**(419)**	(300)
Business net cash flow	**769**	525
Net interest paid	**(88)**	(35)
Tax paid	**(89)**	(34)
Movement in short-term financial investments	**(212)**	(59)
Movements in loans and short term borrowings	**(28)**	115
Cash inflows on derivatives	**—**	4
Cash outflows on derivatives	**—**	—
Dividends paid to shareholders	**(337)**	(505)
Increase in cash and cash equivalents	**15**	10
Increase in financial investments	**212**	59
Movement in borrowings and related derivatives	**28**	(119)
Net interest paid on the components of net debt	**88**	35
Changes in fair value of financial assets and liabilities and exchange movements	**(5)**	12
Other non-cash movements	**(10)**	(7)
Net interest charge on the components of net debt	**(82)**	(295)
Net debt increase	**246**	(305)
Opening net debt	**(3,965)**	(3,660)
Closing net debt	**(3,719)**	(3,965)

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 2024, cash flow from operations increased by £363 million to £1,188 million. This is primarily due to higher operating profit before depreciation.

Capital cash expenditure

Capital expenditure in the year increased by £119 million to £419 million, driven by an £86 million increase in property, plant and equipment expenditure and £33 million in intangible assets.

Dividends paid

The Directors proposed a final dividend for the year ended 31 March 2023 of 1.25p per share that absorbed £49 million of shareholders' equity. This was declared after the year end at the 18 July 2023 Board meeting, as a result this was not included within the 2022/23 Financial Statements. An interim dividend of £229 million per ordinary share of 5.79p was declared for 2023/24 and paid on 5 December 2023. A further interim dividend of £59 million per ordinary share of 1.50p was paid in January 2024. The directors are not proposing a final dividend for 2023/24.

Financial review

Continued

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 over-recovery of £225 million (2022/23: £49 million under-recovery). Our closing balance at 31 March 2024 was £11 million over-recovery (2022/23: under-recovery of £216 million). 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. 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 2023/24 was 8.5%, which is 1.1% higher than the 7.4% allowed return on equity. We met our customer satisfaction targets, achieving a score of 8.56. The company earned the maximum financial performance and performed well against other incentives in the RIIO-T2 price control.

Year ended 31 March	2024	2023
	%	%
Allowed return (including avg. 2% long-run inflation)	**7.4**	6.7
Totex incentive mechanism	**0.5**	0.6
Other revenue incentives	**0.5**	0.4
Unlicensed Income	**0.3**	0.4
Return including in-year incentive performance	**8.7**	8.0
Pre-determined additional allowances	**(0.2)**	(0.2)
Return on equity	**8.5**	7.8

Regulatory asset value (RAV)

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

£m	2024	2023
Opening Regulated Asset Value (RAV)	**7,075**	6,561
Asset additions (aka slow money) (actual)	**375**	301
Performance RAV or assets created	**4**	6
Inflation adjustment (actual CPI)	**267**	604
Regulatory Depreciation	**(417)**	(397)
Closing RAV	**7,304**	7,075

This Strategic Report was approved by the Board on 18 July 2024 and signed on its behalf by:

Jon Butterworth
Chief Executive Officer
18 July 2024

Leading a clean energy future that works for everyone through effective governance.

Corporate Governance

Chair's message

Chair's statement on corporate governance

Our people are essential to the delivery of our business plan commitments and longer-term strategic objectives. They contribute every day to our continued success.

Phil Nolan
Chair of the Board

On behalf of the Board, I am pleased to present the corporate governance report for 2023/24. The current Board was established at the end of January 2023, with the majority of the Directors being new to the Company. We have now completed our first full financial year as a stand-alone business, and have made steady progress in providing guidance and support to the Executives in their transition from leading an operating company under National Grid to a stand-alone company.

Good governance is central to our business and to the Board. We believe that the governance framework that we have established provides the foundation for a strong, effective and engaged Board, which will oversee and support the Company in delivering our business plan commitments and the longer-term strategy. The clear delineation of Board roles enables the Chair and Non-Executive Directors, who are our Shareholder Nominated Directors and Sufficiently Independent Directors, to provide oversight and constructive challenge to the Executives, where appropriate. The governance framework will also support the Board in leading the Company with integrity and transparency, and ensure the interests of all stakeholders are considered in our decision making.

In all our deliberations, we are focused on the long-term success of the business for investors and stakeholders through financial resilience and a sustainable business model . In November 2023, we held our first Board strategy session where we agreed the longer-term priorities and strategic direction of the Company. We are conscious that our strategy will evolve as external conditions change, and we will ensure that it remains appropriate for all our stakeholders and will support National Gas in achieving continuing sustainability and success.

In support of more immediate priorities, we have monitored and reviewed delivery of our commitments under the current regulatory framework, RIIO-T2, with particular focus on our large capital expenditure programmes. To ensure the Company has the platform it will need to successfully deliver its future business plan commitments and longer-term strategic priorities, we started to assess National Gas' longer-term capacity and resources. This involves overseeing and supporting the development of our talent to ensure we have the right foundation for future growth to ensure long-term sustainability. Our Board committee meetings, which are normally attended by the majority of our Board members, provide the Board with valuable insight into specific areas within their respective remits.

We recognise that stakeholder engagement is critical to the lasting success of our business. Management has worked hard to establish or strengthen relationships with our new and existing key stakeholder groups, and we support and encourage our Executives in these relationships. Understanding the impact of our business on our key stakeholders, and the environment in which we operate, is central to the Board's decision making and we have established good practices in ensuring our stakeholders' views are part of our Board deliberations. Further details on our engagement can be found in our section 172 statement from page 44..

Following the increase of Macquarie Asset Management led consortium's equity stake in the business in March 2024, National Grid's representation on our Board was reduced to one Director. We are delighted that Mark Russell will join the Board as an additional Sufficient Independent Director in July and with his substantial financial experience he will chair the Audit and Risk Committee.

Our people are essential to the delivery of our business plan commitments and longer-term strategic objectives, and in doing so contribute every day to our continued success. A lot of changes took place during the Company's first year as a standalone business and I would like to thank everyone across the business for their hard work during the transition period and for embracing all these changes.

It is vital that we provide a work environment where everyone feels valued, motivated and able to thrive, and the Board was very pleased that the results from the employee engagement survey were positive and that our people strongly believe in our culture and values. We will continue to appraise initiatives to support the wellbeing of our people and further our diversity and inclusion ambitions.

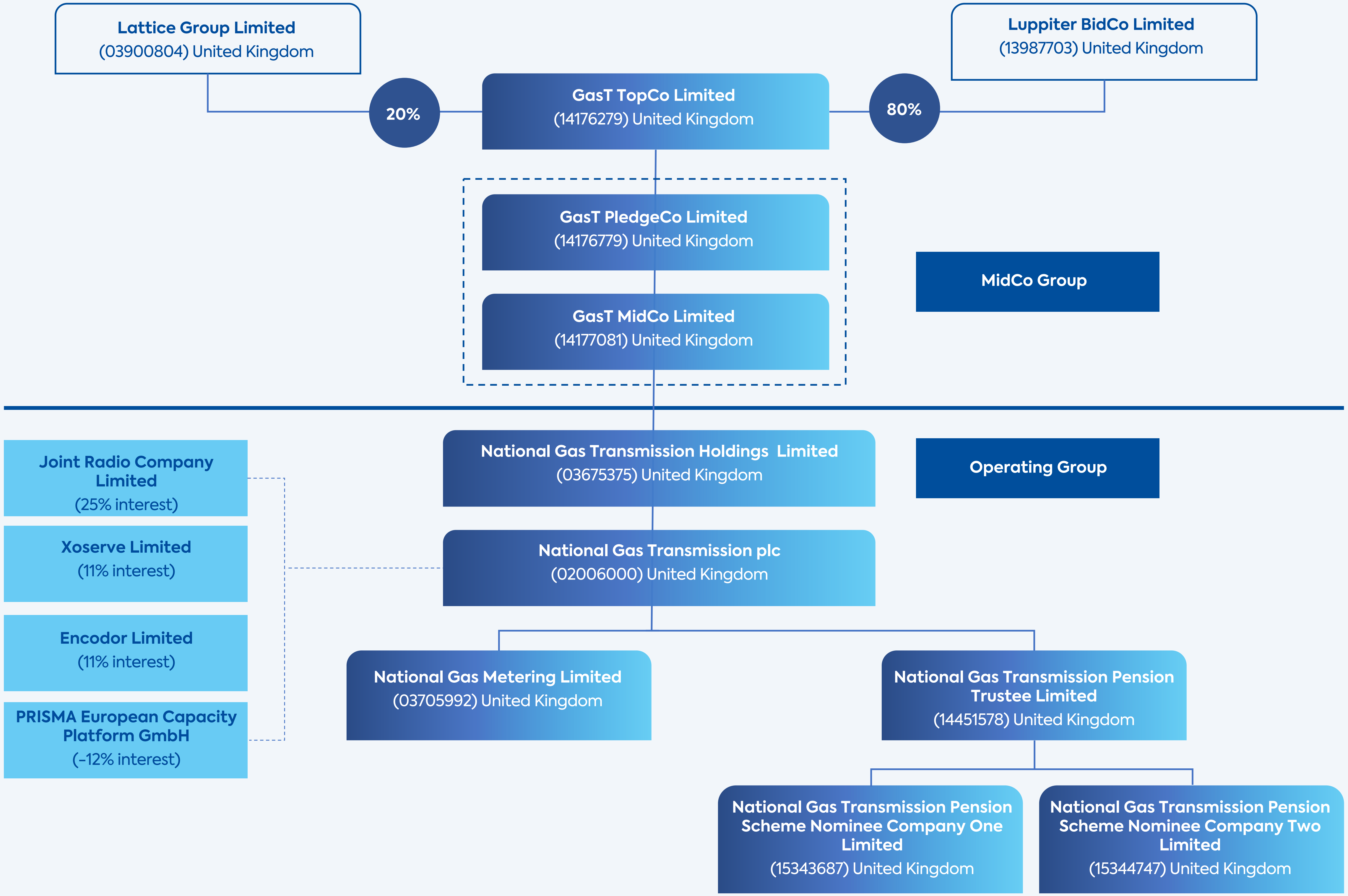
I would like to conclude by also thanking my fellow Board members, not only for their contributions to the Board and the Board committees but for their time and commitment outside the usual meeting cadence to support and secure the long-term sustainable success of the business.

Our group structure and ownership

The parent company of the National Gas group is GasT Topco Limited, and the chart opposite sets out the structure of the National Gas group of companies as at 31 March 2024. The National Gas group is owned by the shareholders of GasT TopCo Limited, 80% of which is owned by a consortium of investors led by Macquarie Asset Management and British Columbia Investment Management Corporation with the remaining 20% of the shares in GasT TopCo Limited owned by the National Grid group.

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 National Gas business. This includes a schedule of matters reserved for decision by the GasT TopCo Limited Board of Directors and shareholders, respectively.



Our Governance framework

As a large private company, we are 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 2024, the Board is satisfied that it has applied the six Wates Principles and this Corporate Governance Statement explains how we have applied the Wates Principles throughout the year and the Strategic Report provides details of our stakeholder relationship and engagements.

Purpose and leadership

Purpose and strategy

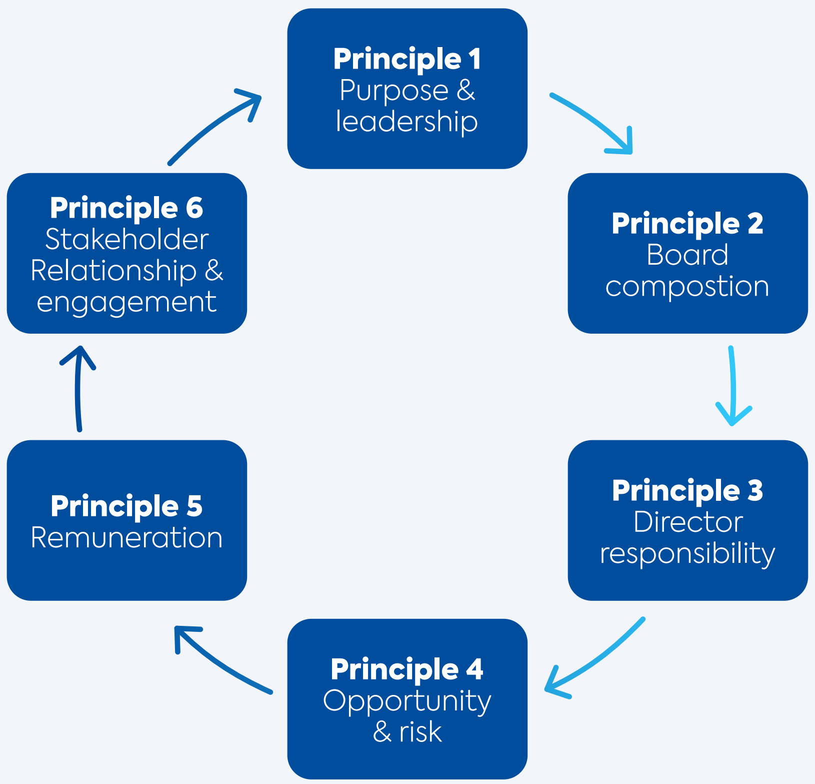
Our purpose is to 'deliver a clean energy future for all', and with the transition to a standalone company, we have redefined our strategy to make sure it is appropriate to drive the business forward whilst also supporting the UK Government in delivering its net zero commitments. In November 2023, the Board held its first strategy day where it endorsed the vision for the Company to be redefined as the platform for the gas ecosystem inspiring to lead the journey to deliver a clean energy future for all whilst ensuring gas continues to keep homes warm and businesses running. Through this position National Gas will be able to create an environment for collaboration and innovation and have the flexibility to adjust our network and assets over many decades to come, bringing benefit to our customers, our regulators and our investors. More information on the strategy can be found on page 12.

The Board approved the corporate strategy that involves delivering a compelling value proposition over the next 5–10 years. It monitors delivery of this strategy through regular updates on individual aspects of the strategy, ensuring that the day-to-day business and activities deliver our license obligations and contribute to achieving our longer-term purpose.

Values and culture

The Board recognises that having a defined purpose and vision, with values and supporting behaviours embedded within the organisation, helps to create a culture that is performance driven and delivers long-term results. Our values of simplicity, ownership and progress support this and articulate the qualities we wish all employees to demonstrate. We aim for these to be embedded and 'lived' by everyone across the business. The Board recognises the importance of a healthy and inclusive culture and sets the 'tone from the top' by demonstrating and encouraging value driven behaviour and the Executives are responsible for ensuring that the policies and behaviours set at Board level are communicated and implemented effectively.

A variety of ways are used to assess and monitor the development of the Company's culture as a standalone business. The annual employee survey seeks feedback from staff in a wide range of areas and the result was discussed by the Board. The Remuneration and Nominations Committee monitors diversity, including reviewing the gender pay gap reports, and oversees the remuneration arrangements for the wider workforce to ensure they are aligned with our purpose, values and strategy. The Audit and Risk Committee oversees the Board members' site visits and engagement with staff during these visits. Regular 'Town hall' events provide an opportunity for employees to ask questions on business developments and our weekly newsletter to all employees ensures that everyone is informed of business developments and other noteworthy events.



Principle 1 An effective board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose.	• Our business at a glance – pages 5-6 • Values and culture – page 54 • Strategic priorities – pages 12-13
Principle 2 Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company.	• Chair statement – page 52 • Balance and diversity – page 55 • Size and structure – page 60 • Effectiveness – page 59
Principle 3 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.	• Accountability – page 60 • Committees – pages 60 and 62-69 • Integrity of information – page 61
Principle 4 A board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks.	• Opportunities- pages 20-22 • Risk – pages 41-43 • Responsibilities – pages 41-43 and 63-64
Principle 5 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.	• Setting remuneration and policies – page 65 • Delegating remuneration disclosure – pages 65-67 • Parent company controlled remuneration policy n/a
Principle 6 Directors should foster effective stakeholder relationships aligned to the company's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.	• External impacts – pages 26-34 • Stakeholders – pages 23-25 • Workforce – pages 35-39

Our Board

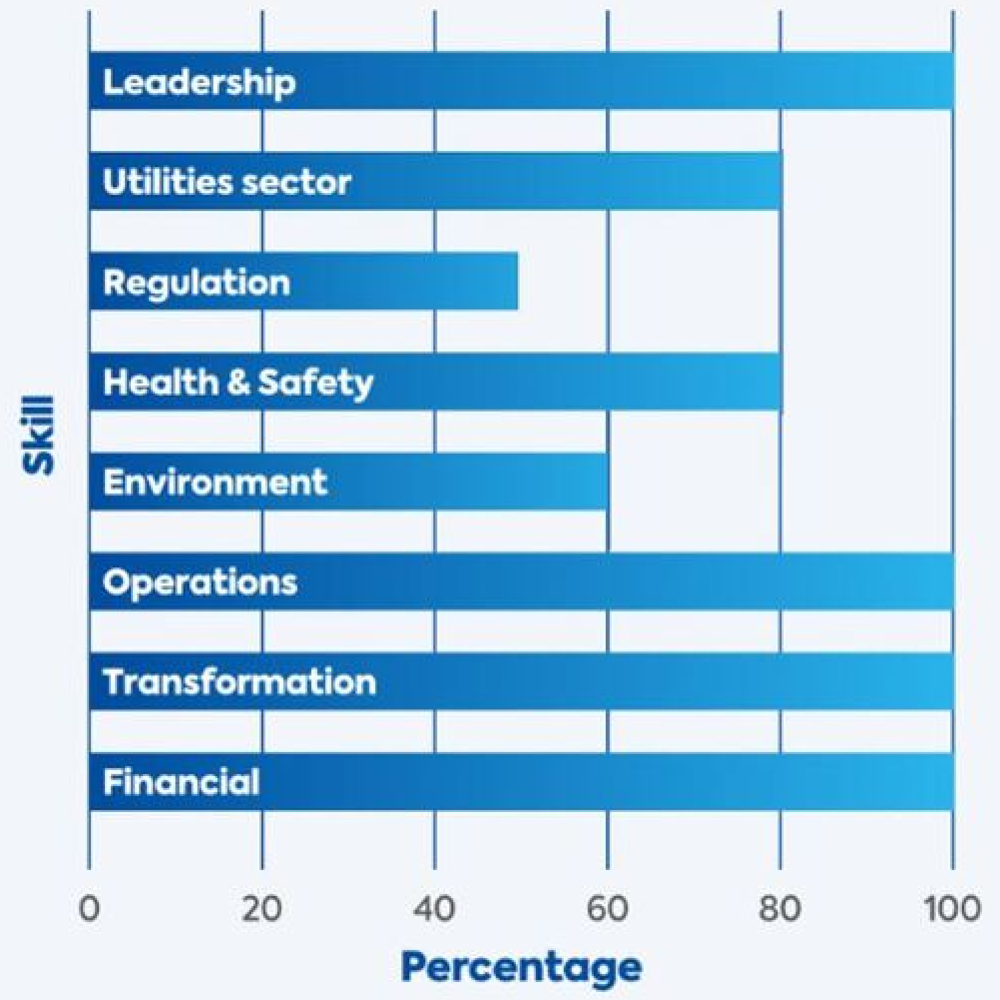
Composition of the Board

The composition of the Board is essential to its success in providing strong and effective leadership and together our Directors bring a wide range of experience, skills and perspectives to Board deliberations. At the date of this report, our Board is made up of three Sufficiently Independent Directors (SIDs), one of whom is the Chair, six Shareholder Nominated Directors and two Executive Directors. From a governance perspective, the Sufficiently Independent Directors and the Shareholder Nominated Directors are Non-Executive Directors. Together their roles are to support Executives, while providing constructive challenge and rigour. They bring sound judgement and objectivity to the Board's and the Board committees' decision-making processes, monitor strategy, and review the integrity of the risk management framework and processes, financial information and controls, and share the skills, experience and knowledge they have from other industries and environments. The Chief Executive and the Chief Financial Officer are the Executive Directors on the Board, but they do not have voting rights. The biographies of the Board members can be found on pages 56-58.

Balance and diversity

The composition of the Board is determined by the Shareholders' Agreement. The Board recognise the benefits of having a diverse board, however the Board does not operate a formal Board Diversity Policy since Board appointments are under the Shareholders' Agreement and are a matter reserved to the shareholders of GasT TopCo Limited. The composition of the Board is however 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.

The Board skills matrix opposite details key skills and experience identified as necessary for oversight of the Group and the effective execution of our strategy.



Our Board

Continued

Dr Phil Nolan

Chair and Sufficiently Independent Director

Appointment

Joined in January 2023

Committee membership:
Remuneration and Nominations Committee

Skills and experience

Phil has served on the board of many public and private companies, both in an executive and non-executive capacity. He has industry experience and was an Executive Director of BG Group plc and Chief Executive of Transco. As Transco Chief Executive from 1998, he led the demerger of Transco from BG Group in 2000. Previous roles include Chair of Associated British Ports, John Laing, Ulster Bank Limited, Sepura plc and Affinity Water. He was a Non-Executive Director of Encyclis PLC between 2007-2010. He was the chair of Infinis, a then privately-held, leading renewable energy generator. He was also the Chief Executive of Eircom, Ireland's national telecommunications supplier from 2002 to 2006.

Other appointments:
Phil is currently a non-executive director of KKR Infrastructure Conglomerate LLC.

Jon Butterworth

Chief Executive Officer

Appointment

Joined in May 2021

Skills and experience

Jon has over 45 years' experience in the gas and electricity industry and a strong track record of building successful businesses in regulated and competitive energy markets across the UK, Europe and the US. He was previously the Chief Executive of National Grid Ventures, and before that the Global Director of Safety, Health, Environment, Resilience and Incident Command for National Grid plc. and General Manager and MD of Transco North West running the UK Gas Emergency Service. Jon was awarded an MBE for services to Britain's gas industry in 2009.

Other appointments:
Jon is currently President of the Pipeline Industries Guild and a Fellow of the Institute of Directors. He is a Non-Executive Director of Pennon Group plc and a Director of the National Gas Museum Trust. He is passionate about public services and has supported the NHS as a 4x4 Responder Volunteer, been the Ambassador for the HM Young Offenders programme and served as an Ambassador for Special Olympics Great Britain.

Nick Hooper

Chief Financial Officer

Appointment

Joined in August 2021

Skills and experience

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 in August 2021. He has held a number of senior finance roles, including eight years as Finance Director at Capita.

Cathryn Ross

Sufficiently Independent Director

Appointment

Joined in June 2019

Committee membership:
Chair of the Regulation and Strategy Committee and Chair of the Audit and Risk Committee to 19 July 2024.

Skills and experience

Cathryn is the Strategy and External Affairs Director at Thames Water. She is an experienced regulatory and competition economist, having worked in both the public and private sectors including at BT Group plc, Ofwat, the Office of Rail Regulation (now the Office of Rail and Road) and the Competition Commission (now the Competition and Markets Authority). She has a proven background in advising on economic, regulatory and competition issues across a number of sectors.

Other appointments:
Cathryn is 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.

Our Board

Continued

Will Price

Shareholder Nominated Director

Mark Mathieson

Shareholder Nominated Director

Howard Higgins

Shareholder Nominated Director

Appointment

Joined in January 2023

Committee membership:
Chair of the Remuneration and Nominations Committee

Skills and experience

Will joined Macquarie in 2007 and is the head of European Utilities for Macquarie Asset Management. He has over 10 years of experience in infrastructure investment and management, primarily in the utilities and energy sector across the UK and Europe.

Other appointments:
He has extensive experience in key asset management initiatives including regulatory resets and re-financings and he has been involved in several utilities' acquisitions, including Wales & West Utilities, Thyssengas, Czech Grid Holding, EP Infrastructure, Viesgo, CEZ Romania, and Southern Water.

Appointment

Joined in January 2023

Skills and experience

Mark is the Managing Director for Macquarie Asset Management since October 2018. He has over 30 years of executive and non-executive experience in the energy utility sector at both executive and non-executive director level at the Smart DCC and chair of the Energy Networks Association and EA Technology. Mark spent 26 years at SSE, including ten years as the Managing Director for their electricity network businesses, and subsequent to that he was Chief Executive at Green Highlands Renewables, the UK's leading developer of run-of-river hydro-electric schemes.

Other appointments:
He holds a number of different board positions for companies, including Cadent Gas Networks and Nortegas Energia Grupo.

Appointment

Joined in January 2023

Committee membership:
Chair of the Safety and Sustainability Committee

Skills and experience

Howard is a Senior Advisor at Macquarie Infrastructure and Real Assets and has played a key role in global energy and utility transactions and transitions undertaken by Macquarie Asset Management since he joined in 2003. He also provides specialist support on the acquisition, transition and management of energy and utility businesses.

Other appointments:
He sits on several company boards within Macquarie Asset Management's investment portfolio and previous roles includes CEO of BG Storage, Operations Director of Transco and Director of Cadent Gas Networks.

Our Board

Continued

Lincoln Webb

Shareholder Nominated Director

Appointment

Joined in January 2023

Alternates: Abdul Moiz Qureshi and Jenny Lyn Dela Cruz

Committee membership:
Remuneration and Nominations Committee

Skills and experience

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

Other appointments:
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, Cleco Corporation, Endeavour Energy, Glencore Agriculture, Teays River Investments LLC, TimberWest Forest Corporation, and Corix Infrastructure.

Jerry Divoky

Shareholder Nominated Director

Appointment

Joined in January 2023

Alternates: Abdul Moiz Qureshi and Jenny Lyn Dela Cruz

Committee membership:
Regulation and Strategy Committee

Skills and experience

Jerry is the 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. He has over 20 years' experience in acquisitions, including 10 years in energy & banking. Prior board appointments include Thames Water, Transelec, Dalrymple Bay Coal Terminal, Isagen, NTS, Arteris, and GCT Global Container Terminals Inc.

Other appointments:
He holds a few different board positions for companies within BCI's investment portfolio, including Pacific National, Global Container Terminals, and Endeavour Energy.

Ben Wilson

Shareholder Nominated Director

Appointment

Joined in January 2023

Alternates: Katerina Tsirimpa and Natalie Humphries-New

Committee membership:
Audit and Risk, Remuneration and Nominations, Regulation and Strategy and Safety and Sustainability Committees

Skills and experience

Ben is the Chief Strategy and Regulation Officer of National Grid plc. He has more than 25 years' experience in the energy sector and 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.

Our Board

Board activities

The Board has six scheduled meetings per year, of which one is a strategy session, and in addition there were a number of ad hoc board meetings and sessions. The Board culture is one of openness and collaboration and the Chair ensures that all Directors have an opportunity to contribute to debates. Several of the Board members also devote time to their roles outside of the scheduled meetings to meet with Executives to discuss and support areas which are then formally considered at the Board or Board committee meetings.

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. At the start of each Board and Board committee meeting a safety moment is presented.

In addition to regular topics discussed, the Board also considered and approved matters set out below.

Effectiveness

At the time the first evaluation took place, the Board was new and had not been in place for a full year yet, the first evaluation was carried out internally and focused on the overall effectiveness of the Board governance framework and the Board's contribution to strategy, culture, delivery and performance. Each Director completed an online questionnaire, and the responses were collated and shared with the Chair on a non-attributable basis. The Chair then followed up with individual one-to-one discussions with each of the Shareholder Nominated Directors and the SID to provide more detailed feedback. The overall outcome was discussed by the Board at its March meeting, where it approved an action plan to address key comments made during the evaluation process.

The overall conclusion of the evaluation was positive, and although acknowledging that the Board and Board committees have not been in place for very long, there were a number of improvements identified which would enhance the Board's performance and effectiveness. These included increased focus on the execution of the strategy, including clarity on resources and capabilities that will be required to ensure successful delivery of the strategy, increased focus on the investment plan and capex, improvement in the framing of issues and areas for debate at meetings and an increase in the Board's informal engagement opportunities outside of formal meetings.

Development and training

The Board believes that continuous training and development supports Board effectiveness. The Company is committed to offering tailored training to provide each Director with the necessary resources to refresh, update and enhance their skills, knowledge, and capabilities. With the ever-evolving regulatory and national landscape in which the Company operates, it is critical that the Board remains abreast of developments that may impact the business. Individual meetings with senior executives and site visits were scheduled at the request of the individual Directors and a number of business briefings and deep dives from the Chief Executive and his team were provided throughout the year. The Directors were also invited to identify areas in which they would like additional information or training. Mark Russell joined the Board on 1 July 2024, and he will receive a tailored induction suited to complement his existing skills and experience.

	Matters approved	Matters considered	Stakeholder engagement
Strategy	a. Corporate strategy b. Hydrogen strategy c. Onshore Carbon Transportation Project d. Acquisition of Premtech Limited	a. Outcome of the Resilience Summit b. Market update c. Future System Operator	a. Customers b. Regulator c. Partners d. Investors e. Employees
Operations	a. Development of the RIIO-GT3 business plan b. RIIO-GT3 engagement strategy c. Annual Network and Information Systems (Annual report) d. Certifications required under NGTs gas transporter licence	a. Aberdeen control system replacement project b. Cyber security and risk assessments c. RIIO-T2 asset health investment plan d. Winter 2023/24 preparedness	a. Customers b. Regulator c. Employees
Finance	a. Annual budget and five-year plan b. Financing strategy c. Annual Report and Accounts and associated compliance approvals d. Dividend payments to shareholders e. Treasury policy f. Treasury, tax and pension related matters	a. Financial position	a. Investors b. Employees
Governance	a. Extension of the Transition and Separation Steering Group b. Compliance with the Wates Principles c. Ofgem compliance d. Modern Slavery Statement e. Board evaluation action plan f. Governance framework documents	a. Board Committee updates b. Governance and legal updates	a. Customers b. Regulator c. Partners d. Investors e. Employees

Our Board

Director responsibilities

Accountability
Our governance framework and clear delineation of Board roles enables the Chair, SIDs and Shareholder Nominated Directors to provide oversight and appropriate constructive challenge and support in management delivering our strategy. The roles and responsibilities of Phil Nolan as our Chair and Jon Butterworth as our Chief Executive are separate, where Phil is responsible for the leadership of the Board and Jon is responsible for the day-to-day management of National Gas.

The Shareholder Directors are appointed in accordance with the Shareholders' Agreement and their role is that of a Non-Executive Director. They, together with the SIDs, are responsible for assisting in the development of the strategy, for providing constructive challenge and holding the Executives to account for their performance, and delivery of the agreed strategy. Their role is also to provide strategic guidance and specialist advice and support. The Board is supported by the General Counsel and Company Secretary who provide advice on legal and corporate governance matters.

The Board delegates all operational matters to the Chief Executive, except for matters set out in the Shareholders' Agreement that are specifically reserved to the Board of GasT TopCo or shareholder approval. He is also responsible for overseeing the development of business strategies for Board approval and achieving timely and effective implementation.

Board roles and responsibilities

Chair
Dr Phil Nolan was appointed non-executive Chair and a Sufficiently Independent Director on 31 January 2023. He is responsible for the effective running and management of our Board, and he is assisted by the General Counsel and Company Secretary in ensuring adherence to high standards of corporate governance. As per the Wates Principles, the roles of the Chair and Chief Executive are separate. Phil was viewed as independent upon his appointment and is not a member of the Board of our parent company, GasT TopCo Limited.

Sufficiently Independent Directors
Our Gas Transporter Licence requires us to have two SIDs. Cathryn Ross was appointed as a SID in June 2019 and Dr Phil Nolan, our Chair, was appointed in January 2023. Together they provide independent challenge and input into the decision-making process. The letter of appointment sets out their duties and arrangements and each of the SIDs has confirmed that they are able to devote sufficient time to their role. Mark Russell was appointed as an additional SID in March 2024, and joined the Board on 1 July 2024.

Shareholder Nominated Directors
Under the Shareholders' Agreement, the shareholders have the right to nominate Directors to the Board. Our Board currently consists of six Shareholder Nominated Directors, representing members of the consortium of investors in GasT TopCo Limited and, as statutory Directors, they have the same powers, duties and liabilities as the Executive Directors. As per the Shareholders' Agreement, each Shareholder Nominated Director has appointed one or more alternate directors to participate in meetings in their absence. The Shareholder Nominated Directors and alternates are not remunerated for their services on the Board, or any of the other group entity boards of which they are a member.

Conflicts of interest
With a number of Shareholder Nominated Directors on the Board there are times where conflict of interests, whether matter specific or situational, arise and there are processes and procedures in place for all Directors to identify and declare any such conflict. The Directors are aware of their statutory duties in relation to conflicts of interest and their duty to declare any situations which may create a conflict of interest. The General Counsel and Company Secretary maintain a register of Directors' interests and the Board and Board Committee members are asked to declare any interests, direct or indirect, before each meeting.

Committees
Our Board has overall responsibility for ensuring long-term success of the business. Collectively the Board is also responsible for its governance and its effective oversight , its business and compliance with its obligations under its Gas Transporter Licence. The Board provides rigorous challenge to management and ensures that appropriate systems and processes are in place to monitor and manage the principal risks and internal controls and in doing this has delegated certain responsibilities to Board committees.

The governance framework was introduced on 31 January 2023, and we believe underpins good governance practices and enables the Board to provide effective stewardship of the Company. 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 2024.

Board of Directors
The role of the Board is to promote the long-term success of National Gas by setting the Company's purpose, strategy and values and monitor its implementation by the executives, and ensure that the Company maintains and effective system of risk management and internal control.

The Board delegates certain matters to its four principal committees which report to the Board at every meeting

Audit and Risk Committee
Assists the Board in reviewing the integrity of the Company's financial statements, financial and regulatory compliance, the systems of internal control and risk management; and the external and internal audit processes.
Pages 62-64

Safety and Sustainability
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.
Pages 68

Remuneration and Nominations Committee
Assists the Board by determining the Company's remuneration policy for Executive Directors, other members of the Executive Committee and the Sufficiently Independent Directors. Reviews and makes recommendations in relation to Board appointments as well as overseeing Executive Directors succession planning.
Pages 65-67

Regulation and Strategy Committee
Assists the Board by overseeing the Company's compliance with its licence and other regulatory obligations. Oversees the development of the new regulatory framework and hydrogen strategies.
Pages 69

Chief Executive
The Chief Executive is responsible for the day-to-day operational management and has established an Executive Committee to support him with the day-to-day running of the Company.

Management Committees/Groups
The Executive Committee is in turn assisted by a number of management committees and groups.

The Board was 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 respective 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
Provides strategic oversight of the delivery of the separation plan entered into as part of the separation of the Company from National Grid plc.

Our Board

Director responsibilities

Information and support to the Board

It is important that the Board receives accurate, clear and high-quality information to enable it to discharge its duties. The Board and the Board Committee members are provided with comprehensive papers to support them in providing appropriate leadership and decision making, with papers being circulated approximately one week in advance of each meeting. In consultation with the Chair and the Chief Executive, the Company Secretary manages the provision of information to the Board. As part of the Board effectiveness review it was identified that improvement in the framing of issues and areas for debate in the papers will strengthen the discussions at the meetings and management is actively working to improve this. The CEO and CFO keep the Board appraised of business developments at each Board meeting, and through regular updates outside the meeting cadence. The Chair and the Chairs of each committee separately engage with Executives and other staff relevant to their roles, as well as meeting with relevant external advisers, between meetings.

Opportunity and risk

Opportunity

Throughout the year the Board has considered and assessed how the Company creates and preserves value and, through approving the strategic direction of the business, ensures that long-term value is preserved. The business model and strategy are outlined on pages 10 and 12. The Board has oversight of the delivery of the RIIO-T2 business plan and, through its work to support the development of the next regulatory business plan, is supporting the Company to secure longer-term value. The Company Leadership and Financial Delegations of Authority governs authority limits on significant capital and operational expenditure.

The ambition to support net zero carbon transition will remain a priority and the Board will continue to closely monitor the Company's progress on its net zero pathway. Details of these key projects to support the longer-term transition from methane to hydrogen can be found on pages 20-22. Whilst the Board recognises that it needs to be future focused, it also recognises its responsibilities today including ensuring that the National Transmission System remains safe and is appropriately maintained to ensure the best value for our customers, our regulators and the nation. The Board will therefore revisit the Company's longer-term priorities each year to satisfy themselves that the strategic priorities are still appropriate and identify new opportunities.

Risk and internal control

The Board has the overall responsibility for the management and oversight of the Company's risks, and sets the risk appetite and ensures an effective risk management framework is in place to manage the risks. It is also responsible for ensuring the adoption of an effective internal control framework. The Board has delegated the responsibility of the oversight of the risk management and internal control frameworks to the Audit and Risk Committee, more details of which can be found on pages 62-64. During the year, a complete overhaul of the Company's approach to risk and risk management was undertaken and the Board approved a revised risk profile and appetite at its meeting in May 2024. More about our principal risks and risk management can be found on pages 41-43.

Remuneration

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

Remuneration and succession

The Remuneration and Nominations Committee is responsible for deciding Board and Executive remuneration and has established remuneration practices that are designed to support our strategy and promote the long-term sustainable success of National Gas . Executive remuneration is aligned to the our purpose and values, and is linked to the successful delivery of our business plan and longer-term strategy. The committee also oversees appointments to the Board and of senior Executives, ensuring there is a formal, rigorous and transparent procedure in place for these appointments and that there is a pipeline of talent and appropriate succession plans in place. Further details can be found on pages 65-67.

Stakeholder relationships and engagement

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

Stakeholder engagement enables the Board to better understand what matters to each stakeholder group, and in determining the Company's strategic direction the Board is conscious of its collective responsibilities to all stakeholders. Their views and different perspectives are taken into account as part of Board and Board Committee discussions and decisions. The Board also ensures that the corporate and management structures in place are such that stakeholder engagement and views are taken into account in executing day-to-day business and practices. An overview of how the Board has engaged with key stakeholders and consideration of their responsibilities and duties under section 172 of the Companies Act can be found on pages 44-45

Audit and Risk Committee

Cathryn Ross

Chair of the Audit and Risk Committee

The Committee has a key role in ensuring that we have a robust financial control environment. Following the transition to a standalone business, we have continued to oversee the transition of the financial and internal control systems. We have also overseen the work that the Company has undertaken in strengthening its internal control environment.

Role of the Committee

The Committee provides independent challenge by reviewing and monitoring the integrity of the Company's financial reporting. This includes reviewing the significant financial reporting policies and judgements within them. It oversees the effectiveness of the management of risk and system of internal control. It reviews the relationship with the external auditor, including monitoring their independence and effectiveness. It monitors the effectiveness and independence of the Internal Audit function and oversees the policies and process for business integrity.

Membership

The Committee consists of three Non-Executive Directors, two of which are Shareholder Nominated Directors or members nominated by the Shareholders. The Committee was chaired by Cathryn Ross who is one of the Sufficiently Independent Directors.

The external auditors, the Chief Financial Officer, the Financial Controller, the Head of Internal Audit and the General Counsel attend meetings. Meetings are scheduled to coincide with key dates in the financial audit cycle and during the year, the Committee met five times.

Key areas of focus 2023/24

- Reviewed the year-end financial statements including key judgements, estimates and assumptions, the significant financial reporting policies and judgements within them.
- Assessed whether the 2022/23 Annual Report and Accounts, taken as a whole, were fair, balanced and understandable.
- Continued overseeing the management of the internal financial controls and the establishment of a standalone Finance function.
- Assessed the work of the external auditors, Deloitte, in relation to the significant financial judgements made by management and considered other findings from their 2022/23 audit.
- Approved and considered the key findings from completion of the 2023/24 internal audit plan and approved the plan for 2024/25.
- Considered continuous improvements to the risk management framework and changes to the key principal risks.
- Considered a number of risk deep dives.
- Oversaw key areas of NGT's business integrity, including ethics, data security, and fraud and bribery.

Letter from the Chair

On behalf of the Committee, I am pleased to present the Audit and Risk Committee report, which outlines how we have discharged the responsibilities delegated to the committee throughout the year. Our core duty in respect of providing assurance on the integrity of the annual report and financial statements has remained the same but in our first year as a stand-alone Company our activities in respect of oversight of risk, assurance and internal control increased.

The Committee has a key role in providing assurance that the our financial reporting gives a fair, balanced and understandable assessment of the Company's position, and in doing so establishing that the financial statements give an accurate account of the Company's financial affairs. As part of this process, we considered the significant accounting matters and Executive's judgements in respect of these areas of concern. We also received regular updates on other areas of focus for the Finance team, including the financial risk and controls transformation programme. This programme includes work to prepare for the physical separation of the finance systems from National Grid and the establishing of National Gas' own finance and control systems. We are pleased to report that considerable progress was made throughout the year to strengthen the financial control framework and to streamline and automate processes across the financial control landscape to ensure that the controls in place are appropriate and effective in preventing and detecting material errors or misstatements in the Company's financial reporting.

The Committee also considered in depth the risks arising from the separation of the finance systems from National Grid and received assurance that responsibilities and accountabilities in place are appropriate to manage these risks. The Committee will continue to review the separation of the finance systems and work on improvements to the financial control environment during the year ahead.

Data management is a significant focus area for the Company, and throughout the year the Committee oversaw the establishment of a refreshed data management strategy. This plan involved activities to strengthen management of its data and the implementation of a refreshed framework that is being implemented across the business to improve the recording, accuracy and completeness of its data records to allow the business to make decisions with confidence in the data guiding them.

Following the sale of the business, the Company's internal control and risk management environment has considerably evolved by the establishment of the standalone Internal Audit and Risk functions. As part of our remit, we have responsibility for monitoring and reviewing the Internal Audit function and we are satisfied that it is led by an experienced and independent Head of Internal Audit.

A strong risk management framework is also vital in managing the delivery of our strategy and safeguards against strategic, financial, operational and reputational risks. Following the appointment of the Head of Risk and Assurance last autumn, a complete review of our approach to risk and risk management has been undertaken. We considered the 100-day plan and approved the introduction of a revised risk management framework that is designed to support NGT in more actively managing its risk. Changes have been made to the principal risks facing us as a result, evidencing a more streamlined approach that maps our principal risk to our key business priorities.

The Committee's remit also includes oversight of non-financial controls and governance arrangements in respect of policies and assurance processes in place over business integrity and compliance (including the proper use and storage of personal data). During the year we received various updates on compliance against our Code of Ethics, the Anti-Bribery and Corruption and the Fraud and Bribery policies. We are assured that the activities that NGT has undertaken during the year to improve and adapt these policies and processes are positive in building a strong culture of doing the right thing and ensuring that the Company delivers its business in a responsible and transparent manner.

I hand over the Chair of the Committee to Mark Russell at the end of the July 2024. He brings a wealth of financial knowledge and has considerable experience in chairing a number of audit and risk committees. I have been a member of the Committee since 2019 and chaired it since the sale of the business in January 2023. Considerable progress has been made in so many areas within our remit, in particular in the last financial year, and I leave the Committee in good hands. Under Mark's leadership, the Committee will continue to oversee and support management in the creation of a stand-alone finance system, and work thereafter to simplify and automate the controls environment.

Cathryn Ross,
Chair of the Audit and Risk Committee

Audit and Risk Committee

Continued

Financial reporting

A key requirement of the financial statements is that they are fair, balanced and understandable, and that they include the information necessary to assess the Company's position, performance, business model and strategy. The Committee monitors the integrity of the Group's reporting process and financial management, and reviews in detail the work of the external auditors and any significant financial judgements and estimates made by management. We considered the output from the above and reviewed the statements before proposing them to the Board for consideration.

The Committee considered management's detailed assessment of the Company's and the Group's ability to continue as a going concern. In doing so, the Committee took into account the risks and uncertainties facing the business. Having considered management's assessment, the Committee recommended to the Board the adoption of the financial statements on a going concern basis.

The Committee assessed whether suitable accounting policies have been adopted and whether management has made appropriate judgements and estimates in respect of the significant issues. Throughout the year, regular updates on the significant issues were provided and the Committee is satisfied that appropriate judgements and estimates have been applied. The significant reporting issues considered in relation to the accounts are detailed in the table below.

External audit

The Committee is responsible for overseeing the relationship with the external auditors, Deloitte LLP, and seeking feedback from them when appropriate. The external auditors are invited to attend all Committee meetings, irrespective of whether they are presenting matters, and they meet with the Chair of the Committee, without management present, giving both parties the opportunity to raise any matters.

Given the transition to a stand-alone Company in January 2023, it was agreed that it would be appropriate for Deloitte to continue as the Company's statutory auditor for the 2023/24 financial year. We are satisfied that the independence and objectivity of Deloitte is appropriate and the effectiveness of the audit process remains rigorous and is safeguarded.

The independence and objectivity of the external auditor is also managed through a policy that governs engagement with Deloitte to supply non-audit related services. The Committee approved the policy in March 2023, and it provides a robust framework to prevent the independence and objectivity from being compromised. Approval to engage the external auditor in non-audit services, excluding certain permissible services, must be obtained in advance from the Committee and any commission where the fee is in excess of £50,000 has to be approved by the Committee. Non-audit work, where fees are below this threshold and the work is on the list of permissible services, can be approved by the Chief Financial Officer and are reported to the next Committee meeting. Further details on non-audit services provided by Deloitte can be found on page 84 of the financial statements. The total non-audit fees paid to Deloitte for the year was £0.1 million (2023: £0.1 million) and the majority of the spend was in relation to providing assurance services.

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. With the establishment of the Internal Audit and Risk functions, 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 going forward.

Impact of market factors	The Company experienced lower gas shrinkage costs in 2023/24, mainly as a result of lower gas prices. This resulted in an increase in reported operating profits in 2023/24 which was in contrast to the much higher shrinkage costs discussed in the Annual Report and Accounts in 2022/23 which reduced reported operating profits. The Committee discussed the impact of changes in shrinkage costs, given their materiality and impact on reported operating profits. As per the Company's Accounting Policy, the discount rate for the environmental provision is reviewed every six months. Following a review, it was agreed to update the discount rate resulting in a reduction in the environmental provision held on the balance sheet and an increase to the income statement. The Committee 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 FY24 financial statements and during the year the forecasted sale and separation cost was rephased to reflect the latest separation plan. The Committee confirmed that management's classification of exceptional items was appropriate.
Purchase of new sites	The Company acquired six new land sites and an environmental provision was also booked in the FY24 accounts to reflect future land remediation works required on these sites. The Committee is satisfied that these factors are appropriately recognised in the financial statements.

Audit and Risk Committee

Continued

Internal Audit

Internal Audit is an independent assurance function available to the Board, through its delegation to the Committee and the Safety and Sustainability Committee. It plays an important role in assisting the Company by providing independent and objective assurance to management and the Board through its Committees on the effectiveness of National Gas's risk management activities, internal controls and governance framework. It adds value by encouraging continual improvements to the efficiency and effectiveness of National Gas' business planning, operations and systems and by, wherever possible, promoting enhancements to the Company's governance, risk management and internal control processes. It also assesses whether all significant risks and obligations under review have been identified, managed and appropriately reported.

The Internal Audit function's work is governed by an internal audit charter, which is approved by the Committee annually, and is work conducted and managed in accordance with the Internal Audit Standards released by the International Internal Audit Standards Board (IIASB) and the Core Principles for the Professional Practice of Internal Auditing. The Committee keeps under review the function's independence and effectiveness and received the results from the first annual internal audit quality assessment, which includes feedback from the business, in June 2024. Throughout the year the Head of Internal Audit also met privately with the Chair of the Committee.

The annual internal audit plan is structured to align with the Company's strategy, risk profile, control environment and the assurance arrangements. The Committee has overall responsibility for the delivery of the plan but the reporting of the outcome of the audit reviews are split between the Committee and the Safety and Sustainability Committee, with any reviews in respect of safety and sustainability being brought to the Safety and Sustainability Committee. External providers or internal support may be engaged to support the delivery of some of the audit reviews where specific skill and experience is required to be co-sourced. Assurance mapping and planning is undertaken to ensure that the work is appropriately aligned, and coordinated with, other assurance activities across the business. The audit plan for 2023/24 included audits in relation to key programmes, safety, regulatory reporting and ESG. The Committee received regular updates on the delivery of the plan as well as key findings from the audit reviews and considered and approved the closure of any recommendations from the audit reviews.

Risk management systems

The Committee is responsible for the oversight of the risk management framework. Following the appointment of a new Head of Risk and Assurance, a detailed review of the Company's approach to risk, the risk management framework, was undertaken which has resulted in an overhaul of the Company's approach to managing its risks. In March 2024, the Committee considered the outcome of the review and endorsed changes to the risk management framework, and a longer-term plan of changes to the day-to-day management of risk. We also considered a revision to the principal risks and the implementation of agreed risk appetite tolerances which will support future risk event and near miss reporting. Further details can be found on pages 41–43.

Internal controls

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. The Committee receives regular updates on the delivery of the second lines of assurance, including the annual assurance plan. 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.

Business integrity

The Committee's remit includes oversight of non-financial controls and governance arrangements in respect of policies and assurance processes in place of business integrity and data. The Committee considered policies and procedures for detecting fraud, and the systems and controls for preventing other inappropriate behaviour and was kept apprised on findings of investigations of cases in respect of ethical and business conduct concerns. We also considered initiatives undertaken by the Company to ensure an ethical business culture, including policies, training, whistleblowing arrangements and communication initiatives to strengthen awareness in these areas.

Remuneration and Nominations Committee

William Price

Chair of the Remuneration and Nominations Committee

Our key priorities have been to ensure that the Company's remuneration arrangements enable us to attract and retain a high-calibre team of Executives and to appropriately incentivise them to successfully deliver our strategy in a sustainable and responsible manner. We have also focused our time on reviewing the Company's Executive leadership structures to ensure there is a good balance of skills and experience to lead the Company effectively and in the longer term.

Membership

The Committee consists of four Non-Executive Directors, three of whom are Shareholder Nominated Directors, or members appointed by the Shareholders and the Chair of the Board, who is also a Sufficiently Independent Director. The Committee is chaired by William Price, one of our Shareholder Nominated Directors.

The Chief People Officer and the Chief Executive attend meetings (save for when their own remuneration is being discussed). During the year, the Committee met three times and also considered a number of items outside the formal scheduled meetings.

Key areas of focus 2023/24

Remuneration related items:

- Approved the annual review of the Executive and senior management remuneration arrangements.
- Considered the annual review of the Chair and Sufficiently Independent Director fees.
- Considered the outturn of short- and long-term incentives awards made by National Grid plc to certain Executives and senior managers for periods prior to sale completion.
- Approved the 2023/24 objectives for Executives and senior management.
- Considered and approved the structure of the STIP and LTIP awards to be granted in 2024.
- Approved the remuneration arrangements for Matt Steele, on his appointment as the Chief Operating Officer.
- Considered the wider workforce remuneration arrangements, including the annual bonus structure.
- Considered the Company's gender and ethnicity pay gap statistics and approved the publication of the Gender Pay Gap Report.
- Considered current market practice and future remuneration trends.
- Approved the appointment of Ellason LLP as remuneration consultants.

Nominations related items:

- Considered and approved changes to the Executive structure, including Executive succession and development plans.
- Considered and recommended to the Board the appointment of Mark Russell as a Sufficiently Independent Director.
- Approved the appointment of Matt Steele as the Chief Operating Officer.

Letter from the Chair

Remuneration related items – review of the year

On behalf of the Remuneration and Nominations Committee (the Committee) I am pleased to provide an overview of the work we have undertaken during the Committee's first year in respect of the establishment of new remuneration arrangements, overseeing the transition of the Executive Leadership team and the appointments of an additional Sufficiently Independent Director and a Chief Operating Officer.

Remuneration principles

The remuneration principles seek to strike a balance between best practice and alignment with the business plan and longer-term strategy. They are also designed to attract and retain a high-calibre team of Executives and encourage them to successfully take National Gas forward as a standalone Company. We also considered the remuneration arrangements for the wider workforce and have created performance metrics which align throughout the organisation. We believe that the new remuneration arrangements incentivise contributions to both the short-term and long-term success of the business and create shareholder and stakeholder value in a sustainable and responsible manner.

Incentive schemes

The separation from National Grid necessitated the need for the Committee to quickly establish new short-term and long-term incentive arrangements. We introduced a cash-based long-term incentive plan (LTIP) for Executive Directors, and senior management, which is also offered to a small number of other colleagues across the business, and is based on longer-term performance measures. We also introduced an annual cash bonus scheme, the short-term incentive plan (STIP). In exceptional circumstances malus and clawback provisions apply to both plans.

The sale of the business resulted in a gap in the vesting of long-term incentive awards for Executives in 2024 and 2025.

We agreed that performance against the metrics for the one off 2-year LTIP award should be awarded at 67% of the target and maximum to reflect the two-year vesting period. The performance measures that apply to this award relate to financials, customer satisfaction, safety and the transition to net zero. In addition, the Committee agreed to include a supplementary element that relates to the achievement of agreed targets in respect of the Company's separation and transition from National Grid.

The Committee granted the first three-year LTIP award, with vesting in 2026, subject to satisfactory performance during the three years in respect of financials, safety, assets and net zero transition measures. The measures and associated targets emphasise operational excellence, whilst supporting long-term sustainability of our assets and the environment. Performance against the measures will be based on target and maximum opportunities as a percentage of base pay.

We also awarded the first STIP, which rewards delivery of annual strategic business priorities, based on performance measures relating to both the Company and individual performance. Performance measures and weightings will be reviewed each year to ensure they remain appropriate and reinforce the business strategy. To ensure the Executives were not disadvantaged by the sale, the Committee approved the addition of a multiplier to enhance the outcome of this STIP award for certain members of the Executive Committee, The individual performance outturn for the Chief Executive is determined by the Committee, and the individual performance elements for the Chief Financial Officer and Executives are to be determined by the Chief Executive and approved by the Committee.

As part of the annual incentive scheme available across the business, we are satisfied that it drives appropriate behaviours that support our strategy, values and culture.

Remuneration and Nominations Committee

Continued

Appointment of a Chief Operating Officer

Matt Steele was appointed Chief Operating Officer, effective from 15 April 2024, and the Committee approved his total remuneration package, in line with market practice and agreed remuneration principles. The Committee also agreed for Matt to receive various payments between May 2024 and July 2026 to reflect compensation elements that he has forfeited in leaving his previous employer.

Incentive outcomes for 2023/24

Annual salary review

The Committee reviewed and approved revised base salaries for the Executive Directors and endorsed the proposal for senior managers before the start of the financial year. However, following a further benchmarking exercise, the Committee subsequently approved an additional increase to the Chief Executive's and Chief Financial Officer's salaries of 4% which reflected the market estimate of increases to executive pay during 2023.

Incentive outcomes

Long-term incentive plan (LTIP)

Prior to the sale of the business, the Executive Directors and certain senior managers received awards under National Grid plc's LTIPs. In line with the rules of these LTIPs, awards automatically vested upon the of the sale by National Grid plc of the 60% equity stake in the business. The number of shares vested were pro-rated to reflect the period from the date of the award to the transfer of the business out of the National Grid group on 31 January 2023. The awards granted to the Chief Executive and the Chief Financial Officer were subject to the satisfaction of performance conditions set by National Grid.

Short-term incentive plan (STIP)

The 2023/24 STIP was based on 45% of financial performance measures, 35% of operational measures relating to customer satisfaction, safety and net zero transition and 20% individual objectives. The maximum bonus potential for the Chief Executive and the Chief Financial Officer was 120% of salary but, recognising that the sale of the business has resulted in a reward gap for Executives in 2024 and 2025, the Committee agreed that a one-off multiplier of 50% should be applied to the agreed vesting outcome.

National Gas had a strong year with payouts equal to 99.63% of the maximum business measures, and the Committee agreed that the Chief Executive and the Chief Financial Officer had both achieved 90% of the maximum for their respective personal objectives. This resulted in a total bonus outcome of 98% of maximum (117.6% of salary) for both of them. The Committee is satisfied that the outcomes are appropriate given the strong performance across the business and by Executives during the year.

Looking ahead to 2024/25

We are mindful that we are in a competitive market for senior executive talent and therefore need to continually appraise ourselves of appropriate and fair levels of remuneration.

Annual salary review

The Committee reviewed the salaries for the Chief Executive and the Chief Financial Officer and considered the proposed salary increases for the Executives, taking into account salary increases across the business, market trends around executive pay awards and executive benchmarking. It was agreed that Jon Butterworth's salary should be increased by 2% and Nick Hooper's by 7%, taking effect from 1 July 2024. Jon's increase is lower than the increase for employees generally across the business, but reflects that his pay falls within the upper quartile range of the benchmarking group. The benchmarking data for Chief Financial Officers showed that Nick Hooper's salary was in the lower quartile of base salaries for finance roles in similar companies. The Committee therefore approved a larger increase for Nick, bringing his salary further towards the median range. These increases will result in a new base pay of £636,480 for Jon Butterworth and £377,239 for Nick Hooper.

Following a benchmarking exercise, the Committee concluded that the current fee of £250,000 for the Chair and £71,000 per annum for the Sufficiently Independent Directors should be maintained for another year.

Incentive schemes

We have agreed that the construct of the 2024/25 STIP and LTIPs will remain similar to last year's awards, but, following a review, we agreed to amend some of the performance measures and weighting of these measures for the LTIP. The changes are in respect of RIIO-GT3 and net zero transition and an increase in weighting for these two measures will strengthen the importance for the Company to make progress in respect of delivery of RIIO-GT3 and hydrogen. In turn, the weighting in respect of financial and customer satisfaction measures has been reduced. We considered this carefully and are satisfied that this is an appropriate balance between achievability and stretch. The individual performance element of the STIP remains the same with a 20% balanced scorecard linked to individual Executives' objectives.

Nominations related items – review of the year

The Committee is responsible for keeping the size, structure and composition of the Board and its committees under review and ensuring that there are formal plans in place for an orderly succession to both Board and senior leadership positions. Given that the composition of the Board is new, the Committee's focus was primarily on reviewing the Executive leadership structure and talent pipeline.

Remuneration and Nominations Committee

Continued

Board changes

In March 2024, Luppiter Bidco Limited completed the acquisition of a further 20% of the shares in GasT Topco Limited from Lattice Group Limited, taking their overall equity interest in the National Gas group to 80%. In accordance with the Shareholders' Agreement National Grid's representation on our Board was reduced to one Director. Katerina Tsirimpa stepped down and, although she continues an alternative director for the remaining National Grid nominated Director, Ben Wilson, I would like to take this opportunity to thank Katerina for her contribution as a formal Director on our Board.

I am delighted that Mark Russell has been identified as an additional Sufficiently Independent Director and, following a recommendation from the Committee, the Board approved Mark joining the Board in July 2024. When Mark joins, he will take over as the Chair of the Audit and Risk Committee, a role that Cathryn Ross has held, in addition to her chairing the Regulation and Strategy Committee since the establishment of the new Board in January 2023. Recognising Mark's extensive background in corporate finance and experience in chairing audit and risk committees, he will be a valuable addition to the Board.

Executive changes and developments

Following the transfer of the business out of the National Grid group, ghSMART, a leadership advisory firm, was commissioned to conduct a formal assessment of each Executive with the aim of supporting and preparing each individual Director in the transition to becoming the Executive Committee of a stand-alone Company and to ensure that,collectively, the Executives had the right organisational capabilities to deliver the long-term strategic priorities. Following a rigorous and highly tailored assessment with each of the Executives, an individual development plan was created with each of them and, as a Committee, we have been reviewing progress against these specific individual plans.

As part of the review, the shape of the Executive Leadership team was considered, and it was agreed that a revised Executive structure should be introduced, in parallel with the creation of a Chief Operating Officer role. The Committee established a small working group, consisting of the Committee Chair, Mark Mathieson, the Chair of the Board and the Chief Executive to actively participate in the recruitment process for the COO role. Matt Steele joined as the Chief Operating Officer in April 2024 and he is responsible for the development and execution of the National Gas operational strategy across asset, operations, construction, metering and procurement activities. He will play a vital role in supporting the Chief Executive in implementing and delivering the Company's strategy and ensuring it is translated into actionable delivery plans and initiatives. When Matt joined, the Executive structure was changed, with a number of the Executives now reporting into the Chief Operating Officer.

The Executive team has a key role to play in the ongoing development of our talent pipeline and in fostering the culture and values required to continue to deliver on our strategy. During the year, the Committee considered the executive pipeline from which the future leaders of the Company are likely to emerge, focusing on the pipeline of 'ready now' and 'ready later' emerging talent. With the support of Kincentric, an HR consulting service, an assessment was carried out for each of the candidates identified as potential successors in the 'ready now' category. The assessment outputs provided a view of potential and leadership ability, as well as strengths and development areas and plans are now in place to accelerate these individuals' development and path to succession, where appropriate.

Other areas of focus

The Committee considered employee diversity and inclusion and reviewed the development of, and progress against, a number of activities to improve diversity across the business, including the publication of our Gender Pay Gap report. We are reshaping our policies, practices, and principles around DEI to create a long-term strategy focused on recruitment and promotion, retention, fostering an inclusive culture, and creating a positive social impact. Our ambition is to make National Gas an employer of choice where colleagues can influence and deploy their unique skills and strengths.

A large proportion of employees' pay is negotiated under local collective bargaining agreements and the Committee takes this into consideration when considering Executive pay.

To ensure that the Company's remuneration practices are in line with best practice the Committee appointed, following a formal selection process, an independent external remuneration adviser, Ellason LLP.

Looking forward, the Committee will continue to develop and monitor succession both at Board and Executive management level. We will also continue to review Executive remuneration to ensure that it continues to be rewarding yet stretching and support the development of National Gas in a sustainable and responsible way.

William Price
Chair of the Remuneration and Nominations Committee

Safety and Sustainability Committee

Howard Higgins

Chair of the Safety and Sustainability Committee

The Committee has a key role in overseeing and supporting the Company in maintaining its excellent safety records and ensuring there is a continued focus on safe and environmentally sustainable business operations.

Role of the Committee

The role of the Committee is to assist the Board by overseeing the Company's performance in respect of safety and sustainability. In doing so, the Committee advises on, and receives assurance in, matters relating to safety, health, environment and social aspects.

Membership

The Committee consists of three members, all of whom are Non-Executive Shareholder Nominated Directors or members appointed by the Shareholders. The Committee is chaired by Howard Higgins, who is one of the Shareholder Nominated Directors.

The Chief Executive, the Chief Financial Officer, the Asset Director, the Head of SHE, the General Counsel and the Head of ESG attended the meetings. During the year, the Committee met three times and made a number of visits to operational sites.

Key areas of focus 2023/24

- Received regular reports on safety performance across National Gas and the Company's safety strategy, the ambition to be 'Safe every day'.
- Considered the outcome of the independent review of the Company's management of safety.
- Reviewed safety, health and sustainability risks.
- Reviewed delivery of the RIIO-T2 Environmental Action Plan.
- Reviewed net zero carbon pathway and the decarbonisation strategy, including work to re-baseline the scope 1, 2 and 3 emissions.
- Provided specific focus on measurement and mitigation of emissions.
- Considered the key findings from the 2023/24 internal audit reviews relating to safety and sustainability, and considered the safety and sustainability audit for inclusion in the 2024/25 internal audit plan.
- Received updates on delivery of the assurance plan relating to safety and sustainability.

Letter from the Chair

I am delighted to introduce the first report from the Safety and Sustainability Committee. The Committee was established in February 2023, and we have an important role in supporting the Board by providing oversight, challenge and guidance in respect of safety and sustainability performance and strategy. In doing so, our primary focus is on oversight of the strategy in respect of safety and environment but we also consider social priorities to make sure the business continues to carry out its activities in a responsible and sustainable manner.

Safety and sustainability strategy

As a new Company, National Gas has taken the opportunity to 'reset' its safety and sustainability strategy and with the help, challenge and guidance over the first year this has now been embedded in the operational plans of the business.

Safety performance

The Committee is continuously focused on the safety of our employees and contractors. We review safety performance at every meeting to ensure our high standards are maintained and ensure the Company is continuously and proactively confirming that the safety culture remains embedded in everyday business activities. We are pleased that during the year, the Company maintained its excellent safety record. However, there were a number of 'high-potential incidents. These incidents were reviewed in detail by the Committee, including the 'root-cause' analysis and mitigating actions. Whilst the review by the Committee concluded there was no failure to the Safety Management System, it had led to the implementation of an improved approach to 'root-cause' analysis.

Following the acquisition of the business, ARUP was commissioned to undertake an assessment of the safety management system. The Committee considered the outcome of the review and associated implementation plan for recommended areas identified for improvement. The review concluded that whilst the Company's approach to safety is considered excellent with many areas of good practice, opportunities for improvements were also identified. the Company developed a 64 point Improvement Plan and the Committee closely monitors progress.

Net zero carbon transmission

The Company has an ambition to become a net zero carbon emission business by 2040. During the year we considered progress on the delivery of the Environmental Action Plan, which consists of 30 discrete environmental commitments. This includes the pathway to achieving net zero, as well as the work that is taking place to review scope 1 and 2 emissions.

Internal control framework

Risk, internal audit and assurance

The Committee is responsible for recommending to the Audit and Risk Committee the internal audit reviews in respect of safety and sustainability. During the year we considered the key findings of the safety and sustainability related internal audit reviews and monitored the completion of any audit recommendations. We also considered the safety and sustainability related internal audit reviews to be included in the 2024/25 internal audit plan.

Internal controls

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. The Committee receives regular updates on the delivery of the annual assurance plan relating to safety and sustainability. Where any failings or weaknesses are identified during 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.

Risk management systems

The Committee is responsible for the oversight of the risks relating to safety and sustainability, with particular focus on process safety, occupational safety and health and environmental risks. Throughout the year we considered a deep dive of the approach to managing process safety risks, including the bow tie process adopted to capture, validate and articulate the specific risks. This includes the 'bow-tie' process adopted to capture specific risks and the to assess the effectiveness of mitigation strategies. Throughout the year the Committee also considered a number of specific risk areas in depth, including asset data management and climate change. In the year ahead we will continue to monitor safety performance and the usual cadence of items being brought to the Committee, but we will also devote time to supporting the Company on its environmental emissions journey and prepare for the submission of the RIIO-GT3 Environmental Action Plan.

Howard Higgins

Chair of the Safety and Sustainability Committee

Regulation and Strategy Committee

Cathryn Ross

Chair of the Regulation and Strategy Committee

The Committee has a key role in overseeing and supporting the relationship with the Company's economic regulator, Ofgem, and ensuring that the Company delivers its commitments under the current regulatory framework. Through our input into the development of the business plan for the next regulatory framework, we will ensure that the business plan supports National Gas in providing power for today and transforming energy for the future.

Role of the Committee

The role of the Committee is to assist the Board by overseeing the Company's compliance with its licence and other regulatory obligations set by Ofgem. In doing so, it oversees the Company's relationship with Ofgem, the delivery of the business plan commitments in the relevant regulatory period, and the development of the plan for next regulatory framework. It also supports the development of the regulatory and hydrogen strategies.

Membership

The Committee consists of four Non-Executive Directors, three of whom are Shareholder Nominated Directors, and is chaired by Cathryn Ross, who is one of the Sufficiently Independent Directors.

The Chief Executive, the Chief Financial Officer, the Chief Commercial Officer and the Regulation Director also attend meetings. During the year, the Committee met three times.

Key areas of focus 2023/24

- Reviewed of activities of, and engagement with, Ofgem and DESNZ.
- Updated on the outcome of the Resilience Summit.
- Updates on the Company's response to the development of the Future System and Network Regulation.
- Updates on other regulatory developments.
- Updates on the delivery of RIIO-T2, including a number of in depth reviews on specific areas of delivery.
- Updates on the development of the hydrogen market and National Gas' hydrogen strategy.
- Assurance updates on compliance activities associated with regulatory licence obligations and requirements.

Letter from the Chair

I am pleased to present the first report from the Regulation and Strategy Committee. Given that the Committee was established in February 2023, we spent time on familiarising ourselves with the existing regulatory environment for National Gas Transmission, understanding the various relationships with Ofgem and other key regulatory stakeholders, as well as the regulatory landscape and areas under review.

Reports on progress against the RIIO-T2 deliverables were reviewed and discussed at each meeting, and throughout the year we considered deep dives into specific areas of the business plan. We also monitored the Company's submissions under the uncertainty mechanism in the RIIO-T2 licence, and Ofgem's responses to these submissions.

We will spend considerable time next year reviewing the business plan submission for the next regulatory framework, RIIO-GT3, but during the year the Committee received regular updates on the Company's response to the Future System and Network Regulation, the name of the consultation that Ofgem carried out in respect of the new price control framework. We also received updates on other sector specific consultations, including Ofgem's consultation on the impact of high inflation.

In spring of 2023, the Company arranged a Resilience Summit with a number of senior stakeholders from Ofgem, DESNZ and the Electricity System Operator to explore the need for a new resilience standard for the NTS and the Committee considered the Company's input into the changes that have now been adopted in the Transmission Planning Code.

We have considered the development of the hydrogen business model and followed the development of the hydrogen and CCS policies on a national level. We received updates on the Company's FutureGrid and Project Union and we look forward to the next steps in the Company's hydrogen journey.

Looking forward, the Committee will spend considerable time in the next year to oversee and support the development of the RIIO-GT3 submission.

Cathryn Ross,
Chair of the Regulation and Strategy Committee

Directors' report

The Directors present their Annual Report and Accounts for the Company, together with the consolidated financial statement, for the year ended 31 March 2024.

National Gas Transmission plc is registered in England and Wales with company number 02006000 and with its registered office at Warwick Technology Park, Gallows Hill, Warwick CV34 6DA. The Company is a public limited company, however its shares are not publicly available for trading.

This section contains the remaining matters on which the Directors are required to report each year which are not included elsewhere in this Annual Report. Certain matters, which are required to be reported, can be found in other sections of this Annual Report, as set out below:

	Page reference
Employee engagement and involvement	36
Diversity	37
Financial risk management	100–105
Future business developments	20–22
Principal activities and business review	5 and 13–15
Principal risks and uncertainties	41–43
Relationship with customers and stakeholders	23–25
Greenhouse gas emissions and energy consumption	28–33

Other specific disclosures on which the Directors are required to report each year:

Areas of operation	During the financial year the Company's activities and operations were all in the UK.
Auditor	A resolution to reappoint Deloitte LLP as auditor of the Company will be proposed for shareholder approval.
Corporate governance	Corporate Governance report, pages 51–71.
Research and development	Expenditure on research and development was £15 million during the year (2022/23 £14 million).
Post balance sheet events	There were no significant events after the statement of the financial position date.

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*	Chief Executive	1 May 2021
Jerry Divoky	Shareholder Nominated Director	31 January 2023
Howard Higgins	Shareholder Nominated Director	31 January 2023
Nick Hooper*	Chief Financial Officer	1 August 2021
Mark Mathieson	Shareholder Nominated Director	31 January 2023
William Price	Shareholder Nominated Director	31 January 2023
Cathryn Ross	Sufficiently Independent Director	21 June 2019
Mark Russell	Sufficiently Independent Director	1 July 2024
Lincoln Webb	Shareholder Nominated Director	31 January 2023
Benjamin Wilson	Shareholder Nominated Director	22 November 2021
Jenny Lyn Dela Cruz	Alternate Director	29 January 2024
Natalie Humphries-New	Alternate Director	31 January 2023
Abdul Moiz Qureshi	Alternate Director	21 July 2023
Katerina Tsirimpa**	Alternate Director	31 January 2023

Former Directors		Resignation date
Mia Agoumi	Alternate Director	11 March 2024
Timothy Keeling	Alternate Director	30 November 2023
Kylee Dickie	Alternate Director	11 March 2024
Rhian Kelly	Alternate Director	11 March 2024
Christy Pham	Alternate Director	21 July 2023

* Non-voting Board member

** Katerina Tsirimpa was a National Grid Shareholder Nominated Director up to 11 March 2024, when the Consortium acquired a further 20% stake in the National Gas group and National Grid's representation on the Board was reduced to the one Director. Katerina remains on the Board as an alternate Director to Ben Wilson.

Directors' 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.

Directors' conflicts of interests

The Company has procedures in place for managing conflicts of interest. Should a Director become aware that they, or any of their connected parties, have an interest in an existing or proposed transaction with the Company or any group company, they notify the Board in writing or declare it at the next Board meeting. Internal controls are in place to ensure that any related party transactions involving Directors, or their connected parties, are conducted on an arm's length basis. Directors have a continuing duty to update any changes to these conflicts.

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 including non-UK political parties. The wider 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 £124,200 (2022/23 £28k) as part of these engagements.

Dividends

During the year, the Company paid ordinary dividends totalling £337 million (2022/23: £505 million).

Share capital

As at 31 March 2024, the Company issued share capital comprised of a single class of 3,944,133,594 ordinary shares of £0.01 each. See note 24 to the consolidated financial statements for further details.

Major shareholdings

As of 31 March 2024, the Company's share capital was held by National Gas Transmission Holdings Limited. The ultimate parent company is Luppiter Consortium Limited.

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 47-50, 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 41-43.

The Board monitors the Company's and Group's cash flow forecasts and liquidity position throughout the year, including financial covenant headroom for the Group to ensure it has sufficient financial resources. Based on the Group's cash flow forecasts, the Board expects the Group to have adequate resources to continue in operation, meet its liabilities as they fall due, retain sufficient available cash for the foreseeable future, being a period of at least 12 months from the approval of the financial statements. The Board therefore considers it appropriate for the Company to adopt the going concern basis.

Disclosure of information to the auditor

The Directors, who hold office at the date of the approval of this Directors' report, confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditors is unaware; and each Director has 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 2024 and signed on its behalf by:

Nick Hooper
Chief Financial Officer
18 July 2024

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 the UK adopted 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.

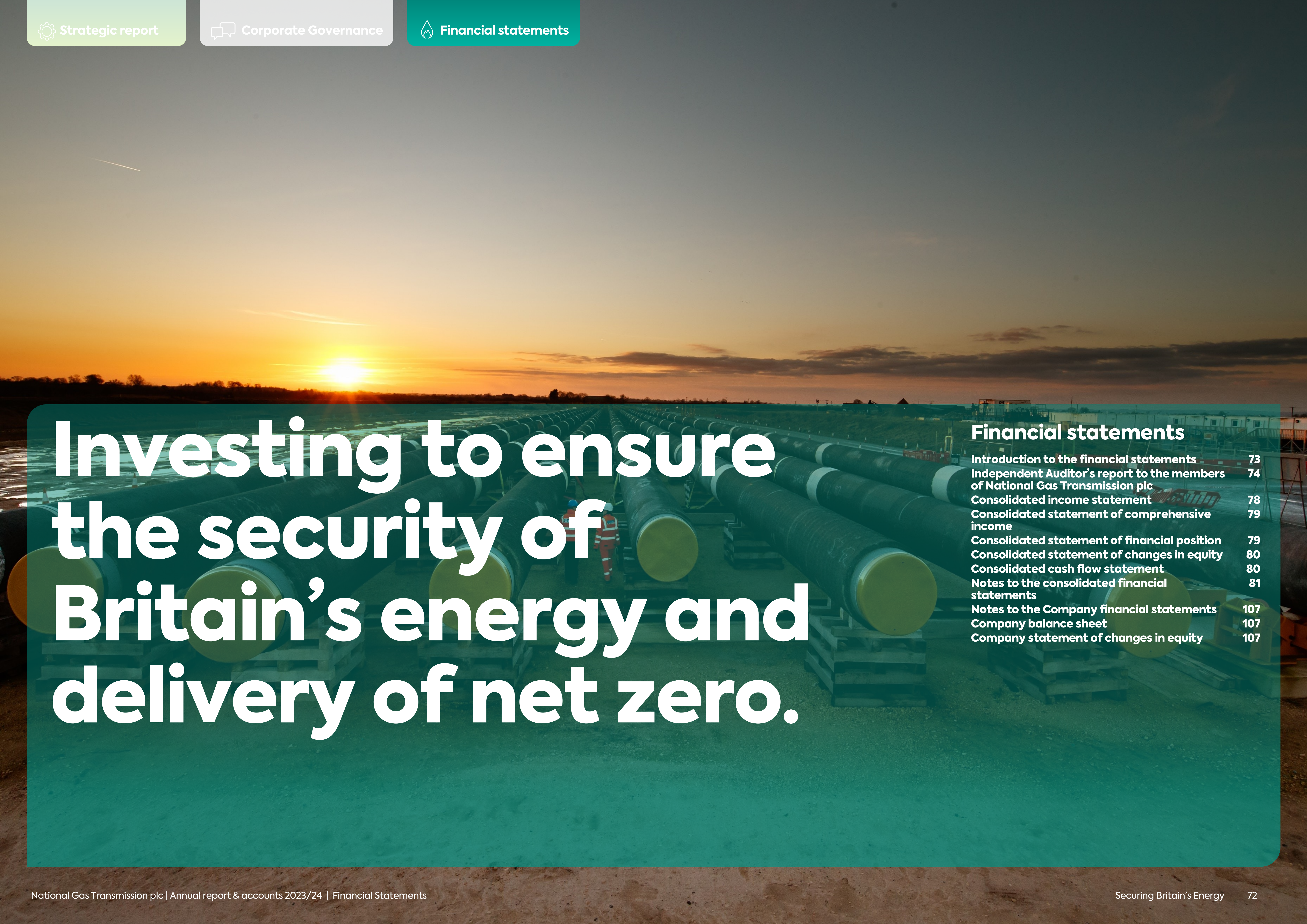
Responsibility statement of the Director in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant UK-adopted international accounting standards, 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, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities and financial position of the Company and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This responsibility statement was approved by the Board on 18 July 2024 and signed on its behalf by:

Nick Hooper
Chief Financial Officer
18 July 2024



Investing to ensure the security of Britain's energy and delivery of net zero.

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 "Company") and its subsidiaries ("the Group") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2024 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 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 financial position;
- the consolidated statement of changes in equity;
- the consolidated cash flow statement;
- the related notes 1 to 33 to the consolidated financial statements.

Company only:

- the Company balance sheet;
- the 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 Company's 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 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 and Company for the year are disclosed in note 4(e) to the consolidated financial statements and note 2 to the Company financial statements respectively. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group or 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 £22m which represents 4.1% of three-year average adjusted profit before tax.
Scoping	We focused our Group audit scope on the Company, which accounts for 100% of the Group's revenue and 99% of the Group's profit before tax..
Significant changes in our approach	There has been no significant change in our approach for the current year.

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 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 clerical accuracy and appropriateness of assumptions used in 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 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.

Report on the audit of the financial statements

Continued

5. 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. 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 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, the impact of 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, there would be an increase in the annual depreciation expense of £39 million;
- should gas assets be fully depreciated by 2060, there would be an increase in the annual depreciation expense of £13 million; and
- should gas assets be fully depreciated by 2070, there would be an increase in the annual depreciation expense of £1 million.

Management performed an 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.

National Gas Transmission owns and operates the National Transmission System. 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 electrification. Management concluded that the National Transmission System pipeline assets in the UK will continue to have an economic use until 2070.

Management have disclosed a key judgement in relation to the potential future use of the Group's gas assets post-2050 as well as the gas asset lives as a key estimate in note 1E to the financial statements, with 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 future energy scenarios;
- considering the potential for re-purposing the Group's gas networks for alternative uses, and in particular for transporting hydrogen; and
- as part of our search for and consideration of potentially contradictory evidence, reading a number of relevant external reports, including the Second National Infrastructure Assessment and the UK's Climate Change White Paper, produced by the Department for Business, Energy & Industrial Strategy.

We worked with our climate and regulatory specialists to review management's key assumptions and to challenge the viability of some 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 National Gas Transmission 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 have concluded that management's assumption that these assets will continue to have a valuable use until 2070 is reasonable.

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.

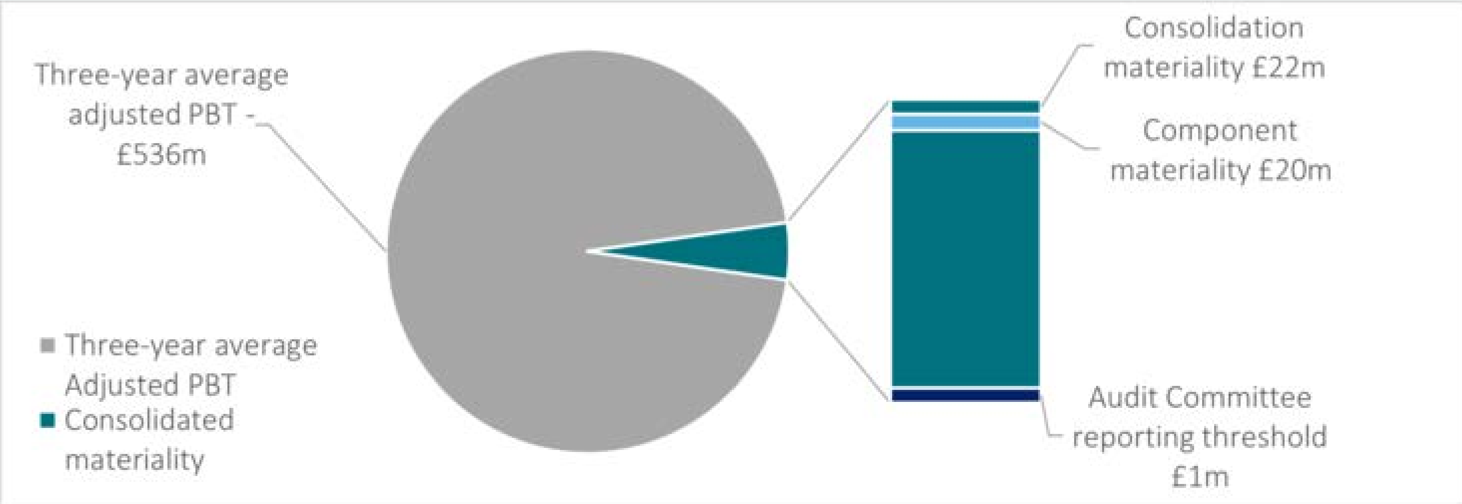
Report on the audit of the financial statements
Continued

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	£22 million (2023: £20 million).	£20 million (2023: £19 million).
Basis for determining materiality	Our determined materiality represents 4.1% of adjusted profit before tax on a three-year average basis. The prior year materiality was determined based on 6% of adjusted profit before tax. Adjusted profit before tax is profit before tax, certain exceptional items and remeasurements as disclosed in the consolidated income statement.	Our determined materiality represents 4.1% of adjusted profit before tax on a three-year average basis, capped at 90% of the group materiality. The prior year materiality was determined based on 6% of adjusted profit before tax, capped at 95% of the group materiality. 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 and Company. We consider it appropriate to adjust for certain exceptional items as these items as these are not reflective of the underlying performance of the Group. We adopted an average adjusted profit before tax benchmark over a three-year period to determine our current year materiality. Using a three-year average basis removes volatility arising from regulatory timing differences. These occur due to under- or over-collection of revenue in a financial year which arise due to differences in actual revenue and costs incurred in relation to transporting gas volumes across the National Transmission System compared to forecast revenue and costs included in Ofgem's determination of Allowed Revenue. 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. Profit before tax is the benchmark ordinarily considered by us when auditing listed entities. It provides comparability against other companies across all sectors, but has limitations when auditing companies whose earnings are impacted by items which can be volatile from one period to the next, and therefore may not be representative of the volume of transactions and the overall size of the business in a given year, or where the impact of volatility may result in the recognition of material income or charges in a particular year. Whilst not an IFRS measure, adjusted profit is one of the key metrics communicated by management in the Group's results announcement. 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.	



6.2 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% (2023: 70%) of Group materiality	70% (2023: 70%) of Company only materiality
Basis for determining performance materiality	In determining performance materiality, we considered the following factors: • Our cumulative experience from prior year audits; • The level of corrected and uncorrected misstatements identified; • Our risk assessment, including our understanding of the entity and its environment; • Our assessment of the Group's overall control environment, and the fact we were able to place reliance on controls in a number of key financial processes; 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 (2023: £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 audit of the Company which was subject to a full scope audit and was executed at a component materiality of £20 million (2023: £19m). This accounts for 100% of the Group's revenue (2023: 100%) and 99% of the Group's adjusted profit before tax (2023: 98%).

Audit work to address the identified risks of material misstatement was performed directly by the 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 financial processes we considered the impact, updated our audit plan and communicated to management.

The Group's financial systems environment relies on a high number of applications. In the current year we identified eight 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 COP28 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.

Report on the audit of the financial statements

Continued

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 respect of these matters.

9. Responsibilities of directors

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

In preparing the financial statements, the directors are responsible for assessing the Group's and the 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 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, including those that are specific to the Group's sector;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and specialists including tax, pensions, IT, regulatory and treasury, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

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, IFRS as issued by the IASB, United Kingdom adopted international accounting standards, 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; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and OFGEM.

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

We have nothing to report in respect of these matters.

Report on the audit of the financial statements
Continued

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 these matters.

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 seven years, covering the years ending 31 March 2018 to 31 March 2024.

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) 4.1.15R – DTR 4.1.18R, these financial statements will form part of the Electronic Format Annual Financial Report filed on the National Storage Mechanism of the FCA in accordance with DTR 4.1.15R – DTR 4.1.18R. This auditor's report provides no assurance over whether the Electronic Format Annual Financial Report has been prepared in compliance with DTR 4.1.15R – DTR 4.1.18R.

Jacqueline Holden FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
18 July 2024

Consolidated income statement
for the year ended 31 March 2024

	Notes	2024 £m	2024 £m	2023 £m	2023 £m
Revenue	2 (a)		**1,778**		1,918
Operating costs	4		**(883)**		(1,299)
Operating profit					
Before exceptional items	2 (b)	**895**		619	
Exceptional items	5	**(42)**		(42)	
Total Operating profit	2 (b)		**853**		577
Finance income	6		**274**		138
Finance costs					
Before remeasurements	6	**(277)**		(365)	
Remeasurements	5, 6	**(11)**		4	
Total finance costs	6		**(288)**		(361)
Profit before tax					
Before exceptional items and remeasurements		**892**		392	
Exceptional items and remeasurements	5	**(53)**		(38)	
Total profit before tax			**839**		354
Tax					
Before exceptional items and remeasurements	7	**(230)**		(84)	
Exceptional items and remeasurements	5, 7	**13**		8	
Total tax	7		**(217)**		(76)
Profit after tax					
Before exceptional items and remeasurements		**662**		308	
Exceptional items and remeasurements	5	**(40)**		(29)	
Total profit after tax			**622**		279

Consolidated statement of comprehensive income
for the year ended 31 March 2024

	Notes	2024 £m	2023 £m
Profit for the year		**622**	279
Other comprehensive income:			
Items that will never be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations	22	**(119)**	(245)
Tax on items that will never be reclassified to profit or loss	7	**30**	61
Total items that will never be reclassified to profit or loss		**(89)**	(184)
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		**8**	9
Tax on items that may be reclassified subsequently to profit or loss		**(2)**	(2)
Total items that may be reclassified subsequently to profit or loss		**6**	7
Other comprehensive income/(loss) for the year, net of tax		**(83)**	(177)
Total comprehensive income for the year		**539**	102

Consolidated statement of financial position
as at 31 March 2024

	Notes	2024 £m	2023 £m
Non-current assets			
Intangible assets	9	**123**	118
Property, plant and equipment	10	**5,019**	4,774
Other non-current assets	11	**5**	11
Financial and other investments	12	**3,426**	3,426
Derivative financial assets	13	**40**	65
Pensions asset	22	**312**	412
Total non-current assets		**8,925**	8,806
Current assets			
Inventories and current intangible assets	14	**14**	14
Trade and other receivables	15	**237**	294
Financial and other investments	16	**992**	557
Derivative financial assets	13	**—**	—
Cash and cash equivalents	17	**25**	10
Total current assets		**1,268**	875
Total assets		**10,193**	9,681
Current liabilities			
Borrowings	18	**(170)**	(805)
Derivative financial liabilities	13	**(8)**	(1)
Trade and other payables	19	**(534)**	(478)
Contract liabilities	20	**(46)**	(33)
Current tax liabilities	7	**(11)**	(21)
Provisions	23	**(22)**	(6)
Total current liabilities		**(791)**	(1,344)
Non-current liabilities			
Borrowings	18	**(4,570)**	(3,760)
Derivative financial liabilities	13	**(28)**	(31)
Other non-current liabilities	21	**(1)**	—
Contract liabilities	20	**(91)**	(96)
Deferred tax liabilities	7	**(803)**	(749)
Pension Liability	22	**—**	(1)
Provisions	23	**(48)**	(40)
Total non-current liabilities		**(5,541)**	(4,677)
Total liabilities		**(6,332)**	(6,022)
Net assets		**3,861**	3,659
Equity			
Share capital	24	**45**	45
Share premium account		**204**	204
Retained earnings		**2,274**	2,078
Other reserves	25	**1,338**	1,332
Shareholders' equity		**3,861**	3,659

The consolidated financial statements set out on pages 78-106 were approved by the Board of Directors and authorised for issue on 18 July 2024. They were signed on its behalf by:

Jon Butterworth (Director) **Nick Hooper** (Director)

National Gas Transmission plc
Registered number: 02006000

Consolidated statement of changes in equity
for the year ended 31 March 2024

	Share capital	Share premium account	Retained earnings	Other reserves[1]	Shareholders' equity
	£m	£m	£m	£m	£m
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**
Profit for the year	—	—	622	—	622
Total other comprehensive income/(loss) for the year	—	—	(89)	6	(83)
Total comprehensive income for the year	**—**	**—**	**533**	**6**	**539**
Equity dividends	—	—	(337)	—	(337)
At 31 March 2024	**45**	**204**	**2,274**	**1,338**	**3,861**

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

Consolidated cash flow statement
for the year ended 31 March 2024

	Notes	2024 £m	2023 £m
Cash flows from operating activities			
Total operating profit	2 (b)	**853**	577
Adjustments for:			
Exceptional items	5	**42**	42
Depreciation, amortisation and impairment		**221**	222
Changes in Working Capital:			
(Increase)/decrease in inventories		**—**	(2)
(Increase)/decrease in trade and other receivables		**65**	(106)
Increase/(decrease) in payables		**8**	128
(Increase)/decrease in capital contributions		**8**	—
Net increase/(decrease) in accounts payables to related undertakings		**—**	(18)
Change in provisions		**4**	(25)
Adjustment for (losses)/gains on disposal of NC assets		**17**	17
Changes in pensions and other post-retirement benefit obligations		**2**	(3)
Cash flows relating to exceptional items		**(32)**	(6)
Cash generated from operations		**1,188**	825
Tax paid		**(89)**	(34)
Net cash inflow from operating activities		**1,099**	791
Cash flows from investing activities			
Purchases of intangible assets		**(47)**	(14)
Purchases of property, plant and equipment		**(372)**	(290)
Disposals of property, plant and equipment		**—**	4
Interest received		**30**	61
Movement in short-term financial investments		**(212)**	(59)
Net cash flow from / (used in) investing activities		**(601)**	(298)
Cash flows from financing activities			
Proceeds from loans		**731**	972
Repayment of loans		**(753)**	(852)
Cash inflows on derivatives		**—**	4
Payments of lease liabilities		**(6)**	(5)
Interest paid		**(118)**	(96)
Dividends paid to shareholders		**(337)**	(505)
Net cash flow (used in) / from financing activities		**(483)**	(483)
Net (decrease) / increase in cash and cash equivalents		**15**	10
Net cash and cash equivalents at the start of the year		**10**	—
Net cash and cash equivalents at the end of the year	17	**25**	10

Cash of £25 million (2023: £10 million) includes £4 million (2023: £11 million) which has specific restrictions over its use.

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 Great 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 2024.

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) 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 2024 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 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 cashflow 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:

a. adverse impacts on our own-use gas and balancing costs of prevailing market conditions;
b. adverse impacts of inflation on our assets and liabilities;
c. adverse impact from actual versus forecast variations on working capital requirements; and
d. adverse fluctuations in interest rates.

As part of their analysis, the Directors also considered the following potential levers to improve the financial and liquidity position identified by the reasonable worst-case scenario:

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

Having considered the reasonable worst-scenario and further liquidity levers available to the Company, we thus continue to have headroom against the available facilities under each scenario the Directors were able to conclude that the company is able to meet its obligations as an when they fall due for at least one year from the date the financial statements are signed.

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
2023/24 was the first full year for National Gas and its subsidiaries as a stand-alone entity after the acquisition of National Gas Transmission Holdings by GasT MidCo on the 31st January 2023.   A consortium of Macquarie Asset Management and British Columbia Investment Management Corporation acquired a 60% stake in GasT TopCo (indirect subsidiary of NGT), on 31 January 2023. The consortium acquired a further 20% during 2023/24.

The consortium also entered into a new option agreement with National Grid for the potential acquisition of the remaining 20% shareholding. This does not impact the financial statements prepared for NGT.

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 of 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.
- Classification 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 22
- For construction work relating to connections, customers pay for the connection upfront. Revenue is recognised over time, as we provide access to our network - note 3

In order to illustrate the impact that changes in assumptions for the valuation of pension assets and liabilities 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)).

Notes to the consolidated financial statements

Continued

G. New IFRS accounting standards and interpretations effective for the year ended 31 March 2024

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 IAS 12 'Income Tax' – International Tax Reform – Pillar Two Model Rules.
- Amendments to IAS 1 'Presentation of Financial Statements'- 'Non-current liabilities with covenants' – Classification of Liabilities as Current or Non-Current.
- Amendments to IFRS 16 'Leases' - Lease Liability in a Sale and Leaseback.
- Amendments to IAS 7 'Statement of Cash Flows' and IFRS 7 'Financial Instruments: Disclosures'.
- IFRS S1 'General Requirements for Disclosure of Sustainability- related Financial Information' and IFRS S2 'Climate-related Disclosures'

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 21 'Transactions in foreign currencies' – 'Lack of Exchangeability'.
- Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures'. The effective date for these amendments were deferred indefinitely and the early adoption of these amendments continue to be permitted.

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.

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). 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.

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

1. Gas Transmission – The gas transmission network in Great Britain and liquefied natural gas (LNG) storage activities.
2. Other activities – Relate to the gas metering business, which provides regulated gas metering activities in the UK, together with corporate activities.

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

(a) Revenue

	2024			2023		
	Total sales	Sales between segments	Sales to third parties	Total sales	Sales between segments	Sales to third parties
	£m	£m	£m	£m	£m	£m
Operating segment:						
Gas Transmission	**1,578**	**(7)**	**1,571**	1,718	(6)	1,712
Metering	**207**	**—**	**207**	206	—	206
Total revenue	**1,785**	**(7)**	**1,778**	1,924	(6)	1,918

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

	2024 £m	2023 £m
Customer A	179	113
Customer B	179	128

No other single customer contributed 10% or more to the Gas Transmission group revenue in either 2024 or 2023.

(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	
	2024 £m	2023 £m	2024 £m	2023 £m
Operating segment:				
Gas Transmission	**756**	486	**714**	444
Metering	**139**	133	**139**	133
Total operating profit	**895**	619	**853**	577
Reconciliation to profit before tax:				
Operating profit	**895**	619	**853**	577
Finance income	**274**	138	**274**	138
Finance costs	**(277)**	(365)	**(288)**	(361)
Profit before tax	**892**	392	**839**	354

(c) Capital expenditure

	Net book value of property, plant and equipment and intangible assets		Capital expenditure		Depreciation, impairment and amortisation	
	2024 £m	2023 £m	2024 £m	2023 £m	2024 £m	2023 £m
Operating segment:						
Gas Transmission	**4,978**	4,725	**455**	358	**203**	202
Metering	**164**	167	**24**	24	**18**	20
Total capital expenditure by segment	**5,142**	4,892	**479**	382	**221**	222
Asset type:						
Property, plant and equipment	**5,019**	4,774	**421**	364	**168**	184
Intangible assets	**123**	118	**58**	18	**53**	38
Total capital expenditure by asset type	**5,142**	4,892	**479**	382	**221**	222

Notes to the consolidated financial statements
Continued

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

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

The transmission of gas encompasses the following principal activities:

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

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

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

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

Revenue for the year ended 31 March 2024	UK Gas Transmission £m	Metering £m	Total £m
Revenue under IFRS 15	1,568	207	1,775
Revenue under other standards[1]	3	—	3
Total revenue	**1,571**	**207**	**1,778**

[1] Income relates to IFRS16 lease Income

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 2023	UK Gas Transmission £m	Metering £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

Revenue to be recognised in future periods, presented as contract liabilities of £137 million (2023: £129 million) (see note 20).

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

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	
	2024 £m	2023 £m	**2024 £m**	2023 £m	**2024 £m**	2023 £m
Depreciation, impairment and amortisation	**221**	222	**—**	—	**221**	222
Profit and loss on disposal	**17**	17	**—**	—	**17**	17
Payroll costs	**92**	90	**—**	1	**92**	91
Purchases of gas[1]	**171**	637	**—**	—	**171**	637
Rates	**73**	84	**—**	—	**73**	84
Property costs	**36**	40	**—**	—	**36**	40
Inventory consumed	**15**	11	**—**	—	**15**	11
Research and development expenditure	**15**	14	**—**	—	**15**	14
Other	**243**	184	**42**	41	**285**	225
Total operating costs	**883**	**1,299**	**42**	**42**	**925**	**1,341**

[1] Purchase of gas is the cost of NTS Shrinkage gas, which includes Own Use Gas (OUG, for compressor use), Calorific Value (CV) Shrinkage (gas that cannot be billed) and Unaccounted for Gas (UAG, the remaining quantity of gas after considering measured inputs and outputs to the system).

Notes to the consolidated financial statements
Continued

(a) Payroll costs

	2024 £m	2023 £m
Wages and salaries	**111**	81
Social security costs	**14**	13
Defined contribution scheme costs	**13**	11
Defined benefit pension costs	**8**	8
Share-based payments	**—**	2
Severance costs (excluding pension costs)	**1**	—
	147	115
Less: payroll costs capitalised	**(55)**	(24)
Total payroll costs	**92**	91

(b) Number of employees, including Directors

	31 March 2024 Number	31 March 2023 Number	Monthly average 2024 Number	Monthly average 2023 Number
National Gas Transmission Group	**1,872**	1,656	**1,758**	1,581

(c) Key management compensation

	2024 £m	2023 £m
Salary and short-term employee benefits	**4**	2

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 2024 was £3,703,275 (2023: £2,376,321).

During the year, retirement benefits were not accrued to any Director under a defined benefit scheme (2023: one).

The aggregate emoluments (excluding social security, pensions and share-based payment) for the highest paid Director was £2,299,659 for 2024 (2023: £1,179,640) and total accrued annual pension during the year for the highest paid Director was nil (2023: £42,366).

There were no loss of office payments made to the Directors during 2024 or in 2023.

The Chair, who is also a Sufficiently Independent Director (SID) receives a fee of £250,000 per annum. The fee for the other SID was £101,000 per annum (2023: 101,000).

(e) Auditors' remuneration

	2024 £m	2023 £m
Audit services		
Audit fee of Company	**1.3**	1.4
Other services[1]		
Fees payable to the Company's auditors for audit related assurance services	**0.1**	0.1

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

Notes to the consolidated financial statements

Continued

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

	2024 £m	2023 £m
Exceptional items included within operating profit:		
Sale of business	42	41
Cost efficiency and restructuring programmes	—	1
	42	42
Included within finance income and costs:		
Remeasurements:		
Net loss/(gain) on derivative financial instruments	11	(4)
Net loss on financial liabilities held at fair value through profit and loss	—	—
	11	(4)
Total included within profit before tax	53	38
Included within taxation:		
Tax on exceptional items	(10)	(9)
Tax on remeasurements	(3)	1
	(13)	(8)
Total exceptional items and remeasurements after tax	40	29
Analysis of total exceptional items and remeasurements after tax:		
Total exceptional items after tax	32	32
Total remeasurements after tax	8	(3)
Total exceptional items and remeasurements	40	29

Exceptional items

Management uses an exceptional items framework that follows a three-step process considering 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.

Sale of Business

During 2022/23 and 2023/24 National Grid progressively sold an 80% stake in the National Gas group to the Consortium. The cost relating to separation has been deemed appropriate to be classified as exceptional and includes primarily professional fees incurred, IT separation, severance and pension costs

These costs were incurred as part of a wider separation project over several years. In 2023/24, the company incurred £42 million (before tax) associated with the sale of the business (2022/23: £41 million). The total cash outflow for the period was £32 million.

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. This only refers to when a derivative is settled , the remeasurements are reversed out and the actual realised gain or loss will be booked in the income statement.

Notes to the consolidated financial statements
Continued

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).

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.

	2024 £m	2023 £m
Finance income		
Interest income on financial instruments:		
Interest on deposits	31	5
Interest receivable from parent company	222	117
Net interest on pension asset	21	16
Total interest receivable and similar income	274	138
Finance costs		
Interest expense on financial liabilities held at amortised cost:		
Bank loans and overdrafts	(12)	(12)
Bonds[3]	(313)	(403)
Other loans	(5)	(4)
Facility fees and other charges	(5)	(5)
Derivative net interest and accretion[4]	1	5
Interest payable to parent company	(1)	(1)
Unwinding of discounts on provisions and lease liabilities	—	(1)
Tax related interest	(1)	(1)
Less: interest capitalised [1]	59	57
Total interest payable and similar charges	(277)	(365)
Remeasurements		
Net gains/(losses) on derivative financial instruments:[2]		
Derivatives designated as hedges for hedge accounting	4	10
Derivatives not designated as hedges or ineligible for hedge accounting	(15)	(5)
Remeasurements included within finance income/costs	(11)	4
Total finance income and costs including remeasurements	(14)	(223)
Finance income	274	138
Finance costs	(288)	(361)
Net finance costs	(14)	(223)

[1] Interest on funding attributable to assets in the course of construction was capitalised during the year at a rate of 8.4% (2023: 9.5%). Capitalised interest qualifies for a current year tax deduction with tax relief claimed of £15 million (2023: £11 million).
[2] Includes a net foreign exchange gain on financing activities of £29 million (2023: £1 million gain) offset by foreign exchange losses and gains on derivative financial instruments measured at fair value.
[3] Bond finance costs include principle accretion on inflation linked liabilities of £201 million (2022/23: £318 million).
[4] Includes inflation accretion gain on RPI-CPI swap of £9 million (2023:Nil).

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

	2024 £m	2023 £m
Tax before exceptional items and remeasurements	230	84
Tax on total exceptional items and remeasurements (note 5)	(13)	(8)
Total tax charge	217	76

Tax as a percentage of profit before tax

	2024 %	2023 %
Before exceptional items and remeasurements	25.8	21.5
After exceptional items and remeasurements	25.8	21.5

Notes to the consolidated financial statements

Continued

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

	2024 £m	2023 £m
Current tax:		
Corporation tax at 25% (2023: 19%)	**135**	35
Corporation tax adjustment in respect of prior years	**2**	4
Total current tax	**137**	39
Deferred tax:		
Deferred tax	**79**	28
Impact of change in tax rate	**—**	9
Deferred tax adjustment in respect of prior years	**1**	—
Total deferred tax	**80**	37
Total tax charge	**217**	76

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

	2024 £m	2023 £m
Current tax:		
Share-based payments[1]	**(1)**	(1)
Deferred tax:		
Share-based payments[1]	**2**	1
Movement in Cash Flow Hedges, Cost of Hedging and Own Credit Reserves	**2**	2
Remeasurements of net retirement benefit obligations	**(30)**	(61)
Total tax recognised in the statement of other comprehensive income	**(27)**	(59)

[1] During the year employees of National Gas Transmission plc exited the National Grid Sharesave scheme, Share Incentive Plan and Long Term Performance Plan. The associated exercise of share options gives rise to a current tax credit, whilst the deferred tax charge results from the unwind of the residual deferred tax assets in respect of the schemes.

The tax charge for the year after exceptional items and remeasurements is higher (2023: also higher) than the standard rate of corporation tax in the UK of 25% (2023: 19%):

	Before exceptional items and remeasurements 2024 £m	After exceptional items and remeasurements 2024 £m	Before exceptional items and remeasurements 2023 £m	After exceptional items and remeasurements 2023 £m
Profit before tax				
Before exceptional items and remeasurements	**892**	**892**	392	392
Exceptional items and remeasurements	**—**	**(53)**	—	(38)
Profit before tax	**892**	**839**	392	354
Profit before tax multiplied by UK corporation tax rate of 25% (2023: 19%)	**223**	**210**	74	67
Effect of:				
Adjustments in respect of prior years	**3**	**3**	4	4
Expenses not deductible for tax purposes	**4**	**4**	2	1
Movement in unrecognised deferred tax	**—**	**—**	(1)	(1)
Capital allowance super-deductions	**—**	**—**	(4)	(4)
Deferred tax impact of change in UK tax rate	**—**	**—**	9	9
Total tax	**230**	**217**	84	76
Effective tax rate	**25.8%**	**25.8%**	21.5%	21.5%

On 11 July 2023, the UK government enacted legislation giving effect to the OECD Pillar 2 initiative, effective from 1 January 2024. This introduced both a multinational and domestic top up tax which applies where profits are initially taxed at an effective tax rate of less than 15%. The Group has assessed the impact of this legislation and is not expecting any increase in taxes payable given the group is not a multinational enterprise, and is expected to benefit from the transitional safe harbour rules within the legislation.

The Group has applied the exception under IAS 12, such that the Group neither recognises nor discloses information about deferred tax assets and liabilities related to Pillar 2 income taxes.

Notes to the consolidated financial statements

Continued

Deferred tax (assets)/liabilities

Tax included within the statement of financial position

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

	Pensions	Accelerated tax depreciation	Share based payment	Financial instruments	Other net temporary differences	Total
	£m	£m	£m	£m	£m	£m
1 April 2022	**166**	**610**	**(5)**	**(2)**	**1**	770
Charged/(credited) to income statement	(2)	39	—	—	—	37
Charged/(credited) to other comprehensive income	(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	776
31 March 2023	**103**	**649**	**(4)**	**—**	**1**	**749**
Charged/(credited) to income statement	5	76	2	(4)	1	80
Charged/(credited) to other comprehensive income and equity	(30)	—	2	2	—	(26)
31 March 2024	**78**	**725**	**—**	**(2)**	**2**	**803**
Deferred tax assets at 31 March 2024	—	(14)	—	—	(4)	**(18)**
Deferred tax liabilities at 31 March 2024	78	739	—	(2)	6	**821**
31 March 2024	**78**	**725**	**—**	**(2)**	**2**	**803**

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 £803 million (2023: £749 million).

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:

	2024		2023	
	pence (per ordinary share)	**£m**	pence (per ordinary share)	£m
Ordinary dividends				
Final dividend in respect of the prior year	**1.25p**	**49**	7.35p	290
Interim dividend paid	**7.29p**	**288**	5.45p	215
Total Dividend paid in 2023/24		**337**		505

The Directors proposed a final dividend for the year ended 31 March 2023 of 1.25p per share that absorbed £49 million of shareholders' equity. This was declared after the year end at the 18 July 2023 Board meeting, as a result this was not included within the 2022/23 Financial Statements. An interim dividend of £229 million per ordinary share of 5.79p was declared for 2023/24 and paid on 5 December 2023. A further interim dividend of £59 million per ordinary share of 1.50p was paid in January 2024.

The Company paid an interim dividend of £111 million on 24th April 2024 which is a non adjusting event and accounted for in 2024/25 financial statements. The directors are not proposing a final dividend for 2023/24.

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 the Company has control of the software intangible asset. Control is considered to exist where the Company has the right to take possession of the software and run it on its own or a third party's computer infrastructure or if the Company 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 the Company 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	**Assets in the course of construction**	**Total**
	£m	£m	£m
Cost at 1 April 2022	**430**	**37**	**467**
Additions	1	17	18
Reclassifications[1]	53	(53)	—
Other	3	—	3
Cost at 31 March 2023	**487**	**—**	**487**
Additions	—	58	58
Reclassifications[1]	2	(2)	—
Disposals	(1)	—	(1)
Cost at 31 March 2024	**488**	**56**	**544**
Accumulated amortisation at 1 April 2022	**(331)**	**—**	**(331)**
Amortisation charge for the year	(40)	—	(40)
Impairment	2	—	2
Accumulated amortisation at 31 March 2023	**(369)**	**—**	**(369)**
Amortisation charge for the year	(53)	—	(53)
Disposals	1	—	1
Accumulated amortisation at 31 March 2024	**(421)**	**—**	**(421)**
Net book value at 31 March 2024	**67**	**56**	**123**
Net book value at 31 March 2023	118	—	118

[1] Reclassifications represent commissioning of assets from assets under construction into usage.

Notes to the consolidated financial statements

Continued

10. Property, plant and equipment

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

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

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

Property, plant and equipment includes assets in which the Company 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 construction of the diversion.

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 2055, including in those scenarios where the greenhouse gas emissions of gas networks were largely eliminated. Since 2019, the Company 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 its own production target being doubled to 10 GW in April 2022 (due to longer term concerns over UK energy security following the reduction of Russian gas supplies to Europe). The National Infrastructure Commission (NIC) published its second National Infrastructure Assessment in October 2023. The report contained a number of recommendations for supporting and accelerating the development of a Hydrogen economy. In April 2023 and July 2023, Ofgem awarded funding for National Gas' Project Union study and FutureGrid testing respectively which further strengthened the use of hydrogen an alternative fuel . In conclusion, we believe that our pipelines will be used for gas or alternative fuels with the most likely scenario being transportation of hydrogen with carbon capture and storage (2CCUS2) beyond 2055.

The company continues 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 on the depreciation charge where a shorter UEL is presumed:

	Increase in depreciation expense £m
UELs limited to 2050	39
UELs limited to 2060	13
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.

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 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**
Additions	3	2	409	7	421
Disposals	(3)	(47)	—	(3)	(53)
Reclassifications[1]	12	72	(86)	2	—
Other[3]	10	—	—	—	10
Cost at 31 March 2024	**351**	**7,977**	**1,031**	**295**	**9,654**
Accumulated depreciation at 01 April 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)**
Depreciation charge for the year	(6)	(146)	—	(17)	(169)
Disposals[2]	4	28	—	3	35
Impairment	—	3	(2)	—	1
Accumulated depreciation at 31 March 2024	**(209)**	**(4,174)**	**(6)**	**(247)**	**(4,635)**
Net book value at 31 March 2024	**142**	**3,803**	**1,025**	**48**	**5,019**
Net book value at 31 March 2023	122	3,891	704	56	4,774

[1] Reclassifications represent commissioning of assets from assets under construction into usage.
[2] Prior year (FY23) Includes disposals relating to adjustments identified as part of the implementation of the new SAP S4 finance system in the UK businesses.
[3] The other movement reflects the cost of future remediation of the six new sites acquired during the year and recorded as part of acquisition costs.

Notes to the consolidated financial statements

Continued

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.

Included within the net book value of property, plant and equipment at 31 March 2024 are right-of-use assets, split as follows:

	Land and buildings	Motor vehicles and office equipments	Total
	£m	£m	£m
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**
Additions	2	7	9
Disposals	(3)	(2)	(5)
Depreciation charge	(3)	(3)	(6)
Depreciation on disposals	4	1	5
Net book value at 31 March 2024	**10**	**5**	**15**

The following balances have been included in the income statement for the year ended 31 March 2024 in respect of right-of-use assets:

	2024 £m	2023 £m
Included within net finance income and costs:		
Interest expense on lease liabilities	(1)	—
Included within revenue:		
Lease income	3	1

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 2024.

	2024	2023
	£m	£m
Prepayments[1]	**5**	**11**

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

Other non-current assets reduced by £6 million due to gas demolition provision utilisation.

12. Non-current financial and other investments

	2024	2023
	£m	£m
Loans and receivables - amounts owed by parent undertaking1	**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:

	2024			2023		
	Asset	Liabilities	Total	Asset	Liabilities	Total
	£m	£m	£m	£m	£m	£m
Interest rate swaps	10	(28)	(18)	13	(29)	(16)
Cross-currency interest rate swaps	30	—	30	52	(2)	50
Foreign exchange forward contracts[1]	—	—	—	—	(1)	(1)
Inflation linked swaps	—	(8)	(8)	—	—	—
Total	**40**	**(36)**	**4**	65	(32)	33

[1] Included within the foreign exchange forward contracts balance is net £Nil (2023: £(1) million) of derivatives in relation to capital expenditure.

Notes to the consolidated financial statements

Continued

The maturity profile of derivative financial instruments is as follows:

	2024			2023		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Current						
Less than 1 year	—	(8)	(8)	—	(1)	(1)
	—	(8)	(8)	—	(1)	(1)
Non-current						
In 1 - 2 years	1	(20)	(19)	—	(8)	(8)
In 2 - 3 years	—	—	—	1	(21)	(20)
In 3 - 4 years	4	—	4	—	—	—
In 4 - 5 years	18	—	18	5	(1)	4
More than 5 years	17	(8)	9	59	(1)	58
	40	(28)	12	65	(31)	34
Total Derivative financial instruments	40	(36)	4	65	(32)	33

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

	2024 £m	2023 £m
Interest rate swaps	(274)	(274)
Cross-currency interest rate swaps	(616)	(616)
Foreign exchange forward contracts	(15)	(47)
Inflation linked swaps	(700)	—
At 31 March 2024	(1,605)	(937)

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.

	2024 £m	2023 £m
Raw materials, spares and consumables	11	11
Other current assets - emission allowances	3	3
Total Inventories and current intangible assets	14	14

Raw materials, spares and consumables includes £6 million (2023: £6 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 2024 (2023: £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.

	2024 £m	2023 £m
Trade receivables	63	92
Accrued income[1]	147	174
Prepayments	16	14
Other receivables	11	14
Total trade and other receivables	237	294

1 Accrued income refers to contract assets under IFRS15, which relates to unbilled revenue at the end of the period (collected within the next 30 days). Therefore, these are all current and have very short maturities.

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 £63 million (2023: £92 million).

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.

	2024 £m	2023 £m
At 1 April	(4)	(3)
Movement in provision	—	(1)
At 31 March 2024	(4)	(4)

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

Notes to the consolidated financial statements

Continued

16. Financial and other investments

The financial and other investments balance of £992 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.

	2024 £m	2023 £m
Current		
Financial assets at FVTPL	**682**	462
Financial assets at amortised cost	**306**	84
Restricted cash	**4**	11
Total financial and other investments	**992**	557
Financial assets at FVTPL comprise the following:		
Money Market Funds	**682**	462
Financial assets at amortised cost:		
Loans and receivables – amounts due from other group companies	**306**	84
Restricted balances:		
NIC/SIF Restricted cash	**4**	11
At 31 March 2024	**992**	557

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).

	2024 £m	2023 £m
Net cash and cash equivalents less bank overdrafts	**25**	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, foreign exchange and inflation. 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 to net debt, regulatory gearing and interest cover.

Borrowings, which include interest-bearing and inflation-linked debt and overdrafts, are initially recorded at fair value. This normally reflects the proceeds received (net of direct issue costs for liabilities measured at amortised cost). Subsequently, borrowings are stated 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.

Notes to the consolidated financial statements
Continued

	2024 £m	2023 £m
Current (amounts falling due within one year)		
Bank loans and overdrafts	**2**	760
Bonds	**144**	25
Lease liabilities	**5**	4
Borrowings from National Gas Group undertakings	**18**	15
Other loans	**1**	1
Total current	**170**	805
Non-current (amounts falling due after more than one year)		
Bank loans	**211**	206
Bonds	**4,251**	3,420
Lease liabilities	**11**	9
Other loans	**97**	125
Total non-current	**4,570**	3,760
Total borrowings	**4,740**	4,565

Total borrowings are repayable as follows:

	2024 £m	2023 £m
Less than 1 year	**170**	805
In 1 - 2 years	**230**	85
In 2 - 3 years	**4**	225
In 3 - 4 years	**28**	—
In 4 - 5 years	**101**	26
More than 5 years:		
By instalments	**53**	52
Other than by instalments	**4,154**	3,372
Total Borrowings repayable	**4,740**	4,565

The fair value of borrowings at 31 March 2024 was £4,427 million (2023: £4,361 million). The fair value of borrowings (Level 1) was nil (2023: nil). The fair value of borrowings (Level 2) was £4,427 million (2023: £4,361 million), calculated by discounting cash flows at prevailing interest rates. The notional amount outstanding of the debt portfolio at 31 March 2024 was £4,765 million (2023: £4,610 million).

At 31 March 2024, we had committed credit facilities of £946 million (2023: £946 million) of which £735 million was undrawn (2023: £735 million undrawn). All of the facilities at 31 March 2024 and at 31 March 2023 are available for liquidity purposes.

Included within borrowings repayable in less than 1 year, the Company has a £86 million GBP loan which is repayable in December 2024.

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.

	2024 £m	2023 £m
Gross lease liabilities are repayable as follows:		
Less than 1 year	**5**	4
1 to 5 years	**11**	9
More than 5 years	**1**	—
Total	**17**	13
Less: finance charges allocated to future periods	**(1)**	(1)
Total Lease Liabilities	**16**	12
The present value of lease liabilities are as follows:		
Less than 1 year	**5**	4
1 to 5 years	**10**	8
More than 5 years	**1**	—
At 31 March 2024	**16**	12

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.

	2024 £m	2023 £m
Trade payables and accruals	**227**	179
Amounts owed to National Gas Group Companies	**82**	25
Deferred income	**8**	2
Social security and other taxes	**41**	64
Other payables	**176**	207
Total trade and other payables	**534**	478

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

The increase in amounts owed to National Gas Companies is due to an increase in the Corporation Tax group relief intercompany creditor.

The reduction in other payables is primarily due to a reduction in customer deposits held at 31 March 2024 vs 31 March 2023, driven by lower revenue demands as a result of lower transit gas volumes.

Notes to the consolidated financial statements

Continued

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.

	2024 £m	2023 £m
Current	46	33
Non-current	91	96
Total contract liabilities	**137**	129

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

	2024 £m	2023 £m
As at 1 April 2023	129	133
Revenue recognised during the year	(16)	(40)
Increase due to cash received	24	36
At 31 March 2024	**137**	129

21. Other non-current liabilities

Other non-current liabilities include deferred income which will not be recognised as income until after 31 March 2024. 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.

	2024 £m	2023 £m
Total other non-current liabilities	**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 two defined benefit (DB) pension plans 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. National Gas Transmission 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 National Gas Transmission 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 plans

National Gas Transmission plc sponsors Section B of National Grid UK Pension Scheme ("Section B"), a section of a DB pension plan which is now closed to new members. This plan is managed by a Trustee company with a board consisting of company- and member-nominated directors and holds its assets in separate Trustee administered funds. The net defined benefit pension asset of the pension plan is reflected within the Company's statement of financial position.

National Gas Transmission plc also sponsors the National Gas Transmission Pension Scheme (NGTPS), which was set up in 2023 primarily for the purpose of accepting a bulk transfer of all assets and liabilities from Section B of the National Grid UK Pension Scheme into the NGTPS. The transfer is expected to take place in the financial year ending 31 March 2025, although the exact date has not yet been determined. Once the bulk transfer has taken place, the net defined benefit pension asset of the NGTPS will continue to be reflected within the Company's statement of financial position, and will replace the defined benefit pension asset in respect of Section B of the National Grid UK Pension Scheme, which will cease to have any assets or liabilities. The NGTPS currently has 3 members accruing a notional benefit, with the total value of the pensions accrued benefits being less than £1,000 p.a.

National Gas Transmission plc also has some unfunded pension obligations.

Section B is subject to independent actuarial funding valuations every three years and following consultation and agreement with the Company, the Scheme Actuary certifies the employers' contributions, which, together with the specified contributions payable by the employees and proceeds from the Section's' assets, are expected to be sufficient to fund the benefits payable. In June 2023 the Company agreed the triennial actuarial valuation as at 31 March 2022 with the Trustee of Section B. As the Section was in surplus at this date, no deficit contributions were required. The Company continues to fund the cost of future benefit accrual (over and above member contributions), with the rate of contributions in relation to this accrual remaining unchanged following the completion of the valuation and reimburses the scheme in respect of plan administration costs and the Pension Protection Fund (PPF) levies. The aggregate level of ongoing contributions in the year to March 2024 totalled £8 million (2023: £14 million; 2022: £16 million).

The Company has also agreed to the provision of contingent security to Section B, whereby up to £600 million letters of credit, surety bonds or cash held in escrow, are implemented on specified credit rating or gearing triggers. This security is payable to Section B in specific circumstances including insolvency, failure to pay scheme contributions and loss of regulatory licence.

Actuarial assumptions

On retirement, members of Section B 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.

Notes to the consolidated financial statements

Continued

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.

	2024 %	2023 %
Discount rate – past service	**4.86**	4.80
Discount rate – future service	**4.92**	4.80
Rate of increase in salaries	**3.08**	3.10
Rate of increase in RPI – past service	**3.04**	3.15
Rate of increase in RPI – future service	**2.89**	3.05

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 Section B.

The table below sets out the projected life expectancies adopted for the Company's pension arrangements:

	2024 Years	2023 Years
Assumed life expectations for a retiree age 65		
Males	**21.3**	21.2
Females	**23.3**	23.3
In 20 years:		
Males	**22.6**	22.5
Females	**24.7**	24.8

The weighted average duration of the DB obligation for Section B is 10 years.

As at the reporting date, the present value of the funded obligations split according to member status, was approximately 3% active members (2023: 3%); 13% deferred members (2023: 12%) and 84% pensioner members (2023: 85%).

In June 2023 the High Court ruled, in the case of Virgin Media vs NTL Pension Trustees II Limited, that certain historical amendments to defined benefit schemes may be invalid. We are aware of and will continue to monitor the issue, but note that the ruling is subject to appeal and at this stage, until the legal position is clarified, we make no allowance for the impact of judgement.

For sensitivity analysis see note 30.

Amounts recognised in the consolidated statement of financial position.

	2024 £m	2023 £m
Present value of funded obligations	**(3,599)**	(3,690)
Fair value of scheme assets	**3,911**	4,102
Net defined benefit asset	**312**	412
Present value of unfunded obligations	**—**	(1)
Net defined benefit asset	**312**	411
Represented by:		
Liability	**—**	(1)
Asset	**312**	412
	312	411

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 (National Gas UK Pension Scheme) 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.

	2024 £m	2023 £m
Included within operating costs:		
Administration costs	**3**	3
Included within payroll costs:		
Current service cost	**3**	5
Past service cost – augmentations	**—**	3
Included within exceptional costs:		
Administrative costs related to separation[1]	**3**	—
Settlements cost	**—**	27
Total of operating costs	**9**	38
Included within finance income and costs		
Net interest income	**(21)**	(16)
Total included in the consolidated income statement	**(12)**	22
Actuarial (gains)/losses on defined benefit obligations	**(27)**	(975)
Return on assets greater than discount rate (gain)/losses	**147**	1,220
Total included in the consolidated statement of other comprehensive income	**119**	245

[1] Costs relating to the separation of our pension scheme from National Grid booked to exceptional items.

Reconciliation of the net defined benefit asset

	2024 £m	2023 £m
Opening defined benefit asset	**411**	664
Net (charge)/credit recognised in the consolidated income statement	**12**	(22)
Remeasurement effects recognised in the consolidated statement of other comprehensive income	**(119)**	(245)
Employer contributions	**8**	14
Closing net defined benefit asset	**312**	411

Notes to the consolidated financial statements

Continued

Changes in the present value of defined benefit obligations (including unfunded obligations)

	2024 £m	2023 £m
Opening defined benefit obligations	**(3,690)**	(4,844)
Current service cost	**(3)**	(5)
Interest cost	**(180)**	(113)
Actuarial losses - experience	**(39)**	(92)
Actuarial gains/(losses) - demographic assumptions	**(7)**	47
Actuarial gains/(losses) - financial assumptions	**73**	1,020
Past service cost in respect of augmentations	**—**	(3)
Net Liabilities extinguished on Settlement	**—**	49
Benefits paid	**247**	250
Closing defined benefit obligations	**(3,599)**	(3,690)

The table below shows the movement in defined benefit assets over the year (including unfunded obligations)

	2024 £m	2023 £m
Opening fair value of scheme assets	**4,102**	5,508
Interest income	**201**	129
Return on assets (lower)/greater than assumed	**(147)**	(1,220)
Administration costs	**(6)**	(3)
Employer contributions	**8**	14
Net assets distributed on settlement	**—**	(76)
Benefits paid	**(247)**	(250)
Closing fair value of scheme assets	**3,911**	4,102
Actual return on scheme assets	**54**	(1,091)
Expected contributions to scheme in the following year	**11**	10

Main defined benefit risks

The Company underwrites the financial and demographic risks associated with its Defined Benefit plans. Although the Trustee for each plan has sole responsibility for setting investment strategies and managing risks, the Company closely works with and supports the Trustees, to assist in mitigating the risks associated with the plans and to ensure that the plans are funded to meet their obligations.

The most significant risks associated with Section B are:

- Investment risk – Section B 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 section seeks to balance the level of investment return required with the risk that it can afford to take, in designing 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 hedge interest rate risk;
- Inflation risk – Changes in inflation can 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 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 the bulk annuity policy held by the Trustee;
- Counterparty credit risk – Risk is managed by having a diverse range of counterparties and a strong collateralisation process. Measurement and management of counterparty risk is delegated to the relevant investment managers. For Section B's 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 are monitored on a regular basis;
- Default risk - Debt investments are predominantly made in regulated markets in assets considered to be of investment grade. To manage the default risk of non-investment grade assets or non-regulated market securities the quantum of investments is kept to prudent levels subject to a maximum level of allocation;
- 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, act as guarantor, or 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 the investment managers.

Defined benefit plan investment strategy

The Trustees, after taking advice from professional investment advisors and in consultation with the Company, 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 Section B as at 31 March 2024 is as follows:

	2024 %	2023 %
Return - seeking assets	**23**	22
Liability - matching assets	**77**	78
At 31 March 2024	**100**	100

The allocation of assets by asset class for Section B is set out below. Within these asset allocations, there is significant diversification across regions, asset managers, currencies and bond categories.

	2024 Quoted £m	2024 Unquoted £m	2024 Total £m	2023 Quoted £m	2023 Unquoted £m	2023 Total £m
Equities	**292**	**134**	**426**	253	162	415
Corporate bonds	**899**	**—**	**899**	939	—	939
Government securities	**1,101**	**—**	**1,101**	1,183	—	1,183
Property	**—**	**173**	**173**	—	180	180
Diversified alternatives	**—**	**310**	**310**	—	325	325
Liability-matching assets[1]	**—**	**960**	**960**	—	990	990
Cash and cash equivalents	**—**	**42**	**42**	—	70	70
At 31 March 2024	**2,292**	**1,619**	**3,911**	2,375	1,727	4,102

[1] This is in respect of a bulk annuity policy held by the Trustees with a total value of £960 million (2023: £990 million). Included above is £313 million (2023: £29 million) of repurchase agreements. These are used to increase the market exposure of the liability-matching portfolios.

The Trustee of Section B 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 Section B's long-term objectives and accepted risk levels.

Section B has a Responsible Investment (RI) Policy, which takes into account Environmental, Social and Governance (ESG) factors. 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.

Notes to the consolidated financial statements

Continued

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 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
Additions	3	27	—	7	37
Utilised	(6)	(2)	—	(5)	(13)
At 31 March 2024	**12**	**35**	**—**	**23**	**70**

	2024 £m	2023 £m
Current	22	6
Non-current	48	40
Total Provisions	**70**	46

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 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 decommissioning provision of £12 million (2023: £15 million) is not discounted, as it is expected to be settled in the near future. In year movements included £6 million utilisation partly offset by £3 million additions.

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 2076, with £4 million expected to be incurred in the next 10 years.

A number of estimation uncertainties affect the calculation of the provision, including the impact of regulation, the accuracy of site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and changes in the real discount rate. This provision incorporates our best estimate of the financial effect of these uncertainties, but future changes in any of the assumptions could impact the calculation of the provision. The undiscounted amount is the undiscounted best estimate of the liability having regard to these uncertainties.

The discounted provision was £35 million (2023: £10 million) which includes in year additions of £27 million offset by £2 million utilisation. Additions comprised of £17 million relating to land remediation and restoration costs at a former Viking Gas Terminal at Theddlethorpe (the lease for this site ended and the lessee paid £17 million for the restoration of the site and transferred the obligation back to the company).

Six new operational sites were also acquired in urban areas to support the Hydrogen strategy. The new sites were acquired at a cost of £10 million. An environmental provision was recorded at a discounted value of £9 million to reflect the future land remediation works required on these sites.

Remaining balance relates to in-year utilisation and impact of change in discount rate applied from 0.5% in 2022/23 versus 1.1% in 2023/24.

Restructuring provision

In 2024 the restructuring provision was £nil, (2023: £nil).

Other provisions

Other provisions of £23 million at 31 March 2024 includes £10 million in respect of legacy provisions recognised following the sale of the Gas Distribution business (timing of settlement of tax due to HMRC is still on-going). There was no movement in the provision in 2023/24.

Other provisions also includes £9 million relating to Crop and Quarry provisions, which arises as a result of the terms of Deed of Easement or Deed of Servitude, whereby we receive claims from landowners for losses suffered due to pipeline developments and the on-going presence of our pipelines, these can be categorised into the loss of minerals, loss of development, loss of crop or drainage issues.

Of the existing claims a view has been taken of the realistic level of claim that is expected to result from negotiated settlements and a provision has been made to reflect this. In 2023/24 the provision increased by £2 million due to £7 million new claims, partly offset by £5 million in year utilisation.

The remaining £4 million provision relates mostly to the decommissioning of meters.

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 2024 millions	Number of shares 2023 millions	Amount 2024 £m	Amount 2023 £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.

Notes to the consolidated financial statements

Continued

25. Other equity reserves

Other equity reserves are different categories of equity as required by accounting standards and represent the impact of a number of our historical transactions.

Other equity reserves comprise the cost of hedging reserve, the capital redemption reserve, cash flow hedge reserve and own credit reserve. The capital redemption reserve arose from the refinancing and restructuring of the Lattice Group in 1999. It represents the amount of the reduction in share capital of the Company as a consequence of that restructuring. Cost of hedging equity reserve arose as a result of the adoption of IFRS 9 on 1 April 2018. Cash flow hedge represents the Group's cash flow hedging activities (see note 29).

As the amounts included in other equity reserves are not attributable to any of the other classes of equity presented, they have been disclosed as a separate classification of equity.

	Cash flow hedge	Cost of hedging	Own credit	Capital redemption	Other equity
	£m	£m	£m	£m	£m
At 1 April 2023	**(1)**	**1**	**—**	**1,332**	**1,332**
Net gains/(losses) taken to equity	(2)	(2)	—	—	(4)
Transferred (from)/to profit or loss	11	1	—	—	12
Tax	(2)	—	—	—	(2)
At 31 March 2024	**6**	**—**	**—**	**1,332**	**1,338**

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

	2024	2023
	£m	£m
Increase/(decrease) in cash and cash equivalents	**15**	10
Increase/(decrease) in financial investments	**212**	59
(Increase)/decrease in borrowings and related derivatives	**28**	(119)
Net interest paid on the components of net debt	**88**	35
Change in net debt resulting from cash flows	**343**	(15)
Changes in fair value of financial assets and liabilities and exchange movements	**(5)**	12
Net interest charge on the components of net debt	**(82)**	(295)
Other non-cash movements	**(10)**	(7)
Movement in net debt (net of related derivative financial instruments) in the year	**246**	(305)
Net debt (net of related derivative financial instruments) at the start of the year	**(3,965)**	(3,660)
Net debt (net of related derivative financial instruments) at the end of the year	**(3,719)**	(3,965)

Composition of net debt

Net debt is summarised as follows:

	2024	2023
	£m	£m
Cash, cash equivalents	**1,017**	567
Borrowings and bank overdrafts	**(4,740)**	(4,565)
Financial Derivatives	**4**	33
At 31 March 2024	**(3,719)**	(3,965)

(b) Analysis of changes in net debt

	Cash and cash equivalents	Financial investments	Borrowings and Bank Overdrafts	Financial derivatives	Total debt
	£m	£m	£m	£m	£m
At 1 April 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)**
Cash flow	15	182	131	15	343
Fair value gains and losses	—	—	11	(16)	(5)
Foreign exchange movements	—	—	29	(29)	—
Interest income/(charges)	—	253	(336)	1	(82)
Other non-cash movements	—	—	(10)	—	(10)
At 31 March 2024	**25**	**992**	**(4,740)**	**4**	**(3,719)**
Balances at 31 March 2024 comprise:					
Non-current assets	—	—	—	40	40
Current assets	25	992	—	—	1,017
Current liabilities	—	—	(170)	(8)	(178)
Non-current liabilities	—	—	(4,570)	(28)	(4,598)
At 31 March 2024	**25**	**992**	**(4,740)**	**4**	**(3,719)**

Notes to the consolidated financial statements

Continued

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

	2024 £m	2023 £m
Contracted for but not provided	**219**	162

Other commitments, contingencies and guarantees

The value of other commitments and guarantees at 31 March 2024 amounted to £35 million (2023: £82 million), including energy purchase commitments amounting to £11 million (2023: £58 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. The movement to prior year was primarily due to gas volumes lower than forecasted.

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. 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:

	2024 £m	2023 £m
Income:		
Goods and services supplied	**—**	—
Expenditure:		
Services received	**89**	25
Corporate services received	**—**	5
Charges in respect of pensions costs	**4**	(1)
Interest received from parent	**(222)**	(117)
	(129)	(88)
Capex expenditure:		
Acquisition of new sites	**10**	—
	(119)	(88)
Outstanding balances at 31 March in respect of income, expenditure and settlement of corporation tax:		
Amounts receivable	**306**	84
Amounts payable	**(99)**	(39)
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 Plc, 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 2024 (2023: £nil) and no expense has been recognised during the year (2023: £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).

Notes to the consolidated financial statements
Continued

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.

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 2024, 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 National Gas Transmission'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.

The gross amounts offset for trade payables and receivables, which are subject to general terms and conditions, are insignificant.

				Related amounts available to be offset but not offset in statement of financial position		
As at 31 March 2024	Gross carrying amounts £m	Gross amounts offset £m	Net amount presented in statement of financial position £m	Financial instruments £m	Cash collateral received/ pledged £m	Net amount £m
Assets						
Derivative financial instruments	40	—	40	(6)		34
	40	—	40	(6)	—	34
Liabilities						
Derivative financial instruments	(36)	—	(36)	6		(30)
	(36)	—	(36)	6	—	(30)
Total	4	—	4	—	—	4

				Related amounts available to be offset but not offset in statement of financial position		
As at 31 March 2023	Gross carrying amounts £m	Gross amounts offset £m	Net amount presented in statement of financial position £m	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

Notes to the consolidated financial statements

Continued

(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, and limit access to the capital markets.

The following is a payment profile of our financial liabilities and derivatives:

At 31 March 2024	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	(101)	(228)	—	(4,420)	(4,749)
Interest payments on borrowings[1]	(124)	(118)	(111)	(1,101)	(1,454)
Lease liabilities	(5)	(5)	(4)	(3)	(16)
Other non-interest bearing liabilities	(403)	(1)	—	—	(404)
Derivative financial liabilities					
Derivative contracts – receipts[2]	5	2	2	4	13
Derivative contracts – payments[2]	(17)	(20)	(2)	(14)	(53)
Derivative financial assets					
Derivative contracts – receipts[2]	164	173	32	648	1,017
Derivative contracts – payments[2]	(181)	(173)	(33)	(644)	(1,031)
Total at 31 March 2024	**(662)**	**(370)**	**(116)**	**(5,530)**	**(6,677)**

[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)

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 contract – receipts[2]	517	21	21	579	1,138
Derivative contract – payments[2]	(537)	(36)	(41)	(590)	(1,204)
Derivative financial assets					
Derivative contract – receipts[2]	34	225	162	39	460
Derivative contract – payments[2]	(26)	(209)	(150)	(30)	(415)
Total at 31 March 2023	(1,317)	(207)	(357)	(4,746)	(6,627)

[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)

Notes to the consolidated financial statements

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 2024 and 2023, derivative financial instruments were used to manage foreign currency risk as follows:

	2024				
	Sterling £m	**Euro £m**	**Dollar £m**	**Other £m**	**Total £m**
Cash and cash equivalents	25	—	—	—	25
Financial investments	992	—	—	—	992
Borrowings	(4,128)	(488)	—	(124)	(4,740)
Pre-derivative position	(3,111)	(488)	—	(124)	(3,723)
Derivative effect	(617)	488	9	124	4
Net debt position at 2024	(3,728)	—	9	—	(3,719)

	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 at 2023	(3,975)	7	3	—	(3,965)

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.

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.

(d) Interest rate risk

National Gas Transmission' 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 risks and hold RPI-linked borrowings that provide a partial economic offset to the inflation risk associated with our CPIH-linked revenue. Since November 2023, we have entered into £700 million RPI to CPI swaps maturing by 2031 to partially convert our RPI-linked debt to CPI to more closely match the inflation-linked performance of our debt with the underlying revenue.

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 2024 and 2023, net debt was managed using derivative instruments to hedge interest rate risk as follows:

	2024				
	Fixed rate £m	**Floating rate £m**	**RPI £m**	**Other £m**	**Total £m**
Cash and cash equivalents	—	25	—	—	25
Financial investments	—	992	—	—	992
Borrowings	(1,832)	(231)	(2,677)	—	(4,740)
Pre-derivative position	(1,832)	786	(2,677)	—	(3,723)
Derivative effect	211	(198)	(8)	(1)	4
Net debt position 2024	(1,621)	588	(2,685)	(1)	(3,719)

	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 2023	(895)	(598)	(2,471)	(1)	(3,965)

Hedge accounting for interest rate risk

Borrowings paying variable or floating rates expose National Gas Transmission to cash flow interest rate risk, partially offset by cash held at variable rates. Where a hedging instrument results in paying a fixed rate, it is designated as a cash flow hedge because it has reduced the cash flow volatility of the hedged borrowing. Changes in the fair value of the derivative are initially recognised in other comprehensive income as gains or losses in the cash flow hedge reserve, with any ineffective portion recognised immediately in the income statement.

Borrowings paying fixed rates expose National Gas Transmission 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.

Notes to the consolidated financial statements

Continued

When hedge accounting is discontinued, any remaining cumulative hedge accounting balances continue to be released to the income statement to match the impact of outstanding hedged items. Any remaining amounts deferred in the cost of hedging reserve are released immediately to the income statement.

The 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.

(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 2024	**Fair value hedges of foreign currency and interest rate risk**	**Cash flow hedges of foreign currency and interest rate risk**	**Cash flow hedges of foreign currency risk**
	£m	**£m**	**£m**
Consolidated statement of comprehensive income			
Net gains/(losses) in respect of:			
Cash flow hedges	—	(2)	—
Cost of hedging	(2)	—	—
Transferred to profit or loss in respect of:			
Cash flow hedges	—	11	—
Cost of hedging	1	—	—
Consolidated statement of changes in equity			
Other equity reserves – cost of hedging balances	(1)	1	—
Consolidated statement of financial position			
Derivatives – carrying value of hedging instruments[1]			
Assets – current	—	—	—
Assets – non-current	29	9	—
Liabilities – current	(8)	—	—
Liabilities – non-current	(18)	—	—
Profiles of the significant timing, price and rate information of hedging instruments			
Maturity range	Jan 2025 – May 2038	Mar 2029 – Apr 2030	Apr 2024 – Apr 2028
Spot FX range			
GBP USD	1.64 – 1.66	n/a	1.21 – 1.23
GBP EUR	n/a	1.14	n/a
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.

Year ended 31 March 2023	Fair value hedges of foreign currency and interest rate risk	Cash flow hedges of foreign currency and interest rate risk	Cash flow hedges of foreign currency risk
	£m	£m	£m
Consolidated statement of comprehensive income			
Net 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 edging balances	—	1	—
Consolidated statement of financial position			
Derivatives – carrying value of hedging instruments			
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	1.64 – 1.66	n/a	1.22
GBP EUR	n/a	1.14	1.07 – 1.12
Interest rate range			
GBP	Pay-float GBP SONIA +42bps/+432bps	Pay-fixed GBP 1.795% – 4.3%	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 2024:

At 31 March 2024		Balance of fair value hedge adjustments in borrowings		Change in value used for calculating ineffectiveness		
	Hedging instrument nominal[1]	Continuing hedges	Discontinued hedges	Hedged item	Hedging instrument	Hedge ineffectivenes s
Hedge type	£m	£m	£m	£m	£m	£m
Foreign currency and interest rate risk on borrowings	(316)	111	(34)	28	(27)	1

[1] The carrying value of the hedged borrowings is £224 million, of which £Nil million is current and £224 million is non-current.

Notes to the consolidated financial statements

Continued

At 31 March 2023		Balance of fair value hedge adjustments in borrowings		Change in value used for calculating ineffectiveness		
	Hedging instrument nominal[1]	Continuing hedges	Discontinued hedges	Hedged item	Hedging instrument	Hedge ineffectiveness
Hedge type	£m	£m	£m	£m	£m	£m
Foreign currency and interest rate risk on borrowings	(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.

(ii) Cash flow hedges of foreign currency and interest rate risk as at 31 March 2024:

		Balance in cash flow hedge reserve		Change in value used for calculating ineffectiveness		
	Hedging instrument nominal[1]	Continuing hedges	Discontinued hedges	Hedged item	Hedging instrument	Hedge ineffectiveness
Hedge type	£m	£m	£m	£m	£m	£m
Foreign currency and interest rate risk on borrowings	(536)	8	—	5	(4)	1
Foreign currency risk on forecasted cash flows	(9)	—	—	—	—	—

At 31 March 2023		Balance in cash flow hedge reserve		Change in value used for calculating ineffectiveness		
	Hedging instrument nominal	Continuing hedges	Discontinued hedges	Hedged item	Hedging instrument	Hedge ineffectiveness
Hedge type	£m	£m	£m	£m	£m	£m
Foreign currency and interest rate risk on borrowings	(536)	(2)	—	(1)	2	1
Foreign currency risk on forecasted cash flows	(7)	—	—	—	—	—

(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.

	2024				2023			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Assets								
Derivative financial instruments	—	40	—	40	—	65	—	65
	—	40	—	40	—	65	—	65
Liabilities								
Derivative financial instruments	—	(28)	(8)	(36)	—	(32)	—	(32)
Liabilities held at fair value	—	—	—	—	—	—	—	—
	—	(28)	(8)	(36)	—	(32)	—	(32)
	—	12	(8)	4	—	33	—	33

Level 1: Financial instruments with quoted prices for identical instruments in active markets.

Level 2 Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are based directly or indirectly on observable market data.

Level 3: Financial instruments valued using valuation techniques where one or more significant inputs are based on unobservable market data.

Our Level 1 financial liability held at fair value is valued using quoted prices from liquid markets.

Our Level 2 derivative financial instruments include cross-currency, interest rate and foreign exchange derivatives. We value these derivatives by discounting all future cash flows by externally sourced market yield curves at the reporting date, taking into account the credit quality of both parties. These derivatives can be priced using liquidly traded interest rate curves and foreign exchange rates, therefore we classify our vanilla trades as Level 2 under the IFRS 13 framework.

Our Level 3 derivative financial instruments comprise index linked swaps. We obtain external values to support the reported valuations.

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.

The changes in value of our level 3 derivative financial instruments are as follows:

	Financing derivatives	
	2024	2023
	£m	£m
At 1 April 2023	**—**	—
Net (loss)/gain for the year[1]	**(8)**	—
At 31 March 2024	**(8)**	—

[1] £8 million loss (2023: £Nil million loss) is attributable to derivative financial instruments held at the end of the reporting period and has been recognised in finance income and 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	
	2024	2023
	£m	£m
-100 basis points change to CPI curve[1]	**32**	—
+100 basis points change to CPI curve[1]	**(35)**	—
-100 basis points change to RPI curve[1]	**(32)**	—
+100 basis points change to RPI curve[1]	**34**	—

[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 Company 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 an appropriate credit rating for the Company, is an important aspect of capital risk management. We also monitor the gearing ratios tracked by rating agencies, loan covenants and Ofgem to manage our balance sheet efficiently.

Notes to the consolidated financial statements

Continued

The Company is subject to certain restrictions on the payment of dividends and these restrictions include:

a. dividends must be limited to cumulative retained earnings, including pre-acquisition retained earnings;
b. licence conditions including compliance with credit rating and availability of resources conditions that are subject to alteration in the normal licence review process; and ongoing compliance with the covenants in the financing documents. These covenants include licence, liquidity, interest cover, leverage and credit rating conditions.

These restrictions are not considered to be significantly onerous, nor do we currently expect they will prevent the planned payment of dividends in future in line with our dividend policy.

All the above requirements are monitored on a regular basis in order to ensure compliance. The Group has complied with all externally imposed capital requirements to which it is subject.

30. Sensitivities

In order to give a clearer picture of the impact on our results or financial position of potential changes in significant estimates and assumptions, the following sensitivities are presented. These sensitivities are 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 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.

	2024		2023	
	Income statement £m	**Net assets £m**	Income statement £m	Net assets £m
Pensions obligations benefit (pre- tax):				
Discount rate[1]				
Fall of 0.5%	**9**	**(189)**	3	(205)
Rise of 0.5%	**(9)**	**172**	(3)	186
RPI[2]				
Fall of 0.5%	**(6)**	**139**	—	154
Rise of 0.5%	**7**	**(153)**	—	(167)
Long-term rate of increase in salaries				
Fall of 0.5%	**—**	**4**	—	3
Rise of 0.5%	**—**	**(6)**	—	(3)
Change in life expectancy over 65				
1 year decrease	**(5)**	**139**	(5)	148
1 year increase	**5**	**(140)**	5	(147)

[1] 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. The income statement sensitivity in 2024 is consistent with the approach taken for the net asset – this differs from 2023 where the income statement sensitivity assumed that the change in assets and liabilities offset each other, and has been changed so as to be consistent with the net asset sensitivity.

[2] 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. The income statement sensitivity in 2024 is consistent with the approach taken for the net asset – this differs from 2023 where the income statement sensitivity assumed that the change in assets and liabilities offset each other, and has been changed so as to be consistent with the net asset sensitivity.

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 2024. 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 2024 and 2023 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.

	2024		2023	
	Income statement £m	**Other equity reserves £m**	Income statement £m	Other equity reserves £m
Financial risk (post-tax)				
UK RPI rate change of 1% / (2023: 0.5%)	20	—	10	—
UK Interest rate changes of 1% / (2023: 0.5%)	4	20	3	13

Note that this table excludes sensitivities to RPI and CPI for the Index Linked Swaps, which are separately disclosed in note 29 (f) Fair Value Analysis. Sensitivities have been calculated using 1% change (2023:0.5%) in interest rate and RPI which is more representative of the current market conditions.

Additional sensitivities in respect to our derivative fair values are as follows:

	2024		2023	
	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

[1] The effect of a 10% change in fair value assumes no hedge accounting.

Notes to the consolidated financial statements
Continued

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 Great Britain and are registered in England and Wales. The Luppiter Consortium Limited 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 Gas Transmission Pension Trustee Ltd	Trustee of occupational pension scheme	Direct	100 %
National Gas Transmission Pension Scheme Nominee Company One Limited	Trustee of property assets of the occupational pension scheme	Indirect	100 %
National Gas Transmission Pension Scheme Nominee Company Two Limited	Trustee of property assets of the occupational pension scheme	Indirect	100 %

The registered office for all of the companies above is National Grid House, Warwick Technology Park, Gallows Hill, Warwick, CV34 6DA, UK.

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 %
Encodar Limited (incorporated in England and Wales)	Management of the Uniform Network Code for gas transportation	11 %

PRISMA European Capacity Platform GmbH is based at Reichsstraβe 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.

Encodar Limited is based at Radcliffe House, Blenheim Court, Warwick Road, Solihull, B91.

33. Events after the reporting period

There are no material post balance sheet events..

Notes to the Company financial statements

Company balance sheet
as at 31 March 2024

	Notes	2024 £m	2023 £m
Fixed Assets			
Intangible assets	5	**114**	113
Property, plant and equipment	6	**5,022**	4,777
Debtors (amounts falling due after more than one year)	7	**3,431**	3,443
Derivative financial assets	11	**40**	65
Investments	8	**1**	1
Total Fixed Assets		**8,608**	8,399
Current assets			
Inventories and current intangible assets	9	**14**	14
Cash and Cash equivalents	13	**25**	10
Trade and other receivables	10	**234**	291
Financial and other investments	12	**992**	557
Derivative financial assets	11	**—**	—
Pension asset	14	**312**	412
Total current assets		**1,577**	1,284
Creditors (amounts falling due within one year)	15	**(905)**	(1,473)
Net current assets/(liabilities)		**672**	(189)
Total assets less current liabilities		**9,280**	8,210
Creditors (amounts falling due after more than one year)	16	**(4,689)**	(3,892)
Provisions for Liabilities	18	**(874)**	(796)
Net assets		**3,717**	3,522
Equity			
Share capital	19	**45**	45
Share premium account		**204**	204
Retained earnings		**2,130**	1,941
Other reserves	20	**1,338**	1,332
Shareholders' equity		**3,717**	3,522

The Company financial statements set out on pages 107 -114 were approved by the Board of Directors and authorised for issue on 18 July 2024. They were signed on its behalf by:

Jon Butterworth
Director

Nick Hooper
Director

National Gas Transmission plc
Registered number: 02006000

Company statement of changes in equity
for the year ended 31 March 2024

	Share capital £m	Share premium account £m	Retained earnings £m	Other reserves £m	Shareholders' equity £m
At 1 April 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/(loss) for the year	—	—	90	7	97
Equity dividends	—	—	(505)	—	(505)
At 31 March 2023	**45**	**204**	**1,941**	**1,332**	**3,522**
Profit for the year		—	615	—	615
Total other comprehensive income for the year	—	—	(89)	6	(83)
Total comprehensive income for the year	—	—	526	6	532
Equity dividends	—	—	(337)	—	(337)
At 31 March 2024	**45**	**204**	**2,130**	**1,338**	**3,717**

The Company is prohibited from declaring a dividend or other distribution unless it has certified that it is in compliance in all material respects with certain regulatory obligations, including a requirement to ensure it has sufficient financial resources and facilities to enable it to carry on its business and a requirement to use all reasonable endeavours to maintain an investment grade credit rating.

The Company has not presented its own profit and loss account and related notes as permitted by section 408 of the Companies Act 2006. The Company's profit after taxation was £615 million (2023: £274 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

Continued

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 Great 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 cash flow statement and related notes;;
- 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 2023 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 70.

2. Auditors' remuneration

Auditors' remuneration in respect of the Company is set out below:

	2024	2023
	£m	£m
Audit fee of Company	1.2	1.3
Fees payable to the Company's auditors for audit related assurance services[1]	0.1	0.1

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

3. Number of employees, including Directors

	2024	2023
	Monthly Average	Monthly average
	number	number
Gas Transmission	**1,580**	**1,399**

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	Assets in the course of construction	Total
	£m	£m	£m
Cost at 1 April 2022	**409**	**37**	**446**
Additions	—	17	17
Reclassifications[1]	53	(53)	—
Other	3	—	3
Cost at 1 April 2023	**465**	**1**	**466**
Additions	—	54	54
Reclassifications[1]	1	(1)	—
Cost at 31 March 2024	**466**	**54**	**520**
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)**
Amortisation charge for the year	(53)	—	(53)
Accumulated amortisation at 31 March 2024	**(406)**	**—**	**(406)**
Net book value at 31 March 2024	**60**	**54**	**114**
Net book value at 31 March 2023	112	1	113

[1] Reclassifications represent commissioning of assets from assets under construction into usage.

Notes to the Company financial statements
Continued

6. Property, plant and equipment

	Land and buildings	Plant and machinery	Assets in the course of construction	Motor vehicles and office equipment	Total
	£m	£m	£m	£m	£m
Cost at 1 April 2022	**307**	**8,417**	**560**	**261**	**9,545**
Additions	8	—	353	2	363
Disposals[2]	(4)	(597)	—	(3)	(604)
Reclassifications	19	159	(204)	26	—
Other	—	(28)	(2)	4	(26)
Cost at 1 April 2023	**330**	**7,951**	**707**	**290**	**9,278**
Additions	**1**	**2**	**410**	**6**	**419**
Disposals	**(2)**	**(47)**	**—**	**(2)**	**(51)**
Reclassifications[1]	**12**	**72**	**(86)**	**2**	**—**
Other[3]	**10**	**—**	**—**	**—**	**10**
Cost at 31 March 2024	**351**	**7,978**	**1,031**	**296**	**9,656**
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 1 April 2023	**(208)**	**(4,055)**	**(3)**	**(236)**	**(4,502)**
Depreciation charge for the year	(6)	(146)	—	(16)	(168)
Disposals	4	28	—	2	34
Impairment	—	3	(2)	—	1
Accumulated depreciation at 31 March 2024	**(210)**	**(4,170)**	**(5)**	**(250)**	**(4,635)**
Net book value at 31 March 2024	**141**	**3,808**	**1,026**	**46**	**5,022**
Net book value at 31 March 2023	122	3,897	704	54	4,777

[1] Reclassifications represent commissioning of assets from assets under construction into usage.
[2] FY23 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.
[3] The other movement reflects the cost of future remediation of the six new sites acquired during the year and recorded as part of acquisition costs.

The net book value of land and buildings comprised:

	2024	2023
	£m	£m
Freehold	**131**	111
Short leasehold (under 50 years)	**10**	11
At 31 March 2024	**141**	**122**

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 2024 and 31 March 2023, split by category.

	Land and buildings	Motor vehicles and office equipment	Total
	£m	£m	£m
Net book value at 1 April 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**
Additions	1	6	7
Disposals	(3)	(2)	(5)
Depreciation charge for the year	(3)	(3)	(6)
Depreciation on Disposals	4	2	6
Net book value at 31 March 2024	**10**	**5**	**15**

The following balances have been included in the income statement for the year ended 31 March 2024 in respect of right-of-use assets:

	Total
	£m
Included within net finance income and costs:	
Interest expense on lease liabilities	(1)
Included within revenue:	
Lease income[1]	2

[1] Relates to income under IFRS16

The associated lease liabilities are disclosed in note 17.

Notes to the Company financial statements
Continued

7. Debtors (amounts falling due after more than one year)

	2024 £m	2023 £m
Loans and receivables - amounts owed by parent undertaking[1]	3,426	3,426
Prepayments	5	17
At 31 March 2024	**3,431**	3,443

[1] Amounts owed by immediate parent. National Gas Transmission Holdings Limited (NGTH), repayable 1 April 2035. Interest is payable at the SONIA plus 1.22%.

8. Investments

	2024 £m	2023 £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.

9. Inventories and current intangible assets

	2024 £m	2023 £m
Raw materials and consumables	11	11
Other current assets - emission allowances	3	3
At 31 March 2024	**14**	14

There is a provision for obsolescence of £1 million against inventories as at 31 March 2024 (2023: £1 million).

10. Debtors (amounts falling due within one year)

	2024 £m	2023 £m
Trade receivables	63	92
Other receivables	9	12
Accrued income	147	173
Prepayments	15	14
At 31 March 2024	**234**	291

The carrying values stated above are considered to represent the fair values of the assets.

11. Derivative financial instruments

The fair values of derivative financial instruments are:

	2024			2023		
	Assets £m	Liabilities £m	Total £m	Assets £m	Liabilities £m	Total £m
Amounts falling due within one year	—	(8)	(8)	—	(2)	(2)
Amounts falling due after more than one year	40	(28)	12	65	(31)	34
At 31 March 2024	**40**	**(36)**	**4**	65	(33)	32

For each class of derivative the notional contract amounts are as follows:

	2024 £m	2023 £m
Interest rate swaps	(274)	(274)
Cross-currency interest rate swaps	(616)	(616)
Foreign exchange forward contracts	(15)	(47)
Inflation linked swaps	(700)	—
At 31 March 2024	**(1,605)**	(937)

[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.

12. Financial assets and other investments

	2024 £m	2023 £m
Amounts due from parent	306	84
Financial Investments	686	473
At 31 March 2024	**992**	557

13. 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.

	2024 £m	2023 £m
Net cash and cash equivalents less bank overdrafts	**25**	10

Notes to the Company financial statements
Continued

14. Pensions

National Gas Transmission'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

	2024 £m	2023 £m
Present value of funded obligations	**(3,599)**	(3,690)
Fair value of scheme assets	**3,911**	4,102
Present value of unfunded obligations	**—**	(1)
Net defined benefit pension asset	**312**	411

Changes in the present value of defined benefit obligations		
Opening defined benefit obligations	**(3,690)**	(4,844)
Current service cost	**(3)**	(5)
Interest cost	**(180)**	(113)
Actuarial losses - experience	**(39)**	(92)
Actuarial gains/(losses) - demographic assumptions	**(7)**	47
Actuarial gains/(losses) - financial assumptions	**73**	1,020
Past service cost - augmentations	**—**	(3)
Net Liabilities extinguished on Settlement	**—**	49
Benefits paid	**247**	250
Closing defined benefit obligations	**(3,599)**	(3,690)
Changes in the fair value of scheme assets		
Opening fair value of scheme assets	**4,102**	5,508
Interest income	**201**	129
Return on assets greater than assumed	**(147)**	(1,220)
Administration costs	**(6)**	(3)
Employer contributions	**8**	14
Benefits paid	**(247)**	(250)
Net Assets distributed on settlement	**—**	(76)
Closing fair value of scheme assets	**3,911**	4,102

15. Creditors (amounts falling due within one year)

	2024 £m	2023 £m
Derivative financial instruments (note 11)	**8**	2
Borrowings (note 17)	**254**	937
Trade creditors	**138**	123
Amounts owed to National Gas Group undertakings	**150**	46
Corporation tax	**11**	21
Other taxation and social security	**43**	66
Other creditors	**214**	232
Deferred income and accruals	**87**	46
Total Creditors (amounts falling due within one year)	**905**	1,473

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

The increase in amounts owed to National Gas Group undertakings is due to an increase in the Corporation Tax group relief intercompany creditor.

16. Creditors (amounts falling due after more than one year)

	2024 £m	2023 £m
Derivative financial instruments (note 11)[1]	**28**	31
Borrowings (note 17)	**4,569**	3,760
Other creditors	**1**	5
Contract liabilities[1]	**91**	96
Total Creditors (amounts falling due after more than one year)	**4,689**	3,892

[1]2022/23 contract liabilities included £31 million of derivatives which have been restated to derivative financial instruments.

Notes to the Company financial statements
Continued

17. Borrowings

The following table analyses the Company's total borrowings:

	2024 £m	2023 £m
Amounts falling due within one year:		
Bank loans and overdrafts	**2**	760
Bonds	**144**	25
Lease liabilities	**5**	4
Borrowings from National Gas Group undertakings	**102**	147
Other loans	**1**	1
Total borrowings falling due within one year	**254**	937
Amounts falling due after more than one year:		
Bank loans	**211**	206
Bonds	**4,251**	3,420
Lease liabilities	**10**	9
Other loans	**97**	125
Total borrowings falling due after one year	**4,569**	3,760
Total borrowings	**4,823**	4,697

Total borrowings are repayable as follows:		
Less than 1 year	**254**	936
In 1 - 2 years	**230**	85
In 2 - 3 years	**4**	225
In 3 - 4 years	**28**	—
In 4 - 5 years	**101**	26
More than 5 years by instalments	**54**	52
More than 5 years, other than by instalments	**4,153**	3,372
At 31 March 2024	**4,823**	4,697

The notional amount outstanding of the Company's debt portfolio at 31 March 2024 was £4,849 million (2023: £4,741 million).

None of the Company's borrowings are secured by charges over assets of the Company.

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	2023 £m
Gross lease liabilities are repayables as follows:		
Less than 1 year	**5**	4
1 to 5 years	**10**	9
More than 5 years	**1**	—
	16	13
Less: finance charges allocated to future periods	**(1)**	(1)
	15	12
The present value of lease liabilities are as follows:		
Less than 1 year	**5**	4
1 to 5 years	**9**	8
More than 5 years	**1**	—
	15	12

18. Provisions for liabilities

	Decommissioning £m	Environmental £m	Restructuring £m	Deferred taxation £m	Other £m	Total £m
At 1 April 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**	**795**
Additions	3	27	—	54	7	91
Utilised	(6)	(2)	—	—	(4)	(12)
At 31 March 2024	**12**	**35**	**—**	**805**	**22**	**874**

	2024 £m	2023 £m
Current	**22**	6
Non-current	**852**	789
Total balance	**874**	795

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 National Gas Transmission companies to demolish the non-operational gas holders on these sites, creating a constructive obligation for the Company.

The decommissioning provision of £12 million (2023: £15 million) is not discounted, as it is expected to be settled in the near future. In year movements included £6 million utilisation partly offset by £3 million additions..

Notes to the Company financial statements

Continued

Environmental provision

The environmental provision represents the estimated restoration and remediation costs relating to operational sites owned by the Company. Cash flows are expected to be incurred until 2076, with £4 million expected to be incurred in the next 10 years.

A number of estimation uncertainties affect the calculation of the provision, including the impact of regulation, the accuracy of site surveys, unexpected contaminants, transportation costs, the impact of alternative technologies and changes in the real discount rate. This provision incorporates our best estimate of the financial effect of these uncertainties, but future changes in any of the assumptions could impact the calculation of the provision. The undiscounted amount is the undiscounted best estimate of the liability having regard to these uncertainties.

The discounted provision was £35 million (2023: £10 million) which includes in year additions of £27 million offset by £2 million utilisation. Additions comprised of £17 million relating to land remediation and restoration costs at a former Viking Gas Terminal at Theddlethorpe (the lease for this site ended and the lessee paid £17 million for the restoration of the site and transferred the obligation back to the company).

Six new operational sites were also acquired in urban areas to support the Hydrogen strategy. The new sites were acquired at a cost of £10 million. An environmental provision was recorded at a discounted value of £9 million to reflect the future land remediation works required on these sites.

Remaining balance relates to in-year utilisation and impact of change in discount rate applied from 0.5% in 2022/23 versus 1.1% in 2023/24.

Other provisions of £22 million at 31 March 2024 includes £10 million in respect of legacy provisions recognised following the sale of the Gas Distribution business (timing of settlement of tax due to HMRC is still on-going). There was no movement in the provision in 2023/24.

Other provisions also includes £9 million relating to Crop and Quarry provisions, which arises as a result of the terms of Deed of Easement or Deed of Servitude, whereby we receive claims from landowners for losses suffered due to pipeline developments and the on-going presence of our pipelines, these can be categorised into the loss of minerals, loss of development, loss of crop or drainage issues.

Of the existing claims a view has been taken of the realistic level of claim that is expected to result from negotiated settlements and a provision has been made to reflect this. In 2023/04 the provision increased by £2 million due to £7 million new claims, partly offset by £5 million in year utilisation.

The remaining £3 million provision relates mostly to the decommissioning of meters.

Restructuring provision

In 2024 the restructuring provision was zero, similar to 2023.

Deferred tax

Deferred taxation comprises:

	2024 £m	2023 £m
Accelerated capital allowances	**726**	651
Pension	**78**	103
Other timing differences	**1**	(3)
Total Deferred tax	**805**	751

19. Share capital

	Number of shares **2024 millions**	Number of shares 2023 millions	**2024 £m**	2023 £m
At 31 March – ordinary shares 1.13p each				
Allotted, called-up and fully paid	**3,944**	3,944	**45**	45

20. Other equity reserves

	Capital Redemption £m	Own credit £m	Cash flow hedge £m	Cost of hedging £m	Total £m
At 31 March 2023	1,332	—	(1)	1	1,332
Transferred to reserves	—	—	9	(1)	8
Tax	—	—	(2)	—	(2)
At 31 March 2024	**1,332**	**—**	**6**	**—**	**1,338**

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.

Notes to the Company financial statements
Continued

21. Capital and other commitments

Commitments are those amounts that we are contractually required to pay in the future as long as the other party meets its obligations.

These commitments primarily relate to energy purchase agreements and contracts for the purchase of assets which, in many cases, extend over a long period of time. Commitments previously included operating lease commitments but on transition to IFRS 16, which was effective from 1 April 2019, substantially all lease commitments are included on the balance sheet as right-of-use assets (see note 6) and lease liabilities (see note 14). Therefore, only low-value leases and short-term leases are off-balance sheet commitments, both of which are immaterial. We also disclose any contingencies, which include guarantees that companies have given, where we pledge assets against current obligations that will remain for a specific period.

(a) Future capital expenditure

	2024 £m	2023 £m
Contracted for but not provided	219	160

(b) Operating lease commitments
The Company had no future lease payments under non-cancellable operating leases in the current or prior financial years.

22. Contingent liabilities

(a) Other commitments, contingencies and guarantees
The value of other commitments and guarantees at 31 March 2024 amounted to £35 million (2023: £82 million), including energy purchase commitments amounting to £11 million (2023: £58 million). Energy purchase commitments relate to contractual commitments to purchase electricity or gas that are used to satisfy physical delivery requirements to our customers or for energy that we use ourselves (i.e. normal purchase, sale or usage) and hence are accounted for as ordinary purchase contracts.

Security arrangements in favour of NGUKPS Trustees are disclosed separately in note 22 to the consolidated financial statements.

(b) Parent Company loan guarantees on behalf of subsidiaries
The Company has guaranteed the repayment of principal sums, any associated premium and interest on specific loans due from its subsidiaries to third parties. At 31 March 2024, the sterling equivalent amounted to £nil (2023: £nil million).

(c) Litigation and claims
Through the ordinary course of our operations, we are party to various litigation, claims and investigations. We do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on our results of operations, cash flows or financial position and claims.

23. Related parties

The following transactions are with related entities 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 101.8 (k).

	2024 £m	2023 £m
Services received	89	30
Acquisition of new sites	10	—
Amounts receivable at 31 March	—	1
Amounts payable at 31 March	12	60

Glossary and definitions

Company

References to National Gas, 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.

CFD

Climate-related Financial Disclosures

CPI

UK Consumer Price Index

EU

European Union

FRS

UK Financial Reporting Standard

GAAP

Generally accepted accounting principles

GHG

Greenhouse Gas

GW

Gigawatt, 10^9 watts

GWh

Gigawatt hours

HSE

Health and Safety Executive

IAS

International Accounting Standard

IASB

International Accounting Standards Board

IFRIC

International Financial Reporting Standard Interpretations Committee

IFRS

International Financial Reporting Standard

KPI

Key Performance Indicators

LNG

Liquefied natural gas

Lost time injury (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 Group

The Group consists of National Gas Transmission plc, National Gas Metering Limited, National Gas Transmission Holdings Limited, GasT PledgeCo Limited, GasT MidCo Limited and GasT TopCo Limited, (ultimate parent Company).

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 National Gas Transmission or owed to customers 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 National Gas Transmission and the Regulator.

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

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

TCFD

Taskforce on Climate-related Financial Disclosures

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