

Registered Number: 9223384

**NATIONAL GRID ELECTRICITY DISTRIBUTION PLC
(FORMERLY WESTERN POWER DISTRIBUTION PLC)
AND SUBSIDIARY UNDERTAKINGS**

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2023

nationalgrid

National Grid Electricity Distribution plc (formerly Western Power Distribution plc)

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Strategic report

For the year ended 31 March 2023

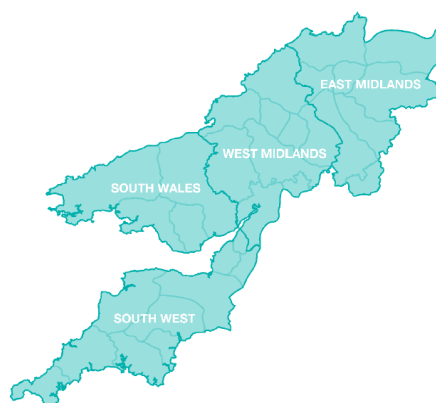
The directors present their annual report and the audited financial statements of National Grid Electricity Distribution plc (formerly Western Power Distribution plc) ("NGED plc" or the "Company") and its subsidiary undertakings (the "NGED Group", "the Group" or "NGED") for the year ended 31 March 2023. These are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the UK.

Overview

The NGED Group mainly comprises the four DNOs: National Grid Electricity Distribution (South West) Plc (formerly Western Power Distribution (South West) plc) ("NGED South West"), National Grid Electricity Distribution (South Wales) plc (formerly Western Power Distribution (South Wales) plc) ("NGED South Wales"), National Grid Electricity Distribution (East Midlands) Plc (formerly Western Power Distribution (East Midlands) plc) ("NGED East Midlands"), and National Grid Electricity Distribution (West Midlands) Plc (formerly Western Power Distribution (West Midlands) plc) ("NGED West Midlands").

Our combined network is the largest in the UK, with our four DNOs delivering electricity to approximately 8.0 million (2022: 8.0 million) homes and businesses and employing on average 6,667 (2022: 6,632) staff.

	Customers (million)	Area (sq km)
NGED South West	1.6	14,400
NGED South Wales	1.2	11,800
NGED East Midlands	2.7	16,000
NGED West Midlands	2.5	13,300
	<u>8.0</u>	<u>55,500</u>



We look after a network of wires, poles, pylons, cables and substations, delivering power to homes and businesses across our four regions.

In addition to the DNOs, the Group also consists of a number of other smaller subsidiaries including National Grid Telecoms Limited, National Grid Electricity Distribution Generation Limited and National Grid Helicopters Limited. The primary purpose of these businesses is to support the DNOs and network related activities of the Group. The Group also owns property companies, to facilitate the management of non-operational and investment properties of the Group.

Ownership

The NGED Group is owned by National Grid Electricity Distribution Plc (formerly Western Power Distribution Plc), which is a public limited company registered in England and Wales. The ultimate controlling parent of the NGED Group is National Grid Plc ("National Grid"), registered in England and Wales. National Grid plc is one of the world's largest investor-owned energy utilities, and operates in the UK and the US.

More information on the management structure of National Grid can be found in the National Grid plc Annual Report and Accounts 2022/23 and on the National Grid website:

<https://www.nationalgrid.com/>

The Company and its subsidiaries were acquired by National Grid in June 2021. As part of the integration of the Company and its subsidiaries into the National Grid Group, on 20 September 2022 the name of the Company was changed to National Grid Electricity Distribution plc from Western Power Distribution Plc.

Financial highlights

	2022/23	2021/22	% change
Revenue	2,096.5	1,886.0	11%
Profit before tax	681.4	746.9	-9%
Cash generated from operations	1,124.3	1,133.8	-1%

See page 15 for details on financial highlights.

	2022/23	2021/22
Regulatory asset value ("RAV")	10,846.4	9,407.1
Return on equity ("ROE")	13.2%	13.6%

See pages 15 and 16 for details.

Strategic report

For the year ended 31 March 2023

Overview (continued)

Non-financial highlights

	2022/23	2021/22
Customer satisfaction score (out of 10)*	8.99	9.03
Network reliability	99.995%	99.994%

* Against Ofgem's target score of 8.2.

See pages 8-13 for further details on our key performance indicators ("KPIs").

What we do - electricity

The electricity industry connects generation sources to homes and businesses through transmission and distribution networks. Companies that pay to use transmission & distribution networks buy electricity from generators and sell it to consumers.

The UK electricity industry has five main sectors.

Generation

Generation is the production of electricity from fossil fuel and nuclear power stations, as well as renewable sources such as wind and solar. We do not own or operate any commercial electricity generation facilities.

The UK is moving away from a historical reliance on large thermal power generation and there is now a greater diversity of supply and flexible demand than ever before. Therefore, the electricity distribution network has a pivotal role to play in the future energy mix, with evolving roles enabling a range of possible energy futures for the long-term benefit of consumers.

Interconnectors

Transmission grids are often interconnected so that energy can flow from one country or region to another. This helps to provide a safe, secure, reliable and affordable energy supply for citizens and society across the region. Interconnectors also allow power suppliers to sell their energy to customers in other countries.

Great Britain is linked via interconnectors with Ireland, Northern Ireland, France, Belgium, Norway and Netherlands. National Grid plc is continuing to work on developing additional interconnector projects, which we believe will deliver significant benefits to customers.

National Grid Plc, through separate companies held outside of NGED, sells capacity on its UK interconnectors (with France, Belgium, Norway and the Netherlands) through auctions.

Transmission

National Grid Plc, through a separate company outside of NGED, owns and operates the high-voltage electricity transmission network in England and Wales. Electricity transmission ensures electricity is transported safely and efficiently from where it is produced, to reach homes and businesses reliably. Transmission systems generally include overhead lines, underground cable and substations and connect to industrial properties and distribution networks who deliver the electricity on to homes and commercial properties. They also facilitate the connection of generation assets to the transmission system.

Distribution

NGED is a distribution network and system operator and our distribution network connects customers to the National Grid electricity transmission network. We convert the high voltage electricity generated by large power generation sites, such as power stations, and delivered through the National Grid network, to lower voltages that can be used by the customers. We deliver it safely into homes and businesses in our regions, via our safe and reliable network. As the country drives towards decarbonisation, many smaller renewable generation installations are now connected directly to our network, bypassing the transmission system and the traditional model. During the coming years, we will experience unprecedented change in our industry, including an exponential rise in electric vehicles, heat pumps and battery storage. We aim to deliver transformation efficiently, while continuing to provide a resilient electricity supply.

Supply

The supply of electricity involves the buying of electricity and selling it on to customers. It also involves customer services, billing and the collection of customer accounts.

We do not sell electricity or bill directly to our consumers. Our customers are registered with licensed electricity suppliers, who in turn pay the NGED Group for use of the network.

Strategic report (continued)

For the year ended 31 March 2023

What we do - NGED Business model

Our core activities are:



The Group's network comprises approximately 89,000km (2022: 90,000km) of overhead lines, 139,000km (2022: 138,000km) of underground cable and 190,000 (2022: 190,000) transformers. We maintain our network assets to ensure safe and reliable distribution of electricity to homes and businesses across our four regions.

Our costs are regulated and based on an agreed allowance set by the Office of Gas and Electricity Markets ("Ofgem"); on average (based on a consumption of 3,100 kilowatt hours) NGED domestic customers pay £131.49 (2022: £90.25 per annum*) for electricity distribution costs. Our costs form part of the bill to customers from the electricity suppliers. The increase in the bill is primarily due to recovery of Last Resort Supply Payment ("LRSP") claims arising due to significant supplier liquidations in 2021. Refer to pages 14, 15 and 77 (note 5) for further details. Excluding the impact of recovery of these claims, NGED customers have paid £97.25 per annum for the electricity distribution costs.

We provide a reliable and efficient power supply at an affordable price, as well as supporting the most vulnerable people in the areas we serve. We believe that the use of in-house regional resources is crucial for cost effective and reliable delivery, which is why we use geographically based teams to serve each area. Our staff know the area, network, local developments and communities, enabling us to provide efficient, high quality customer service.

The critical role we play in society is changing. As well as keeping the lights on today, we are also committed to driving a more sustainable future. It is our mission to respond to the changing energy landscape and support the UK's legislated ambition of achieving net zero carbon emissions by 2050.

What we do - Regulatory framework

Distribution network operators are natural monopolies and to ensure the provision of value for money services for consumers, are regulated by the Gas and Electricity Markets Authority, which operates through Ofgem. The operations are regulated under the distribution licence which sets the requirements that NGED needs to deliver for its customers. Ofgem has a statutory duty under the Act to protect the interests of consumers. Ofgem also has responsibility to enable competition and innovation and to protect consumers from the ability of companies to set unduly high prices, Ofgem has established price controls that limit the amount of revenue our regulated business can earn. In setting price controls, Ofgem must also have regard to ensuring that licence holders are able to finance their obligations under the Act.

The regulatory framework is based on sustainable network regulation, known as the "RIIO" model where Revenues=Incentives + Innovation + Outputs. Under the RIIO model there is an emphasis on companies playing a full role in developing a more sustainable energy sector and delivering value for money network services for customers. The outputs we deliver are clearly articulated and are integrally linked to the calculation of our allowed revenue, although some outputs and deliverables have only a reputational impact or are linked to legislation. We do not earn allowances if we do not deliver the associated agreed output. A key feature of the RIIO model is that the expected outputs delivered by network companies is influenced by its stakeholders through extensive engagement.

Ofgem, using information we have submitted, along with independent assessments, 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 operating expenditure ("opex") and capital expenditure ("capex").

A number of assumptions are necessary in setting the outputs, such as certain prices or the volumes of works that will be needed. Consequently, there are a number of uncertainty mechanisms within the RIIO framework that can result in adjustments to totex allowances if actual volumes differ from the assumptions. These mechanisms protect us and our customers from windfall gains and losses. Where we under or over-spend against the allowed totex there is a "sharing" factor. This means we share the under or over spend with customers through an adjustment to allowed revenues in future years. This sharing factor provides an incentive for us to provide the outputs efficiently, as we are able to keep a portion of savings we make, with the remainder benefiting our customers. Likewise, it provides a level of protection for us if we need to spend more than allowances.

* The average domestic customer price stated in 31 March 2022 financial statements was £98.85 and was based on NGED's forecasted domestic consumption in kilowatt hours. In the current year, reporting has been amended to calculate the average price based on 3,100 kilowatt hours consumption and thus the comparative has been restated.

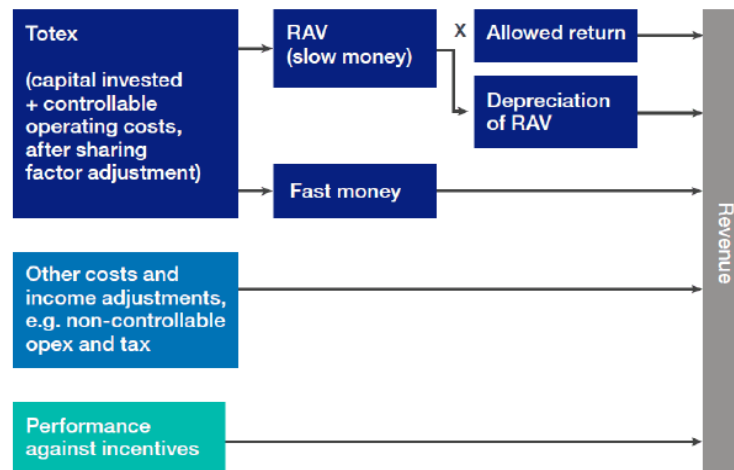
Strategic report (continued)

For the year ended 31 March 2023

What we do - Regulatory framework (continued)

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"). 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 i.e. RPI and CPIH. 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. There are rewards and penalties for performance against incentives. Thus, allowed revenue that a regulatory company can earn through distribution use of system charges ("DUoS") comprises of base revenue and incentive rewards or penalties including uncertainty mechanisms. Base revenue includes allowances for operating costs, return of capital (RAV depreciation), return on capital (cost of equity and cost of debt funding), tax, pension deficit repair and any adjustment to previous allowances.

Simplified illustration of RIIO regulatory building blocks:



RIIO-ED1

The year ending 31 March 2023 was the final year of the 8 year electricity price control (known as RIIO-ED1). RIIO-ED1 was the first price control under the RIIO model and NGED submitted an outputs based Business Plan for the RIIO-ED1 period (2015-2023), which was accepted by Ofgem as "well justified" and "fast-tracked" for all four NGED licensed areas; the only DNO Group to be fast tracked. NGED's modified licences took effect from 1 April 2015.

Key parameters from Ofgem’s RIIO-ED1 determination for NGED:

Allowed return on equity (refer to page 16 for details)	6.40% real, relative to RPI at 65% gearing
Allowed debt funding	Based on 10-year trailing average of iBoxx
Depreciation of RAV	Straight line 45 year depreciation
Notional gearing (target for four DNOs) (refer to page 16)	65%
Split between fast/slow money	80% capitalisation rate, being slow money
Sharing factor	70%
Core baselines totex in 2018/19 prices (cumulative for RIIO-ED1)	£8.1 bn

Our RIIO-ED1 business plan is available at the link below:

<https://yourpowerfuture.westernpower.co.uk/our-future-business-plan/our-riioed1-business-plan>

RIIO-ED2

RIIO-ED2, covering the 5 year period April 2023 to March 2028, is the second price control to be set under the RIIO model and NGED has been allowed £5.9bn (in 2020/21 prices) of totex. As a result of the Government legislating for net zero carbon by 2050, DNOs will be at the forefront of its delivery enabling the transition to a smart, flexible, low cost and low carbon energy system for all consumers and network users. Our business plan was co-created with our stakeholders following an enhanced and robust approach to stakeholder engagement and outlined the network investment we propose to deliver for the 5 year period, how much it will cost and the benefits to customers and stakeholders.

The final submission of our business plan was made on 1 December 2021 and Ofgem published its final determination on 30 November 2022. For details refer to the "RIIO-ED2" section below on pages 21-22.

Strategic report (continued)

For the year ended 31 March 2023

Our purpose, vision, values and strategy

In delivering our RIIO-ED1 commitments and laying the foundation for delivery of outputs within RIIO-ED2, we work within the purpose, vision, values and strategic priorities of the National Grid Group to ensure we are well positioned to respond to the changes in our operating environment.

National Grid Electricity Distribution is the largest electricity distribution network in the UK, providing a great platform from which to play our role in the energy transition to net-zero.

Our purpose

Our purpose is to **bring energy to life**.

Our vision

Our vision is to be at the heart of a **clean, fair** and **affordable** energy future:

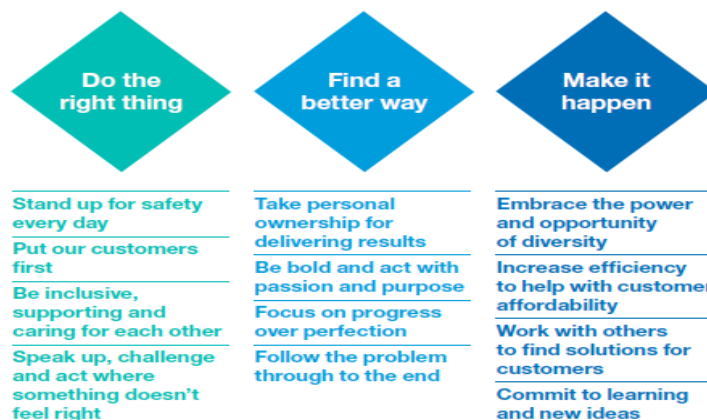
Clean – Tackling climate change and leading the way to net zero.

Fair – Ensuring that no one is left behind in energy transition.

Affordable – Everyone should be able to pay for their essential energy needs.

Our values

Our values underpin everything we do at NGED:



Our values shape our company and how our customers and communities experience us. They inform our decisions, how we show up and the way we treat each other. Our values hold great importance because as a company at the heart of a clean, fair and affordable energy future, we know the work we do is important but how we do it is just as important.

Our strategy

To deliver our vision, we have a strategy which sets the bounds of our business, guided by our four strategic priorities.



Within the RIIO-ED1 business plan we have 76 commitments pertaining to **safety, reliability, environment, connections, customer satisfaction** and **social obligations**. Our strategic priorities above are aligned to our business plan commitments. These strategic priorities enable us to deliver our RIIO-ED1 business plan commitments by investing our allowance efficiently and are also crucial to laying the foundation for delivery of the outputs within RIIO-ED2. Refer to pages 21-22 for details on our RIIO-ED2 commitments.

Delivering our strategic priorities

Enable the energy transition for all

What this means	2022/23 achievements	Looking ahead
<p>We will increase the positive impact we have on the environment and society by innovating our networks and influencing policy to enable clean electricity and electrified heat and transport.</p>	<ul style="list-style-type: none"> • Our flexible services are low cost alternatives to network reinforcement that help to manage constraints on the network and save customers money. In 2022/23, we have procured 154MW of flexibility services via our flexible power brand. Across all flexibility zones (including procurements in previous years), this impacts approximately 1.34 million customers and defers £43 million of reinforcement. • We have streamlined our connections process making it quicker and easier for customers to connect electric vehicle chargers and heat pumps. We have received and processed over 30,000 domestic electric vehicle charger and heat pump applications in the current year. 98% of those were approved within 2 working days. • As part of the Green Recovery initiative launched last year, we have completed multiple projects encouraging growth of Low carbon technologies ("LCTs"), specifically electrical vehicles. As a result of these targeted investment projects, meeting the criteria of enabling net zero, we have connected around 2,900 of additional LCTs since the launch of this initiative. 	<ul style="list-style-type: none"> • During the next 5 years of RIIO-ED2, we will prepare for the future electrification of transportation and heating by enabling the network to cater for up to 1.5 million additional electrical vehicles, 600,000 heat pumps and a significant increase in renewable energy. • By adopting a 'flexibility first' approach to all load related investment decisions, we have committed that by 2028 we will save over £94 million of network reinforcement costs by operating our networks more flexibly. • As part of our 'Smart and Fair' project we are developing a Capability Lens and offering profiling tools, enabling us to model the capabilities of vulnerable customers to participate in a smart, low carbon future. These will be used to improve access to existing smart energy schemes and services and design and implement new interventions to support wider participation in a smart energy market.

Deliver for our customers efficiently

What this means	2022/23 achievements	Looking ahead
<p>Our investments in energy system decarbonisation are underpinned by a track record of operational excellence and financial discipline, ensuring the delivery of safe, reliable, resilient, and affordable energy for our customers.</p>	<ul style="list-style-type: none"> • We have exceeded Ofgem's targets for customer service in the Broad Measure of Customer Satisfaction, achieving 8.99 out of 10 for overall customer satisfaction. • We have continued to deliver service improvements, exceeding targets for both Customer Interruptions and Customer Minutes Lost by 27% and 26% respectively. • We have achieved the British Standard Institution ("BSI") for Inclusive Service Provision ("BS18477") for the tenth year running and we were reaccredited with Customer Service Excellence ("CSE") Standard. We are compliant on all elements and 47/57 (2022: 46/57) elements are awarded 'compliance plus' level, demonstrating UK-wide best practice. • We resolved 85% of complaints within one day, beating the RIIO-ED1 target of 70%. • We have launched a project called Demand Forecasting Encapsulating Domestic Efficiency Retrofits ("DEFENDER") to assess the benefits of different energy-saving interventions on a range of archetype buildings. By gaining a greater understanding of the energy requirements we can help illustrate which interventions are likely to be cost effective to customers, and also whether the network benefits from reducing electricity consumption could justify our investment in targeted energy efficiency schemes. 	<ul style="list-style-type: none"> • For RIIO-ED2, we intend to ensure that power cuts will be at their lowest ever levels and customer satisfaction will be at its highest at over 93%. Crucially, we will achieve all of this whilst maintaining affordability for our customers. • For RIIO-ED2, we have also committed to resolving at least 90% of complaints within one day and 99% of complaints within 31 days. • We will more than double our fuel poverty support, to help deliver over £60m of savings for 113,000 fuel poor customers over the course of RIIO-ED2. • Maintain network reliability where on average power cuts are better than one interruption every two years lasting less than 24 minutes whilst utilising vulnerable customer data to prioritise network improvement schemes.

Delivering our strategic priorities (continued)

Grow our organisational capability

What this means	2022/23 achievements	Looking ahead
<p>To deliver our part in a changing energy system, we are transforming our internal processes, strengthening our customer focus, and sharpening our commercial edge.</p>	<ul style="list-style-type: none"> In this rapidly changing energy sector, we have continued to build on our organisational capabilities. During RIIO-ED1, we transformed our network to accommodate a significant growth of distributed generation, with the capability to connect 53GW of generation on a network originally designed for 14GW of demand. Energy storage is increasingly being used alongside generation to store excess power and release it to the network at a later point in time. A total of 11.3GW distribution generation is connected to our network to date, of which 7.5GW is low-carbon generation, an increase of 12% compared to last year. This includes biofuels, wind, solar, hydro and storage. 	<ul style="list-style-type: none"> We will undertake three regional collaboration trial schemes by 2025 involving gas, electricity, water, waste, transport and heating sectors. This will enable us in utilising whole systems approach for major reinforcement and to look across wider energy systems to provide capacity for the future needs of our customers in the most efficient way. We are investing in our Planning State Estimation & Data Historian platforms, which will enable us to consolidate all our real time data sources into one place. This improved network visibility will enable us to improve operational decision making and our long-term planning.

Empower our people for great performance

What this means	2022/23 achievements	Looking ahead
<p>Our people shape the culture and ways of working needed to deliver outcomes that exceed the expectations of all our stakeholders. By attracting diverse talent and developing our people, we will ensure our colleagues are best placed to work towards a clean energy future.</p>	<ul style="list-style-type: none"> In response to results of our employee survey 'Grid:voice', we developed an action plan which earmarked 37 areas of improvement and to date have completed 24 of them, with many others being ongoing areas of improvement. Our training journey during the year is one such area that was a direct result of feedback from Grid:voice. During the current year, we have significantly increased our training programmes, covering a vast range of areas such as craft staff, apprentices, DSO, telecoms, graduate engineering, project management and data & digitalisation. We currently have 700 employees on formal training programmes, including those we are training ahead of need to ensure we are ready for the future. We have also introduced a range of courses to widen the development opportunities for colleagues. We launched a new training scheme called Power Network Craft Assistant ("PNCA"), specifically aimed at people who have left school without or with minimal qualification. This scheme provides a paid 12-15 months training programme, following which a craft assistant job will be offered. 16 employees were appointed in the current year under this scheme. With an aim of preparing our colleagues for the challenges of RIIO-ED2 and further evolving our culture, we have designed a new training programme for our managers called 'Building High Performing Teams'. 280 managers are scheduled to undertake a six month training programme to support them in their role. A 'Safe to Say' initiative was launched to ensure that all colleagues have a voice and feel safe and empowered to raise a concern or idea, either directly or in confidence. During the year, we have placed great focus on the well-being of our colleagues, in particular relating to mental health. This includes recruiting over 200 mental health first aiders who are being trained to provide support across the business. 	<ul style="list-style-type: none"> We intend to continue achieving year on year improvements to the levels of diversity within the business and publish an annually updated Diversity, Equity and Inclusion ("DE&I") Action Plan. We also will review our processes to further embed DE&I training as part of the induction. We will continue to promote and expand internal traineeships for colleagues. A new training programme that is to be implemented next year is for technician development. In addition we are also continuing with our High Performing Teams leadership programme providing soft skills training for front line people managers. We will also continue to run DE&I training for all people managers, as well as a diversity training workshop with MindGym for senior leaders. We will continue to utilise our annual Grid:voice survey and our interim Pulse survey to identify areas of improvement, with the aim of ensuring that NGED continues to be a great place to work.

Strategic report (continued)

For the year ended 31 March 2023

Key performance indicators (KPIs)

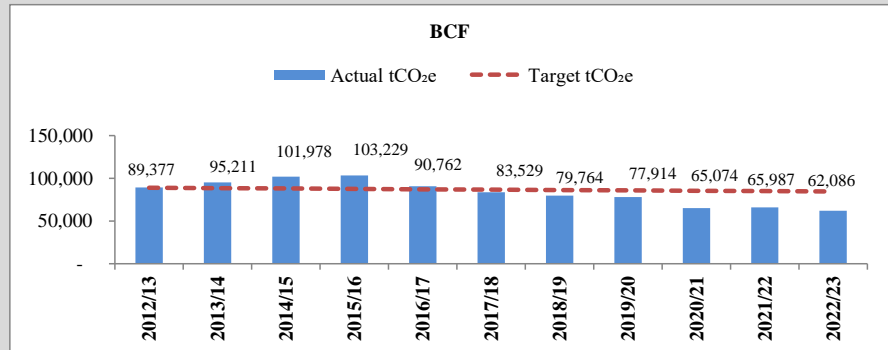
NGED utilises KPIs to assess progress against our overall purpose and strategic priorities.

Enable the energy transition for all

KPI

Business carbon footprint ("BCF")

Performance and comments



Our BCF details the impact that our operational activities have on the environment in terms of associated carbon dioxide ("CO₂") emissions. We report our BCF using equivalent tonnes of carbon dioxide ("tCO_{2e}"). We currently report a number of scope 3 emissions including contractor emissions and business mileage (road rail, air). NGED follows a recognised methodology as described within international business carbon footprint standards, the Greenhouse Gas ("GHG") carbon reporting guidance, the 2020 UK Government GHG Conversion Factors for company reporting and ISO14064-3.

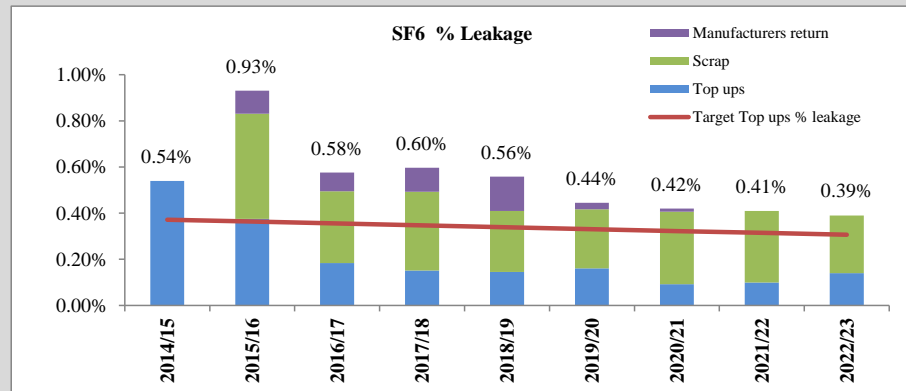
NGED's current target is a 5% reduction over the RIIO-ED1 period based on the baseline year of 2012/13. At 2022/23 the NGED Group is outperforming the target. Our Business Carbon Footprint has reduced by 39% (2021/22: 35%) since 2014/15.

For details on the methodology for the calculation of our BCF refer to page 44.

SF6 emissions (emissions as % of SF6 bank)

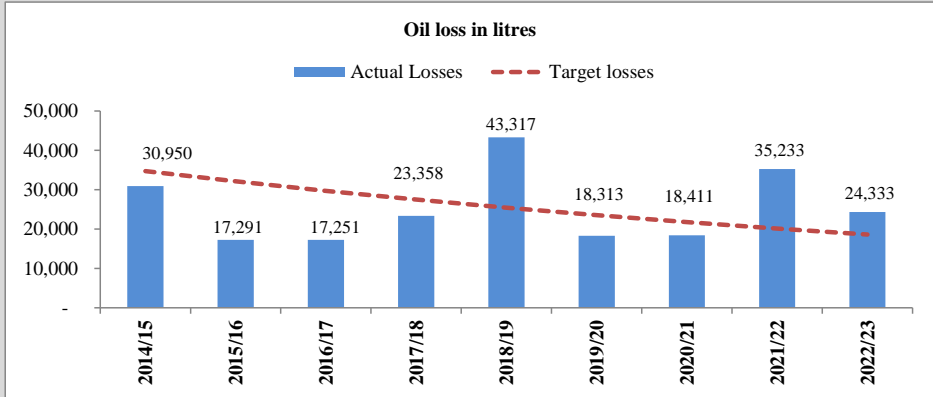
SF6 gas is used throughout our industry as an insulating medium in switchgear. Although it provides many benefits it is a potent greenhouse gas. There are currently no viable alternatives to SF6. Therefore we continuously monitor our SF6 emissions.


The amount of SF6 emitted is expressed as a percentage of the overall 'bank' of SF6 contained within our switchgear, as this will vary over the period of RIIO-ED1. The target is based on an average of emissions between 2009/10 and 2010/11.



Overall the level of leakage is reducing over time as older units are replaced with new units which also contain lower levels of SF6. The NGED Group's current target is a 17% reduction over the RIIO-ED1 period. The target was set at the start of RIIO-ED1 and relates only to top ups % leakage as the scrap and manufacturers return data was not compiled at that time. This target has been met. When replacing switchgear we give priority to the switchgear with the highest leak rates. Within RIIO-ED1 we have committed to replacing any 11kV distribution assets that show signs of leakage and any higher voltage assets that have leaked three times. When a leak becomes apparent we locate its source so that a strategy can be developed to manage the situation taking into account the potential for repairs and the lead times for replacement switchgear.

Key performance indicators (KPIs) (continued)

Enable the energy transition for all	
KPI	Performance and comments
Fluid cable losses	<p>The design of very high voltage underground cables has evolved over many years and our new cables all use a solid plastic-like insulation. Old designs of 33kV and higher voltage cables used an insulating oil in ducts inside the cable. Whilst these cables are normally very reliable, in the event of a fault or damage by third parties, this oil may leak out. In common with other DNOs, NGED works to an operating code agreed with the Environment Agency and assesses both the condition and the environmental risk posed by the fluid filled cables which the NGED Group owns.</p>  <p>The NGED Group's target was a 75% reduction over the RIIO-ED1 period. The losses from NGED's fluid filled cables can vary from year to year generally dependent on the number of small leaks at disparate locations. However last year and in the current year, unusually high losses were reported due to a small number of isolated incidents, which resulted in the target being missed. The most significant loss last year was the Plymouth BSP/Milehouse No.2 circuit - losing 13,975 litres. This year the two most significant losses were Pembroke/Waterston 1/ Milford Haven losing 4,440 litres and Bustleholm Kingstanding losing 4,314 litres. Older styles of electricity cables containing oil occasionally leak when equipment is damaged, seals deteriorate or as a result of changing ground conditions (wet to dry). Replacement programmes for the older styles of cables have been planned. The Environment Agency ("EA") and Natural Resources Wales have been kept fully informed of the oil losses, and we continue to operate under the EA Fluid Filled Cable Operating Code of Practice.</p>

Deliver for our customers efficiently	
KPI	Performance and comments
Overall customer satisfaction	 <p>As part of Ofgem's Broad Measure of Customer Satisfaction Incentive, a research agency undertakes a monthly satisfaction survey assessing customers' satisfaction for connection quotations and delivery, power interruptions and general enquiries. The customer satisfaction score is given out of 10. For NGED's four licence areas around 21,000 customers are surveyed per year.</p> <p>NGED continues to deliver levels of customers service significantly above the baseline set for RIIO-ED1 and continues to earn high levels of incentives rewards under the BMCS by outperforming the 8.2 target.</p>

Key performance indicators (KPIs) (continued)

Deliver for our customers efficiently

KPI Performance and comments

Customer minutes lost ("CML")



*The 2022/23 actuals are subject to Ofgem confirmation.

CML represents the average time a customer is without power during the year. It is calculated by taking the sum of customer minutes lost for all incidents, excluding the allowed exceptional events, divided by customers connected. The targets are defined by Ofgem at each DNO level. Year on year NGED is outperforming its targets as we are focused on ensuring complete maximum reliability for our customers.

Number of customer interruptions ("CI")



*The 2022/23 actuals are subject to Ofgem confirmation.

CI represents supply interruptions experienced by connected customers per 100 customers. Adjustment for exceptional one off events that are outside the control of DNOs is allowed by Ofgem. The targets are defined by Ofgem at each DNO level. Year on year NGED is performing better than its targets as we are focused on ensuring maximum network reliability for our customers.

Key performance indicators (KPIs) (continued)

Deliver for our customers efficiently	
KPI	Performance and comments
Connections (time to quote and time to connect)	<p>South West</p>
	<p>South Wales</p>
	<p>East Midlands</p>
	<p>West Midlands</p>
	<p>Ofgem sets the targets for the overall "time to quote" and "time to connect" for single domestic connections and small commercial connections. LVSSA customers are those seeking single domestic connections requiring no mains work at low voltage. LVSSB customers are those seeking two to four domestic connections or one-off commercial connections at low voltage requiring no network reinforcement work. The above target is an average of the Ofgem target for LVSSA and LVSSB.</p>
Network reliability	<p>We aim to deliver reliability by planning our capital investments to meet challenging demand and supply patterns, designing and building robust networks, having risk-based maintenance and replacement programmes, and detailed and tested incident response plans. The table represents our consolidated performance across our four regions.</p>

Strategic report (continued)

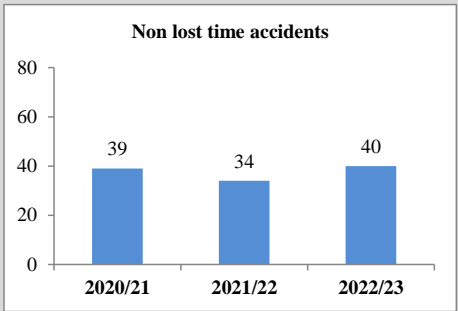
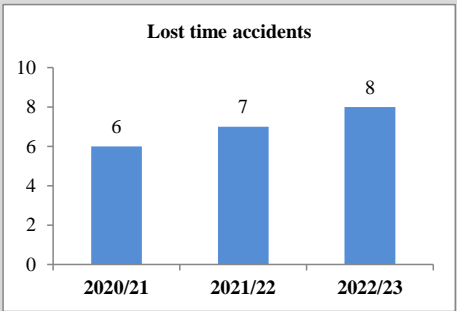
For the year ended 31 March 2023

Key performance indicators (KPIs) (continued)

Empower our people for great performance

KPI	Performance and comments
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Level of work related accidents

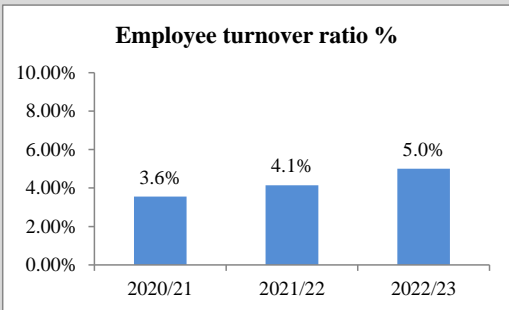


The NGED Group's lost time accident frequency rate based on working hours as at 31 March 2023 was at 0.076 (2022: 0.080).

The total number of accidents to staff across the NGED Group increased from 41 in 2021/22 to 48 in 2022/23. Electricity distribution carries inherent safety risks and the NGED directors are committed to the highest levels of safety in all areas. All accidents are investigated and appropriate safety communications are conducted with the relevant teams. Our accident categorisation system focuses on actual or potential for harm, allowing NGED to be more effective in its investigation and root cause analysis of accidents. We ensure that all our planned safety inspection and maintenance programmes are completed during the year.

NGED also monitors the overall rate of accidents per 100 employees (as reported to Ofgem). The accident rate for the NGED Group for 2022/23 is 0.72 (2021/22: 0.62) outperforming the RIIO-ED1 target of 1.61. Further details on our performance reporting to Ofgem regarding safety can be found at the link below:
<https://www.nationalgrid.co.uk/performance-reporting-riio-ed1>

Employee turnover ratio



There has been an increase in the year on year turnover ratio. This is mainly due to voluntarily leavers aged 55 years or below.

Key performance indicators (KPIs) (continued)

Empower our people for great performance

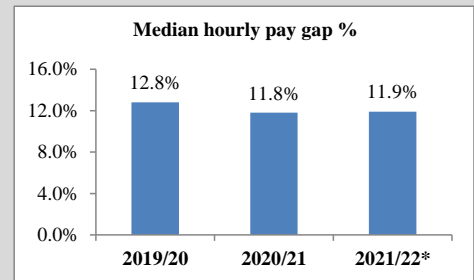
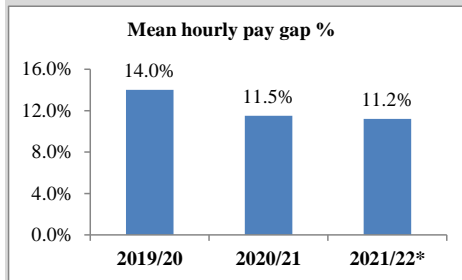
KPI

Employee gender pay gap

Note: We have amended our disclosure from prior year to reflect the entity position instead of the NGED Group position. This is to align with our statutory reporting on gender pay gap.

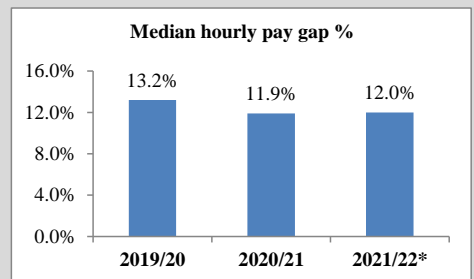
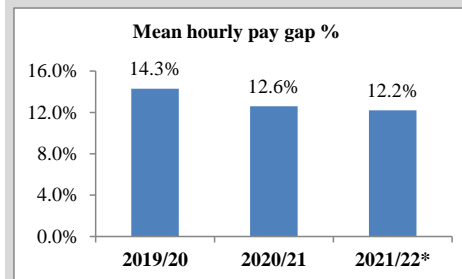
Performance and comments

South West



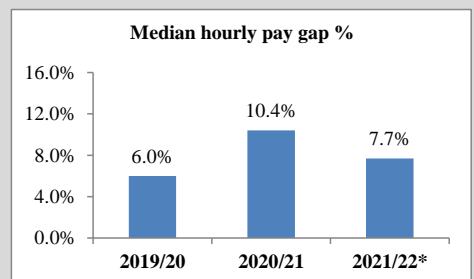
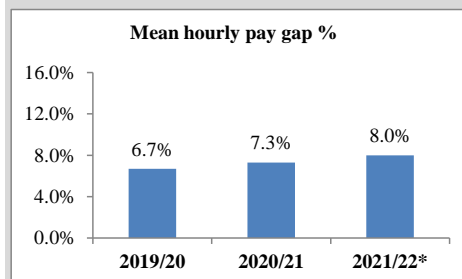
The mean hourly pay gap and median hourly pay gap has remained stable on 2021. The mean incentive pay gap in 2022 has improved to 31.6% from 45.9% in 2021.

South Wales



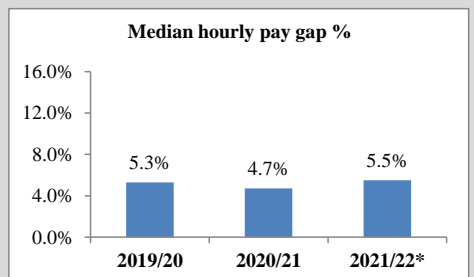
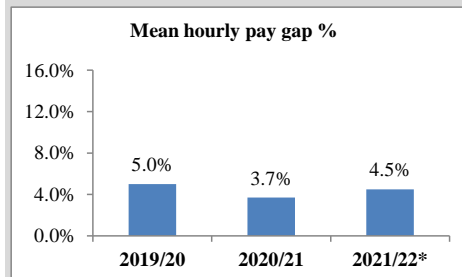
Whilst the Company's mean hourly pay gap has shown slight improvement year on year, more significant improvement has been noted in the Company's incentive pay gap. The mean incentive pay gap in 2022 has improved to 32.8% from 49.7% in 2021.

East Midlands



Whilst the mean hourly pay gap has declined, the mean incentive pay gap in 2022 has improved significantly to 45.8% from 62.8% in 2021.

West Midlands



Whilst the mean hourly pay gap has declined, the mean incentive pay gap in 2022 has improved significantly to 34.8% from 71.6% in 2021.

*2021/22 are the latest available results and is for data on the snapshot date of 5 April 2022. The report for the snapshot date of April 2023 will be available by April 2024.

Our full gender pay gap report can be found at link below:

<https://www.nationalgrid.com/careers/understanding-our-uk-gender-pay-gap>

Strategic report (continued)

For the year ended 31 March 2023

Business Review

We have completed the RIIO-ED1 price control period in a position of strength, outperforming the majority of our RIIO-ED1 business plan commitments. In the year 2022/2023, we continued to deliver excellent service for our 8 million (2021/2022: 8 million) customers, whilst developing plans for the next price control. We have continued to beat our targets for customer minutes lost and customer interruptions by 26% (2021/22: 30%) and 27% (2021/22: 27%) respectively, accident rate is at 0.72 (2021/22: 0.62) accidents per 100 staff against RIIO-ED1 target of 1.61 and our Business Carbon Footprint (“BCF”) has reduced by 39% (2021/22: 35%) since 2014/15.

As energy prices continue to rise steeply it is more important than ever that we keep customers updated on ways to save energy and manage their use more effectively. Some customers on low incomes cannot afford to effectively heat their properties – and those who were previously ‘just about managing’ may have been tipped in to fuel poverty by soaring energy prices and inflation. With our various fuel poverty schemes, we have supported over 24,000 fuel poor customers, leading to an estimated annual saving of £20.6m for these customers. Further, our annual community funding was increased from £1m to £3.8m in the current year and was awarded to 759 organisations benefitting almost 400,000 people in our communities. Our community funding is tailored to support communities at the grassroots level - ensuring that support is given to those most in need of help. We were proud to have been recently recognised for our work, earning a Gold Award at the Chartered Institute of Public Relations (“CIPR”) Pride Awards in the Community Relations Campaign Category for our Community Matters Fund fuel poverty support programme.

Our hard work during the year is reflected in our excellent performance against the Broad Measure of Customer Satisfaction (“BMCS”) results scoring 8.99 (2021/22: 9.03) out of 10 overall, outperforming the 8.2 target.

A comprehensive view of our progress against the full range of commitments made within the RIIO-ED1 business plan, including expenditure, can be found on our website at the link below:

[NGED Your Power Future - Performance reporting - RIIO - ED1 \(nationalgrid.co.uk\)](https://www.nationalgrid.co.uk/NGED-Your-Power-Future-Performance-reporting-RIIO-ED1)

As the Government now focuses on energy security and affordability, as well as decarbonisation, we embrace our role in delivering the energy system of the future. Decarbonisation of energy will lead to greater electricity demand meaning that we will need to provide more power through the distribution network. Our Distribution System Operator (“DSO”) function has continued to identify where we can adopt alternative arrangements to defer reinforcing the network. In the light of the current energy crisis, it is our objective to keep our proportion of the customers’ bills as low as possible and minimise the requirement for load-related reinforcement by adopting a ‘flexibility first’ approach in order to maximise the utilisation of the existing network. We have established innovative processes for procuring and using flexibility services as an alternative to conventional network reinforcement which allows customers to connect more quickly and at a lower cost. The amount of contracted flexibility services under contract is 763.49MW as at 31 March 2023.

For the second year in a row NGED has proved it’s changing the face of the electricity industry by scooping the Disruptor of the Year award at the 2022 Utility Week Awards for our ‘Take Charge’ innovation project. This project has developed new technology to deliver the electrical capacity to power 80 rapid EV charges at a single service station site in a compact modular format. It is an innovative solution that brings the equivalent of the “electrical capacity of a small town” to each motorway services. We were also nominated for our EQUINOX project, which is a first of its kind helping the energy industry to decarbonise heat for customers in the most cost-efficient manner.

Energy supplier failures

Since the beginning of 2021, 31 energy companies have ceased trading, leaving over two million customers dependent on the safety net provided by the market regulator, Ofgem, to maintain their supplies and protect their credit balances while it moves them to a new supplier. Supplier failures impact the DNOs in the following areas:

Last Resort Supply Payment (“LRSP”) claim

When a supplier fails, Ofgem ensures continuity of supply to the failed supplier’s customers by appointing a Supplier of Last Resort (“SoLR”) to supply the failed supplier’s customers at short notice. The SoLR may then recover certain costs from the Distribution Network Operators (“DNOs”) via a Last Resort Supply Payment (“LRSP”) claim. Each DNO is then able to recover those costs via its Distribution Use of System (“DUoS”) charges which are levied across all suppliers. Essentially these claims are a pass through cost for the DNOs. The total SoLR claims received during the year amounted to £72.7m (2022: £266.8m). These claims will be payable to suppliers from March 2023-March 2024, with associated revenue being recovered through DUoS tariffs from April 2023-March 2024. Claims received last year were paid in the current year, with the majority of associated revenue also recovered in the current year. Refer to page 15 for details on revenue.

Bad debts

Another impact for the DNOs is bad debts incurred in relation to DUoS charges up to the date of the supplier failure. Ofgem regulations allow for full recoverability of credit losses on DUoS debtors, provided certain credit management protocols are performed in accordance with industry standards as governed by the Distribution Connection and Use of System Agreements (“DCUSA”), thus minimising any potential credit risk to the Group. The recoverability for the Group occurs through an increase in DUoS charges.

Strategic report (continued)

For the year ended 31 March 2023

Business review (continued)

Financial highlights

Financial measure				Performance and comments
Revenue	2022/23	2021/22	Percentage change	<p>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.</p> <p>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.</p> <p>The increase in the revenue during the year is mainly due to recovery of LRSP claims paid, through increased DUoS revenue during the year. The revenue recovered for LRSP claims amounts to £261.8m. This does not result in a corresponding increase in profit as the payment of LRSP claims increases the operating costs during the year.</p>
	(£m)	(£m)		
2,096.5	1,886.0	11%		
Profit before taxation ("PBT")	2022/23	2021/22	Percentage change	
	(£m)	(£m)		
	681.4	746.9	-9%	<p>As part of the regulatory process Ofgem sets the allowed rate of return within each price control which for RIIO-ED1 is set at 6.4%. As evident from the level of capital expenditure below, NGED invests in excess of profits back into the networks to ensure that we continue to provide an efficient, reliable and secure service to our customers.</p> <p>The decline in PBT is mainly due to the increase in finance costs during the year, driven by accretion of index linked debt.</p>
Fixed asset additions	2022/23	2021/22	Percentage change	
	(£m)	(£m)		
	1,202.2	1,063.0	13%	<p>NGED operates in a capital intensive industry and thus invests a major proportion of profits into replacing and adding electricity infrastructure, as is evident from the overall extent of our capital expenditure and increase during the year. Due to the age of the network and technological advancements significant investment is required in capital related activities. During the RIIO-ED1 period to date we have invested £8.1bn in capital related activities.</p>
Cash generated from operations	2022/23	2021/22	Percentage change	
	(£m)	(£m)		
	1,124.3	1,133.8	-1%	<p>Cash generated from operations continues to be consistent year on year.</p>
RAV	2022/23	2021/22		<p>RAV is a regulatory concept to represent assets with a long term life. It is essentially equivalent to the net book value of the fixed assets of the business only calculated in regulatory terms using methodology provided by Ofgem. It is an important measure for all DNOs as the allowed revenue in any year includes a return on RAV and amortisation of RAV as determined by Ofgem. Other important measures, such as gearing ratios and recoverable amounts of DNOs with respect to impairment calculations, are calculated using RAV.</p> <p>The movement in RAV is largely driven by additions to our RAV during the year which are based on 80% of our total expenditure ("totex") calculated in accordance with methodology provided by Ofgem and after application of the totex incentive.</p> <p>Note, the differences in methodology between IFRS and regulatory guidance have accumulated over time and as such cannot be reconciled.</p>
	(£m)	(£m)		
	10,846.4	9,407.1		
<p>* Because of timing, the 2022/23 RAV used in these calculations is the latest draft and not the finalised value. As directed by Ofgem, the RAV is calculated using an average of March 2023 and April 2023 inflation.</p>				

Strategic report (continued)

For the year ended 31 March 2023

Business review (continued)

Financial highlights

Financial measure			Performance and comments
Gearing ratio	2022/23	2021/22	Gearing for NGED is calculated as the ratio of net debt to RAV. The gearing ratio is monitored in relation to the revolving credit facility covenants for several of the NGED companies and is used as a key internal measure. To comply with bank covenants as well as the internal KPI, the gearing ratio for the NGED Group does not exceed 85%. The regulatory gearing target for the four DNOs individually was 65% for RIIO-ED1 and is 60% RIIO-ED2 onwards.
	(£m)	(£m)	
Net debt*	6,654.0	6,502.6	
RAV	10,846.4	9,407.1	
* Refer to note 22 on page 104 for the calculation of net debt	61%	69%	
Interest cover	2022/23	2021/22	A minimum ratio of earnings before interest, tax, depreciation and amortisation ("EBITDA") to interest payable is required by credit facility covenants for several of the NGED companies. It is also used as a key internal indicator of the financial health of the DNOs. In order to comply with bank covenants the interest cover ratio can not fall below 3:1; our interest cover ratio is at an acceptable level and shows a sufficient level of earnings to cover interest payments. The increase in finance cost during the year is driven by accretion of index linked debt.
	(£m)	(£m)	
PBT	681.4	746.9	
Finance cost	399.4	318.3	
Depreciation	286.3	271.0	
Amortisation	3.3	3.1	
EBITDA	1,370.4	1,339.3	
Interest payable	399.4	318.3	
Interest cover	3.4	4.2	
Return on equity ("ROE")	2022/23	2021/22	Our ROE is based on the allowed regulated return on equity. 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.
	%	%	
Base return	9.6%	9.6%	
Totex incentive mechanism	0.8%	1.1%	
Other revenue incentives	2.8%	2.9%	
ROE	13.2%	13.6%	<p>As part of the regulatory process Ofgem sets the allowed rate of return within each price control, which for RIIO-ED1 is set at 6.4%. Base return ROE for the year, normalised for a long-run inflation rate of 3% (2022: 3%), was 9.6% (2022: 9.6%).</p> <p>The totex incentive mechanism relates to the sharing of any under or over spend on our allowances through our adjustment to allowed revenue in future years. 2022/23 totex incentives include a 0.4% reduction adjustment for ED1 green recovery projects. Ofgem have confirmed that no new allowances will be given in RIIO-ED2 but projects can be completed using allowances received in base allowances in RIIO-ED1. Further spend is forecast in 2023/24 to complete these projects, therefore the 2022/23 ROE has been adjusted to align the 2023/24 spend with 2022/23 allowances. This ROE adjustment is expected to be unwound in 2023/24.</p> <p>Incentive performance has remained high year on year. However, there has been a reduction in incentives earned due to the tightening of targets.</p> <p>Note: ROE is a performance measure based on the allowed regulated return on equity and cannot be reconciled to any statutory measure. In the current year, ROE has been included as an APM to reflect our performance within the regulatory regime and to align with performance reporting by our ultimate Parent Company, National Grid plc.</p>

Strategic report (continued)

For the year ended 31 March 2023

Our business environment

We are committed to delivering net zero whilst ensuring fairness and affordability for customers. Through our work with governments and regulators, we are delivering infrastructure investments and shaping policy to realise climate goals.

	Impact on our industry	Our response
<p><i>Fairness and affordability</i></p> <p>We are committed to delivering energy safely, reliably and affordably to the communities we serve. We will play our role in ensuring no one is left behind in the short term due to increased energy prices, or in the longer-term transition to clean energy.</p>	<ul style="list-style-type: none">• Energy price volatility has been a significant driver of inflation in the UK. In 2022, consumer price inflation reached 11.1%, a 41-year high.• The Government has protected customers from the worst extent of the energy price volatility through support schemes and have announced their intentions to review policy and markets to support consumers in the long term.	<p>NGED has an established social contract which acts as a focal point for our business to deliver greater social and environmental benefits, giving strategic direction to our promise to do the right thing for our customers. As part of our social contract, we have various fairness and affordability initiatives as outlined below:</p> <ul style="list-style-type: none">• During the year, we awarded a £2.5m fund to help those in fuel poverty, as part of our wider annual £3.8m Community Matters Fund. The Fund supported 319 organisations, providing savings for over 138,000 people in our communities.• NGED continues to partner with four fuel poverty organisations, one in each of our licence areas, to deliver the ‘Power Up’ scheme. The project helps customers by offering income and energy efficiency advice, such as benefits and grant applications and energy saving schemes. Customers are offered free, independent, confidential and impartial advice on a full range of interventions. The project works by partner organisations such as Citizens Advice taking referrals directly from NGED. Every customer contacted as part of our Priority Service Register (“PSR”) calls are given the opportunity to be referred to a partner organisation, such as The Energy Savings Trust and the Centre for Sustainable Energy, for support.• In addition, NGED continues to partner with four community based organisations, one in each of our licence areas, to deliver an ‘Affordable Warmth’ fuel poverty scheme. Customers receive the same assistance and support as those referred to a Power Up partner but these customers are self-generated by Affordable Warmth partners and then are signed up to the PSR as part of the support package.• We work closely with partners and our Customer Panel to improve services and identify innovative ways to support customers. We held our annual social obligations workshop in the current year in light of energy price rises and our £113,000 Energy Affordability Fund (“EAF”) has enabled six new innovative projects to find new ways of supporting customers in 2023, with a specific focus on designing and delivering interventions to widen participation in the smart energy transition and addressing digital exclusion.• In the year 2022/23, our EAF, Power Up and Affordable Warmth schemes contributed to the total 24,463 (2021/22: 25,928) customers who saved over £20.6m (2021/22: £14.6m). Our fuel poverty support is the largest programme of any UK network company and has provided support to over 142,000 customers, helping them to save over £72m over the course of RIIO-ED1.

Our business environment (continued)

	Impact on our industry	Our response
<p>Net zero By connecting a growing volume of renewable generation and reducing our own greenhouse gas emissions, we are demonstrating our focus on enabling the energy transition.</p>	<ul style="list-style-type: none"> The government's independent Net Zero Review stated that "significant governmental action is required to ensure that the UK achieves net zero in the best way possible for the economy and the public." More than 90% of global Gross Domestic Product ("GDP") is now covered by a net zero target. 	<ul style="list-style-type: none"> Our two core strategic focus areas are, 'Becoming a Net Zero Organisation' and 'Ensuring we are environmentally responsible'. Following feedback from our customer engagement groups during 2022, we have now further refined our environment strategy so that we are now aligning our activities to additional UN Sustainable Development Goals, including 'Ensure access to affordable, reliable, sustainable and modern energy for all' and 'Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation'. As part of Energy Network Association ("ENA"), we are working collaboratively with other DNOs to develop and implement a comprehensive tool to assess the impact of embedded carbon in relation to our assets and activities. We have increased the percentage of electric vehicles in our commercial and leased fleet by 5% during the current year. By continuing with our vehicle replacement programme and raising awareness of the impact of driving style and the continued roll-out of our Driver Behavioural System ("DBS"), we have outperformed our RIIO-ED1 5% reduction target for annual fuel use by 9.8%. We have signed a collaboration agreement with the charity, Heart of England Forestry, which will enable extensive tree planting, habitat restoration, biodiversity net gain and community involvement over the course of RIIO-ED2. We completed a biodiversity foot printing report for our operational activities and our current supply chain. The report identifies the impact our operations have on biodiversity net gain. This will form the basis for our biodiversity strategy. We are trialling the utilisation of a biodiversity net gain metric tool at around 20 substations to establish a baseline from which bespoke biodiversity management plans will be developed. We have continued to work collaboratively with our waste management partners to significantly reduce the amount of waste disposed of to landfill. Three of our four licence areas continue to routinely report zero waste to landfill on a monthly basis. In 2022/23, only 6.67% of waste from our operations is being sent to landfill as compared to 42% in 2014/15. For further details on our actions relating to net zero, please refer our detailed environment and innovation report at link below: National Grid - Environment

Our business environment (continued)

	Impact on our industry	Our response
<p>Decentralisation System flexibility and resilience are becoming increasingly important as the UK moves away from large centralised energy generation to a system of more geographically distributed intermittent energy sources.</p>	<ul style="list-style-type: none"> • 2022 saw significant growth in electric vehicles, with sales growing by more than 25% in the UK. • Driven by policy and innovation, heat pump prices are reducing for consumers. • Ofgem’s regulatory deal for RIIO-ED2 included funding to make network investments that will enable the rapid growth in electric vehicle chargers, heat pumps and batteries. 	<ul style="list-style-type: none"> • Our DSO team has established flexibility markets that provide an alternative means of addressing network constraints. These harness the power of new technology and the ability of some network users to provide flexibility in their own consumption either by increasing, reducing or shifting their net import or export. Flexibility can provide more granular network capacity increases, better matching the in-year requirements of network users. Flexibility has the potential to manage capacity shortfalls economically and responsively until the need for conventional reinforcement is more certain. Where uncertainty is high, a greater period of operation of flexibility may allow for more optimal longer term investment plans to be developed and implemented. Our DSO is responsible for assessing which investment option is most efficient and economical, and does so using industry standard tools. It recommends the investment decision independent of the network owner function of the business. To enable this, we have completed the organisational changes to separate our DSO function from our DNO. <p>If flexibility has been selected as the optimal choice, a formal process is used to tender for providers. We currently utilise a Dynamic Purchasing System to procure openly and competitively against our requirements. Before awarding contracts, the Distribution Network Options Assessment (DNOA) process will be triggered to ensure value is still being delivered to customers, given the final commercial terms. We use signposting and forecasting processes to give flexibility providers a clear picture of requirements. These processes are carried out before conventional reinforcement would need to start and therefore help to identify whether there is sufficient flexibility available to resolve a network constraint. This approach ensures that we consider a flexible alternative for every network constraint.</p> <ul style="list-style-type: none"> • We have made significant progress on the Equitable Novel Flexibility exchange (“EQUINOX”) project to allow customers to play a part in a flexible energy future using heat pumps in their own homes. We have developed the novel commercial arrangements and supporting technologies needed to unlock flexibility from residential low carbon heating and recruited customers to take part in the largest trial of heat flexibility in the UK. The trial phase is now underway. This project is the first of its kind to aim to answer key questions on how electricity network operators can participate proactively in the decarbonisation of heat in the most cost-efficient way for customers, managing increased network demand while maintaining network reliability. The project will assist in the deferral or avoidance of network reinforcement due to the predicted dramatic uptake of heat pumps in the upcoming RIIO-ED2 price control period and beyond.

Our business environment (continued)

	Impact on our industry	Our response
<p>Digitalisation We're bringing customers, employees, and assets together as we progress on our journey to being an intelligent, connected enterprise. Digitalisation supports our progress towards net zero targets and improves customer experience and value.</p>	<ul style="list-style-type: none"> • Ofgem now requires DNOs to publish a network digitalisation strategy, and has announced its plans for the creation of “common digital energy infrastructure” to improve the efficiency and coordination of flexibility markets. • Supported by policy in the UK, networks’ investments in digitalisation will enable predictive maintenance, automate operations and control, and digital twins, making it easier to plan network expansion and make connection offers. 	<p>We launched our digitalisation strategy and action plan last year upon submission of our RIIO-ED2 business plan to Ofgem. Digitalisation of the energy system is at the heart of NGED’s transition to build a smart and efficient energy system, delivering net zero. Our focus is to achieve the best possible positive outcomes for our customers, by utilising innovative solutions and smarter working practices to drive efficiency in all we do and our digitalisation strategy sets the foundation for this. Our innovative new digitalised solutions and services will transform the way customers interact with us and with energy, providing them with real value. Some examples being are:</p> <ul style="list-style-type: none"> • A new digital tool has been launched that allows customers to apply online to connect domestic electric vehicle chargers. It is an automated online application that provides a real-time response to the customers. By moving the process online, we are able to deal with significant volumes and responses are not restricted to normal working hours. The online digital tool launched for domestic electric vehicles will be extended to applications for other low carbon technologies (“LCTs”) as well, such heat pumps and domestic solar installations. We also have launched our online budget tool. Customers can now obtain an immediate budget estimate for low voltage connections by entering information into the budget estimate tool as opposed to having to send the information to a local planner. • We have extended our capabilities in relation to smart meter data by gathering high resolution voltage data for the first time and gathering anonymised load data at a more granular level. There are issues with low carbon technologies not being registered with the DNOs and without correct records, the accuracy of network planning will be affected. With the expected increase in load at low voltage from heat pumps and electric vehicle charge points, there is a risk that the degree of unbalance on a network can be significant. The Smart Meter Innovations and Test Network (“SMITN”) project is examining how the smart meter data can be used to solve the problems of missing or incorrect data for low voltage networks by applying algorithms to smart meter data in a novel way.

Strategic report (continued)

For the year ended 31 March 2023

Distribution System Operator (“DSO”) Function

Distribution System Operations is all about developing and operating a smarter and more flexible electricity system. To deliver benefits from this smarter approach requires not only investment in data, systems and processes to enable this capability, but also for this capability to be exploited. This is the role of the Distribution System Operator. Through RIIO-ED2 we will deliver a number of enhancements to broaden and deepen our DSO capabilities. Our three key roles as a DSO function are:

Planning and network development:

- Plan efficiently in the context of uncertainty, taking account of whole system outcomes, and promote planning data availability.

Network operation:

- Promote operational network visibility and data availability;
- Facilitate efficient dispatch of distribution flexibility services.

Market development

- Provide accurate, user-friendly and comprehensive market information;
- Embed simple, fair and transparent rules and processes for procuring distribution flexibility services.

To facilitate neutral markets we have identified functions and activities which are specifically related to DSO and functionally separated them within our business to avoid any potential for conflict between system operator and network owner. The DSO’s key focus is to make decisions which enable capacity to be provided efficiently and economically, through creating competition in how that capacity is provided. The DNO is responsible for providing accurate data and information on its asset capability and current or historical network loading. The DNO’s key focus is to invest in the data and smart grid technology which can be used by the DSO. Data and its exchange will be a significant enabler in the relationship between DNO and DSO and during RIIO-ED2 this needs to be codified. NGED will take a lead in this development.

The DSO is responsible for accurately sizing the investment in the new capacity required to serve the current and future needs. It is responsible for doing this efficiently through the use of flexibility, which may be provided by third parties or the DNO’s own smart grid network. It will also direct traditional reinforcement where this is most efficient. We were the first DNO to commit to a six monthly procurement cycle for flexibility services through our customer facing flexibility brand, known as ‘Flexible Power’. Using flexibility services we will build in competition, both against alternative options for managing constraints (such as reinforcement), as well as between providers. This aims to find the optimal solution for the network. Our Flexible Power product has been adopted by four other DNOs and is now a national tool for flexibility dispatch. Network Operators are able to see availability of flexible assets under contract and dispatch that flexibility to maintain the network within limits.

Our DSO Strategy can be found at the link below:

<https://www.nationalgrid.co.uk/dso/dso-strategy>

RIIO-ED2

The RIIO-ED2 price control period will cover the five year period from April 2023 to March 2028. All the DNOs, submitted their final business plan to Ofgem on 1 December 2021. Ofgem published its final determinations on 30 November 2022.

Following the final determination by Ofgem allowing us £5.9bn, we have prepared a RIIO-ED2 Delivery Plan, setting out how we will continue to improve on our already industry leading standards while adapting to the changing needs of our customers and the environment in which we operate. Our Business Plan for RIIO-ED1 (2015 to 2023), was ambitious and industry leading. Building on this impressive platform, we have listened to our stakeholders and will deliver an even bolder set of stretching commitments for RIIO-ED2, driving a smart, sustainable energy revolution for the communities we serve. The RIIO-ED2 delivery plan contains 42 ambitious core commitments and more than 400 wider commitments, all designed to achieve four crucial outcomes for our customers.

Sustainability: We will support the UK’s ambitions to achieve net zero carbon emissions by 2050, driving crucial changes in energy usage and customer green behaviour. We will set the benchmark by achieving net zero in our own operations by 2043 (following a Science Based Target initiative) and we will ensure the network is ready to enable local authorities to achieve similar ambitions in their regions. Last year, we were planning to achieve phased net zero targets, aiming to be net zero excluding network losses and scope 3 emission by 2028 and net zero including network losses in line with our Science Based Targets by 2043. However, following integration with the National Grid Group, instead of following the previous phased approach, we have now aligned our net zero target with the target of the National Grid Group and thus set one single target to be in line with our 1.5°C Science Based Targets by 2043. The Science Based Targets include Scope 1 and Scope 2 emissions including network losses and thus is a step ahead of the initial 2028 target as that excluded network losses.

Strategic report (continued)

For the year ended 31 March 2023

RIIO-ED2 (continued)

Connectability: A lack of network capacity should not be a barrier for our customers. We will ensure that the network can cater for up to 1.5 million additional electric vehicles, 600,000 heat pumps and a significant increase in renewable generation over the next five years.

Vulnerability: We will deliver a first class programme of inclusive support. This will include offering 600,000 smart energy action plans for vulnerable customers each year, ensuring no one is left behind in a smart future. We will also more than double our ground breaking fuel poverty support to deliver over £60m of savings for 113,000 fuel poor customers over the course of RIIO-ED2.

Affordability: We will continue to deliver the highest standards of safety, reliability and customer service that customers have come to expect from us. We aim to keep the power cuts at their lowest ever levels, whilst targeting customer satisfaction at over 93%. Crucially we will achieve all of this while keeping our portion of the average domestic customer bill affordable.

We have developed a suite of wide ranging, dynamic, ambitious and interconnected strategies that will be implemented in RIIO-ED2. Each one is designed to contribute towards the delivery of our four overarching strategic outcomes we intend to achieve for our customers over the course of RIIO-ED2. Some of the key strategies developed by the Group in this regard are: Climate Resilience strategy, Digitalisation strategy and action plan, Net Zero Communities' strategy, Environment strategy and action plan, Workforce Resilience strategy, DSO strategy and Customer Vulnerability strategy. Each of our strategies is embedded across our operations.

In our business plan submission to Ofgem, we had proposed to deliver our commitments with a budget of £6.7 billion. Due to our proven track record of innovation development and roll out, we had embedded £700m of efficiency savings into the business plan. In its final determinations, Ofgem has allowed us £5.9 billion, the largest amount allowed of any DNO Group in the UK. The reduction in allowances relating to volume adjustments is around £200m, plus an efficiency challenge of £600m.

Ofgem has set a challenging price control for the next 5 years and we are required to be ambitious and significantly improve our services for our customers with a challenging asymmetrical incentive package in terms of rewards and penalties. Our strong track record of delivering excellent levels of performance for customers underpins confidence that we can build on the successes of RIIO-ED1 to deliver our holistic plans for RIIO-ED2. As we plan for the challenges of a rapidly changing energy market, we are more ambitious than ever. We want to exceed our customers' expectations and deliver a sustainable, reliable and innovative network for everybody.

Innovation and Development

NGED, through Ofgem's Network Innovation Funding Incentives, is developing innovative projects which aim to help make the energy networks smarter, accelerate the development of a net zero carbon energy sector as well as deliver financial benefits to consumers. The projects help develop crucial knowledge and expertise which is being shared across the industry.

This year the Innovation team has continued to deliver a varied portfolio of projects that focus on key areas of decarbonisation and net zero, heat, transport, data and communities/consumer vulnerability. New projects this year have included using data from smart meters to improve the energy use profiles for distribution substations used by network planners ("SMITN"), investigating the benefits of different energy efficiency measures on a set of building archetypes ("DEFENDER") and introducing real-time asset ratings into our active network management systems ("Running cool").

Many projects have reached their final stages reflecting the end of the current price control period at the end of March 2023. From April 2023 onwards, the larger projects that were previously funded via the Network Innovation Competition will be replaced by the Strategic Innovation Fund ("SIF"). This has the advantage of breaking down these larger projects into Discovery Phase, Alpha and Beta phases so that the potential issues with ambitious projects can be identified earlier on in the process before significant costs are committed. Our application for 5 SIF projects was successful and has been approved. These will be implemented in 2023/24 and will cover a wide range of themes including developing a digital twin of our network to aid local energy planning, creating advanced flexibility services with water companies that can alter the times at which they use their pumps and using the ability of Electric Vehicles to reverse their power flow to supply energy to help vulnerable customers during outages.

Strategic report (continued)

For the year ended 31 March 2023

Innovation and Development (continued)

Our Equinox project, which is investigating how flexibility can be included in the solutions that decarbonise domestic heating, has now started, being the largest heat flexibility trial in the UK.

Helping to understand consumers in a post pandemic world gave an insight into how our largest ever vulnerability led project, Vulnerability and Energy Networks, Identification and Consumption Evaluation ("VENICE") is exploring the problems surrounding vulnerable customers in light of COVID-19. The project was launched last year and so far has explained what makes a customer vulnerable, described the persistence of the effects of the pandemic on both our network and customers and has developed models that will inform the industry on the best ways to engage communities that are deemed fuel poor in the energy transition. Over the next few months, VENICE will be modelling an 'art of the possible' solution showing how smart meter data can be leveraged to help all consumers, our smart meter data analysis and business models will be finalised and a sandbox trial will be developed.

After a trial of more than three years, our overhead line power pointer project has provided some exciting results. Our aim was to trial a self-powered device capable of providing real-time information on voltage, current power flows and conductor temperature. This information can be monitored remotely as monitors have built in communication; by using 4G sim cards we are able to send all this data from the overhead network back to our services and to network management system providing real time visibility of our overhead network. This project supports our commitment to net zero and sustainability as monitoring through this self powered device, that can be clipped on to overhead lines, will reduce the amount of resources required to locate the faults, remove the need to use the helicopter unit and also enable faster restoration of supplies. New ratings based on conductor temperature may release latent capacity in the network allowing more renewable generation to be connected.

The success of our projects was also recognised with our Take Charge project receiving the 2022 Utility Week Disruptor award. Take Charge developed a new type of compact primary substation that can be used to provide large capacity to support fast charging facilities at motorway services, where space for a traditional primary substation would not be available. Our Dynamic Charging of Vehicles project won the Energy Innovation Showcase award for Best Collaborative Initiative.

In June 2022, we held '28 to Zero', our first large scale in-person dissemination event after Covid. The event attracted more than 130 stakeholders. Leading industry experts gathered to explore some of the key challenges confronting the energy industry as it strives to deliver a fair low carbon future. This year we have had a record number of abstract submissions accepted for the international conference for electricity distribution ("CIRED"), which will allow us to share our learning with stakeholders all around the world.

The success of the dissemination event and our projects reflects our commitment to excellence. Being able to demonstrate the benefits from our projects and the value for money that they provide was essential to the RIIO-ED2 price control negotiations. Ofgem have authorised an £18m budget for Network Innovation Allowance projects for the next three years that will allow us to keep innovating.

Further details on our innovation projects can be found at the link below:

<https://www.nationalgrid.co.uk/innovation>

Strategic report (continued)

For the year ended 31 March 2023

Internal controls and risk management

The National Grid Electricity Distribution Plc Board has overall responsibility for NGED's system of risk management and internal control across the NGED Group. The NGED Board is committed to protecting and enhancing our reputation and assets, while safeguarding the interests of our stakeholders.

Managing our risks

The NGED Group is exposed to a range of uncertainties that could have a material adverse effect on its strategic objectives, financial condition, operational results, reputation, and its value. The National Grid Plc Board sets and monitors the amount of risk the NGED Group is prepared to seek or accept in pursuing its strategic objectives, within the parent Company, National Grid Group's risk appetite framework. The Board assesses the NGED Group's Principal Risks ("GPRs") and monitors the risk management process through risk review sessions. These have taken place monthly at Executive meetings throughout the year and are reviewed twice per year by the NGED Board.

Emerging risks ("ERs") are less defined than GPRs and typically do not pose an immediate threat. They are future focused, with a higher degree of uncertainty and are difficult to quantify; however, they could have the potential for significant impact and consequences and so threaten the future achievement of our strategy. Utilising future scenarios, horizon scanning and emerging risk assessments, we identify ERs and include the identification, assessment, response, and reporting of ERs in our risk management processes. Assessment includes the potential impact and velocity (time to impact) and our response is to then either watch, monitor or manage the risks that are reported to the NGED Board and Group's PRs using our emerging risk radar.

The risk management framework and process is further set out in our Code of corporate governance statement on page 36.

Actions during the year

The NGED risk profile continues to be managed by drawing upon the most significant risks across our business profile. This year we reviewed our risk management framework and principal risks to align better to the National Grid parent Company's Group Principal Risks along with our own business plan commitments. We assessed risks against the strategic business objectives of the parent Group, and devised a new set of principal risks for NGED, ensuring these were assessed in accordance with the parent Group Board's strategic objectives, risk appetite and associated key controls, which are clearly defined and assessed.

The rapidly evolving political and economic uncertainty continue to dominate, requiring very careful monitoring and assessment of our NGED Group's GPRs and ERs. The uncertainty has created an increase in the underlying (inherent) threat across our cyber, disruption of energy, political and societal expectations, and satisfactory regulatory risks, which we are continuously monitoring.

We developed our principal climate change risk during the year, establishing a discrete risk around our energy transition role; and further incorporated the physical impacts from climate change on our assets (adaptation) into our sustained loss of customer supply risk, to ensure a clear focus on the actions needed to mitigate these different risks. The "sustained loss of customer supply" risk focuses on significant disruptions of energy from network reliability and resilience issues across our operations.

Following the final determinations of the RIIO-ED2 price control, the executive directors revisited the NGED GPRs in January 2023, focussing on the delivery risk associated with the ED2 price control and increased scrutiny and complexity associated with regulatory and legal compliance risks. In the current ever changing economic and political climate, the directors are also focused on our risk relating to political and regulatory stakeholder and societal expectations. The GPRs are currently discussed monthly by the executive directors, to help maintain focus and alignment to the parent's risk appetite framework and to enhance the monitoring and mitigation of risks.

Internal controls over financial reporting

Periodic Sarbanes-Oxley ("SOX") reports regarding management's opinion on the effectiveness of internal control over financial reporting are received by the Board in advance of the full year results. Reports conclude the Group's compliance with the requirements of s404 of the Sarbanes-Oxley Act, and are received directly from the Group Controls Team; and through the Executive and Audit Committees. This is to satisfy the reporting requirements for the parent, National Grid plc.

We have specific internal mechanisms that govern the financial reporting process. Our financial controls guidance sets out the fundamentals of internal control over financial reporting, which are applied across the Company. Our financial processes include a range of system, transactional and management oversight controls. In addition, our businesses prepare detailed monthly management reports that include analysis of their results, along with comparisons to relevant budgets, forecasts and prior year results. These are presented to, and reviewed by, senior management within our Finance function.

These reviews are supplemented by monthly business reviews attended by the National Grid Group CEO and CFO, during which financial and non-financial metrics are considered via analysis of performance contract scorecards. Deep dives on particular topics are driven by identified risks and opportunities.

Strategic report (continued)

For the year ended 31 March 2023

Internal controls and risk management (continued)

The NGED risk profile is presented below:

Strategic risks	
Risk	Mitigating actions
<p>Capability and talent: There is a risk that we fail to attract, retain, equip and inspire the necessary diverse talent to lead our business and deliver our business plans and the pipeline of talent is not sufficiently strong to fill roles as colleagues retire. <i>Strategy link: <u>Grow our organisational capability.</u></i></p>	<p>We continue to evolve initiatives to secure future engineering talent, including through apprenticeships; and identify high potential talent in our teams to build capability through segmentation and analysis, and through leadership training.</p> <p>We continue to apply rigour in development and succession planning, including focus on diversity and inclusion through talent and development activities. In 2023, we will launch the global diversity, equality and inclusion strategy and resources aligned to our ultimate parent company, National Grid plc.</p>
<p>Societal and Stakeholder expectations: There is a risk that we fail to understand and manage societal and stakeholder expectations of our business because of weak stakeholder engagement, leading to reputational damage or increased regulatory intervention. <i>Strategy link: <u>Enable the energy transition for all.</u></i></p>	<p>We continue to operate a number of stakeholder inclusive activities, including:</p> <ul style="list-style-type: none">• Customer Engagement Group ("CEG"), which reflects the needs and expectations of existing and future consumers in the development of its business plans;• Customer Panel representing a wide range of stakeholders, meeting quarterly to provide critical review of our performance, provide extensive expert knowledge and help steer our strategic priorities;• Annual workshops, surgeries and webinars to understand the needs of stakeholders and ensure these are aligned with our strategic priorities. <p>We also deploy significant resources on:</p> <ul style="list-style-type: none">• Engaging with Ofgem on industry initiatives, new consultations and decisions;• Enhancing and consolidating our digital roadmap and social media channels;• Delivering on our Group commitment to be a responsible business.
<p>Energy transition role and delivery of net zero: There is a risk that we fail to meet our strategic principle of enabling the energy transition for all and that we fail to change sufficiently to enable the UK's transition to net zero or meet our own net zero commitments, because of planning to an incorrect strategic envelope, anticipatory investment arrangements not being acceptable to our regulators, implementing the wrong environmental plan, failure to meet customer expectations, and delivery. <i>Strategy link: <u>Enable energy transition for all.</u></i></p>	<p>We continue to focus on our core priorities to improve our strategic planning capability and appraisal of various options in connection with the net zero delivery risk.</p> <p>We are developing flexibility in our network to manage and monitor our load risk, whilst we also adopt whole system coordination.</p>
Compliance risk	
Risk	Mitigating actions
<p>Regulatory and legal compliance: There is a risk that non-compliance with a regulatory licence or statutory obligation adversely impacts customers or stakeholders and leads to a significant fine or damaged reputation. <i>Strategy link: <u>Grow our organisational capability.</u></i></p>	<p>We manage and mitigate this risk through having a dedicated regulation and compliance team with skilled colleagues who track regulatory changes and provide advice on interpretation and on-going compliance plus associated updates and changes. There is regular dialogue with the ultimate parent's Board on political and regulatory developments that may impact the NGED Group.</p> <p>The Board monitors the senior management and executives' progress in ensuring compliance with changes to legislation.</p>

Internal controls and risk management (continued)

Operational risks	
Risk	Mitigating actions
<p>Significant injury or loss of life risk: There is a risk of significant injury or loss of life to employees, contractors or the public as a result of operational business activity because of a failure of a critical asset or system; or inadvertent or deliberate contact with the distribution network. This risk also includes similar safety impacts from environmental events.</p> <p><i>Strategy link: Enable the energy transition for all.</i></p>	<p>Our preventative and detective safety controls focus on:</p> <ul style="list-style-type: none"> • A well-established risk management procedure including safety policies, procedures, standards, risk assessments and actions plans; • Competency and training at induction and on an ongoing basis; • A clear focus on safe behaviours including leadership level site safety visits, safety moments in our meetings, a 'Stand-up for Safety' campaign, and support for managers from the specialist safety professionals' team to develop and mature safe practices in the workplace; • Shared learning and action from significant safety incidents.
<p>Cyber security incident: There is a risk that we fail to adequately anticipate and manage disruptive forces on our systems or to protect our systems from a cyber-incident that results in electricity outages for customers, loss of automated control of the electricity network, damage to assets, loss of data or compromised ability to provide critical customer services.</p> <p><i>Strategy link: Grow our organisational capability.</i></p>	<ul style="list-style-type: none"> • We commit significant resources and financial investment to maintain the security and integrity of our systems, data and technology infrastructure by continually investing in strategies that are commensurate with the changing nature of the security landscape. • Stringent policies and procedures are in place to provide controls over network security, proactive threat intelligence gathering, asset monitoring and management, data integrity, back-ups and incident response. • We work collaboratively with our parent Company, leading edge Government agencies, and with cyberspace security frameworks to build resilience, incident response planning and contingency.
<p>Sustained loss of customer supply: There is a risk that we fail to predict and respond to a significant asset failure or severe weather event which causes significant disruption to customer power supply and our asset performance or our service response is inadequate, leading to customer harm, lasting reputational damage, loss of franchise or damage to investor confidence.</p> <p><i>Strategy link: Deliver for our customers efficiently.</i></p>	<p>Our planning and incident response controls are widespread across our assets, systems, communications and infrastructure including:</p> <ul style="list-style-type: none"> • Installations and changes within a controlled change management framework and to industry leading standards; • Planned, effective maintenance of the network including preventative tree cutting programs; • Security and management of supply chain for strategic stock holding levels, delivery lead times and monitoring of market conditions; • Regular training sessions for our engineers; • Exercises and practise sessions to system emergency scenarios and response plans; • Physical and Logical resilience and response planning for extreme weather events and IT/Telecoms failures.
<p>Business transformation: There is a risk that we fail to identify and apply suitable technologies, practices and innovations to efficiently deliver our Price Control commitments, position our business for success in RIIO-ED2 and beyond and meet our business objectives.</p> <p><i>Strategy link: Enable the energy transition for all.</i></p>	<p>Key control areas to manage business transformation risk include:</p> <ul style="list-style-type: none"> • A clear set of priorities and defined transformation outcomes; • A transformation plan; • Value levers; • Performance reporting; • Building capability and capacity fit for the future.
<p>Delivering ED2 price control: There is a risk that we fail to deliver the price control within the allowed settlement revenue because of uncertainty over delivery mechanisms, supply chain issues, poor industrial relations, weak resource management or funding gaps, leading to reputational damage or increased regulatory intervention.</p> <p><i>Strategy link: Enable the energy transition for all.</i></p>	<p>To manage this risk we ensure we have:</p> <ul style="list-style-type: none"> • An effective resourcing strategy; • Awareness programmes to help our colleagues understand the current regulatory deal and the consequences of our choices and deliverables; • Detailed plans of the volumes and variety of new initiatives we expect to deliver during the ED2 regulatory period; • Established the data, processes and technology that are needed to enable timely, accurate delivery and regulatory reporting.

Strategic report (continued)

For the year ended 31 March 2023

Internal controls and risk management (continued)

Financial risks

While all risks have a direct or indirect financial impact, financial risks are those which relate to financial objectives and performance. Financial risk management is a critical process used to make investment decisions and aims to maximise investment returns and earnings for a given level of risk. None of our financial risks are currently classified as group principal risks. Our key financial risks are described in note 22 to the financial statements on pages 96 – 104.

Our commitment to being a responsible business

At National Grid, we are committed to doing the right thing, delivering social and environmental value for our colleagues, customers and wider society. It's enshrined in our purpose - Bring Energy to Life. We care about our customers and our communities, the way we engage and interact with our stakeholders and how we take responsibility within the communities we serve.

We have established a social contract that sets out how we do business in a way that actively benefits our region and the people we serve, both now and into the future. The social contract is a promise to listen actively to our communities and colleagues and act with integrity, contributing positive, locally-tailored solutions to the challenges they face. Structured around three key focus areas: our customers and communities, our people and our environment, our annual social contract update was published in January 2023. It includes a progress report and action plan, summarising activities delivered to date and our approach for the year ahead and can be found at the link below:

<https://www.nationalgrid.co.uk/our-social-contract>

While the Social Contract provides a framework for us to make a local impact, our alignment with the United Nations Sustainable Development Goals demonstrates the crucial role our communities play in global society. It acts as a platform for our actions to be shared and up scaled to deliver even more benefits.

Customers and community

Working with our communities is important in creating shared value for us as a business, the people we serve and the communities we operate in.

Some of the key outcomes in 2022/2023 were as follows:

- We awarded £3.8 million to local good causes via our shareholder-funded Community Matters Fund. This includes £2.5m to help tackle fuel poverty, £500,000 aimed at supporting mental health and social isolation, £500,000 focused on alleviating holiday hunger for school children and £300,000 awarded as a special Christmas fund to support the most vulnerable during the winter period.
- In addition to the Community Matters Fund, we have supported 127 charitable and non-charitable organisations by donating an additional £109,000 to good causes.
- We refurbished and redistributed 465 iPads to community organisations, supporting customers who are digitally excluded, providing devices along with mobile data and digital skills training.
- Our Science, Technology, Engineering and Maths ("STEM") ambassador programme has grown to 23 colleagues, who deliver outreach and education to students across our region. We have supported the Engineering Education Scheme Wales ("EESW") Sixth Form Project, promising to give a wider understanding of the careers available through our STEM. The project sees us partner with schools to set teams of students a STEM-based task, which they are asked to solve by researching, designing and building a prototype of their idea. The projects last around 6 months, where three NGED STEM ambassadors run them and have regular visits to answer student's questions. The students are also given the opportunity to attend site visits. At the end, the students write a report and present their solved projects at the EESW awards event, where they have a chance to win awards for their prototypes and innovative idea.
- A pylon to power project that gives talks to students about the future of renewable energy took place during the year. Students were invited to learn more about renewables and also the history of coal energy. They also received a presentation from NGED about the distribution network. After the presentation, the students were tasked with designing and building their own towers during an activity led by the EESW.
- We provide safety information focussed on potential hazards and how to avoid them, so that our customers stay safe around our electrical assets. Our comprehensive education programme uses a range of activities to teach children about the importance of electrical safety. Our website Power Discovery Zone won the digital innovation award at the South Wales Argus Education Awards. The website contains fun education resources and promotes electrical safety, energy saving and renewable energy, with a 'Circuit Squad' of superhero characters.

Strategic report (continued)

For the year ended 31 March 2023

Our commitment to being a responsible business (continued)

Customers and community (continued)

Customer vulnerability and fuel poverty

We currently support over 2.0 million customers on our Priority Services Register ("PSR") that records details about vulnerable customers so that additional tailored support can be provided when the customer contacts us or when their supply is interrupted. We have a dedicated team of people to proactively contact customers and check their details at least every two years to ensure that the register remains up-to-date. NGED continues to work with industry partners to develop processes to share data with other organisations that hold information about vulnerable customers, in line with data protection laws. NGED already sends PSR data monthly to six water companies and receives data from two of them and is working alongside industry colleagues to ensure two-way data sharing is in place with all water companies. Links have also been established with many organisations who act as 'referral partners' such as the British Red Cross to improve the understanding of the needs of vulnerable customers. These 180 referral partners (up from 149 last year) include charities, local authorities and health organisations who sign customers up to the PSR and share power cut resilience advice with their clients.

In light of the current cost of living crisis it remains vital that we keep customers updated on ways to save energy and manage their consumption more effectively. Some customers on low incomes may not be able to effectively heat their properties – and those who were previously 'just about managing' may have been tipped in to fuel poverty by soaring energy prices and inflation. We work with over 100 partner agencies to provide fuel poverty support and advice. Please refer to the "Fairness and Affordability" section on page 17 for details on work done by us during the in the area of customer vulnerability and fuel poverty.

Our people

We are committed to being a stand out employer, attracting new talent to the electricity sector and driving the transition to net zero. While continuing to prioritise safety, health and wellbeing, we are focused on improving diversity, equity and inclusion, upskilling and empowering our people to thrive in their careers.

Health and Safety

The health and safety of our employees is paramount. Our commitment to this is reflected through our training programmes, policies, processes and procedures - all of which align with national and international standards and have been tested and implemented over many years. Our safety management system is ISO 45001, accredited and independently audited by National Quality Assurance each year.

We have an annual Safety, Health and Environment ("SHE") calendar and programme focussed on key topics identified from our annual SHE plan, employee feedback, accident statistics and, where appropriate, national programmes. We have collaborative working with our contractor organisations to ensure we share best practice, and all achieve the same SHE standards.

There is a culture of proactive colleague communications to share learning from incidents or events and we have regular safety surveys, for colleagues to share their views on the company's safety culture. There are regular meetings between managers and colleague representatives to discuss, agree and implement initiatives related to health and safety. There is proactive colleague communication to share learning from incidents or events. In addition this year, a "Safe to Say" initiative was launched with the aim of encouraging staff to use their voice and speak up without fear, being empowered to raise issues, flag concerns and offer ideas.

Diversity, equity and inclusion ("DE&I")

It is important that our colleagues reflect the diverse communities we serve. By increasing the diversity of our organisation, we will be even better placed to represent these communities and to drive innovative solutions for all our customers.

We recognise that this remains a key challenge for our business; the electricity distribution industry as a whole continues to fall short of other sectors when it comes to colleague diversity. However, we refuse to be complacent and are committed to making significant changes to our approach, to see a real and sustained difference. We have therefore developed a DE&I strategy which we update annually to continue our progress in this area. Some examples of actions during the current year are as follows:

- appointing a Diversity Officer who drives our diversity and inclusion agenda and attends national events on best practice to recruit, support and retain diverse talent;
- launching new DE&I training courses for all people managers, helping equip them with the confidence to handle sensitive issues; requiring all new colleagues to review the DE&I policy and Code of Ethics during the induction process;
- using an online applicant tracking system to anonymise applications and ensure recruitment and progression is based on merit;
- training managers and team members who sit on interview panels to recognise and overcome unconscious bias;
- reviewing our job vacancy advertisements to ensure the language is accessible, and assisting candidates who require adjustments;
- advertising external job roles more widely to attract more diverse candidates.

Strategic report (continued)

For the year ended 31 March 2023

Our commitment to being a responsible business (continued)

Our people (continued)

Diversity, equity and inclusion (“DE&I”)(continued)

We also engage with a range of partner organisations to improve our approach to recruiting diverse talent:

- 10,000 Black Interns: a programme facilitating paid work experience, training and professional development for young Black people in the United Kingdom, across a range of industries.
- Change 100: a programme aiming to remove the workplace barriers experienced by disabled people through a programme of paid summer work placements, professional development and mentoring.
- Career Transition Partnership: an organisation providing resettlement services for those leaving the Royal Navy, Army, Royal Air Force and Marines.

Employee well being

We are driven to enable our teams to do their best, by feeling their best. We have several schemes that actively promote the mental and physical wellbeing of our colleagues and offer support when they need it, for example:

- Switched on to Health intranet, providing a wide range of resources on the health and wellbeing of our colleagues and managers;
- Access to our in-house occupational health team and Employee Assistance Programmes. Our Employee Assistance Programme is a 24/7, confidential service providing free access to support and counselling across a range of issues, including family, legal, financial or work related difficulties;
- Monthly health communications which raise awareness and provide advice around different physical and mental health topics, based upon colleagues feedback and health monitoring programmes;
- Flexible working policies, providing support to eligible colleagues who wish to incorporate homeworking or flexible working;
- Proactive mental health provision including a mental health first aider programme and Employee Assistance Programme aligned to colleagues’ feedback and health monitoring.

In addition to initiatives for physical and mental wellbeing, we also provide enhanced maternity and paternity support, flexible working options and care for retirees and terminally ill colleagues. Recognising that significant life transitions can impact mental health and wellbeing, we strive to adopt leading policies that provide holistic support to our colleagues during difficult times.

For team members who are nearing retirement, we offer in-house retirement courses, pension support and pre-retirement leave to help individuals transition to leaving the workplace. To protect the rights of terminally ill colleagues, we are signatories of the ‘Dying to Work’ charter. We provide childcare vouchers, adoption leave, shared parental leave arrangements and keeping in touch days to encourage eligible colleagues to continue their careers while caring for a family.

Our environment

We are committed to leading in the net zero transition, setting an example for others to follow. While rapidly reducing emissions in our own operations, demonstrating excellent environmental performance and improving biodiversity at our sites, we are also helping others to achieve their own net zero ambitions. For further details on this refer to pages 6 and 18 of our Strategic report.

For our commitment to net zero, we have been listed as one of Europe’s Climate Leaders for 2022 in the Financial Times-Statista list. More than 4,000 companies were scrutinised in terms of past emission reductions, current reporting standards and ratings as well as commitments for the future. We are featured as one of the 400 European Climate Leaders in 2022.

Since 2011, we’ve been working to an internationally agreed environmental standard (ISO 14001) to improve our environmental performance. To be certified to this standard, an organisation must consider all environmental issues relevant to its operations, such as air pollution, water and sewage issues, waste management, soil contamination, climate change mitigation and adaptation, and resource use and efficiency. This certification ensures we strive for continual improvement and innovation in our approach to the environment, while maintaining legal compliance.

This year, we supported our first team to compete in the Greenpower Challenge, a project that enables school children (aged 11-16) to design, build and race electric cars, with the help of NGED STEM ambassadors. The initiative focuses on renewable energy, recycled materials and the varied careers available in engineering.

Strategic report (continued)

For the year ended 31 March 2023

Our commitment to being a responsible business (continued)

Our environment (continued)

We are working with third party organisations, such as local ecologists, to understand the impact of our activities on biodiversity. This includes increasing scrutiny of environmental and sustainability factors in our tendering process, and identifying areas in our business with the highest emissions, so that we can engage with suppliers and contractors to improve the impact of our supply chain on the environment. As part of National Grid's ongoing commitment to biodiversity and the environment, we plant native trees and shrubs across our operating regions each year, in partnership with The Conservation Volunteers. This year, we supported planting meadow flowers at Creswell Crags in Nottinghamshire - one of the most important Stone Age archaeological sites in Europe.

Deaf awareness chartermark

NGED holds the RNID 'Louder Than Words' charter mark accreditation which assesses and endorses the accessibility of services for deaf and hard of hearing people. We have held the accreditation for nine and eleven years respectively for the South Wales and South West and East and West Midlands. We were the first DNO in the UK to launch the "InterpreterNow" (now SignVideo) service. This enables deaf customers to contact us in British Sign Language ("BSL") via an online interpreter by downloading a free app. In addition, we also provide a series of customer information videos in BSL.

Taxation

As part of the National Grid Group, NGED adopts a responsible approach to taxation aiming to comply with applicable tax legislation. Details of the approach are included in the National Grid tax strategy that is published annually and covers all businesses within the group. The tax strategy can be found on the National Grid website or using the link below:

<https://www.nationalgrid.com/about-us/corporate-information/corporate-governance>

For details of the NGED Group's effective tax rate see note 10.

Human rights

NGED is dedicated to conducting its business with honesty, integrity and fairness. In support of these principles it is NGED's policy to observe all domestic and applicable foreign laws and regulations including the Human Rights Act 1998, Equality Act 2010 and Modern Slavery Act 2015. Training of all employees is conducted in relation to these laws and regulations which has led to an understanding within the Group of issues associated with these statutes. The outcome of our policies and procedures is that there have been no known instances of any form of discrimination, slavery or human rights violation.

For our modern slavery statement, refer to the National Grid website or using the link below:

[Modern Slavery Statement | National Grid Group](#)

Anti-corruption and anti-bribery

NGED has robust policies on anti-corruption and anti-bribery. These policies apply to all employees of the Group and form part of the employee Code of Conduct. Other individuals performing functions for the Group, such as agency workers and contractors, are also required to adhere to our anti-bribery and anti-corruption policies. Through our policies and procedures we have been able to foster an environment of zero tolerance towards bribery and corruption. As a result there has been no known violation of applicable laws and policies.

Task Force on Climate-related Financial Disclosures ("TCFD")

Refer to the Annual Report and Accounts of National Grid plc, pages 38-51 for TCFD disclosures, including climate related risks of National Grid Group.

<https://www.nationalgrid.com/investors/resources/reports-plc>

Strategic report (continued)

For the year ended 31 March 2023

Non-financial information statement

In accordance with section 414CB of the Companies Act 2006 we have reported on various non financial information as follows:

- Business model

Refer to pages 1 - 3.

- Environment

Refer to pages 6, 18, 29 and 30 for our work done in relation to environment

Refer to pages 8-9 for our KPIs in relation to environment.

- Employees

Refer to pages 28 and 29 for details on our policies regarding employees.

Refer to pages 12 and 13 for our KPIs in relation to employee satisfaction.

- Social matters

Refer to pages 27 and 28.

- Human rights

Refer to page 30.

- Anti-corruption and anti-bribery matters

Refer to page 30.

Section 172 Statement

Refer to pages 40-41 for our Section 172 statement.

Approved and authorised for issue by the Board and signed on its behalf by:



Cordelia O'Hara
Director
30 June 2023

National Grid Electricity Distribution Plc (formerly Western Power Distribution Plc)

Avonbank
Feeder Road
Bristol BS2 0TB

Corporate governance statement

For the year ended 31 March 2023

For the year ended 31 March 2023, under The Companies (Miscellaneous Reporting) Regulations 2018, National Grid Electricity Distribution Plc has adopted the Wates Corporate Governance Principles for Large Private Companies.

The principles below have been applied throughout the year ended 31 March 2023.

Purpose and leadership

Our purpose is to **Bring Energy to Life**. As described on page 5 of the Strategic report, we work within the purpose, vision, values and strategy and of the National Grid Group to ensure we are well positioned to respond to changes in the operating environment. The Board is responsible for oversight of the Company's strategy and has considered its development during the reporting period.

Our purpose, vision and values are the fundamentals of our business, they are what motivate us and drive how we behave to deliver our purpose in the rapidly changing energy sector.

At National Grid Electricity Distribution we care about all of our stakeholders. This is a fundamental attribute that allows us to fulfil and deliver our purpose to meet the needs and expectations of our stakeholders. We do this by listening and taking decisive action on what our stakeholders tell us.

Our purpose, vision and values are constantly reinforced to the workforce through various internal communications such as roadshow presentations from the President, our in-house magazine, regular intranet news updates, direct emails from the President and other executive directors of the Group and from the Chief Executive of National Grid Group. The Board is confident that they have, throughout the organisation articulated that we are a purpose-led Group.

Each year, the President conducts roadshows throughout the Group. In addition, the President visits smaller workforce groups to monitor the alignment of the workforce culture with the Group's purpose. The other directors also actively engage with the workforce through informal and formal methods. This direct engagement enables the Board to get invaluable insights into the culture of the Group and its alignment to our core values. Our senior leadership conferences, presented by the President and other executive directors to the senior management, support open dialogue between the executives and the senior management team. This is an effective way of strengthening the feedback from senior managers and cascading key messages by the executive directors throughout the organisation and ensuring all colleagues can contribute to delivering the Group's purpose.

To support this, the directors have introduced a peer to peer recognition campaign 'Living our Values'. This campaign helps us celebrate colleagues from across our business at all levels, for actions big and small, that showcase the positive impact of our values in action.

Our leadership is driving the transformation in the energy sector, moving towards a smart, low carbon network to enable our communities to reach net zero, by connecting their renewable generation, electric vehicles and heat pumps. We are in a strong position to do this being part of the National Grid Group, the largest electricity transmission and distribution business in the UK, giving us a great platform to play our role in the future. The proactive involvement of the Board and the Company as a whole with our stakeholders, under the Boards leadership is detailed in the 'stakeholder relationships and engagement' section on pages 37-39.

Board composition

Balance and diversity

Reinforcing its commitment to sound corporate governance, the Board has continued to strengthen and develop both its composition and governance framework, implementing, as applicable, many of the best practice governance principles in operation at the National Grid plc level. At the year end, the Board consisted of three executive directors and two Group-appointed non-executive directors. The non-executive directors are part of the senior management team of the NGED Group shareholder, National Grid, who between them provide a broad and diverse range of experience and technical skills from both within and external to the organisation, from the energy sector and external bodies. The size of the Board is aligned to the organisational structure of the Group with each executive director responsible for the oversight of its relevant area under the overall leadership of the President within the Group structure.

The designation of the executive director roles are the President, Operations Director, and Regulation & Corporate Director. All the executive directors are experienced in their respective roles and responsibilities.

Oversight responsibilities lie with the Group-appointed non-executive directors. The Group-appointed non-executive directors fulfil their responsibility in offering constructive challenge by regularly attending the board meetings of the Company. Outside of formal meetings, the non-executive directors are provided with timely information and given access to relevant updates, including invitations to meetings, where they are encouraged to offer constructive feedback.

Corporate governance statement (continued)

For the year ended 31 March 2023

Board composition (continued)

Balance and diversity (continued)

The Group-appointed non-executive directors possess the necessary skills and experience of the utility sector and wider business sectors to provide oversight of the Company. To fulfil their duties, they have access to the Company Secretary and to legal advisors funded by the NGED Group. As with all Board members, the Group-appointed non-executive directors have the authority to request Board meetings.

As at 31 March 2023, the ratio of female directors on the board is 60%. Following the appointment of a female President for the NGED Group from 1 April 2023, the ratio increased to 80%. The Hampton-Alexander review, an independent voluntary and business-led initiative supported by the Government to increase the representation of women in senior leadership positions and on Boards, set a target of 33% women representation on FTSE 350 Boards and FTSE 350 senior leadership teams. Although the Company is not required to do so it has exceeded this target.

A detailed profile of our Board can be found on our website at the link below:

<https://www.nationalgrid.co.uk/about-us/meet-our-executive-team>

All directors have equal voting rights when making Board decisions, with the Chair of the meeting having a casting vote.

Chair

There is no permanent appointment of the Board's Chair, however, it is usual practice for the President to be appointed the Chair at each Board Meeting. The President is the President of Electricity Distribution within the National Grid Group management organisation and as such has extensive engagement with the shareholder. Through this engagement, the role is well placed to identify and facilitate the views of the ultimate shareholder. The Board believes this is a valuable part of the overall corporate governance framework which is appropriate for a subsidiary company that is part of a larger group and provides greater benefits than separating the roles of the Chair and President.

Appointments

The President of NGED is appointed by the Group shareholder, National Grid. The appointment of the President and the other directors follows the National Grid policy on the "Appointment of Directors of Subsidiary Companies Procedure" (the "Appointments Procedure"). This is to ensure that appointments and changes to the composition of the boards of directors of subsidiary companies within the National Grid Group are fully evaluated in a consistent manner that can be reviewed for compliance with statutory requirements. It also ensures an appropriate level of representation and the provision of the right skills and experience on relevant company boards.

Other executive directors and Group-appointed non-executive director nominations and appointments are recommended and approved with the support of the President in line with the Appointments Procedure. The process followed for the nomination of these directors involves the consideration of the relevant skills, expertise, experience, professional background and various other personal attributes. The People & Governance Committee of the parent, National Grid is responsible for succession planning within NGED.

Newly appointed directors undertake an induction programme which is tailored to their specific needs.

The Board ensures their knowledge is current and relevant through a variety of means such as attending training programmes and appropriate industry conferences, holding memberships of relevant institutes, completing technical training updates and attending meetings with various industry participants e.g. regulators and investors. The executive directors adopt a hands on leadership style and regularly meet with their management teams to ensure that they are updated on the latest business developments and have immediate access to the current information.

Directors' responsibilities

Accountability and discharge of responsibilities

The Board maintains a schedule of matters specifically reserved for its consideration and decision. This is aligned, as appropriate, to that of the National Grid plc board with additional responsibilities as required by licence obligations. There are well-defined policies, as approved by the Board, clearly establishing the overall duties and liabilities of the directors, the areas of responsibility and accountability for each director and the process for delegation of authority. Policies have been established that define the framework within which we expect managers and the workforce to operate. These policies represent one of the means through which decisions on stakeholder interests are enacted and there is a robust process in place for the regular review and update of policies and processes to ensure they remain relevant and fit for purpose.

To support the Board, there is a Finance sub-committee of the Board, to which the Board delegates defined duties under Terms of Reference and within a framework of the National Grid plc Delegation of Authority ("DoA"). Further detail on the work of the sub-committees can be found below.

Corporate governance statement (continued)

For the year ended 31 March 2023

Directors' responsibilities (continued)

Accountability and discharge of responsibilities (continued)

There are four principal Board meetings scheduled each year. The Board meetings are generally scheduled and communicated well in advance to provide all directors with sufficient notice to attend the meetings. The matters to be considered throughout the annual board meeting schedule fulfil the Board's responsibilities in line with its statutory duties, licence obligations and its matters reserved for the Board.

If the need arises, the directors can call additional meetings at any time, organised through the Company Secretary. The Board receives and is updated on all key and important business information by the executive directors at the Board meetings.

Overall operational responsibility of the NGED Group lies with the President. The President fulfils this responsibility in conjunction with and through oversight of the other executive directors and senior leadership. Until December 2022, regular formal meetings, known as the Executive Council, consisting of the President, Chief Financial Officer, Operations Directors, Regulation & Corporate Director, Director of Distribution System Operator and Director of SHE, Training and Engineering Policy, were conducted. From January 2023, this has been replaced with the President's Senior Leadership Group meetings. Senior Leadership Group meetings have a wider participation than the Executive Council and also include the Chief People Officer, Electricity Distribution Transformation Lead and Chief Information Officer. These meetings acts as a forum for the discussion of business performance, strategic considerations and identification of matters to be considered by the Board. Other senior management may attend the meetings for the purpose of providing updates to the directors. Any key items are circulated and communicated to the Board in a timely manner.

The executive directors are responsible for the organisational performance of their directorate and are accountable to the President and the Board. Executive directors regularly meet with their respective senior leadership teams to discuss matters impacting the Group. KPI monitoring is delegated to the senior managers who report directly to their respective executive director. In order to operate efficiently and to give the right level of attention and consideration to relevant matters, while maintaining complete oversight of their area of accountability, the executive directors empower senior management to take operational decisions, apply their knowledge and utilise their industry experience in the daily management of the business.

The directors are conscious of the changing reporting and governance landscape and are committed to fulfilling their responsibilities effectively by ensuring that their skills and knowledge are refreshed and updated regularly. There is an established code of ethics policy of the Group which is adhered to by all the workforce including the executive directors.

The executive directors understand the importance of leading with integrity. Group policy sets out potential conflicts of interest and at each Board meeting the directors disclose any potential conflicts of interest in any of the Group transactions or arrangements. In addition the Company Secretary administers an annual process, whereby the directors disclose any interests in related parties or any related party transactions.

Committees

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

Membership of the sub-committee comprises the Chief Financial Officer and Group Treasurer and Director of Pensions of National Grid plc. The sub-committee interfaces with the Finance Committee of National Grid plc and the Board. During the year, the Finance sub-committee met three times.

Each Board meeting considers a separate agenda item on the work of the Finance sub-committee. The National Grid plc Group Treasurer and Director of Pensions reports to the Board on the financing activities, taxation, financial costs and liabilities of the pension schemes at Board meetings.

In addition, the DNO boards also have a Corporate Governance Committee.

The Board and its sub-committees are supported by the Company Secretary who is available to all Board and committee members to provide guidance as required on all governance matters.

NGED does not have an Audit & Risk Committee, Nominations Committee or Remuneration Committee as these functions are provided by National Grid plc – see the Annual Report and Accounts of National Grid plc (page 69) for information about the National Grid Group Audit Committee, People & Governance Committee (which covers the responsibilities of a typical Nominations Committee) and the Remuneration Committee.

<https://www.nationalgrid.com/investors/resources/reports-plc>

Corporate governance statement (continued)

For the year ended 31 March 2023

Directors' responsibilities (continued)

Integrity of information

At the quarterly Board meetings, the Board receives information on all key aspects of the business including safety, environmental matters, risks (including cyber security threat) and opportunities, financial performance, strategic and regulatory matters, operational matters, market conditions, changes in the political landscape and updates on relevant technological developments. Board information is prepared by a centralised team and is subject to detailed review procedures at various levels of senior management prior to submission to the Board.

Key financial information is taken from the our financial systems. Our finance team is appropriately qualified to ensure the integrity of this information and necessary training is provided to keep them up to date with statutory, regulatory and financial reporting requirements. NGED continues to operate a Sarbanes-Oxley ("the Act") compliance programme that is aligned to the needs of the parent company. In accordance with the requirements of the Act, our management team undertakes an annual assessment of internal controls over financial reporting. This includes ensuring all key financial processes have been documented with specific details on the controls in place. Key controls over financial reporting are periodically reviewed and tested by National Grid's corporate audit team.

Key regulatory information is prepared annually for submission to the regulator, Ofgem. We have extensive internal data assurance and governance procedures and established policies for ensuring data integrity in respect of information submitted. Data is compiled from source systems that have appropriate validation checks and is prepared, reviewed and approved by NGED's experienced, senior management personnel.

KPI information is available to management via the use of dashboards. This system interfaces directly with source systems and data, and was implemented following extensive testing procedures on data accuracy.

The Board's review of the information in relation to various areas of the business allows the directors to assess that systems, processes and procedures continue to operate effectively and assists in identifying and strengthening governance arrangements.

Opportunity and risk

Opportunity

We strive to create and preserve value over the long term by consistently providing outstanding customer service at an efficient cost by combining technical excellence and innovation within a clear organisational structure. Within the parameters of operating within a regulated environment, the Board identifies and evaluates relevant opportunities to create long term value for the Group and its stakeholders.

The energy sector is undergoing a significant and exciting period of change as the UK works towards a net zero carbon future. Net zero cannot happen without us and the Board is fully aware of the fact that our leadership will directly impact the pace and efficiency with which it is achieved. Recognising this responsibility, the directors have ensured that our RIIO-ED2 business plan places us at the heart of this transition. The Board oversaw the development of NGED's RIIO-ED2 business plan and ensured the plan was constructed to take full account of the UK Government's published plans to achieve net zero Carbon Emissions by 2050. The directors ensured that the business plan was prepared with unprecedented levels of scrutiny and collaboration by engaging, directly and indirectly through senior management, in our largest ever stakeholder consultation process with a broad range of representatives.

NGED's skill and wide experience of adapting to change and investing in innovation has demonstrated our ability to adopt new technologies to create an ever more cost-effective electricity network. With final determination of the RIIO-ED2 business plan requiring significant efficiency challenges from the DNOs, the Board is focused on ensuring that we continue to make full use of and further develop our existing experience and expertise in innovation and flexibility services, as we provide consumers with the network strength to cope with a range of increased new demand and accommodate increased input from green power generation. The directors are focused on utilising digitalised solutions across our operations and aim to instil a culture that maximises every opportunity to work smarter for our customers. For details of achievements in the current year in areas of decentralisation and digitalisation refer to pages 19-20 of the Strategic report.

To enable stakeholders to achieve net zero, our business plan for 2023 to 2028 outlines how we will create a smart, flexible energy grid and facilitate the mass connection of LCTs including electric vehicle charging points, heat pumps and more locally sourced renewable generation. Many of these LCTs will be connected at lower voltages making it vital to ensure that there is sufficient capacity for the LCTs to connect. NGED will proactively identify parts of the network that are heavily loaded and provide more capacity. We will use smart meter data, increased amounts of network monitoring and enhanced analysis to identify where network reinforcement is required. We will also look at ways in which the LCT loads can be managed to make greatest use of existing network capacity which may involve steps including controlling when EVs are charged. Together these proactive actions will enable more LCTs to connect overall, in shorter timescales and at lower cost than if conventional reinforcement was required.

Corporate governance statement (continued)

For the year ended 31 March 2023

Opportunity and risk (continued)

Opportunity (continued)

The Board is invested in ensuring that our own commitment to sustainability includes leading by example and reducing our own Business Carbon Footprint to net zero by 2043 in line with our verified 1.5°C Science Based Target. This will be delivered by reducing the amount of waste we send to landfill, adopting electric vehicles across our transport fleet to reduce emissions, significantly reducing harmful gas and oil leaks from our equipment and ensuring we actually enhance the local environment by delivering a net gain in biodiversity for new major projects and at selected primary substations. Based on feedback from our stakeholders, small scale UK based offsetting will also be used. Our intention for RIIO-ED2 is to develop a broad portfolio of UK based offsetting including habitat creation, for example tree planting, peatland and sea grass restoration, as well as local community based offsetting schemes such as solar for schools. All of our offsetting schemes will be UK based within our licence areas and therefore bring direct and tangible benefit to our customers and the communities which we serve.

In the nation's move to decarbonisation, the directors are determined to achieve a sustainable energy future by delivering a dynamic, innovative and high functioning energy grid that stands ready to serve many generations to come.

Risk

The NGED Board is responsible for the oversight of risk management and internal controls across the NGED group. The responsibility for the risk management framework and internal controls cascades from the President and the executive directors to senior management teams responsible for risk assessment and the implementation of appropriate mitigation. Managers are responsible for the identification of risks and the deployment of appropriate controls within their areas of responsibility. Policies are established, reviewed regularly and made available on the Group intranet to assist the managers with establishing an appropriate control environment. We consider the involvement of qualified and competent employees with the appropriate level of expertise throughout the business a key factor for implementing an effective internal control environment.

Risk management is embedded into the organisational structure, with specialist teams established to manage certain key risk areas. Specifically, we have long established teams reporting to senior managers responsible for health and safety, regulatory compliance, employee relations, cyber security, financial reporting and legal compliance. During the year, NGED started a change process to align its risk framework to the National Grid Group risk management framework with the support of a Head of Risk and Compliance secondeed from the National Grid Group's Chief Risk Officer Function.

NGED's principal risks were reviewed and revised to align better to the three lines of defence model adopted by the National Grid Group and its risk management framework in terms of business risk objectives, taxonomy, common risk language and scoring scales. By the year end, NGED had established a revised set of principal risks, mitigating controls and an assurance plan aligned to the parent company's risk management framework. Consideration of principal and emerging risks and related decisions are undertaken by the Executive Council/Senior Leadership Group meetings. Monthly reporting to the Executive Council/Senior Leadership Group meetings of the principal risks under development for NGED has been made throughout the year. The Executive Council/Senior Leadership Group exercises suitable judgement as to any control decisions that merit Board attention. Emerging and principal risks are regularly reported to the Board facilitating the oversight of the risk management process of the Group. Pages 24 to 26 of the Strategic report outline the key risks and the related mitigating actions for the Company.

Remuneration

The remuneration of executive directors, including the role of President and of the Group-appointed non-executive directors is determined by the ultimate parent company, National Grid plc. Elements of directors' remuneration and further information on this is available from National Grid within the Remuneration Report of National Grid plc's Annual Report and Accounts on pages 90-106.

<https://www.nationalgrid.com/investors/resources/reports-plc>

The pay of the majority of NGED's wider workforce is negotiated and agreed upon with the recognised trade unions, with the aim to ensure that the terms and conditions are aligned to current industry practices and benchmarked against appropriate energy and comparator groups.

Corporate governance statement (continued)

For the year ended 31 March 2023

Stakeholder relations and engagement

The Board believes that the overall success of the business is dependent upon the way we work with our stakeholders and is fully committed to fostering effective stakeholder relationships that are aligned to the Group's purpose and vision.

Our key stakeholders are customers, other network users, the workforce, regulators, suppliers and our shareholder. The Board actively promotes engagement and transparency with all these stakeholder groups and the executive directors ensure that a fair and balanced view of the Group's position is communicated to the relevant stakeholders. This is evident from the stakeholder engagement that is conducted for all our key initiatives and business commitments, recently, the most significant being the stakeholder engagement conducted in producing our RIIO-ED2 business plan before final submission to Ofgem on 1 December 2021. Using a co-creation approach, we developed the Business Plan from a blank sheet of paper, ensuring it is prepared with our customers, for our customers and contains ambitious, impactful commitments. For further details on our stakeholder engagement in relation to the RIIO-ED2 business plan, refer to our detailed business plan document which details how we built our plan with our stakeholders:

[NGED Your Power Future - Further information on our plan \(nationalgrid.co.uk\)](https://www.nationalgrid.co.uk/NGED/Your-Power-Future-Further-information-on-our-plan)

Details of engagement with each of our key stakeholder are as follows:

Customers

The Board strives to deliver the class-leading service our customers expect and is keen on continuing to support all our customers including our vulnerable customers. Some of the key customer engagement during the year is highlighted as below:

Customer panel

Our established customer panel meets quarterly and expert members represent a wide range of customers and key stakeholder groups. The panel is attended by the President and other directors and through the panel they seek honest and challenging customer views about the way we operate and our future plans. This level of engagement plays an important role in helping NGED achieve its purpose of delivering good value and quality service for its customers. This year the panel continued to run topic-specific surgeries between meetings, for example on social obligations and connections.

Stakeholder workshops and events

Annually NGED hosts an array of workshops, events, webinars and surgeries to understand the needs of its stakeholders so that they are aligned with the strategic priorities of the group. These are attended by the directors and senior management, with all key information fed back to the Senior Leadership Group and the Board to ensure there is informed decision making.

In September and October 2022, NGED hosted six workshops across the region, focused on Ofgem's draft determinations for the RIIO-ED2 Business Plan. The workshops were designed to seek feedback from stakeholders on our commitments relating to a smart and flexible network, connections, community energy, innovation, environment and sustainability, customers in vulnerable situations, Social Contract, customer service, network resilience, safety, IT and cyber and workforce resilience.

In addition to the RIIO-ED2 workshops, many other topic-specific events were held for those interested in connections, low carbon technologies, community energy and local investment plans. To address the challenges of engaging with end customers, who often have little prior knowledge of NGED, we adopted an innovative tailored approach by developing customer knowledge over a prolonged period of research exercises and deliberative discussions. Customers have undergone a programme of research and focus groups over a number of years, enriching their understanding and ability to offer informed scrutiny of our plans.

All these events and workshops welcomed stakeholders from a range of different backgrounds including domestic, business, local authorities, developers, environmental, energy/utility, regulatory/government and voluntary sectors. In total, during the year, we engaged with over 42,000 (2021/22: 44,000) stakeholders via a range of methods and delivered 308 (2021/22: 384) improvement actions based on feedback received.

Connections Customers Steering Group ("CCSG")

The ("CCSG") is held three times a year to help inform and guide our strategic objectives and future plans for connections services. The CCSG is chaired by one of our directors and is attended by connection stakeholders representing a cross-section of sectors. The CCSG covers a broad range of connections related topics and previously fed into the development of our Incentive Connections Engagement ("ICE") plan for Ofgem's RIIO-ED1 incentive. Going forward CCSG will now feed into our Major Connections Strategy for RIIO-ED2.

Corporate governance statement (continued)

For the year ended 31 March 2023

Stakeholder relations and engagement (continued)

Customers (continued)

Customer engagement group ("CEG")

As part of RIIO-ED2's enhanced engagement, a Customer Engagement Group ("CEG") was established to scrutinise our business plan. NGED followed a robust, independent and transparent process to appoint all 14 members of the CEG. The CEG provided independent challenge to our business plan and reflected the needs and preferences of existing and future consumers, with a focus on affordability, the protection of vulnerable consumers, the environment, sustainability and the transition to a low carbon energy system. NGED has continued to retain five members on the CEG panel, as the RIIO-ED2 Monitoring Group to continue their oversight, remaining focussed on delivery of the RIIO-ED2 Business Plan.

Customer awareness campaign

Annually, NGED delivers an annual customer awareness campaign to customers, reminding them of who we are, what we do, how to contact us and offering useful advice on preparing for power cuts and joining the Priority Services Register ("PSR"). In the current year, we coincided our campaign with the rebrand of the Group, following acquisition by National Grid. This involved delivering leaflets to all homes and businesses in our operating region informing them of the change from Western Power Distribution to National Grid along with useful contact and power cut information. The campaign also included social media promotion. Over the winter period, NGED also delivered a further campaign centring specifically on being prepared in case of power cuts, with potential of outages heightened by adverse seasonal weather conditions. The campaign included a preparation checklist, with links to our online power cut map and signing up to the PSR, with advertising covering print media, social media and buses to extend its reach.

The directors' commitment and, in turn, that of senior management and the wider workforce, to being proactive in customer engagement is evident from the external assessment of customer service and engagement under the CSE Standard and BSI Standard for Inclusive Service Provision (BS18477). For CSE, NGED is the only company to have held the accreditation for 30 consecutive years and has achieved an impressive total of 47 out of 57 'Compliance Plus' ratings. NGED was also the first DNO group to achieve the BSI and has achieved 10 years of full compliance, the longest period for any company in UK. Far from providing just validation, accreditations such as the CSE Standard and the BSI Standard continue to drive improvements for our customers. They allow our strategies and processes to obtain critical external evaluation and ensure we receive recommendations for further improvement. This helps us to drive our standards even higher and continuously improve our customer service.

The workforce

The directors recognise and acknowledge how critical our workforce is to our business performance and to achieving our vision to be at the heart of a clean, fair and affordable energy future. The directors are keen to understand how the workforce feel and how best we can support and develop them to ensure a happy and healthy workforce. The annual Grid:voice engagement survey provides insights into what is important to our colleagues and how they are feeling about the Group's strategy and leadership.

The results of the survey were presented to the Board and the feedback resulted in a 37 point action plan. The action plan is published on our intranet showing our progress against each of the 37 actions. Since publication of the action plan in summer 2022, 24 actions have now been completed, with many others being continuous areas of improvement.

The President accompanied by the Regulation & Corporate Director conducted 49 face-to-face roadshow events open to all colleagues across our four regions, setting out our future as a business and inviting all colleagues to have the chance to ask questions personally. The roadshows provided an update on key events, performance to date, our integration with National Grid and also provided visibility of our strategic priorities in action whilst emphasising the vital role of the workforce in achieving those priorities.

In addition to the roadshows, senior leadership conferences conducted by the executive directors and our internal communications through our team briefs, colleagues' webinars and podcasts, in-house magazine, news bulletins and direct email updates from the executive directors, have all been used during the year to conduct meaningful engagement with the workforce. Through these communications, the workforce have been kept informed about key business updates and changes such as RIIO-ED2 and our integration with the wider National Grid Group. In ensuring that the integration to National Grid is smooth for our workforce, the directors launched Project Connect to share our purpose, vision, values and strategic priorities as we continued to integrate with National Grid. This also included information on how the wider group is organised and various other areas to help the workforce familiarise themselves with the National Grid Group.

Corporate governance statement (continued)

For the year ended 31 March 2023

Stakeholder relations and engagement (continued)

Regulators

The executive directors are actively involved in ensuring open and transparent communication with industry regulators, most notably Ofgem and the Health and Safety Executive (“HSE”).

The directors regularly engage Ofgem with the overall aim of developing a regulatory price control framework that contains the right balance of customer focused outputs and economic incentives, which help to deliver the Government’s energy objectives and de-carbonisation targets. All key communications and engagements with Ofgem are discussed at Board meetings.

NGED’s Director of SHE, Training and Engineering Policy is the chair of the National Health & Safety Committee (“HESAC”), (of which the HSE is a member), and attends the committee meetings. NGED aligns its internal safety campaigns to support HSE initiatives and their current ‘Working Minds’ campaign, as well as actively participating in the National HESAC led ‘Powering Improvement’ programme which is also supported by the HSE and Trade Unions. The President is also a director of the ENA and a member of the Roundtable for Europe’s Energy Future (“REEF”).

Annually the members of the senior leadership and management team attend the National SHE conference run by the ENA.

Suppliers for our goods and services

Defined policies are in place for procurement of goods and services and associated supply chain management and engagement. We have a dedicated procurement team that assists with engagement with suppliers. The Operations Director has oversight responsibility for logistics, including the supply chain function. The Operations Director is supported by the NGED Logistics Manager and the ultimate parent, National Grid's UK Procurement Director. Key issues related to supply chain matters are reported and discussed at the Senior Leadership Group meetings.

We carry out payment performance reporting for suppliers. We are fair to our suppliers and committed to paying them promptly; on average. On average we pay our suppliers in 18 days (2021/22: 17 days). Further details on payment performance for suppliers by NGED Companies can be found at the UK Government website at the link below:

<https://www.gov.uk/check-when-businesses-pay-invoices>

Shareholder

The Board actively engages with our single shareholder, National Grid, on all key matters. As stated above, the Group-appointed non-executive board members of the Company are members of the National Grid plc senior management team. National Grid’s executive directors and senior management has regular contact and dialogue with NGED’s executive directors and senior management and all key information is fed back to the National Grid plc Board on a timely basis. There is a suite of financial management and regulatory reporting presented to National Grid on established timelines and regular financial and regulatory update meetings are conducted with National Grid’s management team to provide updates on any key accounting, business, and legal issues. Additionally, as part of the National Grid Group plan, NGED’s financial plan is presented to the National Grid plc Board for detailed review and approval on an annual basis. Any senior leadership events at National Grid are attended by the NGED President and other executive board members.

Section 172 Statement

For the year ended 31 March 2023

The Board ensures that the directors have acted both individually and collectively in a way that they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole with regard to all its stakeholders and to the matters set out in paragraphs (a) to (f) of section 172. Details on this are set out below:

The likely consequence of any decision in the long term

Our long term success is intrinsically linked to our vision of a clean, fair and affordable energy future. We will achieve our vision by focusing on our four strategic priorities; enable energy transition for all, deliver for our customers efficiently, grow our organisational capability and empower our people for great performance. These strategic priorities clearly reflect that the Board is focused on promoting the success of the business by ensuring that NGED makes the provision of exceptional service to our customers and the communities we serve an absolute priority, at the same time ensuring that we support their environmental and social well-being.

The four strategic priorities form the basis of all the Board's key decisions and these are monitored by the Board through established KPIs as detailed in the Strategic report on pages 8-13.

The Board recognises its responsibilities to each of National Grid's stakeholder groups and to wider society. The directors endeavour to ascertain the interests and views of our stakeholders and consider these when taking decisions. The Board strives to balance the different priorities and interests of our stakeholders in a way compatible with the long-term, sustainable success of the business and which maintains a standard of business conduct aligned to our values and purpose.

Most engagement with key stakeholders is carried out by management teams and takes place at business level and the directors engage directly with stakeholders where possible. Reporting mechanisms are in place to collate feedback and developments from such engagement and enable a flow of this information to the Board to inform decision making. By receiving regular updates on business programmes and objectives, the Board monitors that management is acting in accordance with the agreed purpose, vision and values. Processes are in place to ensure that the Board receives all relevant business information to enable it to monitor performance in support of the Group's long-term success.

The Board has oversight responsibility for risk management across the NGED Group. For the purposes of business resilience, the Board satisfies itself that there is an appropriate risk management approach and that reasonable mitigations are in place for the key risks of the Group. For details on the Group's risk management approach refer to page 24 of Strategic report and page 36 of the Code of corporate governance statement.

The interests of our colleagues

Our workforce are critical to our success. The directors understand how important our employees and the wider workforce are to the long-term success of the business and are committed to keeping them motivated and fully involved in all aspects of the business.

At NGED we work collaboratively with our trade union colleagues to provide a working environment that allows our colleagues to develop, be motivated to succeed, and progress within a team structured organisation where an empowered workforce can and do have the opportunity to flourish. Our aim is to provide a fair and balanced reward framework that is competitive within the market. It is underpinned by our strategic priority of "empowering our colleagues". The directors are keen for employees to be able to share in our success and therefore schemes such as annual Sharesave plan and Share Incentive Schemes exist for employees to participate in.

Pages 28-29 in the Strategic report provide further details on how the directors continually take measures to promote the interest of the Company's employees and wider workforce.

The need to foster the Company's business relationships with suppliers, customers and others

The Board believes that the overall success of the business is dependent upon the way we work with our stakeholders and is fully committed to fostering effective stakeholder relationships that are aligned to the Group's purpose and strategic priorities. Details of this can be found on pages 37-39 of our Corporate governance statement.

The impact of the Company's operations on the community and the environment

The service we provide is critical to our communities and impacts the businesses and homes we serve on a daily basis. The directors believe that working closely with our communities is important in creating shared value for the business, the people we serve and the communities we operate in. Benchmarking has been conducted to establish best practice regarding Environmental, Social and Governance ("ESG"), with NGED's prime ESG rating demonstrating our best in class performance. This rating by the Institutional Shareholder Services ("ISS") is only given to companies with an ESG performance above the ambitious threshold for the sector set by ISS. The rating places us significantly above the majority of ISS-rated Gas and Electricity Network Operators and reflects the Board's commitment to incorporating sustainability and wider environmental and social considerations into our decision making, as we carry out our work to keep the power flowing and to meet the energy challenges of the future.

Section 172 Statement (continued)

For the year ended 31 March 2023

The impact of the Company's operations on the community and the environment (continued)

Pages 27-30 in the Strategic report set out our commitment to being a responsible business and the actions we have taken during the year in relation to our community and environment.

Page 17 of the Strategic report sets out actions taken by us in relation to fairness and affordability.

We face exciting challenges as the UK works towards achieving the Government's de-carbonisation target of net zero carbon emissions by 2050. We have long recognised the role that the electricity sector plays in contributing to the UK's ambitions towards carbon reduction. Page 18 sets out how we have responded to net zero developments within our business environment.

The desirability of the Company maintaining a reputation for high standards of business conduct

The Board is committed to the National Grid values of 'do the right thing', 'find a better way' and 'make it happen', providing a framework for reporting business conduct matters, educating employees and promoting a culture of integrity at all levels of the business. The Board aspires to develop a culture where the management and workforce are motivated for success which is aligned to its shareholder expectations by creating long term value and at the same time maintaining its commitment to satisfying customer needs. The Board also aims for the Group to be a valued member of the community, which includes acting as a responsible steward of the environment. We conduct our business in a responsible manner, considering the needs of the present and future generations. We are committed to being an exemplary corporate citizen, seeking to improve the quality of life in the communities in which we do business. The Board ensures that the purpose, vision, values and the strategic priorities of the Group support this. Our engagement with all stakeholder groups reflects that this aim is embedded across the business and impacts the decisions taken throughout the organisation. Our employee Grid:voice survey is an example of one such engagement. The survey helps us understand the thoughts of our colleagues, not only on matters impacting our workforce, but also on our strategic priorities and how they feel we are showing up for our customers. This helps us ensure that we continue to build on what works well and improve in areas where we can do better. The aim of the survey is to continue making NGED a great place to work, a great experience for our customers and a greater leader for the energy transition.

Pages 27-30 in the Strategic report set out our commitment to being a responsible business.

The Board is committed to an inclusive, respectful and diverse workplace that rewards performance, enables professional development and encourages employee engagement. We value inclusiveness and diversity as essential components of our identity and long-term success. Pages 28-29 in the Strategic report provides further details.

We strive hard to get things right first time but sometimes things can go wrong. When we receive complaints we treat them with urgency and aim to deal with them to the customer's full satisfaction as quickly as possible. We resolved 85% (2021/22: 84%) of complaints within one day, beating the RIIO-ED1 target of 70%. We resolved 99% (2021/22: 98%) of complaints within 31 days and there have been no repeat complaints across any of our licence areas.

NGED's workforce have access to the National Grid's internal ethics helpline at all times. The contact information is publicised to all colleagues so that concerns can be reported anonymously. We will support and protect whistle blowers.

Our dedication to conducting our business to the highest standards is also demonstrated by the emphasis placed by the directors on the safety environment within the organisation. Safety and training videos are available to the workforce to view and a programme of bulletins is provided on screens in offices to keep staff aware of key safety information. In support of an annual safety action plan, monthly colleague communications focussed on health and safety topics is provided. Safety conferences and presentations are held each year to ensure that a safe working environment is a key priority throughout the organisation. There is a diligent system for reporting near misses and incidents to avoid future recurrences. Safety is a crucial KPI for the Board that is monitored stringently and the Board is focused on developing a fair culture of accountability as opposed to a 'perceived culture of blame', when an accident happens. Page 28 of the Strategic report sets out further details in relation to focus of the directors on the health and safety of employees.

The need to act fairly between members of the Company

The Company's ultimate shareholder is National Grid. The Board has developed a robust corporate governance framework which allows the directors to understand the views of the shareholder. This allows the directors to both effectively and constructively engage with and report to the shareholder.

Directors' report

For the year ended 31 March 2023

The directors present their annual report on the affairs of the NGED group, together with financial statements and auditor's report, for the year ended 31 March 2023.

Results and dividends

The NGED Group reports a profit for the financial year of £536.2m (2022: £373.3m). Profit before tax is £681.4m (2022: £746.9m).

The NGED Group also reports other comprehensive loss, which was posted directly to capital and reserves, of £644.2m (2022: £743.9m profit). This primarily relates to the defined benefit pension plan remeasurement, net of tax.

Dividends of £0.2m (2022: £1401.2m) have been paid during the year. No dividend has been paid subsequent to the year end. All dividend payments are made out of the distributable reserves of the Company.

In considering capital distributions, the Board is mindful of stakeholders' views and takes account of our latest financial position, the long-term sustainability for the NGED Group in addition to the allowed rate of return and any incentive rewards received. In its capacity of providing oversight for the operational performance of the business, the Board also takes account of the prevailing performance against customer performance targets, other RIIO-ED1 output commitments and future requirements such as DSO, to assess investment requirements.

As part of the regulatory process, Ofgem sets the allowed rate of return within each price control period; Ofgem set NGED's cost of equity at 6.4% (9.6% when normalised for a long-run inflation rate of 3%) for RIIO-ED1. As is evident from the levels of our annual capital expenditure (see page 15 of the Strategic report), we reinvest in excess of our profits back into the network to ensure an efficient, reliable and environmentally sustainable network. The Board ensures that it understands and takes account of the views of our shareholder in order to preserve positive investor relations. The Board acts in the shareholder's best interests by proposing an amount of dividend in accordance with the financial parameters of our regulatory allowance whilst maintaining strong financial health metrics.

Political affiliations, donations and expenditure

NGED is a politically neutral organisation and, during the year, made no political donations.

NGED does not engage in any lobbying activities with the Government. As part of the RIIO-ED2 business planning process, NGED has engaged with a wide range of stakeholders to seek their input on the business plan which has driven the outputs that the Group has committed to deliver. NGED is a member of the industry trade association, the ENA, which provides a strategic focus and channel of communication for the industry.

Financial assistance from the Government

NGED has not received any financial assistance from the Government during the year. The Group can potentially access an additional 10% of its Apprenticeship Levy payments in order to fund approved training programmes for apprentices; however, for the year ended 31 March 2023, the payments into the fund by the Group were in excess of the funding the Group reclaimed.

Financial risk management objectives and policies

NGED does not undertake transactions in financial derivative instruments for speculative purposes. For further details of risks in relation to treasury operations, see the refer note 22 page 96.

Liquidity and going concern

The following credit facilities were in place at 31 March 2023, in respect of which all conditions present had been met at that date.

	Expiration date	Capacity £m	Borrowed £m	Letters of credit issued £m	Unused capacity £m
NGED South West - Syndicated Credit Facility	May 2025	220.0	-	-	220.0
NGED East Midlands - Syndicated Credit Facility	May 2025	250.0	-	-	250.0
NGED West Midlands - Syndicated Credit Facility	May 2025	250.0	-	-	250.0
NGED South Wales - Syndicated Credit Facility	May 2025	125.0	-	-	125.0
Bank overdraft		20.0			20.0
Uncommitted Credit Facilities		6.0	-	4.1	1.9
Total Credit Facilities		871.0	-	4.1	866.9

In addition to the above facilities, the NGED Group also has uncommitted two-way loan agreements with its ultimate parent, National Grid Plc, of which £567.9m is drawn as at 31 March 2023. The loan from the ultimate parent company is repayable on demand. £146.0m is also lent under that same facility to the parent and is recoverable on demand. On 3 April 2023, the above RCF facilities of the Group expiring in May 2025 were cancelled and replaced with a new facility of £845m with a 5 year maturity expiring on 3 April 2028. The new facility had the same split between the DNOs as the existing facilities above.

Directors' report (continued)

For the year ended 31 March 2023

Financial risk management objectives and policies (continued)

Liquidity and going concern (continued)

NGED Group debt balances, cash and short term deposits as at 31 March 2023 and 31 March 2022 are as follows:

	External debt				Cash and short term deposits (excluding restricted cash)	
	Long-term (due after 12 months)		Short-term (due within 12 months)			
	2023	2022	2023	2022	2023	2022
	£m	£m	£m	£m	£m	£m
NGED South West	1,104.00	1,053.60	237.4	149.6	4.7	5.8
NGED South Wales	776.6	763.8	76.0	0.1	(0.1)	13.8
NGED East Midlands	1,912.5	991.5	-	700.6	0.1	81.0
NGED West Midlands	1,485.5	1,480.1	58.6	58.2	0.5	1.2
Western Power Distribution plc	507.1	994.6	709.2	476.6	0.1	0.2
Other subsidiaries	4.4	1.0	0.8	0.6	27.1	34.4
	5,790.1	5,284.6	1,082.0	1,385.7	32.4	136.4

Short term deposits are considered corporate assets and can be accessed by any entity within the Group.

The Group has net current liabilities of £1,295.7m (2022: £1,589.0m). The Group's net current liabilities will be settled with a combination of cash flows from operating activities, use of existing facilities and issuances of long-term debt. The Group can access either short or long term borrowings in order to finance repayment of the loan due within the next 12 months. The Group has credit ratings above the investment grade and there is sufficient evidence, including historical analysis of the Group's ability to raise debt, to indicate that the Group will be successfully able to raise debt to finance repayments as needed. A letter of support has also been obtained from a parent undertaking confirming that it will provide financial support to the Group for not less than 12 months from the date of approval of the financial statements.

DNOs are essential in keeping critical infrastructure assets operating safely and securely and in making sure that homes and businesses across the country are receiving the energy needed. The work of the Group is crucial for the continuation of existing essential services, the establishment of new critical infrastructures and for keeping the public, including the most vulnerable in our society, safe. Due to the licensed regulatory obligations of the business, the necessity of continued operations even in times of economic uncertainties and having access to sufficient liquidity, the Group does not consider that there is material uncertainty over the entity's ability to continue as a going concern.

The directors have considered the availability of facilities as set out above, the relatively stable and regulated nature of the business, the forecast long term business plan, the consistent credit ratings of NGED, the existing and future forecasted covenant compliance of the Group, which includes the gearing ratio, the anticipated ability of the NGED Group to be able to raise additional long term debt in the future and the ability of the parent undertaking to provide financial support. The directors have also assessed the principal risks discussed in the Strategic report (pages 24 to 26) in arriving at the going concern assumption for the preparation of the financial statements.

Thus, the Directors have concluded that the NGED Group has sufficient resources available to enable it to continue in existence for the foreseeable future and for a period of at least 12 months from the date of signing the accounts and have therefore continued to adopt the going concern basis in preparing the financial statements.

Corporate governance statement

The Group's Corporate governance statement is detailed on pages 32 to 39.

Employee engagement statement

Details of the directors' engagement during the year with employees and consideration of employees' interests can be found in the Corporate governance statement on pages 38.

Directors' report (continued)

For the year ended 31 March 2023

Business relationships statement

The Group's key business relations are with its customers, suppliers and regulators. Details of how the directors foster the Group's business relationships and have regard to their interests have been stated in our Strategic report, Corporate governance statement and Section 172 statement.

Customers

- Strategic report - see pages 9, 10, 11, 27 and 28;
- Corporate governance statement - see pages 37 and 38

Suppliers

- Corporate governance statement - see page 39.

Regulators

- Corporate governance statement - see page 39.

Policy for disabled employees

Employees are selected and promoted according to their abilities and merits and to the requirements of the job. Applications for employment by people with disabilities are fully considered and in the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues by way of making adjustments to their role and/or working environment or through retraining arranged as appropriate. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

For further details on our DE&I policies refer to pages 28-29 in the strategic report.

Strategic report

The following information required in the Directors' report has been included in the Strategic report:

- an indication of future developments in the business - see pages 21, 22 and 23;
- an indication of activities of the Group in the field of research and development - see pages 22 and 23;
- employee policies - see pages 28 and 29.

Streamline energy and carbon reporting ('SECR')

Total annual quantity of emissions using equivalent tonnes of carbon dioxide ("tCO₂e") - including own use

	tCO ₂ e		tCO ₂ e per employee	
	2023	2021	2023	2021
Scope 1 (direct emissions)				
Operational transport	17,980	18,433	2.70	2.78
SF6 gas	9,065	9,209	1.36	1.39
Fuel combustion (diesel / gas oil)	2,316	3,212	0.35	0.48
Buildings	387	388	0.06	0.06
	29,748	31,242	4.47	4.71
Scope 2 (energy indirect emissions)				
Buildings electricity	3,680	4,130	0.55	0.62
Substation electricity	10,280	11,559	1.54	1.74
NGED Telecoms	610	525	0.09	0.08
	14,570	16,214	2.18	2.44
Total scope 1 & 2	44,318	47,456	6.65	7.15
Scope 3 (other indirect emissions)				
Business transport	1,146	1,954	0.17	0.29
Operational transport (contractors)	11,725	8,657	1.76	1.31
Fuel combustion (diesel / gas oil) (contractor)	4,897	7,920	0.73	1.19
Total scope 1, 2 & 3	62,086	65,987	9.31	9.94

The Group's chosen intensity measurement is tonnes of carbon dioxide equivalent per employee.

Aggregate in kWh of annual quantity of energy consumed for business activities and own use

Electricity energy consumed for the year to 31 March 2023 is 21,458,300 kWh (2021: 21,920,879 kWh).

Gas energy consumed for the year to 31 March 2023 is 2,118,998 kWh (2022: 2,115,692 kWh).

Energy consumed for helicopters for the year to 31 March 2023 is 5,167,756 kWh (2022: 6,469,237 kWh).

National Grid Electricity Distribution plc (formerly Western Power Distribution plc)

Directors' report (continued)

For the year ended 31 March 2023

Streamline energy and carbon reporting ('SECR') (continued)

Methodologies used in calculating energy and carbon reporting data

Our Business Carbon Footprint ("BCF") details the impact that our operational activities have on the environment in terms of tonnes of equivalent carbon dioxide ("tCO₂e") emissions and takes account of our energy usage from offices, transport emissions (operational and business), fuel combustion and the release of greenhouse gases (SF₆). The reported data for operational transport (road) and fuel combustion also takes account of a number of our larger contractor emissions as required under the Ofgem reporting requirements.

The data compiled and reported by the NGED Group follows a recognised methodology as described within international business carbon footprint standards, the Greenhouse Gas ("GHG") carbon reporting guidance as provided by BEIS / DEFRA, the 2020 UK Government GHG Conversion Factors for company reporting and ISO14064-3. The emission-releasing activities are categorised into three groups known as scopes. Each activity is listed as either Scope 1, Scope 2 or Scope 3.

- Scope 1 (direct emissions) emissions are those from activities owned or controlled by the Group. Examples of Scope 1 emissions include emissions from combustion in owned or controlled boilers, generators and vehicles; and releases of fugitive emissions, for example SF₆.
- Scope 2 (energy indirect) emissions are those released into the atmosphere that are associated with consumption of purchased electricity, heat, steam and cooling. These indirect emissions are a consequence of the Group's energy use, but occur at sources that the Group do not own or control. Network losses are identified by Ofgem as being Scope 2 emissions (pending clarification from Ofgem).
- Scope 3 (other indirect) emissions are a consequence of the Group's activities that occur at sources that are not controlled by the Group and are not classed as Scope 2 emissions. Examples of Scope 3 emissions include business travel by means not owned or controlled by the Group, water supply and materials / services that the Group purchases.

For further details on our methodology please refer to the link below:

<https://www.nationalgrid.com/document/146701/download>

Measures for increasing the Group's efficiency during the year

During 2022/23, the Company has implemented the following energy efficiency measures:

- replacement of older operational fleet vehicles with more fuel efficient alternatives and improving awareness of the impacts of driving style on fuel efficiency and vehicle emissions;
- the purchase and roll-out of electric operational fleet vehicles;
- installation of electric vehicle charging points at many of our non-operational depot sites for both fleet and employee owned electric vehicles;
- improvements to the reporting of SF₆ gas leaks from our installed equipment and fully utilising the infrared SF₆ detection cameras enabling us to quickly pinpoint the source of leaks;
- ensuring that all newly built NGED depots achieve the BREEAM standard of 'Excellent' as a minimum and that refurbished existing depots achieve the 'Very Good' standard; and
- the on-going replacement with more modern and energy efficient heating and cooling systems throughout our property portfolio plus undertaking an energy efficiency review at many of our non-operational and operational sites including employee energy awareness campaigns.

Subsequent events

On 3 April 2023, the £845m RCF facilities of the Group expiring in May 2025 were cancelled and replaced with a new facility of £845m with a 5 year maturity expiring on 3 April 2028.

On 24 April 2023, the Group repurchased £115.8m of the £800m 5.75% bond due in April 2032. The bond was repurchased at a fair value of £117.2m.

Directors and their interests

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

Cordelia O'Hara, Director (appointed 1 April 2023)
Graham Roy Halladay, Director
Alison Jane Sleightholm, Director
Laura Sophie Scudamore Barbrook, Group-appointed non-executive Director
Justine Campbell, Group-appointed non-executive Director
Philip Swift, Director (resigned 31 March 2023)
Ian Robert Williams, Director (resigned 31 July 2022)

Directors' report (continued)

For the year ended 31 March 2023

Directors and their interests (continued)

During and at the end of the financial year, no director was interested in any contract of significance in relation to the NGED Group's business other than service contracts.

Insurance in respect of directors and officers is third party qualifying insurance and is maintained by the NGED Group's ultimate parent, National Grid plc. The insurance is subject to the conditions set out in the Companies Acts and remains in force at the date of signing the Directors' report.

Statement of disclosure to independent auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, of which the auditor is unaware. Each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Independent auditor

Deloitte LLP have expressed their willingness to continue in office and a resolution proposing their reappointment will be put before the shareholders of National Grid Plc at the 2023 Annual General Meeting.

Approved and authorised for issue by the Board and signed on its behalf by:



Cordelia O'Hara
Director

30 June 2023

National Grid Electricity Distribution Plc (formerly Western Power Distribution Plc)

Avonbank
Feeder Road
Bristol
BS2 0TB

Registered Number: 09223384

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and Financial Statements, including the NGED Group financial statements and the Company financial statements, the Strategic report and the Directors' report in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the NGED Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom accounting standards and applicable law), including Financial Reporting Standard ("FRS") 101 "Reduced Disclosure Framework".

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the Group and the parent Company and of the profit or loss of the Group for that period.

In preparing the Group financial statements, the directors are required to:

- 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 specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

In preparing the Company financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company on a consolidated and individual basis, and to enable them to ensure that the individual and consolidated financial statements comply with the Companies Act 2006 and, with regard to the Group financial statements, article 4 of the IAS regulation. They are also responsible for the system of internal control, for safeguarding the assets of the Company and its subsidiaries and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Information published on the Company's website is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company;
- the strategic report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's position and performance, business model and strategy.

This responsibility statement was approved and authorised for issue by the board of directors and is signed on its behalf by:



Cordelia O'Hara
Director
30 June 2023

**Independent auditor's report
to the members of National Grid Electricity Distribution plc**

Report on the audit of the financial statements

1. Opinion

In our opinion:

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

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company statement of changes in equity;
- the consolidated and parent company balance sheet;
- the consolidated cash flow statement; and
- the related notes 1 to 32.

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

2. Basis for opinion

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

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

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

3. Summary of our audit approach

Key audit matters	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> ▪ Capitalisation of overheads ▪ Impairment of goodwill <p>Within this report, key audit matters are identified as follows:</p> <p style="text-align: center;">⊕ Similar level of risk</p>
Materiality	<p>The materiality that we used for the Group financial statements was £34m (2022: £38m) which was determined on the basis of profit before tax.</p> <p>The materiality that we used for the parent company financial statements was £13.6m (2022: £15.2m) which equates to less than 1% of net assets, and was capped at 40% of Group materiality.</p> <p>This is consistent with the methodology applied in 2022.</p>
Scoping	<p>Based on our assessment, we focused our Group audit work on five components (2022: five components) which were subject to a full scope audit of their financial information. Our full scope audit covered substantially all the Group’s revenue, profit before tax and net assets.</p>
Significant changes in our approach	<p>There were no significant changes in our approach compared to the prior year.</p>

**Independent auditor's report
to the members of National Grid Electricity Distribution plc (continued)**

4. Conclusions relating to going concern

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

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

- Assessing the company's financing facilities including the nature of facilities, repayment terms, covenant compliance and support from the ultimate controlling parent, National Grid Plc;
- Assessing the assumptions used in the forecasts including the impact of the current macroeconomic environment;
- Testing the mechanical accuracy of those forecasts and appropriateness of the model used to prepare the forecasts;
- Assessing the historical accuracy of forecasts prepared by management;
- Evaluating whether the Group's disclosures in respect of going concern within the financial statements are appropriate; and
- reperforming management's sensitivity analysis.

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

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

5. Key audit matters

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

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

5.1. Capitalisation of overheads

Key audit matter description

Amounts capitalised as network assets include indirect costs associated with overhead costs. The costs are capitalised based on management's assessment of the costs incurred that are directly attributable to the capital work performed.

A key audit matter has been identified in respect of the key assumptions relating to the capitalisation of corporate overheads.

There is a judgement in relation to the nature of costs included within each cost classification and estimation in relation to the appropriate percentage of costs to capitalise.

Corporate overheads of £101.7m (2022: £88.1m) have been capitalised during the year as shown in note 2. These are included within the fixed assets additions of £1,202.2m (2022: £1,063.0m) as shown in note 12.

Refer to note 1 'significant accounting policies', note 2 'critical accounting judgements and key sources of estimation uncertainty' and note 12 'property plant and equipment' in the financial statements for further discussion of the Group's policy and judgements in capitalisation of overheads.

**Independent auditor's report
to the members of National Grid Electricity Distribution plc (continued)**

5. Key audit matters (continued)

5.1. Capitalisation of overheads (continued)

How the scope of our audit responded to the key audit matter

We obtained an understanding of, tested and relied on relevant controls.

We evaluated the appropriateness of the accounting treatment for capitalising overheads by reference to the requirements of IAS 16 Property, Plant and Equipment and evaluated the policies, procedures and assumptions used in estimating the value of overheads that are directly attributable to capital projects.

We tested a sample of overhead costs capitalised, agreeing them to appropriate supporting evidence, to test whether they have been recorded accurately. We also tested management's estimate of percentage of costs that are directly attributable to capital projects through verifying the inputs into the calculation and agreeing these to appropriate support and evidence. Further, we have challenged management's methodology and estimate through considering whether there are alternative appropriate assumptions.

Key observations

Based on the work performed we are satisfied that the assumptions made in respect of the capitalisation rates applied to overheads within the fixed assets balance are reasonable as at 31 March 2023.

5.2. Impairment of goodwill

Key audit matter description

Management is required to assess the carrying value of goodwill and acquired intangible assets and perform an impairment review under IAS 36 Impairment of Assets on an annual basis and whenever an indication of impairment exists. Goodwill was acquired through business combinations.

Management prepared a discounted cash flow model to estimate the value-in-use and compared this to the carrying value; this indicated there was headroom and accordingly no impairment was recognised. The value-in-use was measured for the cash-generating units to which the goodwill relates.

As disclosed in note 14 of the financial statements the carrying value of goodwill in relation to East Midlands is £518.8m (2022: £518.8m), West Midlands £614.4m (2022: £614.4m) and South Wales £120.9m (2022: £120.9m).

We have identified a key audit matter around key assumptions used in management's impairment model. The most complex assumptions that require judgement are the discount rate used to calculate the present value of future cash flows and the premium applied to the Regulatory Asset Value ("RAV") at the end of the RIIO-ED2 forecasted cash flow period for each cash generating unit.

From ED3 onwards, future allowances are unknown and require a greater level of judgement, although can be guided by net zero legislation.

We did not identify impairment of goodwill as a key audit matter in the prior year. Due to the acquisition of the NGED Group by National Grid plc, the recoverable amount of goodwill was determined using the fair value less costs to sell method. Therefore, the overall impairment assessment was less complex and the judgemental assumptions of a value in use calculation were not applicable.

Refer to note 1 'Significant Accounting Policies', Note 2 'Critical Accounting Judgements and Key Sources of Estimation Uncertainty' and note 14 'Intangible Assets' in the financial statements for further discussion of the Group's policy and judgements in the goodwill impairment review, including the Group's disclosures of the sensitivity and reasonably possible changes of the East Midlands, West Midlands and South Wales cash generating units to changes in the key assumptions.

How the scope of our audit responded to the key audit matter

We obtained an understanding of and tested the effectiveness of the management review controls over management's impairment review of the cash-generating units.

We have challenged the underlying cash flow forecasts, with reference to Ofgem guidance on RIIO-ED2 forecasted cash flows.

With involvement of our internal valuation specialists, we have challenged the reasonableness of the discount rate and premium applied to the RAV at the end of the cash flow period and challenged management's position using key assumptions developed independently based on external market data.

We have evaluated and recalculated management's sensitivity analysis on the key assumptions.

**Independent auditor's report
to the members of National Grid Electricity Distribution plc (continued)**

5.2. Impairment of goodwill (continued)

How the scope of our audit responded to the key audit matter (continued)

Further, we developed independent expectations of goodwill impairment using alternative assumptions around returns in the RIIO-ED2 cash flow period.

We also assessed the adequacy of the Group's disclosures of the sensitivity and reasonably possible changes of the East Midlands, West Midlands and South Wales cash generating units to changes in the key assumptions.

Key observations

We concluded that the key assumptions underpinning the value in use calculation used by the Group in its assessment of the carrying value of goodwill for each of the three cash-generating units, East Midlands, West Midlands, and South Wales, when considered in aggregate, lie within the range of reasonable estimates.

We concluded that the valuation of goodwill is appropriate.

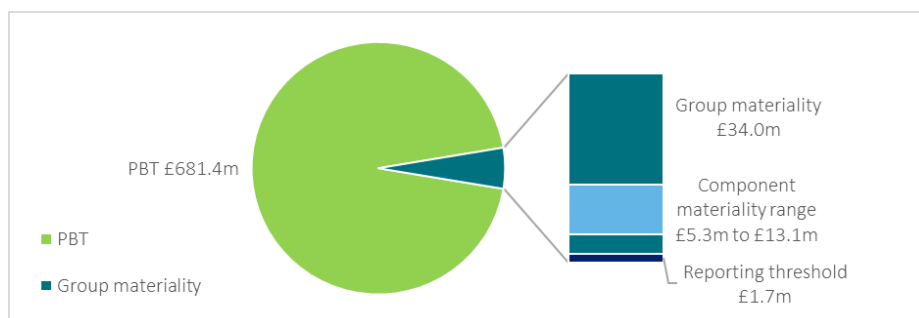
6. Our application of materiality

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:

	Group financial statements	Parent Company financial statements
Materiality	34m (2022: £38m)	£13.6m (2022: £15.2m)
Basis for determining materiality	5% of profit before tax (2022: 5% of profit before tax).	Parent company materiality equates to less than 1% of net assets, which is capped at 40% of Group materiality. This is consistent with the methodology applied in 2022.
Rationale for the benchmark applied	We have determined materiality based on profit before tax as this is the key metric used by management, investors, analysts, and lenders, with shareholder value being driven by the result.	We have determined materiality based on net assets as the company holds the investments for its subsidiary companies. Therefore, a balance sheet basis is appropriate.



**Independent auditor's report
to the members of National Grid Electricity Distribution plc (continued)**

6. Our application of materiality (continued)

6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent Company financial statements
Performance materiality	70% (2022: 70%) of Group materiality	70% (2022: 70%) of parent company materiality
Basis and rationale for determining performance materiality	<p>In determining performance materiality, we considered the following factors:</p> <ul style="list-style-type: none"> ▪ Our cumulative experience from prior year audits; ▪ The level of corrected and uncorrected misstatements identified from prior year audits; ▪ Our risk assessment, including our understanding of the entity and its environment; ▪ Our risk assessment of the Group's overall control environment and that we consider it appropriate to rely on internal controls over a number of business processes including fixed assets, revenue and impairment of goodwill. 	

6.3. Error reporting threshold

We agreed with the Board of Directors that we would report to the Board all audit differences in excess of £1.7m (2022: £1.9m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board of Directors on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

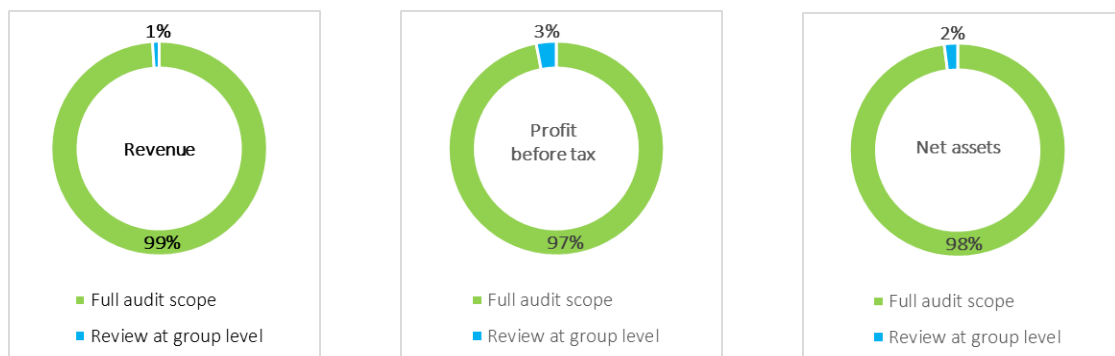
7.1. Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. We used data analytic tools to help inform our understanding of the business, identify key risk areas and evaluate the level of audit coverage required

Based on that assessment we focused our Group audit scope primarily on the audit work of five components, which were subject to a full scope audit. Analytical procedures were performed on the remaining non-significant components. Audit work to respond to the risks of material misstatement was performed directly by the Group audit engagement team.

Those five components represent the principal business units within the Group and the parent company and account for over 99% of revenue (2022: 99%), 97% of profit before tax (2022: 99%) and 98% of net assets (2022: 97%). They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work of the five components was executed at a level of materiality applicable to the individual component and was lower than Group materiality. This approach was consistent with the prior year.

The parent company is located in Bristol and audited directly by the Group audit engagement team.



7.2. Our consideration of the control environment

The Group's IT environment contains a number of IT systems, applications and tools used to support business processes and for financial reporting. In line with our scoping of components (see section 7.1) our work in relation to IT controls focused on the five identified components. We performed an independent risk assessment of the systems, applications and tools to determine those which are of greatest relevance to the Group's financial reporting, including those that contain system configured automated controls that host financially relevant data and associated reports.

**Independent auditor's report
to the members of National Grid Electricity Distribution plc (continued)**

7.2. Our consideration of the control environment (continued)

With the involvement of our specialists, we performed testing of general IT controls of these systems, typically covering controls surrounding user access management, change management and interfaces with other systems relating to in scope IT systems as well as controls over key reports generated from the IT systems and their supporting infrastructure.

We performed walkthrough procedures of the key IT controls relevant to a number of business processes; to understand whether the controls were effectively designed to address the IT related risk. We subsequently performed testing of the controls across the audit period, to determine whether the controls had been consistently applied as designed.

Our procedures enabled us to place reliance on IT controls, as planned, in the audit approach across a number of business cycles.

We have also obtained an understanding of and tested the controls over a number of financial statement line item processes. We have taken controls reliance in our testing of a number of business processes including fixed assets, revenue and impairment of goodwill.

We performed walkthrough procedures of the key controls relevant to a number of business processes; to understand whether the controls were effectively designed to address the identified risks of material misstatement. We subsequently performed testing of the controls across the audit period, to determine whether the controls had been consistently applied as designed.

7.3. Our consideration of climate-related risks

Climate change impacts the Group's business in several ways as set out in the Strategic Report on page 25 of the annual report. It represents a key strategic consideration of management.

We reviewed management's climate change risk assessment and evaluated the completeness of identified risks and the impact on the financial statements. We also considered the impact of climate change in our risk assessment procedures. Management's assessment included environment and sustainability as core commitments in the RIIO-ED2 Delivery Plan. The Group will support the UK's ambitions to achieve net zero carbon emissions by 2050 by setting the benchmark of achieving net zero in its own operations by 2043.

In addition to the procedures mentioned above, with the involvement of our climate change specialist we:

- made enquiries of senior management to understand the potential impact of climate change risk including physical risks to producing network assets, the potential changes to the macro-economic environment and the potential for the transition to a low carbon environment to occur quicker than anticipated; and
- read the climate-related statements made by management (as disclosed in 'The Environment' section of the 'Our commitment to being a responsible leader' in the Strategic Report) and considered whether these were in line with our understanding of management's approach to climate change and the narrative reporting was in line with financial statements and the knowledge obtained throughout the audit.

8. Other information

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

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

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

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

We have nothing to report in this regard.

9. Responsibilities of directors

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

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

**Independent auditor's report
to the members of National Grid Electricity Distribution plc (continued)**

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;
- results of our enquiries of management, internal audit, and the Board of Directors 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 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 relevant internal specialists, including tax, pensions, treasury and IT specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

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

We also obtained an understanding of the legal and regulatory frameworks that the 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, Listing Rules, pensions legislation 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 environmental regulations and the Group's operating licence as set out by the energy regulator, Ofgem.

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.

In addition to the above, 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 Board of Directors and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and Ofgem; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

**Independent auditor's report
to the members of National Grid Electricity Distribution plc (continued)**

Report on other legal and regulatory requirements

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

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

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

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

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

13.1. Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

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

We have nothing to report in respect of these matters.

14. Other matters which we are required to address

14.1 Auditor tenure

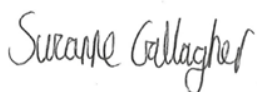
Following the recommendation of the Board of Directors, we were appointed by the shareholders on 16 June 2017 to audit the financial statements for the year ending 31 March 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 7 years, covering the years ending 31 March 2017 to 31 March 2023.

14.2 Consistency of the audit report with the additional report to the Board of Directors

Our audit opinion is consistent with the additional report to the Board of Directors 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.



Suzanne Gallagher (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Reading, United Kingdom
30 June 2023

National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated income statement
For the year ended 31 March 2023

	Note	2023 £m	2022 £m
Revenue	3	2,096.5	1,886.0
Operating costs	5	(1,079.6)	(830.1)
Other operating income	6	15.4	3.9
Other operating expense	6	(4.4)	(1.0)
Operating profit	3	1,027.9	1,058.8
Finance income	7	19.6	0.2
Finance costs	7	(399.4)	(318.3)
Net finance income relating to pensions and other post-retirement benefits	25	33.3	6.2
Profit before income tax		681.4	746.9
Income tax expense	10	(145.2)	(373.6)
Profit for the year attributable to equity holders of the parent		536.2	373.3

All operations are continuing.

The accompanying notes 1 to 32 are an integral part of these financial statements.

National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated statement of comprehensive income

For the year ended 31 March 2023

	Note	2023 £m	2022 £m
Profit for the year		536.2	373.3
Other comprehensive (expense)/income:			
<i>Other comprehensive (expense)/income to be reclassified to profit or loss in subsequent periods:</i>			
(Loss)/gain arising on cash flow hedges during the year		(1.9)	9.9
Reclassification adjustments for gains on cash flow hedges included in profit or loss (finance costs)		(15.6)	(7.5)
Net movement in cost of hedging reserve		0.6	
Income tax effect	10	4.3	0.7
		(12.6)	3.1
<i>Other comprehensive (expense)/income not to be reclassified to profit or loss in subsequent periods:</i>			
Re-measurement (losses)/gains on defined benefit pension plan	25	(852.3)	1,021.1
Income tax effect	10	220.7	(280.3)
		(631.6)	740.8
Other comprehensive (expense)/income for the year, net of tax		(644.2)	743.9
Total comprehensive (expense)/income for the year, net of tax, attributable to equity holders of the parent		(108.0)	1,117.2

National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated statement of changes in equity
For the year ended 31 March 2023

	Note	Share capital £m	Merger reserve £m	Hedging reserve £m	Non-cash capital contribution reserve £m	Retained earnings £m	Total equity £m
At 1 April 2021		1,057.6	(963.1)	(16.9)	-	5,301.6	5,379.2
Profit for the year		-	-	-	-	373.3	373.3
Other comprehensive income		-	-	3.1	-	740.8	743.9
Total comprehensive income for the year		-	-	3.1	-	1,114.1	1,117.2
Share based payment	28	-	-	-	0.5	-	0.5
Equity dividends paid	11	-	-	-	-	(140.2)	(140.2)
At 31 March 2022		1,057.6	(963.1)	(13.8)	0.5	6,275.5	6,356.7
Profit for the year		-	-	-	-	536.2	536.2
Other comprehensive expense		-	-	(12.6)	-	(631.6)	(644.2)
Total comprehensive expense for the year		-	-	(12.6)	-	(95.4)	(108.0)
Share-based payment (net of tax)	28	-	-	-	3.0	-	3.0
Equity dividends paid	11	-	-	-	-	(0.2)	(0.2)
At 31 March 2023		1,057.6	(963.1)	(26.4)	3.5	6,179.9	6,251.5

National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated balance sheet

As at 31 March 2023

	Note	2023 £m	2022 £m
ASSETS			
Property, plant and equipment	12	15,562.8	14,697.3
Investment property	13	27.9	31.7
Intangible assets	14	1,311.6	1,305.4
Trade and other receivables	16	4.0	5.5
Derivative financial instruments	23	48.4	35.9
Retirement benefit assets	25	652.8	1,448.1
Non-current assets		17,607.5	17,523.9
Inventories	15	36.4	36.5
Trade and other receivables	16	340.2	327.5
Loan receivable	17	146.0	-
Cash at bank and in hand	18	48.0	148.8
Current assets		570.6	512.8
Total assets	3	18,178.1	18,036.7
LIABILITIES			
Loans and other borrowings	20	1,082.0	1,385.7
Trade and other payables	19	769.2	689.2
Current tax liabilities		-	13.6
Provisions	26	15.1	13.3
Current liabilities		1,866.3	2,101.8
Net current liabilities		(1,295.7)	(1,589.0)
Loans and other borrowings	20	5,790.1	5,284.6
Deferred tax liabilities	24	1,190.4	1,328.6
Trade and other payables	19	2,954.2	2,806.8
Derivative financial instruments	23	4.6	-
Retirement benefit liabilities	25	6.4	7.7
Provisions	26	114.6	150.5
Non-current liabilities		10,060.3	9,578.2
Total liabilities	3	11,926.6	11,680.0
Net assets		6,251.5	6,356.7
EQUITY			
Share capital	27	1,057.6	1,057.6
Merger reserve	28	(963.1)	(963.1)
Hedging reserve	28	(26.4)	(13.8)
Non-cash capital contribution reserve	28	3.5	0.5
Retained earnings	28	6,179.9	6,275.5
Total equity		6,251.5	6,356.7

As at 31 March 2022, lease liabilities and right-of-use assets were presented on the face of the balance sheet. On the basis of materiality, during the current year, lease liabilities and right-of-use assets have been reclassified to loans and other borrowings and property, plant and equipment respectively. Comparatives have been reclassified and presented on the same basis as the current year.

The financial statements on pages 56 to 123 were approved and authorised for issue by the Board of Directors on 30 June 2023 and signed on its behalf by:



Cordelia O'Hara
Director



Graham Roy Halladay
Director

National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated cash flow statement
For the year ended 31 March 2023

	Note	2023 £m	2022 £m
Operating activities - continuing operations			
Profit for the year		536.2	373.3
Adjustments to reconcile profit for the year to net cash flow from operating activities:			
Income tax expense		145.2	373.6
Finance costs		366.1	312.1
Finance revenue		(19.6)	(0.2)
Depreciation of property, plant and equipment	5	286.3	271.0
Amortisation of customers' contributions		(51.3)	(49.2)
Amortisation of intangible assets	5	3.3	3.1
Gain on disposal of property, plant and equipment		(0.8)	(1.3)
Loss on disposal of investment properties		-	0.1
Fair value gains on investment properties	13	(0.1)	(2.7)
Fair value losses on investment properties	13	4.4	1.0
Investment income		(1.1)	-
Profit on sale of subsidiary	6	(12.0)	-
Share based payments		2.6	0.5
Difference between pension contributions paid and amounts recognised in the income statement		(53.8)	(11.3)
Decrease in provisions		(5.3)	(15.2)
Working capital adjustments:			
(Increase)/decrease in inventories		(1.1)	10.3
Increase in trade and other receivables		(10.0)	(1.0)
Increase in trade and other payables		70.7	2.3
Interest paid		(272.9)	(250.2)
Interest received		13.6	0.1
Customers' contributions received		201.3	200.3
Income taxes paid		(77.4)	(82.8)
Net cash from operating activities		1,124.3	1,133.8
Investing activities			
Purchase of property, plant and equipment		(1,138.7)	(1,017.4)
Proceeds from sale of property, plant and equipment		2.4	1.5
Purchase of investment properties		(0.5)	(0.2)
Purchase of intangible assets		(9.8)	(7.8)
Disposal of subsidiary	6	19.6	-
Loan proceeds to ultimate parent company	17	(146.0)	-
Dividends received		1.1	-
Net cash used in investing activities		(1,271.9)	(1,023.9)
Financing activities			
Net (decrease)/increase in short-term borrowings		(107.2)	661.2
Payment of lease liabilities		(2.7)	(1.7)
Proceeds from long-term borrowings		866.7	-
Repayment of long-term borrowings net of related swaps		(700.0)	(618.1)
Dividends paid		(0.2)	(140.2)
Net cash from/(used in) financing activities		56.6	(98.8)
Net (decrease) / increase in cash and cash equivalents		(91.0)	11.1
Cash and cash equivalents at beginning of year	18	127.7	116.6
Cash and cash equivalents at end of year	18	36.7	127.7

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements

For the year ended 31 March 2023

1. Significant accounting policies

The financial statements of National Grid Electricity Distribution (formerly Western Power Distribution plc) (the "Company") and its subsidiaries (the "NGED Group" or "NGED" or "the Group") for the year ended 31 March 2023 were authorised for issue by the Board of Directors on 30 June 2023 and the balance sheet was signed on the Board's behalf by Cordelia O'Hara and Graham Roy Halladay. The Company is a public limited company, limited by shares and incorporated and registered in England and Wales. The address of the Company's registered office is stated on page 133.

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and in accordance with the provisions of the UK Companies Act 2006. The financial statements have also been prepared in accordance with IFRS adopted by the European Union. The accounting policies that follow have been consistently applied to all years presented.

The financial statements have been prepared on the historical cost basis, except for the revaluation of investment properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the NGED Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value such as net realisable value in IAS 2 or value in use in IAS 36.

These consolidated financial statements are presented in sterling as this is the currency of the primary economic environment in which the NGED Group operates. All values are rounded to the nearest hundred thousand pounds except when otherwise indicated.

The Comparative financial information has been presented on the same as basis as current year financial information with exception to the presentation of right-of-use asset and lease liabilities in the consolidated balance sheet. As at 31 March 2022, lease liabilities and right-of-use assets were presented on the face of balance sheet. On the basis of materiality, during the current year, lease liabilities and right-of-use assets have been reclassified to loans and other borrowings and property, plant and equipment respectively. Comparatives have been reclassified and presented on same basis as current year.

The significant accounting policies and critical accounting judgements, estimates and assumptions of the NGED Group are set out below.

Going concern

The directors have prepared the financial statements on a going concern basis as they have a reasonable expectation that the NGED Group has adequate resources to continue in operational existence for the foreseeable future.

The Group has net current liabilities of £1,295.7m (2022: £1,589.0m). The Group's net current liabilities will be settled with a combination of cash flows from operating activities, use of existing long-term facilities and issuances of long-term debt. The Group can access either short or long term borrowings in order to finance repayment of any borrowings due within next 12 months. The Group has credit ratings above the investment grade and there is sufficient evidence, including historical analysis of the Group's ability to raise debt, to indicate that the Group will be successfully able to raise debt to finance repayments as needed. A letter of support has also been obtained from a ultimate parent undertaking confirming that it will provide financial support to the Group for not less than 12 months from the date of approval of the financial statements.

DNOs are essential in keeping critical infrastructure assets operating safely and securely and in making sure that homes and businesses across the country are receiving the energy needed. The work of the Group is crucial for the continuation of existing essential services, the establishment of new critical infrastructures and for keeping the public, including the most vulnerable in our society, safe. Due to the licensed regulatory obligations of the business, the necessity of continued operations even in times of economic uncertainties and having access to sufficient liquidity, the Group does not consider that there is material uncertainty over the entity's ability to continue as a going concern.

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

1. Significant accounting policies (continued)

Going concern (continued)

The directors have considered the availability of facilities as set out above, the relatively stable and regulated nature of the business, the forecast long term business plan, the consistent credit ratings of NGED, the existing and future forecasted covenant compliance of the Group, which includes the gearing ratio, the anticipated ability of the NGED Group to be able to raise additional long term debt in the future and the ability of the parent undertaking to provide financial support. The directors have also assessed the principal risks discussed in the Strategic report (pages 24 to 26) in arriving at the going concern assumption for the preparation of the financial statements.

Thus, the directors have concluded that the NGED Group has sufficient resources available to enable it to continue in existence for the foreseeable future and for a period of at least 12 months from the date of signing the accounts and have therefore continued to adopt the going concern basis in preparing the financial statements.

Basis of consolidation

The NGED Group financial statements consolidate the financial statements of the Company and the entities it controls (its subsidiaries) drawn up to 31 March each year. Control of an investee exists when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To have power over an investee, the investor must have existing rights that give it the current ability to direct the relevant activities of the investee. Subsidiaries, other than those acquired under common control transactions, are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of subsidiaries are prepared for the same reporting year as the parent Company, using consistent accounting policies. Inter-company balances and transactions, including unrealised profits arising from intragroup transactions, have been eliminated. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the assets transferred.

For business combinations involving entities under common control, the pooling of interest method is applied. The assets and liabilities of the combining entities are reflected at their carrying amounts. No adjustments are made to reflect fair values, or recognise any new assets or liabilities, at the date of the combination that would otherwise be done under the acquisition method. The only adjustments that are made are to harmonise accounting policies. No 'new' goodwill is recognised as a result of the combination. The only goodwill that is recognised is any existing goodwill relating to the combining entities. Any difference between the consideration paid/transferred and the equity 'acquired' is reflected within equity. The income statement reflects the results of the combining entities for the full year, irrespective of when the combination took place.

When the Group loses control of a subsidiary, the gain or loss on disposal recognised in profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as required/permitted by applicable IFRS Accounting Standards). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 Financial Instruments when applicable, or the cost on initial recognition of an investment in an associate or a joint venture.

Impact of new International Financial Reporting Standards

The following new standards are effective for accounting periods beginning on or after 1 January 2022:

- Amendments to IFRS 3 - reference to the conceptual framework, effective for annual periods beginning on or after 1 January 2022;
- Amendments to IAS 16 - amendments regarding proceeds before intended use, effective for annual periods beginning on or after 1 January 2022;
- Amendments to IAS 37 - amendments regarding onerous contracts - cost of fulfilling a contract, effective for annual periods beginning on or after 1 January 2022;
- Annual improvements to IFRS standards 2018 - 2020 cycle - effective for annual periods beginning on or after 1 January 2022.

The Group has assessed the impact of these standards and concluded that there is no material change to the Group's financial statements.

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

1. Significant accounting policies (continued)

Impact of new International Financial Reporting Standards (continued)

Not yet adopted

The following pronouncements from the International Accounting Standards Board will become effective for future financial reporting periods and have not yet been adopted by the NGED Group:

- Amendments to IAS 1 - amendments in relation to the classification of liabilities as current or non-current, effective for annual periods beginning on or after 1 January 2023;
- Amendments to IAS 12 - amendments regarding deferred tax related to assets and liabilities arising from a single transaction, effective for annual periods beginning on or after 1 January 2023;
- Amendments to IAS 8 - amendments regarding issuance of definition of an accounting estimate, effective for annual periods beginning on or after 1 January 2023;
- IFRS 17 (including June 2020 amendments to IFRS 17) - Insurance Contracts, effective for annual periods beginning on or after 1 January 2023;
- Amendments to IAS 1 and IFRS Practice Statement 2 - Amendments in relation to disclosure of accounting policies, effective for annual periods beginning on or after 1 January 2023.

NGED does not anticipate these standards and interpretations will have a material impact on the Group.

Business combinations and goodwill

Business combinations, other than the combination of businesses under common control, are accounted for using the acquisition method. The identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. Acquisition costs incurred are expensed and included in distribution and administration expenses.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred, the amount recognised for any non-controlling interest and the acquisition-date fair values of any previously held interest in the acquiree over the fair value of the identifiable assets acquired and liabilities assumed at the acquisition date.

At the acquisition date, any goodwill acquired is allocated to each of the cash-generating units, or groups of cash-generating units, expected to benefit from the combination's synergies.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Foreign currencies

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

For debt not in sterling, see "Derivative financial instruments and hedging activities" below.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

1. Significant accounting policies (continued)

Revenue recognition

Distribution Use of System ("DUoS") Revenue

The Group consists of four distribution network operators ("DNOs") in the UK that earn the majority of their revenue from providing distribution use of system services. The services are provided under a Distribution Connection and Use of System Agreements ("DCUSA") with their customers.

There is a single performance obligation under the DCUSA: the DNO is required to use its distribution network to deliver electricity from metered entry points to exit point. NGED's performance obligation of delivering electricity represents a promise to deliver a series of distinct services that should be accounted for as a single performance obligation. The performance obligation is satisfied over time as:

- a) Customers immediately control and consume the benefits NGED provides;
- b) NGED's service does not create or enhance an asset with an alternate use to NGED; and
- c) NGED has the right to payment from the customer for the service that has been provided.

NGED measures the progress of the performance obligation using the output method. The output method recognises revenue based on the direct measurements of value transferred to the customer. Accordingly NGED records revenue on a monthly basis, based on the amount of kilowatt hour ("KWH") of electricity delivered.

Revenue includes an assessment of the volume of unbilled energy distributed to customers between the date of the last meter reading and the year-end.

Where revenue received or receivable exceeds the maximum amount permitted by regulatory agreement and adjustments will be made to future prices to reflect this over-recovery, no liability is recognised as such an adjustment is to future prices and 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.

Finance income

Finance revenue comprises interest receivable on funds invested. Interest income is recognised in the income statement as it accrues, on an effective rate basis.

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight line basis over the lease term.

Engineering recharges

Engineering recharges relate to the recovery of costs incurred in relation to construction work requested by customers, such as re-routing of existing network assets. The performance obligation relates to completion of work as per the terms of the contract. The consideration received is recognised as revenue as the construction work is completed.

Customer contributions

Contributions receivable in respect of additions to property, plant and equipment for new connections are treated as deferred income, which is credited to the income statement within revenue over the estimated weighted life of the related assets of 69 years. The performance obligation for customer contribution contracts is to provide customers with an ongoing network connection and thus is satisfied over a period of time instead of at a point of time. Customers immediately control and consume the benefits NGED provides.

Other operating income and expense

Other operating income and expense includes movements in the fair value of investment properties and gains and losses arising on the disposal of properties by the NGED Group's property management business which is considered to be part of the normal recurring operating activities of the NGED Group.

Finance costs

Finance expenses comprise interest payable on borrowings, accretion relating to inflation on index linked debt, the release of discount on provisions, ineffectiveness on hedges and interest on pension scheme liabilities. Interest charges are recognised in the income statement as they accrue, on an effective rate basis.

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

1. Significant accounting policies (continued)

Leases

NGED Group as a lessee

The Group assesses whether a contract is, or contains, a lease at inception of the contract. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (assets with a purchase price of less than £5,000). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of the unpaid lease payments at the commencement date, discounted by using the Group's incremental borrowing rate.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate, in which case the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the income statement in the period in which the event or condition that triggers those payments occurs.

Lease liabilities are presented within loans and other borrowings and right-of-use assets are presented within property plant and equipment.

NGED Group as a lessor

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. When the Group is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease. The Group has no finance leases.

Assets leased out under operating leases are included in property, plant and equipment and depreciated over the estimated useful lives. Rental income, including the effect of lease incentives, is recognised on a straight line basis over the term of the lease. Lease termination fees are allocated to the income statement upon termination. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

1. Significant accounting policies (continued)

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairments. Borrowing costs directly attributable to assets under construction and which meet the recognition criteria in IAS 23 are capitalised as part of the cost of that asset.

Expenditure on electricity infrastructure assets relating to increases in capacity or enhancements of the network including qualifying replacement expenditure are treated as additions. Other costs incurred in maintaining the operating capability of the network in accordance with defined standards of service are expensed in the year in which the expenditure is incurred.

Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended. Employee costs incurred in implementing the capital schemes of the NGED Group are capitalised within infrastructure assets together with the cost of materials and an appropriate proportion of overheads.

Contributions received towards the cost of property, plant and equipment which include low carbon network funding are included in trade and other payables as deferred income and credited on a straight-line basis to the income statement over the estimated economic useful lives of the assets to which they relate.

Depreciation is provided on all property, plant and equipment, other than land, on a straight-line basis over its expected useful life as follows:

	<u>Years</u>
Distribution network assets:	
Overhead lines and poles	65
Underground cables	85
Plant and machinery (transformers and switchgear)	55
Meters	3
Other (towers and substation buildings)	Up to 80
Buildings - freehold	Up to 60
Buildings - long leasehold	Up to 60
Fixtures and equipment	Up to 20
Vehicles and mobile plant	Up to 10

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable, and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and where adjustments are required these are made prospectively.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset is included in the income statement in the period of derecognition.

Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date and the highest and best use. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the period in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the NGED Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

1. Significant accounting policies (continued)

Intangible assets

Intangible assets, other than goodwill, include customer contracts and computer software and are stated at the amount initially recognised, less accumulated amortisation and accumulated impairment losses.

Intangible assets acquired separately from a business are carried initially at cost. The initial cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. An intangible asset acquired as part of a business combination is measured at fair value at the date of acquisition and is recognised separately from goodwill if the asset is separable or arises from contractual or other legal rights.

Intangible assets with a finite life are amortised on a straight-line basis over their expected useful lives. The expected useful lives of assets are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

Contracts

The value recognised for customer contracts relating to acquired telecommunications activities is amortised over 10 years. It is subject to an impairment test at least on an annual basis. It is written off if the activity is sold.

Computer software

Costs directly associated with the development of computer software for internal use are capitalised where technical feasibility can be demonstrated, the NGED Group is satisfied that future economic benefits will flow to the NGED Group and the cost can be separately identified and reliably measured. Software is measured initially at cost and amortised on a straight-line basis over its estimated useful life. The carrying amount is reduced by any provision for impairment where necessary. The estimated useful life assigned to computer software is up to five years.

Impairment of property, plant and equipment, intangible assets, and goodwill

The NGED Group assesses goodwill and intangibles with indefinite useful lives for impairment annually and other assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication of impairment exists, the Group makes an estimate of the asset's recoverable amount. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. An asset group's recoverable amount is the higher of its fair value less costs of disposal and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount.

The business plan, which is approved on an annual basis by senior management, is the primary source of information for the determination of value in use. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

Fair value less costs of disposal is the price that would be received to sell the asset in an orderly transaction between market participants and does not reflect the effects of factors that may be specific to the entity and not applicable to entities in general. For acquisition purposes, the value of a regulated DNO is usually seen as the RAV plus a premium. The premium takes into consideration NGED's performance and any recent market transactions.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate the recoverable amount of the group of cash-generating units ("CGUs") to which the goodwill relates should be assessed. In assessing whether goodwill has been impaired, the carrying amount of the group of CGUs (including goodwill) is compared with their recoverable amount. The recoverable amount of a group of CGUs to which goodwill is allocated is the higher of value in use and fair value less costs of disposal. Where the recoverable amount of the group of CGUs to which goodwill has been allocated is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

1. Significant accounting policies (continued)

Impairment of property, plant and equipment, intangible assets, and goodwill (continued)

The NGED Group records all assets and liabilities acquired in purchase acquisitions, including goodwill, at fair value. Goodwill is not amortised but is subject, at a minimum, to annual tests for impairment. The initial goodwill recorded and subsequent impairment analysis require management to make subjective judgements concerning the recoverable amount of cash-generating units, specifically in relation to cash flows, discount rate and estimated fair value less cost to dispose. At 31 March 2023, the carrying value of goodwill amounted to £1,254.1m (2022: £1,254.1m).

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. It excludes borrowing costs.

Taxation

The income tax expense (or credit) for the period comprises current and deferred tax. Income tax is recognised in the income statement unless it relates to an item that has been recognised in other comprehensive income, in which case it is also recognised in other comprehensive income.

Current tax is measured at the amount expected to be payable (or recoverable) in respect of the taxable profit (or loss) for the period based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date. This includes UK corporation tax payable to HM Revenue & Customs ("HMRC") and amounts payable to (or receivable from) other UK Group companies for losses and other amounts transferred between them ("group relief").

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to HMRC. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Group supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

Deferred tax is the tax expected to be payable (or recoverable) in future periods due to differences between the time when profits and losses are recognised in the financial statements and the time when those profits and losses are included in tax returns filed with HMRC. These temporary differences arise in the current period and then reverse in future periods. The temporary differences are calculated by comparing the carrying value of assets and liabilities at the balance sheet date with their corresponding tax bases included in tax returns.

Deferred tax is recognised on all temporary differences except:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the asset may be recovered.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods when the temporary differences will reverse based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are offset only to the extent permitted by tax legislation.

Pension benefits

The NGED Group operates four defined benefit pension plans, all of which require contributions to be made to separately administered funds. The larger plans are the two unitised sections of the industry-wide Electricity Supply Pension Scheme ("ESPS"). The ESPS scheme is, with very limited exception, closed to new members. A defined contribution plan is offered to new employees. The final two plans, which are also closed to new members and have no active employees, are the Western Power Utilities Pension Scheme ("WPUPS") and the much smaller Infracore 1992 Scheme. NGED also has an unfunded obligation which relates to previous executives of NGED East Midlands, NGED West Midlands and NGED South Wales.

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

1. Significant accounting policies (continued)

Pension benefits (continued)

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligation) and is based on actuarial advice. Past service costs, resulting from either a plan amendment or a curtailment (a reduction in future obligations as a result of a material reduction in the plan membership), are recognised immediately when the NGED Group becomes committed to a change. The current service cost (including administration costs) is allocated to the income statement or capital expenditure as appropriate.

Net interest expense related to pension benefits represents the net change in the present value of plan obligations and the value of plan assets resulting from the passage of time, and is determined by applying the discount rate to the present value of the benefit obligation at the start of the year and to the fair value of plan assets at the start of the year, taking into account expected changes in the obligation or plan assets during the year. Net interest expense relating to pension benefits is recognised in the income statement.

Remeasurements of the net defined benefit liability or asset, comprising actuarial gains or losses, and the return on plan assets (excluding amounts included in net interest described above) are recognised within other comprehensive income in the period in which they occur.

The retirement benefit obligation or asset recognised in the balance sheet represents the deficit or surplus in the NGED Group's defined benefit pension plan. Surplus or deficit comprises the total of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of a reduction in future contributions to the schemes.

Contributions to defined contribution schemes are recognised in the income statement or capital expenditure as appropriate in the year in which they become payable.

Share-based payments

Equity-settled share-based payments to employees are measured at the fair value of the equity instrument at the grant date. The fair value excludes the effect of non-market vesting conditions. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the Company's estimate of the number of equity instruments that will eventually vest. At each reporting date, the Company revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in the profit and loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to reserves.

Provisions

A provision is recognised when the NGED Group has a legal or constructive obligation as a result of a past event; it is probable that an outflow of economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Dividend distribution

Dividend distribution to the Company's shareholder is recognised as a liability in the NGED Group's financial statements in the year in which the dividends are approved by the Company's directors.

Financial assets

Financial assets are classified as debt instruments at amortised cost; debt instruments at fair value through other comprehensive income ("FVOCI"); financial assets at fair value through profit and loss ("FVTPL"); derivatives designated as hedging instruments in an effective hedge; or as equity instruments designated at FVOCI, as appropriate. Financial assets include cash at bank and in hand, trade and other receivables, investments at amortised cost, and derivative financial instruments. The NGED Group determines the classification of its financial assets at initial recognition. Financial assets are recognised initially at fair value, normally being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. For financial assets at FVTPL, transaction costs are immediately recognised in the income statement. The subsequent measurement of financial assets depends on their classification, as follows:

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

1. Significant accounting policies (continued)

Financial assets (continued)

Debt instruments at amortised cost

Debt instruments that meet the hold-to-collect business model test and sole payment principal and interest ("SPPI") contractual cash flow test are carried at amortised cost using the effective interest method, if the time value of money is significant. Gains and losses are recognised in income when the debt instruments are derecognised or impaired, as well as through the amortisation process. This category of financial assets includes cash at bank and in hand excluding the short term deposits, trade and other receivables including accrued income and loan receivable.

Financial assets at FVTPL

Financial assets at FVTPL are carried on the balance sheet at fair value with gains or losses recognised in the income statement. Short term deposits are included in this category. Short term deposits are highly liquid short term investments that are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

Financial assets at FVOCI

Financial assets at FVOCI, that meet the sole payment principal and interest ("SPPI") contractual cash flow test and the objective of the group is achieved both by collecting contractual cash flows and selling financial assets, are carried on the balance sheet at fair value with gains or losses recognised in other comprehensive income. This category of financial assets include derivatives designated as hedging instruments in an effective cash flow hedge.

Derivatives designated as hedging instruments in an effective hedge

These derivatives are carried on the balance sheet at fair value. The treatment of gains and losses arising from revaluation is described below in the accounting policy for derivative financial instruments and hedging activities.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Impairment of financial assets

NGED recognises impairment on financial assets following the expected credit loss ("ECL") model in IFRS 9.

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL, as default is a component of the probability of default ("PD") which affects the measurements of ECLs. NGED constitutes the following as an event of default:

- (i) Borrower is past due by more than 90 days on any material credit obligation to the Group; or
- (ii) Borrower is unlikely to pay its credit obligation to the Group in full.

NGED has the following financial assets not measured at FVTPL that are subject to ECL:

Trade and other receivables including accrued income

NGED applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all receivables. Lifetime ECLs result from all possible default events over the life of financial instruments.

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

1. Significant accounting policies (continued)

Impairment of financial assets (continued)

Trade and other receivables including accrued income (continued)

To measure the expected credit losses, trade and other receivables have been grouped based on shared risk characteristics and the days past due. Accrued income is effectively a receivable as well for the purposes of the expected credit loss model since it is unbilled only because a passage of time is required. NGED has therefore concluded that expected loss rates for trade receivables are a reasonable approximation of the loss rates for accrued income as well.

The expected credit loss rates are primarily based on historical credit losses experienced. The historical loss rates are then adjusted for forward looking information on macroeconomic factors affecting the customer's ability to pay. The general economic trends and conditions impact the customers ability to pay. Another key factor to consider is the liquidity and overall financial position of the key electricity suppliers.

Trade and other receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, liquidation of the debtors, the failure of the debtor to engage in a repayment plan, and a failure to make payments for a period greater than 120 days past due.

Loan receivable

Loan receivable is subject to the impairment requirements of IFRS 9 but the impairment loss on this is deemed immaterial since this has an insignificant risk of change in value.

Cash at bank and in hand

This comprises cash at bank, in hand and short term deposits. Since short term deposits are FVTPL, they are not subject to the impairment requirements of IFRS 9. Whereas cash at bank and in hand is subject to the impairment requirements of IFRS 9 but the impairment loss on these is deemed immaterial since they have an insignificant risk of change in value.

Cash and cash equivalents

In the consolidated cash flow statement and related notes, cash and cash equivalents includes cash at bank and in hand and short term deposits which are readily convertible into known amounts of cash and have a maturity of three months or less and which are subject to an insignificant risk of change in value, net of any bank overdrafts which are payable on demand.

Financial liabilities

Financial liabilities are classified as financial liabilities at FVTPL; or as financial liabilities measured at amortised cost, as appropriate. Financial liabilities include trade and other payables including accruals and loans and other borrowings. The NGED Group determines the classification of its financial liabilities at initial recognition. The measurement of financial liabilities depends on their classification, as follows:

Financial liabilities measured at amortised cost

All financial liabilities are initially recognised at fair value. For interest-bearing loans and borrowings this is the fair value of the proceeds received net of issue costs associated with the borrowing.

After initial recognition, financial liabilities are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognised respectively in interest and other income and finance costs.

This category of financial liabilities includes trade and other payables (excluding prepayments, deferred income and deferred contributions) and loans and other borrowings.

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

1. Significant accounting policies (continued)

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification is not substantial, the difference between the carrying amount of the liability before the modification and the present value of the cash flows after modification is recognised in profit or loss as the modification gain or loss within other operating income and expenses.

Derivative financial instruments and hedging activities

The NGED Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of derivative financial instruments is calculated 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, the forward rate curves of underlying commodities, and for those positions that are not fully cash collateralised, the credit quality of the counterparties.

Gains or losses arising from changes in the fair value of derivatives that are not designated as effective hedging instruments are recognised in the income statement. For the purpose of hedge accounting, hedges are classified as:

- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction; or
- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment.

Hedge relationships are formally designated and documented at inception, together with the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged, and how the entity will assess the hedging instrument effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges meet the hedge effectiveness requirements within IFRS 9. Hedge accounting is discontinued when a hedging relationship no longer qualifies for hedge accounting. Hedges meeting the criteria for hedge accounting are accounted for as follows:

Cash flow hedges

For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly as other comprehensive income in the net unrealised gains reserve, while the ineffective portion is recognised in the income statement as remeasurements within finance cost or income. Amounts taken to other comprehensive income are transferred to the income statement when the hedged transaction affects the income statement, such as when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If a forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in other comprehensive income remain in equity until the forecast transaction occurs and are transferred to the income statement or to the initial carrying amount of a non-financial asset or liability as above. If the related transaction is not expected to occur, the amount is taken to the income statement.

Fair value hedges

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.

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

1. Significant accounting policies (continued)

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The Group categorises assets and liabilities measured at fair value into one of three levels depending on the ability to observe inputs employed in their measurement. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs that are observable, either directly or indirectly, other than quoted prices included within Level 1 for the asset or liability. Level 3 inputs are unobservable inputs for the asset or liability reflecting significant modifications to observable related market data or the NGED Group's assumptions about pricing by market participants.

Offsetting of financial assets and liabilities

Financial assets and liabilities are presented gross in the balance sheet unless both of the following criteria are met: the Group currently has a legally enforceable right to set off the recognised amounts; and the Group intends to either settle on a net basis or realise the asset and settle the liability simultaneously. A right of set off is the Group's legal right to settle an amount payable to a creditor by applying against it an amount receivable from the same counterparty. The relevant legal jurisdiction and laws applicable to the relationships between the parties are considered when assessing whether a current legally enforceable right to set off exists.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily take a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Share capital

Ordinary shares are classified as equity and are recorded at the par value of proceeds received, net of direct issue costs. Where shares are issued above par value, the proceeds in excess of par value are recorded in the share premium account.

Merger reserve

A merger reserve is recorded as a result of the application of the "pooling of interests" basis of consolidation for the reorganisation of entities under common control.

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 1, the directors are required to make judgements (other than those involving estimates) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Capitalisation of overheads - Nature of costs capitalised

Amounts capitalised as network assets include indirect costs associated with the engineering department and an element of corporate overhead costs. The costs are initially expensed to the income statement with a portion being capitalised based on management's assessment of the costs incurred that are directly linked to the capital work performed. The nature of costs to be included for capitalisation is a key judgement and is based on an analysis of the activities directly attributable to capital work.

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

2. Critical accounting judgements and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Capitalisation of overheads - capitalisation rate

Amounts capitalised as network assets include indirect costs associated with the engineering department and an element of corporate overhead costs. The costs are initially expensed to the income statement with a portion being capitalised using an appropriate rate.

The capitalisation rate is based on an analysis of total costs or total labour costs, as appropriate, split between capital and expense. The rate is reviewed in detail annually and a reasonableness test is performed in light of total capital spend during the year.

The total amount of overheads capitalised to property, plant and equipment at 31 March 2023 is £101.7m (2022: £88.1m). Information on sensitivity to the rate is as below:

	2023	2022
	Income statement (before tax) +/- £m	Income statement (before tax) +/- £m
Change in rate +/- 1%	1.6	1.4
Change in rate +/- 5%	7.8	7.2

Pension obligations

The NGED Group has a commitment to pay pension benefits. The costs of these benefits and the present value of the NGED Group's pension liabilities depend on such factors as the life expectancy of the members, the salary progression of current employees which is based on inflation rate and the discount rate at which the future pension payments are discounted. 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. Based on advice from external actuaries, the Company uses estimates for all these factors in determining the pension costs and liabilities incorporated in the financial statements. The assumptions reflect historical experience and management's judgement regarding future expectations.

See Note 26 for further details and information on sensitivities.

Goodwill

The NGED Group records all assets and liabilities acquired in purchase acquisitions, including goodwill, at fair value. Goodwill is not amortised but is subject, at a minimum, to annual tests for impairment. Following the assessment of the recoverable amount on a value in use basis for the East Midlands, West Midlands and South Wales, to which goodwill of £518.8m, £614.4m and £120.9m has been allocated respectively, the directors consider the recoverable amount to be most sensitive to pre-tax discount rate of 5.52%, 5.63% and 5.57% for East Midlands, West Midlands and South Wales respectively and the assumed terminal value multiple of 37.5% applied to the RAV on the assumed exit date at 31 March 2050.

The sensitivity analysis in respect of the recoverable amounts of the CGUs are presented in Note 14.

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

3. Operating segment information

The NGED Group's operating segments are those used internally by the Board of Directors to run the business, allocate resources and make strategic decisions. The NGED Group's reportable segments are the regulated distribution of electricity in the South West, East Midlands and West Midlands of England and South Wales, and other businesses. Distribution involves the delivery of electricity across the NGED Group's distribution network. Other businesses relate to non-regulated activities including telecommunications, property management and helicopter operations which principally support the main business.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss on the same basis as in the consolidated financial statements. However, NGED Group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment results include transfers between business segments. Those transfers are eliminated on consolidation.

Analysis of revenue, operating profit, and assets and liabilities by segment is provided below. Substantially all revenues and profit before tax arise from operations within the UK.

a) Revenues	Total revenue		Inter-segment revenue		External revenue	
	2023	2022	2023	2022	2023	2022
	£m	£m	£m	£m	£m	£m
Distribution network systems						
South West	447.4	410.3	(1.3)	(0.6)	446.1	409.7
South Wales	304.3	273.8	(0.3)	(0.3)	304.0	273.5
East Midlands	666.0	579.3	(0.6)	(0.6)	665.4	578.7
West Midlands	670.0	599.0	(0.3)	(0.3)	669.7	598.7
	2,087.7	1,862.4	(2.5)	(1.8)	2,085.2	1,860.6
Other businesses	48.3	61.9	(37.0)	(36.5)	11.3	25.4
	2,136.0	1,924.3	(39.5)	(38.3)	2,096.5	1,886.0

Information about major customers

Revenues from the NGED Group's largest five customers amounted to £337.9m, £330.1m, £257.9m, £160.9m and £158.1m (2022: £293.4m, £272.2m, £260.5m, £127.0m and £125.8m) arising from sales reported across the South West, South Wales, East Midlands and West Midlands segments.

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

3. Operating segment information (continued)

b) Segment profit

	2023 £m	2022 £m
Distribution network systems		
South West	209.6	224.4
South Wales	141.3	152.3
East Midlands	341.9	346.1
West Midlands	340.8	346.7
	1,033.6	1,069.5
Other businesses	14.3	15.5
Corporate and unallocated(i)	(20.0)	(26.2)
Operating profit	1,027.9	1,058.8
Finance revenue	19.6	0.2
Finance costs	(399.4)	(318.3)
Net finance income relating to pensions and other post-retirement benefits	33.3	6.2
Profit before tax	681.4	746.9
Taxation		
South West	(28.9)	(82.8)
South Wales	(24.7)	(61.6)
East Midlands	(47.7)	(121.3)
West Midlands	(54.5)	(125.4)
Other businesses	10.6	17.5
	(145.2)	(373.6)
Profit for the year attributable to equity holders of the parent	536.2	373.3

(i) Corporate and unallocated comprises primarily current service pension costs (net of capitalisation).

c) Assets, liabilities, and capital expenditure

	Segment assets (i)		Segment liabilities (ii)		Capital expenditure (iii)	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
Distribution network systems						
South West	3,638.9	3,420.5	792.2	748.8	301.3	244.1
South Wales	2,537.4	2,412.9	538.8	514.7	178.3	161.6
East Midlands	5,722.8	5,403.0	1,342.8	1,258.5	378.0	339.3
West Midlands	5,349.8	5,081.8	959.0	895.3	358.7	334.4
	17,248.9	16,318.2	3,632.8	3,417.3	1,216.3	1,079.4
Other businesses	304.2	195.3	44.5	39.2	4.0	4.0
Corporate and unallocated	625.0	1,523.2	8,249.3	8,223.5	(0.6)	(6.4)
	18,178.1	18,036.7	11,926.6	11,680.0	1,219.7	1,077.0

(i) Segment assets consist of property, plant and equipment, investment properties, goodwill, other intangible assets, inventories, receivables and cash. Corporate and unallocated assets includes loan to related party, derivative financial instruments, pension assets and deposits (including deposits classified as cash).

(ii) Segment liabilities consist of deferred customer contributions and operating liabilities. Corporate and unallocated liabilities includes current taxation, corporate borrowings, derivative financial instruments and deferred taxation.

(iii) Capital expenditure consists of additions to property, plant and equipment, intangible assets and investment properties.

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

3. Operating segment information (continued)

d) Depreciation and amortisation

	Depreciation on property, plant and equipment (Note 12)		Amortisation of intangible assets (Note 14)	
	2023 £m	2022 £m	2023 £m	2022 £m
Distribution network systems				
South West	73.4	68.9	4.7	4.4
South Wales	50.2	47.7	1.3	1.0
East Midlands	103.0	97.6	2.5	2.1
West Midlands	95.5	90.5	2.3	1.9
	322.1	304.7	10.8	9.4
Other businesses	(0.5)	0.4	(0.1)	-
	321.6	305.1	10.7	9.4
Less: recapitalised to property, plant and equipment	(35.3)	(34.1)	(7.4)	(6.3)
Charged to consolidated income statement	286.3	271.0	3.3	3.1

4. Revenues

	2023 £m	2022 £m
Revenue from customer contracts	2,119.2	1,911.6
Lease income	16.8	12.7
Total revenue	2,136.0	1,924.3

The following table shows revenues from contracts with customers disaggregated by customer class:

	2023 £m	2022 £m
Licensed energy suppliers - DNO	1,946.1	1,697.6
Other customers - DNO	141.6	164.8
Other businesses customers	31.5	49.2
	2,119.2	1,911.6

The licensed energy supplier revenue forms the majority of the external revenue of distribution network systems as disclosed in the Note 3 (a).

Network assets with a net book value of £15.1bn (2022: £14.3bn) are used to fulfil the contract with customers (refer to note 12).

5. Operating costs

NGED Group operating costs can be analysed as follows:

	2023 £m	2022 £m
Employee benefit expense (Note 8)	167.1	165.7
Depreciation of property, plant and equipment	286.3	271.0
Property taxes	95.8	97.9
Last Resort Supply Payment ("LRSP") claims*	272.2	9.6
Other operating charges**	258.2	285.9
	1,079.6	830.1

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

5. Operating costs (continued)

* When a supplier fails, Ofgem ensures continuity of supply to the failed supplier's customers by appointing a Supplier of Last Resort ("SoLR") to supply the failed supplier's customers at short notice. The SoLR may then recover certain costs from the DNOs via a LRSP claim. These LRSP claim costs are recovered by the Group via its DUoS charges. The amount recovered during the current year is £261.8m and the balancing claims will be recovered during the year ending 31 March 2024.

** Other operating charges includes costs in relation to engineering recharges, National Grid exit charges (charges levied by National Grid Electricity Transmission for connection to the electricity transmission system), tree cutting, inspections and maintenance and wayleaves, as well as other overheads incurred.

NGED Group operating profit is stated after charging the following items:

	2023	2022
	£m	£m
Employee benefit expense (Note 8)	167.1	165.7
Depreciation of property, plant and equipment (i)	286.3	271.0
Amortisation of intangibles (ii)	3.3	3.1
Rent expense (iii):		
Plant, machinery and equipment	13.2	12.8
Land and buildings	0.6	0.6
Research expenditure (iv)	0.2	0.2
Net other operating expenses (Note 6)	11.0	2.9

(i) Depreciation of property, plant and equipment is stated net of depreciation capitalised of £35.1m (2022: £34.1m) in respect of equipment consumed during the construction of the electricity network. It also includes depreciation of right-of-use-assets amounting to £2.2m (2022: £1.5m).

(ii) Amortisation of intangibles is stated net of amortisation capitalised of £7.4m (2022: £6.3m) in respect of software consumed during the construction of the electricity network.

(iii) Rent expense comprises of short term and low value leases (refer to note 19).

(iv) Research costs above exclude expenditure on Low Carbon Network and Network Innovation Allowance projects which is capitalised together with associated funding received.

Services provided by the NGED Group's auditor

During the year the NGED Group obtained the following services from the Company's auditor and its associates:

	2023	2022
	£m	£m
Audit fees		
Annual audit of the Company and consolidated financial statements	0.1	0.3
Audit of subsidiary companies	0.8	0.7
Other audit related services	0.4	0.3
	1.3	1.3
Non-audit fees		
Audit related assurance services	-	-
	-	-
Total fees within operating costs *	1.3	1.3

* Total audit fees in 2022 include £0.1m in relation to the prior year UK statutory audit.

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

6. Other operating income and expense

	2023 £m	2022 £m
Other operating income		
Gain on disposal of subsidiary*	12.0	-
Net gain on disposal of property, plant and equipment	1.6	1.1
Increase in fair value of investment properties	0.1	2.7
Income from fixed asset investments	1.7	0.1
	15.4	3.9
Other operating expense		
Reduction in fair value of investment properties	(4.4)	(1.0)
Net other operating income	11.0	2.9

* Gain on disposal of subsidiary pertains to the sale of WPD Smart Metering Limited, a former subsidiary of the Group. The sale concluded on 1 June 2022. The sale proceeds amounted to £19.6m and the net asset value of the subsidiary on the date of disposal was £7.6m, resulting in £12.0m gain on disposal.

7. Net finance costs

	2023 £m	2022 £m
Finance income		
Interest on bank deposits	1.3	0.1
Interest on loans to NG affiliate	12.3	0.1
Remeasurements gain (i)	6.0	-
Total finance income	19.6	0.2
Finance costs		
Interest payable on bank loans and overdrafts	(2.2)	(3.5)
Interest payable on other loans	(391.8)	(318.1)
Interest payable on loans from NG affiliate	(16.2)	(1.9)
Interest payable on lease liabilities	(0.5)	(0.3)
Less: interest capitalised (ii)	11.3	5.5
Total finance costs	(399.4)	(318.3)
Net finance costs	(379.8)	(318.1)

(i) Remeasurements gain pertains to an unrealised net gain on derivatives designated as hedges, to the extent that the hedge is not fully effective or to other components such as credit spread that are not part of designated hedge risk. This includes net foreign exchange loss on the borrowings of £20.0m (2022: £7.2m) offset by foreign exchange gain and losses on the fair value of derivatives.

(ii) Interest in 2023 was capitalised at a rate of 5.1% (2022: 2.8%), based on the yield on the Group's borrowings.

8. Employee benefit expense

Employee benefit expense, including directors' remuneration, was as follows:

	2023 £m	2022 £m
Wages and salaries	402.2	378.2
Social security costs	50.3	45.2
Pension costs	66.2	82.5
	518.7	505.9
Less: amounts capitalised as part of property, plant and equipment	(351.6)	(340.2)
Charged to the income statement	167.1	165.7

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

8. Employee benefit expense (continued)

There are no personnel, other than the directors, who as key management have authority and responsibility for planning, directing and controlling the activities, directly or indirectly, of the NGED Group.

The average number of employees during the financial year (including directors) analysed by activity was:

	2023	2022
	Number	Number
Electricity distribution	6,549	6,466
Other activities	118	166
	6,667	6,632

Employee costs in the year were capitalised at a rate of 69.0% (2022: 69.0%).

9. Directors' emoluments

The service contracts for the executive directors are with NGED South West. However, the emoluments detail given in this note represents total emoluments of the directors for all services provided to NGED companies as a whole. The total costs below are apportioned between NGED South Wales, NGED South West, NGED West Midlands and NGED East Midlands.

NGED Group	Highest paid director		Total	
	2023	2022	2023	2022
	£000	£000	£000	£000
The emoluments of the executive directors comprised:				
Base salary (note i)	475	463	1,279	1,372
Performance dependent bonus (note ii)	681	1,411	1,774	3,288
Termination benefits (note iii)	5,453	-	8,703	-
Pension compensation allowance (note iv)	247	271	522	736
Sub-total directors' remuneration	6,857	2,145	12,278	5,396
Long term incentive plan (note v)	-	1,285	155	2,739
Fees to the independent non executive directors (note vi)	-	-	100	100
	6,857	3,430	12,534	8,235

(i) Base salary also includes benefits in kind.

(ii) The amount of the annual bonus is based on NGED's financial performance, the reliability of the electricity network, and other factors. 2023 includes retention award payments and 2022 includes a transition incentive payment in relation to the announcement and the completion of the sale of the WPD Group to National Grid plc on 14 June 2021.

(iii) Termination benefits were made in respect of two executive directors who resigned from the business during the reporting period.

(iv) As a result of changes in tax applicable to UK pensions, the executive directors have resigned as active members of the Electricity Supply Pension Scheme ("ESPS" - Note 25). Thus NGED no longer contributes for ongoing service to the ESPS in respect of the executive directors. Instead, NGED pays cash compensation to them individually equivalent to the value of NGED's contribution in to the ESPS that would have been made had they remained active members (as determined by external actuaries).

(v) Under the previous owner's long term incentive plan, the executive directors received an annual grant of PPL Corporation shares; these shares vested on completion of the sale of NGED to National Grid on 14 June 2021. The value of the shares granted under the National Grid ownership is shown within this line.

(vi) The two independent UK non executive directors are entitled to fees as determined by the appropriate Board. However, no emoluments are paid to National Grid non-executive directors appointed on 31 January 2022, who are officers of National Grid, in respect of their services as directors to the Group.

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

9. Directors' emoluments (continued)

(vii) During the year, four executive directors (2022: four) were members of the defined benefit ESPS.

(vii) An employee share option scheme is offered by the parent to be settled in the shares of the parent. No shares were vested during the year.

10. Income tax expense

The major components of income tax expense are:

	2023	2022
	£m	£m
Current tax		
Current tax expense (see below)	59.0	94.6
Adjustments in respect of prior years	0.2	(3.2)
Deferred tax (Note 25)		
Origination and reversal of temporary differences	64.7	46.6
Impact of tax rate change	20.6	234.7
Adjustments in respect of prior years	0.7	0.9
	145.2	373.6

The tax on the NGED Group's profit before tax differs from the theoretical amount that would arise using the standard rate of corporation tax in the UK of 19% (2022: 19%) as follows:

	2023	2022
	£m	£m
Profit before income tax	681.4	746.9
Profit before income tax multiplied by standard rate of corporation tax in the UK of 19% (2022: 19%)	129.5	141.9
Effects of:		
Net (income not taxable)/expenses not deductible for tax purposes	(2.8)	(0.7)
Enhanced tax relief on capital expenditure	(3.0)	-
Impact of tax rate change	20.6	234.7
Adjustments to tax charge in respect of prior years	0.9	(2.3)
Total taxation (continuing operations)	145.2	373.6

The total tax expense as a percentage of profit before income tax gives an effective tax rate of 21.3% (2022: 50.0%) compared to the standard rate of 19% (2022: 19%) due to the effects of the items stated above. The increase in the rate is mainly due to the impact of the tax rate change - see "Change in corporation tax rate" section at the end of this note. Expenses not deductible and income not taxable have been netted off as individually they are not material. The enhanced tax relief relates to the 30% uplift on capital expenditure incurred in the two years to 31 March 2023 that qualifies as super-deduction expenditure. Adjustments in respect of prior years mainly relate to the revised analysis of capital expenditure included in tax returns filed with HMRC.

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

10. Income tax expense (continued)

Tax relating to items charged or (credited) to other comprehensive income:

	2023	2022
	£m	£m
Deferred tax:		
Revaluation of cash flow hedges	(4.3)	(0.7)
Re-measurement of pension liabilities	(220.7)	280.3
	(225.0)	279.6

Current tax expense

The current tax expense for the year is the aggregate of the amounts of UK corporation tax payable by each Group company on its profit for the year. The calculation of the amount of UK corporation tax payable is determined by tax legislation. The starting point for the calculation is the profit before tax shown in the income statement and adjustments required by the legislation are made to arrive at the profit chargeable to corporation tax. The calculation of the amount of corporation tax expected to be paid for the year is shown below. The actual amount payable will be determined following further detailed analysis at the time when the tax returns for the year for each Group company are filed with HMRC.

	2023	2022
	£m	£m
Profit before income tax multiplied by standard rate of corporation tax in the UK of 19% (2022: 19%)	129.5	141.9
Adjustments:		
Depreciation and amortisation (note i)	(48.0)	(39.8)
Pensions (note ii)	(16.9)	(3.5)
Other timing adjustments (note iii)	0.2	(3.3)
Other adjustments (note iv)	(5.8)	(0.7)
Corporation tax payable on profits after group relief	59.0	94.6

(i) Expenditure on tangible and intangible assets (net of related customer contributions) is initially recorded on the balance sheet and then depreciated or amortised over the useful economic lives of the assets. Tax deductions are not allowed for the depreciation or amortisation, except to the extent that the expenditure is regarded as maintaining or replacing part of an asset, and instead tax deductions are given for eligible expenditure at the rates prescribed by tax legislation ("capital allowances").

(ii) The expense of providing pensions to employees is deductible from taxable profits at the time when contributions are paid into the pension schemes and not when the expense is charged to the income statement. As a proportion of the pension expense is capitalised (see Note 8), the deduction for contributions paid in the year is greater than the expense in the income statement.

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

10. Income tax expense (continued)

Current tax expense (continued)

(iii) Adjustments are required for the timing of other deductions. These include interest capitalised (see Note 7) and employee benefit expense (see Note 8). A proportion of interest expense is included in tangible fixed asset additions, but the tax legislation provides for this expense to be deducted against profits for the year. Contrary to this, a deduction for employee benefit expense must be deferred until the year of payment if the payment is not made within nine months of the year end.

(iv) Other adjustments are required for costs that are not deductible, such as legal fees relating to certain property transactions, and non-taxable income, such as dividends received from investments that have already paid tax on their income. In addition, the profit or loss on disposal of tangible fixed assets shown in the income statement is not taxable or deductible and is instead replaced with a gain or loss calculated in accordance with tax legislation.

(v) All undertakings within the Group are tax resident in the UK, except for Aztec Insurance Limited which is tax resident in Guernsey where the statutory tax rate is 0%. However, the results of Aztec Insurance Limited are included in the UK corporation tax returns filed by its parent company, National Grid Electricity Distribution Network Holdings Limited. Therefore, all of the group's activities are subject to UK taxation rules and the group's current tax charge comprises solely of UK tax.

Change in corporation tax rate

The corporation tax rate increased to 25% from 1 April 2023 as enacted via Finance Act 2021. This rate has been reflected in the deferred tax balances as at 31 March 2023.

11. Dividends

	2023	2022
	£m	£m
Equity dividends - 0.02 pence (2022: 13.26 pence) per £1 share	0.2	140.2

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

12. Property, plant and equipment

	Generation £m	Distribution network £m	Non-network land & buildings £m	Fixtures & equipment £m	Vehicles & mobile plant £m	Total £m
Cost						
At 1 April 2021	0.5	16,485.1	182.5	302.8	153.4	17,124.3
Additions	-	1,011.2	4.3	37.0	10.5	1,063.0
Disposals and retirements	-	(2.2)	-	(25.1)	(8.0)	(35.3)
At 1 April 2022	0.5	17,494.1	186.8	314.7	155.9	18,152.0
Additions	-	1,109.0	6.1	68.7	18.4	1,202.2
Transfers from intangible assets	-	-	0.7	(0.2)	-	0.5
Disposals and retirements	-	(20.8)	-	(52.5)	(8.5)	(81.8)
At 31 March 2023	0.5	18,582.3	193.6	330.7	165.8	19,272.9
Accumulated depreciation						
At 1 April 2021	0.1	2,928.4	23.5	150.6	82.1	3,184.7
Depreciation charge for the year	-	247.3	2.9	42.0	12.9	305.1
Disposals and retirements	-	(2.2)	-	(25.1)	(7.8)	(35.1)
At 1 April 2022	0.1	3,173.5	26.4	167.5	87.2	3,454.7
Depreciation charge for the year	-	263.0	3.3	41.1	14.2	321.6
Transfers	-	-	0.2	-	-	0.2
Disposals and retirements	-	(5.8)	-	(52.3)	(8.3)	(66.4)
At 31 March 2023	0.1	3,430.7	29.9	156.3	93.1	3,710.1
Net book value						
At 31 March 2023	0.4	15,151.6	163.7	174.4	72.7	15,562.8
At 31 March 2022	0.4	14,320.6	160.4	147.2	68.7	14,697.3
At 31 March 2021	0.4	13,556.7	159.0	152.2	71.3	13,939.6

Included in distribution network and vehicles & mobile plant at 31 March 2023 was an amount of £188.7m (2022: £197.6m) relating to expenditure on assets in the course of construction.

Included in additions are staff costs of £344.6m (2022: £340.2m), general overheads of £101.7m (2022: £88.1m), capitalised depreciation of £35.3m (2022: £34.1m) and interest of £11.3m (2022: £5.5m).

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

12. Property, plant and equipment (continued)

The table below shows the net book value of right-of-use assets included within tangible fixed assets at 31 March 2023 and 31 March 2022, split by category. The associated lease liabilities are disclosed in note 20.

	Land & buildings £m	Fibres £m	Radio sites £m	Vehicles £m	Total £m
At 1 April 2021	7.4	1.7	0.2	-	9.3
Additions	0.3	-	0.3	1.4	2.0
Depreciation	(0.6)	(0.7)	(0.1)	(0.1)	(1.5)
At 31 March 2022	7.1	1.0	0.4	1.3	9.8
At 1 April 2022	7.1	1.0	0.4	1.3	9.8
Additions	0.1	4.5	0.1	4.1	8.8
Depreciation	(0.6)	(0.6)	(0.1)	(0.9)	(2.2)
At 31 March 2023	6.6	4.9	0.4	4.5	16.4

13. Investment property

	Retail £m	Office £m	Industrial £m	Total £m
Fair value				
At 1 April 2021	18.9	5.1	5.9	29.9
Valuation gains	0.2	1.9	0.6	2.7
Valuation losses	(0.9)	-	(0.1)	(1.0)
Transfers to property, plant and equipment	0.2	-	-	0.2
Disposals	(0.1)	-	-	(0.1)
At 1 April 2022	18.3	7.0	6.4	31.7
Valuation gains	-	-	0.1	0.1
Valuation losses	(2.6)	(0.9)	(0.9)	(4.4)
Additions	0.3	0.2	-	0.5
Disposals	-	-	-	-
At 31 March 2023	16.0	6.3	5.6	27.9

The fair value of the investment property has been arrived at on the basis of a valuations carried out by external independent valuers. The valuers are regulated by the Royal Institution of Chartered Surveyors ("RICS") and follow the rules, codes, and guidance in the RICS Rules of Conduct for Firms. The valuations have been prepared in accordance with IFRS 13 Fair Value Measurements and represent the 'highest and best use' of the property.

In arriving at the valuation, tenancy details and market evidence of transaction prices for similar properties are taken into consideration. Investment properties generating rental revenue are valued using an investment approach and vacant buildings are valued using the comparison method of valuation. Where land is being held for development, the valuation technique is based either on the comparison method or residual method.

The amounts recognised in the income statement for rental income from investment property are £2.3m (2022: £2.5m).

Investment properties are let on either full repair and insuring leases, under which all outgoings are the responsibility of the lessee, or under tenancies, where costs are recovered through a service charge levied on tenants during the period of occupation. This service charge amounted to £0.9m (2022: £0.5m) for which a similar amount is included within operating costs.

In determining the appropriate classes of investment property the Group has considered the nature, characteristics and risks associated with its properties. As a consequence the Group has identified the following classes of assets:

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

13. Investment property (continued)

- Retail - representing a single investment in a supermarket store in Cwmbran, South Wales, occupied by J Sainsbury.
- Other retail - representing a portfolio of other retail properties across Wales and the South West of England.
- Office - representing a portfolio of office buildings across NGED's region.
- Industrial - representing a portfolio of industrial and storage facilities across NGED's region.

The tables below show details for the larger properties. Within other assets, recorded at £4.6m (2022: £4.6m), are a further 22 (2022: 22) investment properties with an average value of £210,932 per property (2022: £208,864), valued by the NGED Group's internal qualified surveyor.

All of the valuations fall within Level 3 of the fair value hierarchy (see Note 23). The table below provides details by class of property of the fair value ascribed to each class of asset, an indication of the key inputs used in deriving the valuation, together with other key features which inform the valuation process. In light of the immaterial nature of the other assets below to the financial statements as a whole, the directors have elected not to provide the equivalent detailed information in respect of these valuations.

The valuations are sensitive to movements in key variables, notably the yields applied to valuations based on income capitalisation which can change due to general market conditions and also an assessment of the quality of the underlying tenant. Broadly, a 0.5% increase/decrease in an assumed yield of 5% will result in a 10% decrease/increase in the value of a property, whilst a 0.5% increase/decrease in an assumed yield of 10% will result in a 5% decrease/increase in the value of a property.

Unobservable and observable inputs used in determination of fair values					Other key information	
Class of property	Carrying amount/Fair value 2023 £m	Valuation technique	Input	Range (weighted average) 2023		Range 2023
Retail Level 3	13.0	Income capitalisation	> Length of leases in place (in years)	6y	> Age of building	29y
			> Yield	5.2%	> Remaining useful life of building	20+
			> Passing rent (per sqm p.a.)	£201.4	> Square metres	5,308
			> Long term vacancy rate	0%		
Other retail Level 3	2.1	Income capitalisation	> Net rent (per sqm p.a.)	£0 - £230 (£94)	> Age of building	50+
			> Length of leases in place (in years)	0y - 4y (3.0y)	> Remaining useful life of building	20+
			> Yield	0% - 9.0%	> Square metres	2,175
			> Long term vacancy rate	19%	> Actual vacancy rate	19%
Office Level 3	5.7	Income capitalisation	> Net rent (per sqm p.a.)	£0 - £129 (£41.0)	> Age of building	25y - 40y
			> Length of leases in place (in years)	0y - 4.5y (1.6y)	> Remaining useful life of building	20+
			> Yield	0% - 10.4%	> Square metres	8,224
			> Long term vacancy rate	0% - 100% (48%)	> Actual vacancy rate	0% - 100%
Industrial Level 3	2.5	Income capitalisation	> Net rent (per sqm p.a.)	£53- £84 (£75)	> Age of building	67y
			> Length of leases in place (in years)	2.5y - 19y (7.8y)	> Remaining useful life of building	20+
			> Yield	9.7%	> Square metres	3,106
			> Long term vacancy rate	0%	> Actual vacancy rate	0%
Total	23.3					
Other assets	4.6					
Total fair value	27.9					

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

13. Investment property (continued)

Unobservable and observable inputs used in determination of fair values				Other key information		
Class of property	Carrying amount/Fair value 2022 £m	Valuation technique	Input	Range (weighted average) 2022		Range 2022
Retail Level 3	15.0	Income capitalisation	> Length of leases in place (in years)	7y	> Age of building	28y
			> Yield	5.2%	> Remaining useful life of building	20+
			> Passing rent (per sqm p.a.)	£201.4	> Square metres	5,308
			> Long term vacancy rate	0%		
Other retail Level 3	2.3	Income capitalisation	> Net rent (per sqm p.a.)	£82 - £230 (£131)	> Age of building	50+
			> Length of leases in place (in years)	0y - 5y (3.0y)	> Remaining useful life of building	20+
			> Yield	6.4% - 9.0%	> Square metres	2,175
			> Long term vacancy rate	0%	> Actual vacancy rate	0%
Office Level 3	7.0	Income capitalisation	> Net rent (per sqm p.a.)	£0 - £138 (£29.0)	> Age of building	24y - 39y
			> Length of leases in place (in years)	0y - 3.5y (0.5y)	> Remaining useful life of building	20+
			> Yield	0% - 9.4%	> Square metres	8,224
			> Long term vacancy rate	0% - 100% (54%)	> Actual vacancy rate	0% - 100%
Industrial Level 3	2.8	Income capitalisation	> Net rent (per sqm p.a.)	£53- £84 (£75)	> Age of building	66y
			> Length of leases in place (in years)	0y - 20y (8.6y)	> Remaining useful life of building	20+
			> Yield	9.1%	> Square metres	3,106
			> Long term vacancy rate	0%	> Actual vacancy rate	0%
Total	27.1					
Other assets	4.6					
Total fair value	31.7					

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

14. Intangible assets

	Goodwill £m	Computer software £m	Customer contracts £m	Total £m
Cost				
At 1 April 2021	1,574.5	75.8	6.2	1,656.5
Additions	-	14.0	-	14.0
Transfers to property, plant and equipment	-	(3.1)	-	(3.1)
At 1 April 2022	1,574.5	86.7	6.2	1,667.4
Additions	-	17.5	-	17.5
Transfers to property, plant and equipment	-	(0.5)	-	(0.5)
Disposals	-	(5.4)	-	(5.4)
At 31 March 2023	1,574.5	98.3	6.2	1,679.0
Aggregate amortisation and impairment				
At 1 April 2021	320.4	29.1	6.2	355.7
Charge for the year	-	9.4	-	9.4
Disposals	-	(3.1)	-	(3.1)
At 1 April 2022	320.4	35.4	6.2	362.0
Charge for the year	-	10.7	-	10.7
Transfers to property, plant and equipment	-	(0.2)	-	(0.2)
Disposals	-	(5.1)	-	(5.1)
At 31 March 2023	320.4	40.8	6.2	367.4
Carrying amount				
At 31 March 2023	1,254.1	57.5	-	1,311.6
At 31 March 2022	1,254.1	51.3	-	1,305.4
At 31 March 2021	1,254.1	46.7	-	1,300.8

Included in additions is capitalised amortisation cost of £7.4m (2022: £6.3m).

Goodwill acquired through business combinations has been allocated for impairment testing purposes to three cash-generating units ("CGUs"), East Midlands, West Midlands, and South Wales, which are also operating segments. These represent the lowest level within the NGED Group at which goodwill is monitored for internal management purposes.

At 31 March 2014, an impairment loss of £186.2m and £62.2m was recognised in East Midlands and West Midlands, respectively. The impairment was mainly as a result of changes in cash flow projections, largely following the agreement of the RIIO-ED1 price control during that year. A further impairment loss of £72.0m was recognised at 31 March 2015 in West Midlands. This impairment had largely arisen as a result of changes to the short-term inflation assumption which had reduced both the operating cash flows and the terminal value used in the discounted cash flow model. This was partly offset by higher than previously anticipated levels of capital expenditure in that year, increasing both the future operating cash flows and the terminal value, and reducing the discount rate. For the East Midlands CGU, the increase in anticipated levels of capital expenditure was such that no overall impairment loss was recognised in the year.

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

14. Intangible assets (continued)

Carrying amount of goodwill allocated to cash-generating units ("CGUs")

	2023	2022
	£m	£m
East Midlands	518.8	518.8
West Midlands	614.4	614.4
South Wales	120.9	120.9
Carrying amount of goodwill	1,254.1	1,254.1

Goodwill is reviewed annually for impairment and the recoverability is assessed by comparing the carrying amount of the CGU (including goodwill) with the recoverable amount of the CGU on a value in use basis.

The key assumptions for the value in use calculations are those regarding the discount rate and the multiple applied to the Regulatory Asset Value ("RAV") at the end of the period to determine the terminal value.

CGU cash flows are derived from the corporate business plan approved by the management. In determining the value in use, cash flows for a period of 27 years (until 2050) have been discounted and aggregated with a terminal value, which is calculated by applying a multiple to the RAV at the end of the period. A period of greater than five years has been used as this duration more accurately reflects the regulatory environment in which we operate. Most significantly, it is aligned to the UK Government's legislated commitment to reach net-zero by 2050. The longer cash flow forecasts reflect the expected investment required in the network, in excess of the economy wide long-term growth rates in order to deliver the energy transition commitments, before applying a terminal value at the point those commitments are due to be fulfilled and market growth is expected to stabilise. Management believes that this commitment will require a significant shift in the UK's energy mix towards greater electrification of energy supply and the electrification of transport and domestic heating and thus the cash flow period is important because it mirrors the timing of the cash outflows associated with major capital replacement cycles and their subsequent recovery under electricity distribution regulation.

Typical industry practice to estimate the value of a UK utility is based on a multiple of the entity's RAV. Based on our experience, and the general principle that the RAV broadly represents the basis upon which future returns to a business are determined, we consider a RAV based multiple at the terminal year to be the best estimate of terminal value. The terminal value multiple applied to the RAV at the end of the cash flow period i.e. 31 March 2050, is 37.5% (2022: 37.5%).

The cash flows during the electricity price control period from 1 April 2023 to 31 March 2028 ("RIIO-ED2") are based on revenues allowed and cost of capital assumptions agreed in the RIIO-ED2 final determinations, together with management's expectation of the related cost and capital expenditure requirements during that period. Cash flows beyond this period are based on the approved budget and the management's expectation of the investment required to meet the net-zero target.

The pre-tax future cash flows are discounted using a pre-tax rate discount rate of 5.52%, 5.63% and 5.57% (2022: 5.11%, 5.24% and 5.12%) for East Midlands, West Midlands and South Wales, respectively. The NGED Group's post-tax weighted average cost of capital ("WACC") is calculated to be 4.91%. This is converted to a pre-tax discount rate for each CGU using an iterative calculation approach in the value in use methodology.

The pre-tax cash flows reflect an implied long term growth rate of 2.3%-3.0%. Management supports this long term growth rate and considers this to be consistent with long term CPIH forecasts of 2%, reflecting continued expansion of electrification and electricity demand in the long run. This also justified by the fact that the Group has a historic track record of achieving performance targets and forecasts a consistent level of performance in the future.

At 31 March 2023, the East Midlands, West Midlands, and South Wales recoverable amounts exceeded their carrying amounts by £1,569.9m, £1,313.9m, and £759.7m (2022: £640.9m, £823.5m, and £347.4m), respectively.

In assessing the carrying value of goodwill, the cash flows have been sensitised to reasonable possible changes in key assumptions and the analysis reflects sufficient headroom. No reasonable changes to inputs to the impairment test performed over the East Midlands, West Midlands and South Wales were identified as resulting in an impairment. The key reasonable possible changes and sensitivities to assumptions are presented below:

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

14. Intangible assets (continued)

Reasonable possible changes in key assumptions:

	Reduction in recoverable amounts			Total £m
	East Midlands £m	West Midlands £m	South Wales £m	
0.5% increase in the pre-tax discount rate to 6.02%, 6.13% and 6.06% for East Midlands, West Midlands and South Wales, respectively	(638.0)	(590.2)	(306.0)	(1,534.2)
10% decrease in terminal value multiple on the RAV to 27.5%	(372.0)	(333.0)	(163.0)	(868.0)

Change in assumption required to eliminate all headroom and bring value in use equal to the carrying value of CGUs:

Increase in the pre-tax discount rate	by 1.78% to 7.30%	by 2.10% to 7.73%	by 2.05% to 7.62%
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A decline in the terminal value multiple to 0% does not eliminate all the headroom.

All changes in assumptions in above sensitivities assume that other assumptions remain the same.

15. Inventories

	2023 £m	2022 £m
Raw materials	35.2	35.6
Work in progress	1.2	0.9
	36.4	36.5

The cost of inventories recognised as an expense during the year was £11.2m (2022: £9.8m). The cost of inventories recognised as an expense includes £0.3m (2022: £0.6m) in respect of write downs of inventory to net realisable value and has been reduced by £nil (2022: £0.3m) in respect of reversal of such write downs.

16. Trade and other receivables

	2023 £m	2022 £m
Current receivables		
Trade receivables	291.1	282.5
Other receivables	14.8	14.2
Accrued income	5.8	8.1
Current tax receivable	4.7	-
Prepayments	23.8	22.7
Total current receivables	340.2	327.5
Non-current receivables		
Other receivables	0.7	1.3
Reimbursement asset re unfunded pension liability	2.7	3.2
Prepayments	0.6	1.0
Total non-current receivables	4.0	5.5
Total trade and other receivables	344.2	333.0

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

16. Trade and other receivables (continued)

The carrying amounts of trade and other receivables are considered to approximate their fair value.

Trade receivables includes unbilled DUoS income of £171.2m (2022: £150.2m).

Other receivables relate primarily to insurance claims and the non-current balances that are expected to be recovered over the next three years.

NGED South Wales has an unfunded obligation in relation to previous executives. This is subject to reimbursement by National Grid Electricity Distribution Holdings Limited (formerly Western Power Distribution Holding Company Limited), and therefore a corresponding reimbursement asset is stated on the balance sheet and matches the liability recorded under IAS 19 (Note 25).

As at 31 March 2023, trade receivables and accrued income at a nominal value of £2.6m (2022: £21.4m) were impaired and fully provided for. Movements in the provision for impairment were as follows.

	2023	2022
	£m	£m
At 1 April	21.4	3.5
Provision for impairment	1.9	25.4
Amounts written off as uncollectable	(20.3)	(6.7)
Amounts recovered during the year	(0.4)	(0.8)
At 31 March	2.6	21.4

The NGED Group considers 100% of its credit risk to be with counterparties in related industries. The maximum credit risk exposure is represented by the carrying value as at the balance sheet date.

As at 31 March, the aged analysis of trade receivables is as follows:

	Neither past due		Past due but not impaired				
	Total	nor impaired	<30 days	30-60 days	60-90 days	90-120 days	>120 days
	£m	£m	£m	£m	£m	£m	£m
2023	291.1	285.7	3.7	0.4	0.5	-	0.8
2022	282.5	274.6	4.3	2.3	0.5	0.5	0.3

Trade receivables that are neither past due nor impaired relate largely to charges made to electricity suppliers for the use of NGED's distribution network. Credit risk management for these receivables is performed in accordance with industry standards as set out by Ofgem and governed by the credit rules within the DCUSA.

In order to minimise exposure to debt, the DCUSA requires NGED to monitor electricity suppliers' (NGED's customers) indebtedness ratios daily to ensure it does not exceed 85%. The indebtedness ratio is defined as 'Value at Risk/Credit Limit' where 'Value at Risk' is the suppliers' current outstanding invoices plus a 15 day estimate of unbilled amounts and 'Credit Limit' is calculated by reference to NGED's RAV, the suppliers' credit rating from an approved credit referencing agency, and the suppliers' payment performance history.

Where necessary, suppliers can ensure they are within the 85% indebtedness threshold by providing collateral to increase their 'Credit Limit'. This can be in the form of a letter of credit or equivalent bank guarantee, an escrow account deposit, a cash deposit, or any other form of collateral agreed between NGED and the supplier. At 31 March 2023, the NGED Group held collateral in relation to trade receivables in the form of cash £16.0m (2022: £4.9m), letters of credit £84.5m (2022: £106.2m), and parent company guarantees £15.6m (2022: £16.6m). Letters of credit have a rating of Moody's A2/S&P A or greater. The maximum amounts for parent company guarantees are based on their credit ratings as per the DCUSA regulations.

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

17. Loan receivable

	2023	2022
	£m	£m
Loan receivable from ultimate parent company	146.0	-

Loan receivable from ultimate parent company pertains to amount lent under the two-way loan agreement with National Grid Plc. The loan is unsecured and is repayable on demand. Interest is accrued on the balance at daily SONIA plus 0.25% margin.

18. Cash at bank and in hand

	2023	2022
	£m	£m
Cash at bank	47.5	47.2
Short-term bank deposits	0.5	101.6
Cash at bank and in hand	48.0	148.8

The fair value of cash at bank is considered to approximate its carrying amount. Short term deposits are measured at fair value through profit and loss ("FVTPL"). Cash at bank earns interest at floating rates based on short-term bank deposit rates. Short term deposits are all instant access funds.

At 31 March 2023, the NGED Group had available £845.0m (2022: £845.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. All facilities incur commitment fees at market rates. At 31 March 2023, it also had available undrawn uncommitted facilities of £1.9m (2022: £1.9m).

Included in cash and short-term bank deposits are restricted amounts totalling £15.6m (2022: £12.4m) which are not readily available for the general purposes of the NGED Group. The restrictions relate largely to minimum cash balances that are required to be maintained for insurance purposes and cash balances that can only be used for low carbon network fund projects.

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise the following at 31 March:

	2023	2022
	£m	£m
Cash at bank and in hand (from above)	48.0	148.8
Bank overdrafts (Note 20)*	(11.3)	(21.1)
Cash and cash equivalents	36.7	127.7

*Bank overdrafts comprise principally unrepresented cheques and BACS at the year end.

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

19. Trade and other payables

	2023 £m	2022 £m
Current payables		
Trade payables	86.0	53.0
Social security and other taxes	71.0	65.6
Payments received in advance	246.2	214.5
Other payables	20.6	4.9
Deferred contributions	51.8	49.2
Deferred income	12.6	12.3
Accruals	281.0	285.3
Amounts due to affiliated National Grid Companies	-	4.4
	769.2	689.2
Non-current payables		
Deferred contributions	2,954.2	2,806.8
	2,954.2	2,806.8
	3,723.4	3,496.0

Trade and other payables comprise amounts outstanding for trade purchases and ongoing costs. Other payables include £16.0m (2022: £4.9m) DUoS collateral deposits received from suppliers in accordance with the DCUSA. Deferred contributions are those amounts received from customers in respect of new connections to the network.

The carrying amount of trade and other payables is considered to approximate their fair value.

20. Loans and other borrowings

	2023 £m	2022 £m
Current		
Bank overdrafts	11.3	21.1
Loan with ultimate parent company (i)	567.9	662.6
Lease liabilities*	3.2	1.7
5.25% GB£700m bonds due 2023 (ii)	-	700.3
3.625% GB£500m bonds due 2023	499.6	-
	1,082.0	1,385.7

(i) The loan with ultimate parent company pertains to amounts drawn under the two-way loan agreement with National Grid Plc. The loan is unsecured and is repayable on demand. Interest is accrued daily on the balance at SONIA plus 0.25% margin.

(ii) 5.25% GB£700 bond due 2023 was repaid in January 2023.

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

20. Loans and other borrowings (continued)

	2023 £m	2022 £m
Non-current		
Lease liabilities*	13.3	8.2
5.875% GB£250m bonds due 2027 (iv)	249.4	249.2
5.75% GB£200m bonds due 2040 (iv)	198.0	197.9
2.375% GB£250m bonds due 2029	248.0	247.7
4.804% GB£225m bonds due 2037 (i) (iv)	221.6	221.4
5.75% GB£200m bonds due 2040 (iv)	198.0	197.9
1.625% GB£250m bonds due 2035	246.6	246.4
6.25% GB£250m bonds due 2040 (iv)	256.3	256.6
6.00% GB£250m bonds due 2025 (iv)	251.1	251.6
5.75% GB£800m bonds due 2032 (iv)	793.9	793.2
3.875% GB£400m bonds due 2024 (iv)	399.2	398.6
3.625% GB£500m bonds due 2023	-	498.9
7.375% US\$202m bonds due 2028	159.4	148.7
3.5% GB£350m bonds due 2026	347.7	347.0
1.75% GB£250m bonds due 2031	246.7	246.3
3.53% Euro€500m bonds due 2028	432.2	-
3.949% Euro€500m bonds due 2032	430.5	-
1.541% + RPI GB£105m index linked bonds 2053 (ii) (iii)	188.9	166.6
1.541% + RPI GB£120m index linked bonds 2056 (ii) (iii)	215.9	190.4
0.010% + RPI GB£50m index linked bonds 2029 (iii)	69.0	61.2
0.010% + RPI GB£30m index linked bonds 2036 (iii)	39.9	35.3
2.671% + RPI GB£140m index linked bonds 2043 (iii)	244.9	220.6
1.676% + RPI GB£105m index linked bonds 2052 (iii)	164.2	146.7
0.4975% + RPI GB£100m index linked bonds 2030 (iii)	136.1	119.5
1.25% + RPI GB£30m index linked bonds due 2028 (iii)	39.3	34.7
	5,790.1	5,284.6
Total loans and other borrowings	6,872.1	6,670.3

(i) May be redeemed, in total but not in part, on 21 December 2026, at the greater of the principal value or a value determined by reference to the gross redemption yield on a nominated UK Government bond.

(ii) May be redeemed, in total by series, on 1 December 2026, at the greater of the adjusted principal value and a make-whole value determined by reference to the gross real yield on a nominated UK Government bond.

(iii) The principal amount of the notes is adjusted based on changes in a specified index, as detailed in the terms of the related indentures. The adjustment to the principal amounts in the current year was an increase of approximately £67.8m resulting from inflation.

(iv) May be put by the holders to the issuer for redemption if the long-term credit ratings assigned to the notes are withdrawn by any of the rating agencies (Moody's or S&P) or reduced to a non-investment grade rating of Ba1 or BB+ in connection with a restructuring event which includes the loss of, or a material adverse change to, the distribution licences under which the issuer operates.

None of the outstanding debt securities noted above has sinking fund requirements.

***Lease liabilities**

	2023 £m	2022 £m
Opening	9.9	9.4
Additions	8.8	2.0
Payments during the year	(2.7)	(1.7)
Interest expense	0.5	0.2
At 31 March	16.5	9.9
of which		
Current	3.2	1.7
Non-current	13.3	8.2

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

20. Loans and other borrowings (continued)

***Lease liabilities (continued)**

The NGED Group leases various properties under non-cancellable operating lease arrangements. In addition to this, NGED leases in rights to capacity on third party fibre optic networks, and space and equipment at third party telecommunication sites, under non-cancellable lease arrangements, in order to extend its core fibre network for its point to point transmission services. The leases have various terms, escalation clauses and renewable rights. Lease terms and rentals to be paid during the lease term are defined within the agreement. In some cases, lease rentals may be subject to a rent review on dates specified within the agreement at the then prevailing market rate.

Short term leases and low value leases are excluded from recognition on the balance sheet. The amount charged to rent expense pertaining to short term leases amounts to £8.1m (2021: £7.4m) and pertaining to low value leases amounts to £0.8m (2021: £0.8m).

The carrying amounts of the NGED Group's borrowings are denominated in the following currencies:

	2023	2022
	£m	£m
UK pound	5,850.0	6,521.6
US dollar	159.4	148.7
Euro	862.7	-
	6,872.1	6,670.3

21. Reconciliation of liabilities arising from financing activities

	2023	2022
	£m	£m
Borrowings (excluding lease liabilities and bank overdrafts)	6,844.3	6,639.3
Lease liabilities	16.5	9.9
Derivatives in hedging relationship	(43.8)	(35.9)
Gross debt net of related derivatives (excluding bank overdraft)	6,817.0	6,613.3

Change in liabilities arising from financing activities

	2023	2022
	£m	£m
<i>Cash flow per financing activity section of cash flow statement</i>		
Net (decrease)/increase in short term borrowings	(107.2)	661.2
Proceeds from long term borrowings net of issue costs	866.7	-
Repayment of long term borrowings	(700.0)	(618.1)
Payment of lease liabilities	(2.7)	(1.7)
Change in liabilities arising from financing activities	56.8	41.4
<i>Non-cash adjustments</i>		
Fair value change in derivatives	(7.9)	(7.9)
Fair value gain on borrowings related to fair value hedges	(14.0)	-
Foreign exchange loss on borrowings	20.0	7.2
Net increase in borrowings due to indexation	125.0	67.8
Amortisation of premiums, discounts and issue costs	2.0	2.0
Interest payable balance rolled into ultimate parent company two-way loan	12.5	1.4
Leases acquired during the year	8.8	2.0
Interest expense on lease	0.5	0.2
Movement in gross debt net of related derivatives in the year	203.7	114.1
Gross debt net of related derivatives at beginning of year	6,613.3	6,499.2
Gross debt net of related derivatives (excluding bank overdrafts) at end of year	6,817.0	6,613.3

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

22. Financial instruments

Financial risk management objectives and policies

Risk management related to financing activities is carried out by the National Grid plc central treasury department under policies approved by the Finance Committee of the National Grid plc Board. These policies have been deemed applicable at NGED companies by their respective board of directors. The objective of the treasury department is to manage funding and liquidity requirements, including managing associated financial risks, to within acceptable boundaries. The Finance Committee provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, liquidity risk, use of derivative financial instruments and non derivative financial instruments, and investment of excess liquidity. Details of key activities in the current year are set out in the Finance Committee report on page 89 of the National Grid plc Annual Report and Accounts.

The NGED Group's principal financial liabilities, other than derivatives, comprise bank loans and overdrafts, bonds and trade payables. The main purpose of these financial liabilities is to raise finance for the NGED Group's operations. The NGED Group has various financial assets such as trade receivables and cash and short-term deposits, which arise directly from its operations.

The main risks arising from the NGED Group's financial instruments are fair value interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Where appropriate, derivatives are used for hedging currency and interest rate risk, and 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 NGED are:

- currency risk arising from our forecasted foreign currency transactions (debt issuance) is designated in cash flow hedges;
- currency and interest rate risk arising from borrowings are designated in cash flow or fair value hedges.

The assessment of whether the derivative will be effective is determined by comparison of the critical terms of the hedging instrument (i.e. cross-currency interest rate swap) with the critical terms of the hedged item. Critical terms of hedging instruments and hedged items are transacted to match on a 1:1 ratio by notional values. Because of the fact that the critical terms are the same, the entity can conclude that changes in cash flows attributable to the risk being hedged are expected to be completely offset by the hedging derivative. 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 7). Hedge accounting is discontinued when a hedging relationship no longer qualifies for hedge accounting.

Certain hedging instrument components, such as gains or losses arising from foreign currency basis, are treated separately as costs of hedging with the 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.

The hedge ratio is calculated from the quantity of the hedge item being hedged and the quantity of the hedging instrument being used to hedge that quantity of the hedged item. There is no imbalance between the weightings of the hedged item and the hedging instrument.

It is, and has been throughout 2023 and 2022, the NGED Group's policy that no speculative trading in financial instruments shall be undertaken.

Market risk

Market risk is the risk that movements in market rates, including foreign exchange rates, interest rates and inflation will affect the NGED Group's profit. The management of market risk is undertaken with risk limits approved by the Board.

Interest rate risk

The NGED Group has issued debt to finance its operations, which exposes it to interest rate risk. The NGED Group's interest rate risk management policy includes achieving the lowest possible cost of debt financing, while managing volatility of interest rates, applying a prudent mix of fixed and floating debt, either directly or through the use of derivative financial instruments affecting a shift in interest rate exposures between fixed and floating, and also matching debt service requirements to projected cash flows.

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

22. Financial instruments (continued)

Hedge accounting for interest rate risk

Borrowings issued at variable rates expose the NGED Group to cash flow interest rate risk. 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 NGED 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.

The NGED Group has entered into cross-currency interest rate swaps designated as fair value hedges in order to hedge the fair value risks associated with the Euro borrowings arising from fluctuations in interest rates.

NGED may also hedge the variability in the semi-annual interest payments related to the forecast debt issuance attributable to changes in the benchmark interest rate (i.e. swap rate) between hedge inception and the issuance's pricing date. This can be achieved through the use of a forward-starting interest rate swap, whereby NGED pays fixed and receives floating, that will be terminated when the debt issuance is priced. Through interest rate swaps NGED wants to benefit from lower gilt rates at a point of time. Locking in the rates at the lowest possible levels assists NGED to outperform the allowed cost of debt under Ofgem's price control mechanism.

The possible sources of hedge ineffectiveness are if the hedged transaction does not occur or if the transaction does not occur at the initial agreed terms such as timing, principal and tenor of issuance. Another possible source of hedge ineffectiveness is the credit risk of the swap counterparty.

The net exposure to interest rates at the balance sheet date can be summarised thus:

	2023 Carrying amount £m	2022 Carrying amount £m
Interest bearing/earning assets and liabilities:		
Fixed	5,148.0	4,975.7
Floating	388.1	534.9
Index-linked	1,098.2	975.0
	6,634.3	6,485.6
Represented by:		
Cash at bank and in hand	(48.0)	(148.8)
Loan receivable	(146.0)	-
Derivative financial assets/liabilities	(43.8)	(35.9)
Loans and borrowings	6,872.1	6,670.3
	6,634.3	6,485.6

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

22. Financial instruments (continued)

Interest rate sensitivity

The impact of a change in interest rates is dependent on the specific details of the financial asset or liability in question. Changes in fixed rate financial assets and liabilities, which account for the majority of loans and borrowings, are not measured at fair value through the income statement. In addition to this, changes to fixed-to-fixed hedging instruments which are recorded under cash flow hedge accounting also do not impact the income statement. Changes in variable rate instruments are recorded through the income statement. The exposure measured is therefore based on variable rate debt.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the NGED Group's profit before tax (through the impact on floating rate borrowings). There is no impact on the NGED Group's equity.

The sensitivity analysis excludes all non-derivative fixed rate financial instruments carried at amortised cost but includes all non-derivative floating rate financial instruments.

Currency derivatives have not been included in the sensitivity analysis below as they are not considered to be exposed to interest rate risk.

All sensitivity analysis has been prepared on the basis of the proportion of fixed to floating instruments being consistent as at the balance sheet date. The sensitivity analysis is indicative only and it should be noted that the NGED Group's exposure to such market rate changes is continually changing. The calculation is based on linear extrapolations of rate changes which may not reflect the actual result which would impact upon the NGED Group.

	2023		2022	
	Income statement (before tax)	Equity	Income statement (before tax)	Equity
	+/- £m	+/- £m	+/- £m	+/- £m
Interest Rate +/- 100bp	3.9	-	5.3	-

Inflation risk

The NGED Group's index-linked borrowings and interest liabilities are exposed to a risk of change in the carrying value due to changes in the UK RPI. This form of liability is a good match to the NGED Group's regulated assets ("RAV"), which are also linked to RPI due to the price setting mechanism imposed by the regulator, and also the price cap is linked to RPI. By matching liabilities to assets, index-linked debt hedges the exposure to changes in RPI and delivers a cash flow benefit, as compensation for the inflation risk is provided through adjustment to the principal rather than in cash.

The carrying value of index-linked debt held by the NGED Group is as follows:

	2023	2022
	£m	£m
Index-linked debt	1,098.2	975.0

Inflation sensitivity

Assuming sensitivity to the RPI does not take into account any changes to revenue or operating costs that are affected by RPI or inflation generally, the following table shows the illustrative effect on the income statement that would result from reasonably possible movements in changes in RPI before the effects of tax.

	2023		2022	
	Income statement (before tax)	Equity	Income statement (before tax)	Equity
	+/- £m	+/- £m	+/- £m	+/- £m
UK Retail Prices Index +/- 1.00%	11.0	(8.9)	9.8	(7.9)

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

22. Financial instruments (continued)

Foreign currency risk

The NGED Group's assets are principally sterling denominated; however, the NGED Group has access to various international debt capital markets and raises foreign currency denominated debt and is therefore exposed to foreign currency risk on its borrowings.

Hedge accounting for currency risk

Where long-term debt is denominated in a currency which is not sterling, the NGED Group's policy is to swap 100% of the foreign currency denominated principal and interest cash flows into sterling through the use of cross-currency interest rate swaps. Under a currency swap, the NGED Group agrees with another party to exchange the principal amount of the two currencies, together with interest amounts in the two currencies agreed by reference to a specific interest rate basis and principal amount. The principal of these instruments reflects the extent of the NGED Group's involvement in the instruments but does not represent its exposure to credit risk, which is assessed by reference to the fair value.

The NGED Group has entered into cross-currency interest rate swaps designated as cash flow hedges in order to hedge the currency cash flow risks associated with the future interest and principal payments on the NGED Group's US dollar and Euro borrowings arising from fluctuations in currency rates.

The cross-currency interest rate swaps have two fixed interest rate legs that match the interest payment, currency, notional amount and maturity date of the relate debt. Furthermore, the swaps also provide for a final exchange of currency on maturity of debts, thereby also eliminating any currency risk related to the principal repayment.

At 31 March 2023, the NGED Group had outstanding cross-currency swap agreements in cash flow hedges against borrowings with a total principal amount of \$202.0m (2022: \$202.0m) and €1,000.0m (2022: nil) and a swapped notional principal of £990.4m (2022: £121.9m). The hedges were assessed to be effective. The cross-currency interest rate swaps have a remaining term of nine years (2022: seven years) to match the underlying hedged borrowings consisting of semi-annual interest payments and the repayment of principal amounts. Under the swaps the NGED Group receives US dollar interest at an average fixed rate of 6.0% (2022: 6.0%) and Euro interest at an average fixed rate of 3.7% (2022: nil) and pays pound sterling interest at an average fixed rate of 5.6% (2022: 7.4%).

The principal amount of the NGED Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date and the impact of derivative financial instruments used to manage foreign currency risk were as follows:

	2023 \$m	2022 \$m
Borrowings	(202.0)	(202.0)
Gross exposure	(202.0)	(202.0)
Effect of cross-currency interest rate swaps	202.0	202.0
Net exposure	-	-
	2023 €m	2022 €m
Borrowings	(1,000.0)	-
Gross exposure	(1,000.0)	-
Effect of cross-currency interest rate swaps	1,000.0	-
Net exposure	-	-

Foreign currency sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in Sterling against the US dollar and euro exchange rate, with all other variables held constant, of the NGED Group's profit before tax and the NGED Group's equity.

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

22. Financial instruments (continued)

Foreign currency sensitivity (continued)

	2023		2022	
	Income statement (before tax) £m	Equity £m	Income statement (before tax) £m	Equity £m
10% increase in exchange rates - US Dollar	-	(1.2)	-	(2.7)
10% decrease in exchange rates - US Dollar	-	1.5	-	3.3
10% increase in exchange rates - Euro	-	(5.9)	-	-
10% decrease in exchange rates - Euro	-	7.1	-	-

Credit risk (see also Note 16)

Credit risk is the risk that a customer or counterparty to a financial instrument will fail to perform or fail to pay amounts due causing financial loss to the NGED Group and arises from cash and cash equivalents, derivative financial instruments and deposits with financial institutions and principally from credit exposures to customers relating to outstanding receivables.

NGED maintains credit policies and procedures with respect to counterparties (including requirements that counterparties maintain certain credit ratings criteria). Depending on the creditworthiness of the counterparty, the NGED Group may require collateral or other credit enhancements such as cash deposits or letters of credit and parent company guarantees.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. At 31 March the maximum exposure to credit risk was as follows:

	2023 £m	2022 £m
Cash at bank and in hand	48.0	148.8
Loan receivable	146.0	-
Trade receivables	291.1	282.5
Other receivables	15.5	15.5
Accrued income	5.8	8.1
Derivative financial instruments	48.4	35.9
	554.8	490.8

The NGED Group held collateral in relation to trade receivables in the form of cash £16.0m (2022: £4.9m), letters of credit £84.5m (2022: £106.2m), and parent company guarantees £15.6m (2022: £16.6m).

NGED has concentrations of customers among electric utilities and other energy marketing and trading companies. These concentrations of counterparties may impact NGED's overall exposure to credit risk, either positively or negatively, in that counterparties may be similarly affected by changes in economic, regulatory or other conditions.

The analysis of NGED's financial assets by credit risk rating grade is as follows:

2023	12 month ECL £m	Lifetime ECL £m	FVTPL £m	FVOCI £m	Total £m
AAA to A (Low to Fair Risk)	47.5	-	0.5	48.4	96.4
BBB+ to B (Monitoring)	146.0	-	-	-	146.0
Others monitored on ageing matrix	-	315.0	-	-	315.0
Total gross carrying value	193.5	315.0	0.5	48.4	557.4
Loss allowance	-	(2.6)	-	-	(2.6)
Net carrying value	193.5	312.4	0.5	48.4	554.8

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

22. Financial instruments (continued)

Credit risk (see also Note 16) (continued)

2022	12 month ECL £m	Lifetime ECL £m	FVTPL £m	FVOCI £m	Total £m
AAA to A (Low to Fair Risk)	47.2	-	101.6	35.9	184.7
BBB+ to B (Monitoring)	-	-	-	-	-
Others monitored on ageing matrix	-	327.5	-	-	327.5
Total Gross Carrying Value	47.2	327.5	101.6	35.9	512.2
Loss Allowance	-	(21.4)	-	-	(21.4)
Net Carrying Value	47.2	306.1	101.6	35.9	490.8

Liquidity risk

Liquidity risk is the risk that the NGED Group will not have sufficient funds to meet the obligations or commitments arising from its business operations and its financial liabilities.

Treasury is responsible for managing the banking and liquidity requirements of the NGED Group, risk management relating to interest rate and foreign exchange exposures, and for managing the credit risk relating to the banking counterparties with which it transacts. The department's operations are governed by policies determined by the Board.

The following credit facilities were in place at 31 March 2023:

	Expiration date	Capacity £m	Borrowed £m	Letters of credit issued £m	Unused capacity £m
NGED South West - Syndicated Credit Facility	May 2025	220.0	-	-	220.0
NGED East Midlands - Syndicated Credit Facility	May 2025	250.0	-	-	250.0
NGED West Midlands - Syndicated Credit Facility	May 2025	250.0	-	-	250.0
NGED South Wales - Syndicated Credit Facility	May 2025	125.0	-	-	125.0
Bank overdraft		20.0	-	-	20.0
Uncommitted Credit Facilities		6.0	-	4.1	1.9
Total Credit Facilities		871.0	-	4.1	866.9

The NGED Group also has uncommitted two-way loan facilities with its ultimate parent, National Grid Plc.

The NGED Group's primary source of liquidity is cash generated from its ongoing business operations. The electricity regulator sets a major element of the NGED Group's revenues, providing both a stable and predictable source of funds. In recognition of the long life of the NGED Group's assets and anticipated indebtedness, and to create financial efficiencies, the NGED Group's policy is to arrange that debt maturities are spread over a wide range of dates, thereby ensuring that the NGED Group is not subject to excessive refinancing risk in any one year. The NGED Group has entered into borrowing agreements for periods out to 2056.

The following tables detail the NGED Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the NGED Group can be required to pay. The table includes both interest and principal cash flows.

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

22. Financial instruments (continued)

Liquidity risk (continued)

2023	Less than one year £m	One to five years £m	Five to fifteen years £m	Greater than fifteen years £m	Total £m
Borrowings excluding lease liabilities	1,324.5	2,047.7	4,122.3	1,695.0	9,189.5
Lease liabilities	3.2	9.8	3.9	7.0	23.9
Trade and other payables	387.6	-	-	-	387.6
Total	1,715.3	2,057.5	4,126.2	1,702.0	9,601.0
2022	Less than one year £m	One to five years £m	Five to fifteen years £m	Greater than fifteen years £m	Total £m
Borrowings excluding lease liabilities	1,630.6	2,482.9	2,927.8	1,869.8	8,911.1
Lease liabilities	1.7	4.3	4.0	6.5	16.5
Trade and other payables	347.6	-	-	-	347.6
Total	1,979.9	2,487.2	2,931.8	1,876.3	9,275.2

The following table details the NGED Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted gross cash (inflows) and outflows on derivatives that require gross settlement.

2023	Less than one year £m	One to five years £m	Five to fifteen years £m	Greater than fifteen years £m	Total £m
Cross currency derivative payments	53.1	212.3	1,296.6	-	1,562.0
Cross currency derivative receipts	(44.9)	(179.7)	(1,370.9)	-	(1,595.5)
Total	8.2	32.6	(74.3)	-	(33.5)
2022	Less than one year £m	One to five years £m	Five to fifteen years £m	Greater than fifteen years £m	Total £m
Cross currency derivative payments	9.0	35.9	139.8	-	184.7
Cross currency derivative receipts	(11.3)	(45.4)	(176.4)	-	(233.1)
Total	(2.3)	(9.5)	(36.6)	-	(48.4)

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of carrying amounts and fair values of all of the NGED Group's financial instruments that are carried in the financial statements.

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

22. Financial instruments (continued)

Fair values of financial assets and financial liabilities (continued)

2023

	Amortised cost £m	Fair value through profit & loss £m	Fair value through OCI £m	Total book value £m	Fair value £m
<i>Financial assets</i>					
Cash at bank and in hand	47.5	0.5	-	48.0	48.0
Loan receivable	146.0	-	-	146.0	146.0
Derivative financial instruments	-	-	48.4	48.4	48.4
Trade and other receivables	312.4	-	-	312.4	312.4
<i>Financial liabilities</i>					
Bank overdraft	(11.3)	-	-	(11.3)	(11.3)
Interest-bearing loans and borrowings:					
- Fixed rate borrowings	(5,178.2)	-	-	(5,178.2)	(5,071.3)
- Floating rate borrowings	(567.9)	-	-	(567.9)	(567.9)
- Index linked	(1,098.2)	-	-	(1,098.2)	(983.0)
Lease liabilities	(16.5)			(16.5)	(16.5)
Derivative financial instruments	-	(2.9)	(1.7)	(4.6)	(4.6)
Trade and other payables	(387.6)	-	-	(387.6)	(387.6)
	(6,753.8)	(2.4)	46.7	(6,709.5)	(6,487.4)

2022

	Amortised cost £m	Fair value through profit & loss £m	Fair value through OCI £m	Total book value £m	Fair value £m
<i>Financial assets</i>					
Cash	47.2	101.6	-	148.8	148.8
Derivative financial instruments	-	-	35.9	35.9	35.9
Trade and other receivables	306.1	-	-	306.1	306.1
<i>Financial liabilities</i>					
Bank overdraft	(21.1)	-	-	(21.1)	(21.1)
Interest-bearing loans and borrowings:					
- Fixed rate borrowings	(5,001.7)	-	-	(5,001.7)	(5,574.4)
- Floating rate borrowings	(662.6)	-	-	(662.6)	(662.6)
- Index linked	(975.0)	-	-	(975.0)	(1,420.8)
Lease liabilities	(9.9)			(9.9)	(9.9)
Trade and other payables	(347.6)	-	-	(347.6)	(359.9)
	(6,664.6)	101.6	35.9	(6,527.1)	(7,558.0)

The fair value of the NGED Group's outstanding cross-currency interest rate swaps is the estimated amount, calculated using discounted cash flow models, that the NGED Group would receive or pay in order to terminate such contracts in an arm's length transaction taking into account market rates of interest and foreign exchange at the balance sheet date.

The carrying value of the NGED Group's bank loans and overdrafts approximates their fair value. The fair value of the NGED Group's other borrowings is estimated using quoted prices or, where these are not available, discounted cash flow analysis based on the NGED Group's current incremental borrowing rates for similar types and maturities of borrowing: these are classified as Level 2 in the fair value hierarchy.

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

22. Financial instruments (continued)

Fair values of financial assets and financial liabilities (continued)

The carrying value of short term receivables and payables are assumed to approximate their fair values where discounting is not material.

Fair value hierarchy

The NGED Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 March 2023, the NGED Group held the following financial instruments measured at fair value:

2023	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
<i>Assets measured at fair value</i>				
Derivatives financial instruments	-	48.4	-	48.4
Short term deposits	0.5	-	-	0.5
<i>Liabilities measured at fair value</i>				
Derivatives financial instruments	-	(4.6)	-	-
<hr/>				
2022	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
<i>Assets measured at fair value</i>				
Derivatives financial instruments	-	35.9	-	35.9
Short term deposits	101.6	-	-	101.6

To manage interest rate risk and foreign currency exchange risk, NGED uses contracts such as forward-starting swaps and cross-currency interest rate swaps. An income approach is used to measure the fair value of these contracts, utilising readily observable inputs, such as forward interest rates and forward foreign currency exchange rates, as well as inputs that may not be observable, such as credit valuation adjustments. In certain cases, market information cannot practicably be obtained to value credit risk and therefore internal models are relied upon. These models use projected probabilities of default and estimated recovery rates based on historical observances. The impact of credit risk on the fair value of derivatives is generally small relative to liabilities like debt, because the principal (notional) amount is not at risk and credit enhancements often exist and thus the overall classification of derivatives as Level 2 remains appropriate. NGED generally does not calculate separate liquidity valuation adjustments, based on the traders' view that liquidity risk is included in the market prices. NGED also does not generally calculate modelling reserves, as the interest rate/foreign currency derivatives can be developed using standard practices.

During the reporting period ending 31 March 2023, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of the Level 3 fair value measurements.

Hedge counterparties are major banks of high quality credit standing.

In addition to the above financial instruments, the fair value of long-term debt and investment at amortised cost as disclosed under financial liabilities is classified as Level 2.

NGED uses observable market data from Bloomberg to arrive at the fair value of long term debt and investment at amortised cost.

Capital risk management

The primary objective of the NGED Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

22. Financial instruments (continued)

Capital risk management (continued)

The NGED Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the NGED Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 March 2023 or 31 March 2022.

The NGED Group does not consider the standard gearing ratio of net debt as a percentage of net debt plus net assets shown in the balance sheet as an appropriate capital monitoring measure as it does not reflect the economic value of the assets of the Group's regulated businesses. Instead, the NGED Group monitors capital using a gearing ratio, which is net debt divided by the RAV. The RAV is a regulatory measure of the regulated business' asset base required to carry out the regulated activities. Regulated revenues are designed to cover operating costs (including certain replacement expenditure) and capital depreciation, as well as an allowed return on the RAV. The NGED Group's policy is to maintain a gearing ratio that ensures an investment grade credit rating. The NGED Group includes within net debt borrowings and associated cross-currency interest rate swaps less cash and cash equivalents and deposits.

	2023	2022
	£m	£m
Short term borrowings	1,067.5	1,362.9
Long term borrowings	5,776.8	5,276.4
Lease liabilities	16.5	9.9
Letters of credit	4.1	4.1
Cross-currency interest rate swaps	(43.8)	(35.9)
Loan receivable	(146.0)	-
Cash and cash equivalents (excluding restricted cash)	(21.1)	(114.8)
Net debt	6,654.0	6,502.6
Regulatory Asset Value	10,846.4	9,407.1
Gearing ratio	61%	69%
<i>Reconciliation of cash flows to net debt</i>		
	2023	2022
	£m	£m
Net decrease/(increase) in cash and cash equivalents	93.7	(11.4)
Net (decrease)/increase in short term borrowings	(107.2)	661.2
Net increase/(decrease) in long term borrowings	166.7	(618.1)
Net increase in loan receivable	(146.0)	-
Payment of lease liabilities	(2.7)	(1.7)
Change in debt resulting from cash flows	4.5	30.0
Fair value change in derivative	(7.9)	(7.9)
Fair value gain on borrowings related to fair value hedges	(14.0)	-
Foreign exchange loss on borrowings	20.0	7.2
Net increase in borrowings due to indexation	125.0	67.8
Amortisation of premiums, discounts and issue costs	2.0	2.0
Movement in letters of credits	-	0.6
Interest payable balance rolled into ultimate parent company two-way loan	12.5	1.4
Leases acquired during the year	8.8	2.0
Interest expense on lease	0.5	0.2
Movement in net debt in the year	151.4	103.3
Net debt at beginning of year	6,502.6	6,399.3
Net debt at end of year	6,654.0	6,502.6

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

23. Derivative financial instruments

Hedging instruments

As at 31 March, the NGED Group held the following derivative financial instruments measured at fair value:

2023	Nominal amount £m	Carrying amount assets £m	Carrying amount liabilities £m	Line item in balance sheet £m	Change in value used for calculating ineffective hedge £m
Foreign currency risk					
Cross-currency interest rate swaps - cash flow hedges	730.1	48.4	(1.7)	Derivative financial instruments	(23.0)
Interest rate risk					
Cross-currency interest rate swaps - fair value hedges	260.3		(2.9)	Derivative financial instruments	(13.0)
	990.4	48.4	(4.6)		(36.0)

2022	Nominal amount £m	Carrying amount (assets) £m	Carrying amount (liabilities) £m	Line item in balance sheet £m	Change in value used for calculating ineffective hedge £m
Foreign currency risk					
Cross-currency interest rate swaps - cash flow hedges	121.9	35.9	-	Derivative financial instruments	-
	121.9	35.9	-		-

Timing profile for hedge instruments' nominal amounts

	2023				Total £m
	Less than one year £m	One to five years £m	Five to fifteen years £m	Greater than fifteen years £m	
Cross-currency interest rate swaps - cash flow hedges	-	-	730.1	-	730.1
Cross-currency interest rate swaps - fair value hedges			260.3		260.3
	2022				Total £m
	Less than one year £m	One to five years £m	Five to fifteen years £m	Greater than fifteen years £m	
Cross-currency interest rate swaps - cash flow hedges	-	-	121.9	-	121.9

The average rate of the hedging instruments is as follows:

	2023	2022
Foreign currency risk:		
Cross-currency interest rate swaps	5.52%	7.37%
Interest rate risk		
Cross-currency interest rate swaps	5.79%	-

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

23. Derivative financial instruments (continued)

Hedged items - cash flow hedges

	2023		2022	
	Change in value used for calculating hedge ineffectiveness £m	Cash flow hedge reserve balance net of tax £m	Change in value used for calculating hedge ineffectiveness £m	Cash flow hedge reserve balance £m
Foreign currency risk:				
Borrowings	23.0	(11.6)	-	3.8
Interest rate risk				
Borrowings	-	(15.3)	-	(17.6)

Hedged items - Fair value hedges

	2023			2022		
	Change in value used for calculating hedge ineffectiveness £m	Carrying value of hedged borrowings £m	Fair value gain adjustments included in borrowings £m	Change in value used for calculating hedge ineffectiveness £m	Carrying value of hedged borrowings £m	Fair value gain adjustments included in borrowings £m
Interest rate risk						
Borrowings	12.0	862.7	(14.1)	-	-	-

Hedge effectiveness

	2023		Line item in income statement including ineffective hedge portion	Amount reclassified because cash flows no longer expected £m	Amount reclassified because hedged item affected P&L £m	Line item in income statement including reclass adjustment
	Hedging gain/(loss) in OCI £m	Ineffective hedge portion recognised in income statement £m				
Foreign currency risk - cash flow hedge	(1.9)	-	Finance income	-	(16.9)	Finance costs
Interest rate risk - cash flow hedge	-	-		-	1.3	Finance costs
Interest rate risk - Fair value hedge	-	(1.0)	Finance income	-	-	

	2022		Line item in income statement including ineffective hedge portion	Amount reclassified because cash flows no longer expected £m	Amount reclassified because hedged item affected P&L £m	Line item in income statement including reclass adjustment
	Hedging gain / (loss) in OCI £m	Ineffective hedge portion recognised in income statement £m				
Foreign currency risk	9.9	-		-	(9.3)	Finance costs
Interest rate risk	-	-		-	1.8	

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

23. Derivative financial instruments (continued)

Reconciliation of hedging reserve

	2023		2022	
	Cash flow hedge reserve £m	Cost of hedge reserve £m	Cash flow hedge reserve £m	Cost of hedge reserve £m
Opening balance	(13.8)	-	(16.9)	-
Hedging gain/(loss)	(1.9)	0.6	9.9	-
Amount reclassified to income statement because hedged item affected profit and loss	(15.6)	-	(7.5)	-
Income tax impact	4.4	(0.1)	0.7	-
Closing balance	(26.9)	0.5	(13.8)	-

24. Deferred tax

The following are the deferred tax liabilities and assets recognised by the NGED Group and movements thereon during the current and prior year:

	Accelerated capital allowances £m	Retirement benefit obligation £m	Other £m	Total £m
At 1 April 2021	706.7	75.1	(15.0)	766.8
Charge to the income statement	277.3	4.5	0.4	282.2
Charge/(credit) to equity	-	280.3	(0.7)	279.6
Transfer between categories	(9.1)	-	9.1	-
At 1 April 2022	974.9	359.9	(6.2)	1,328.6
Charge to the income statement	63.7	22.3	0.3	86.3
Credit to equity	-	(220.7)	(4.7)	(225.4)
Disposal of subsidiary	0.9	-	-	0.9
At 31 March 2023	1,039.5	161.5	(10.6)	1,190.4

Accelerated capital allowances represents the tax deferred on profits due to the difference in timing when the deductions for expenditure on fixed assets are recognised in the income statement through depreciation and when tax deductions for that expenditure through capital allowances are included in tax returns filed with HMRC. Deferred tax arises on retirement benefit obligations as tax deductions are included in tax returns as contributions are paid to the pension schemes and not when the obligations or surpluses on the schemes are recorded in the financial statements. The other deferred tax balances relate to items such as provisions and accruals that are tax deductible when paid rather than when accrued and debt value adjustments that are taxed/deducted under tax rules at times different to when those adjustments have been recognised in the income statements.

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. After offset, there is a net deferred tax liability that will reverse after more than one year. The net deferred tax liability will impact the Group's tax payments over a very long period of time mainly due to the long expected useful lives of fixed assets and the Group's pension schemes having no fixed maturity dates.

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the deferred tax benefit through future taxable profits is probable. The Group did not recognise deferred tax assets of £238.1m (2022: £238.1m) in respect of capital losses amounting to £952.3m (2022: £952.4m) that can be carried forward against future taxable chargeable gains as there is no use of these assets for the foreseeable future.

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

25. Retirement benefit obligations

Introduction

The NGED Group operates four defined benefit pension schemes:

- two segments of the Electricity Supply Pension Scheme ("ESPS"),
 - the segment covering NGED South West and NGED South Wales ("ESPS WPD"), and
 - the segment covering NGED East Midlands and NGED West Midlands ("ESPS CN")
- the Western Power Utilities Pension Scheme ("WPUPS")
- the Infralec 1992 Pension Scheme ("Infralec 92")

The assets of all four schemes are held separately from those of the NGED Group in trustee administered funds.

The ESPS provides pension and other related defined benefits based on final pensionable pay to employees throughout the electricity supply industry. The two segments of the ESPS relating to NGED are closed to new members except in very limited circumstances. Existing members are unaffected. A defined contribution scheme is offered to new employees.

NGED South Wales is the principal employer for WPUPS, which is a defined benefit scheme providing benefits relating to previous employees of a former affiliated group. NGED South Wales will fund the actuarial deficit. However, as National Grid Electricity Distribution Holdings Limited, (formerly Western Power Distribution Holding Company Limited), the Company's parent, has taken full financial responsibility for this scheme, NGED South Wales will be reimbursed for these payments. As National Grid Electricity Distribution Holdings Limited, (formerly Western Power Distribution Holding Company Limited) is outside the NGED Group, the value of the reimbursement agreement is stated in the balance sheet (Note 26) and matches the gross asset/liability recorded under IAS 19 below.

Infralec 92 provides benefits on both a money purchase and final salary basis and is operated by NGED South Wales.

WPUPS and Infralec 92 are closed with no active members.

The NGED Group also has an unfunded obligation which relates to previous executives of NGED East Midlands and NGED West Midlands. NGED South Wales also has an unfunded obligation in relation to previous executives. This is subject to reimbursement by National Grid Distribution Holdings Limited as a result of the novation agreement executed during the prior year, and therefore a corresponding reimbursement asset is stated on the balance sheet (Note 16) and matches the liability recorded under IAS 19.

Other scheme

NGED also operates a defined contribution scheme. The assets of the scheme are held separately from those of NGED in an independent fund administered by the scheme trustee. The scheme has two sections:

- (a) a closed section with no active members. At 31 March 2023 there were 188 members with deferred benefits in the scheme (2022: 191) and 7 pensioners (2022: 5). Market value of the assets was £2.3m (2022: £2.4m).
- (b) a new pension arrangement available to all new employees in NGED with effect from 1 April 2010. At 31 March 2023 there were 5,001 members (2022: 4,588). The market value of the assets of the open section of the scheme was £164.1m (2022: £164.0m). Employer contributions to the scheme amounted to £15.3m in the year (2022: £13.5m).

Defined benefit schemes

The liability/asset recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of the plan assets. The defined benefit obligation is calculated annually by independent actuaries, Aon, using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits are paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes to actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in income.

The schemes are funded, defined benefit, final salary pension plans. The level of benefits provided depends on members' length of service and their salary at the date of leaving the NGED group. The majority of pensions in payment receive inflationary increases in line with the RPI ("Retail Prices Index") inflation. The benefit payments are from trustee-administered funds. The amount of contributions to be paid is decided jointly by the employer and the Trustees of the Scheme. Assets held in trust are governed by UK regulations and practice. The schemes' investment strategy is decided by the Trustees, in consultation with the employer. The Boards of Trustees must be composed of representatives of the employer and plan participants in accordance with the schemes' legal documentation.

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

25. Retirement benefit obligations (continued)

The amounts recognised in the balance sheet are determined as follows:

	2023					
	ESPS WPD £m	ESPS CN £m	WPUPS £m	Infralec 92 £m	Unfunded £m	Total £m
Present value of obligations	1,809.9	2,535.1	381.1	10.1	6.4	4,742.6
Fair value of scheme assets	(1,930.9)	(2,986.6)	(457.6)	(13.9)	-	(5,389.0)
(Surplus)/deficit of funded plan and (asset)/liability recognised in the balance sheet	(121.0)	(451.5)	(76.5)	(3.8)	6.4	(646.4)
Represented by:						
Retirement benefit obligations	-	-	-	-	6.4	6.4
Retirement benefit assets	(121.0)	(451.5)	(76.5)	(3.8)	-	(652.8)
	(121.0)	(451.5)	(76.5)	(3.8)	6.4	(646.4)

	2022					
	ESPS WPD £m	ESPS CN £m	WPUPS £m	Infralec 92 £m	Unfunded £m	Total £m
Present value of obligations	2,368.5	3,336.9	491.8	12.8	7.7	6,217.7
Fair value of scheme assets	(2,827.3)	(4,216.3)	(597.0)	(17.5)	-	(7,658.1)
(Surplus)/deficit of funded plan and (asset)/liability recognised in the balance sheet	(458.8)	(879.4)	(105.2)	(4.7)	7.7	(1,440.4)
Represented by:						
Retirement benefit obligations	-	-	-	-	7.7	7.7
Retirement benefit assets	(458.8)	(879.4)	(105.2)	(4.7)	-	(1,448.1)
	(458.8)	(879.4)	(105.2)	(4.7)	7.7	(1,440.4)

The regulator, Ofgem, currently allows ongoing service costs and a proportion of the deficit costs to be recovered through regulated income.

Analysis of the amount charged to profit before interest and taxation or to capital expenditure:

	2023					
	ESPS WPD £m	ESPS CN £m	WPUPS £m	Infralec 92 £m	Unfunded £m	Total £m
Current service cost	23.7	27.2	-	-	-	50.9
Administrative costs	1.5	1.9	0.7	-	-	4.1
WPUPS reimbursement agreement	-	-	(0.7)	-	-	(0.7)
Operating charge relating to defined benefit plans	25.2	29.1	-	-	-	54.3
Interest income on plan assets	(67.3)	(100.2)	(14.0)	(0.4)	-	(181.9)
Interest on plan liabilities	55.7	78.5	11.5	0.3	0.1	146.1
WPUPS reimbursement agreement	-	-	2.5	-	-	2.5
Other finance (income)/expense	(11.6)	(21.7)	-	(0.1)	0.1	(33.3)

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

25. Retirement benefit obligations (continued)

	2022					Total £m
	ESPS WPD £m	ESPS CN £m	WPUPS £m	Infralec 92 £m	Unfunded £m	
Current service cost	32.6	36.4	-	-	-	69.0
Administrative costs	1.3	1.7	0.4	-	-	3.4
WPUPS reimbursement agreement	-	-	(0.4)	-	-	(0.4)
Operating charge relating to defined benefit plans	33.9	38.1	-	-	-	72.0
Interest income on plan assets	(52.9)	(79.1)	(12.1)	(0.4)	-	(144.5)
Interest on plan liabilities	52.2	73.5	10.1	0.3	0.2	136.3
WPUPS reimbursement agreement	-	-	2.0	-	-	2.0
Other finance (income)/expense	(0.7)	(5.6)	-	(0.1)	0.2	(6.2)

The operating charge is allocated to the operating expenses in the income statement or to capital expenditure as appropriate.

Analysis of the amount recognized in other comprehensive income:

	2023					Total £m
	ESPS WPD £m	ESPS CN £m	WPUPS £m	Infralec 92 £m	Unfunded £m	
Return on plan assets excluding amounts included in interest (income)/expense	902.7	1,247.4	126.2	3.6	-	2,279.9
Gain from change in demographic assumptions	(22.4)	(29.9)	(4.7)	(0.1)	-	(57.1)
Gain from change in financial assumptions	(573.6)	(770.3)	(92.0)	(2.2)	(1.1)	(1,439.2)
Experience losses/(gains)	55.4	42.5	1.0	(0.1)	-	98.8
WPUPS Reimbursement agreement	-	-	(30.5)	-	0.4	(30.1)
Remeasurement losses recognised in other comprehensive income	362.1	489.7	-	1.2	(0.7)	852.3

	2022					Total £m
	ESPS WPD £m	ESPS CN £m	WPUPS £m	Infralec 92 £m	Unfunded £m	
Return on plan assets excluding amounts included in interest income	(196.5)	(294.4)	(2.8)	-	-	(493.7)
Loss from change in demographic assumptions	87.2	118.4	13.1	0.5	-	219.2
(Gain)/loss from change in financial assumptions	(335.8)	(462.4)	(29.5)	(1.1)	0.4	(828.4)
Experience losses	24.5	38.1	14.0	0.2	-	76.8
WPUPS reimbursement agreement	-	-	5.2	-	(0.2)	5.0
Remeasurement (gains)/losses recognised in other comprehensive income	(420.6)	(600.3)	-	(0.4)	0.2	(1,021.1)

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

25. Retirement benefit obligations (continued)

The movement in the net defined benefit obligation over the accounting period is as follows:

ESPS WPD	Year ended 31 March 2023			Year ended 31 March 2022		
	Present value of obligation £m	Fair value of plan assets £m	Total £m	Present value of obligation £m	Fair value of plan assets £m	Total £m
Liability/(asset) at 1 April	2,368.5	(2,827.3)	(458.8)	2,606.1	(2,637.6)	(31.5)
Current service cost	23.7	-	23.7	32.6	-	32.6
Administrative costs	1.5	-	1.5	1.3	-	1.3
Interest expense/(income)	55.7	(67.3)	(11.6)	52.2	(52.9)	(0.7)
Past service cost and gains and losses on settlements	4.8	-	4.8	-	-	-
	85.7	(67.3)	18.4	86.1	(52.9)	33.2
Remeasurements:						
Return on plan assets excluding amounts included in interest (income)/expense	-	902.7	902.7	-	(196.5)	(196.5)
(Gain)/loss from change in demographic assumptions	(22.4)	-	(22.4)	87.2	-	87.2
Gain from change in financial assumptions	(573.6)	-	(573.6)	(335.8)	-	(335.8)
Experience losses	55.4	-	55.4	24.5	-	24.5
	(540.6)	902.7	362.1	(224.1)	(196.5)	(420.6)
Contributions:						
Employers	-	(42.7)	(42.7)	-	(39.9)	(39.9)
Plan participants	3.8	(3.8)	-	3.8	(3.8)	-
	3.8	(46.5)	(42.7)	3.8	(43.7)	(39.9)
Payments from plan:						
Benefit payments	(106.0)	106.0	-	(102.1)	102.1	-
Administrative costs	(1.5)	1.5	-	(1.3)	1.3	-
	(107.5)	107.5	-	(103.4)	103.4	-
Liability/(asset) at 31 March	1,809.9	(1,930.9)	(121.0)	2,368.5	(2,827.3)	(458.8)

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

25. Retirement benefit obligations (continued)

ESPS CN	Year ended 31 March 2023			Year ended 31 March 2022		
	Present value of obligation £m	Fair value of plan assets £m	Total £m	Present value of obligation £m	Fair value of plan assets £m	Total £m
Liability/(asset) at 1 April	3,336.9	(4,216.3)	(879.4)	3,671.9	(3,940.9)	(269.0)
Current service cost	27.2	-	27.2	36.4	-	36.4
Administrative costs	1.9	-	1.9	1.7	-	1.7
Interest expense/(income)	78.5	(100.2)	(21.7)	73.5	(79.1)	(5.6)
	107.6	(100.2)	7.4	111.6	(79.1)	32.5
Remeasurements:						
Return on plan assets excluding amounts included in interest (income)/expense	-	1,247.4	1,247.4	-	(294.4)	(294.4)
(Gain)/loss from change in demographic assumptions	(29.9)	-	(29.9)	118.4	-	118.4
Gain from change in financial assumptions	(770.3)	-	(770.3)	(462.4)	-	(462.4)
Experience losses	42.5	-	42.5	38.1	-	38.1
	(757.7)	1,247.4	489.7	(305.9)	(294.4)	(600.3)
Contributions:						
Employers	-	(69.2)	(69.2)	-	(42.6)	(42.6)
Plan participants	5.7	(5.7)	-	5.7	(5.7)	-
	5.7	(74.9)	(69.2)	5.7	(48.3)	(42.6)
Payments from plan:						
Benefit payments	(155.5)	155.5	-	(144.7)	144.7	-
Administrative costs	(1.9)	1.9	-	(1.7)	1.7	-
	(157.4)	157.4	-	(146.4)	146.4	-
Liability/(asset) at 31 March	2,535.1	(2,986.6)	(451.5)	3,336.9	(4,216.3)	(879.4)

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

25. Retirement benefit obligations (continued)

WPUPS	Year ended 31 March 2023			Year ended 31 March 2022		
	Present value of obligation £m	Fair value of plan assets £m	Total £m	Present value of obligation £m	Fair value of plan assets £m	Total £m
Liability/(asset) at 1 April	491.8	(597.0)	(105.2)	510.0	(608.4)	(98.4)
Administrative costs	0.7	-	0.7	0.4	-	0.4
Interest expense/(income)	11.5	(14.0)	(2.5)	10.1	(12.1)	(2.0)
	12.2	(14.0)	(1.8)	10.5	(12.1)	(1.6)
Remeasurements:						
Return on plan assets excluding amounts included in interest expense/(income)	-	126.2	126.2	-	(2.8)	(2.8)
(Gain)/loss from change in demographic assumptions	(4.7)	-	(4.7)	13.1	-	13.1
Gain from change in financial assumptions	(92.0)	-	(92.0)	(29.5)	-	(29.5)
Experience loss	1.0	-	1.0	14.0	-	14.0
	(95.7)	126.2	30.5	(2.4)	(2.8)	(5.2)
Contributions:						
Employers	-	-	-	-	-	-
	-	-	-	-	-	-
Payments from plan:						
Benefit payments	(26.5)	26.5	-	(25.9)	25.9	-
Administrative costs	(0.7)	0.7	-	(0.4)	0.4	-
	(27.2)	27.2	-	(26.3)	26.3	-
Liability/(asset) at 31 March	381.1	(457.6)	(76.5)	491.8	(597.0)	(105.2)

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

25. Retirement benefit obligations (continued)

Infraclec 92	Year ended 31 March 2023			Year ended 31 March 2022		
	Present value of	Fair value of plan		Present value of	Fair value of plan	
Liability/(asset) at 1 April	12.8	(17.5)	(4.7)	13.5	(17.4)	(3.9)
Interest expense/(income)	0.3	(0.4)	(0.1)	0.3	(0.4)	(0.1)
	0.3	(0.4)	(0.1)	0.3	(0.4)	(0.1)
Remeasurements:						
Return on plan assets excluding amounts included in interest (income)/expense	-	3.6	3.6	-	-	-
(Gain)/loss from change in demographic assumptions	(0.1)	-	(0.1)	0.5	-	0.5
Gain from change in financial assumptions	(2.2)	-	(2.2)	(1.1)	-	(1.1)
Experience (gains)/losses	(0.1)	-	(0.1)	0.2	-	0.2
	(2.4)	3.6	1.2	(0.4)	-	(0.4)
Contributions:						
Employers	-	(0.2)	(0.2)	-	(0.3)	(0.3)
	-	(0.2)	(0.2)	-	(0.3)	(0.3)
Payments from plan:						
Benefit payments	(0.6)	0.6	-	(0.6)	0.6	-
	(0.6)	0.6	-	(0.6)	0.6	-
Liability/(asset) at 31 March	10.1	(13.9)	(3.8)	12.8	(17.5)	(4.7)

The significant actuarial assumptions made were as follows:

	2023			
	ESPS WPD	ESPS CN	WPUPS	Infraclec 92
	%	%	%	%
RPI Inflation	3.15	3.15	3.20	3.20
CPI Inflation	2.65	2.65	2.60	2.60
Rate of general long-term salary increases	3.10	3.10	N/a	N/a
RPI-linked pension increases	3.05*	2.95	3.20	2.95
CPI-linked pension increases	N/a	N/a	2.60	N/a
Post-88 GMP pension increases	2.00	2.00	2.00	2.00
Discount rate for scheme liabilities	4.80	4.80	4.80	4.80

* with 5% cap for years ending 31 March 2022 and 31 March 2021, mean of RPI and RPI with 5% cap for year ending 31 March 2023.

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

25. Retirement benefit obligations (continued)

The significant actuarial assumptions made were as follows:

	2022			
	ESPS WPD %	ESPS CN %	WPUPS %	Infralec 92 %
RPI Inflation	3.50	3.60	3.70	3.70
CPI Inflation	3.05	3.10	3.15	3.15
Rate of general long-term salary increases	3.55	3.60	N/a	N/a
RPI-linked pension increases	3.10	3.10	3.70	3.15
CPI-linked pension increases	N/a	N/a	3.15	N/a
Post-88 GMP pension increases	2.10	2.10	2.15	2.15
Discount rate for scheme liabilities	2.80	2.80	2.75	2.75

Assumptions relating to future mortality are set based on actuarial advice in accordance with published statistics and experience. These assumptions translate into an average life expectancy in years for a member at age 60:

ESPS WPD

	31 March 2023	31 March 2022
Mortality table adopted	Based on S2PXA base tables with CMI 2021 core projections and a 1.25% per annum long-term improvement rate	Based on S2PXA base tables with CMI 2021 core projections and a 1.25% per annum long-term improvement rate
Life expectancy for a male currently aged 60	26.5	26.9
Life expectancy for a female currently aged 60	28.5	28.8
Life expectancy at 60 for a male currently aged 40	27.7	28.1
Life expectancy at 60 for a female currently aged 40	29.70	30.00

ESPS CN

	31 March 2023	31 March 2021
Mortality table adopted	Based on S2PXA base tables with CMI 2021 core projections and a 1.25% per annum long-term improvement rate	Based on S2PXA base tables with CMI 2021 core projections and a 1.25% per annum long-term improvement rate
Life expectancy for a male currently aged 60	26.5	26.9
Life expectancy for a female currently aged 60	28.5	28.8
Life expectancy at 60 for a male currently aged 40	27.7	28.1
Life expectancy at 60 for a female currently aged 40	29.70	30.00

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

25. Retirement benefit obligations (continued)

WPUPS

	31 March 2023	31 March 2022
Mortality table adopted	*with CMI 2021 core projections and a 1.25% per annum long-term improvement rate	*with CMI 2021 core projections and a 1.25% per annum long-term improvement rate
Life expectancy for a male currently aged 60	26.4	26.9
Life expectancy for a female currently aged 60	28.9	29.2
Life expectancy at 60 for a male currently aged 40	27.8	28.2
Life expectancy at 60 for a female currently aged 40	30.4	30.6

* Male non-pensioners: 105% of S3PMA base tables, female non-pensioners: 97% of S3PFA_middle base tables, male pensioners 103% of S3PMA base tables, female pensioners: 96% of S3PFA_middle base tables

Infralec 92

	31 March 2023	31 March 2022
Mortality table adopted	100% of S2PXA base tables with CMI 2021 core projections and a 1.25% per annum long-term improvement rate	100% of S2PXA base tables with CMI 2021 core projections and a 1.25% per annum long-term improvement rate
Life expectancy for a male currently aged 60	26.5	26.9
Life expectancy for a female currently aged 60	28.5	28.8
Life expectancy at 60 for a male currently aged 40	28.1	28.5
Life expectancy at 60 for a female currently aged 40	30.1	30.4

The sensitivity of the defined benefit obligation to changes in the principal assumptions is:

	Change in assumption %	Impact on defined benefit obligation			
		ESPS WPD £m	ESPS CN £m	WPUPS £m	Infralec 92 £m
Discount rate	-/+1%	+264/-211	+345/-281	+41/-35	+1/-1
RPI Inflation	+/-1%	+202/-174	+220/-208	+36/-32	+1/-1
Life expectancy	+ 1 year	64	109	19	-

The above sensitivity analysis on the discount rate is based on a change in assumption while holding all other assumptions constant. The change in RPI inflation assumption impacts on the salary increases, CPI assumption, revaluation in deferment and pension increase assumptions. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the balance sheet.

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

25. Retirement benefit obligations (continued)

ESPS WPD scheme assets are comprised as follows:

	31 March 2023		31 March 2022	
	Total £m	Of which not quoted in an active market £m	Total £m	Of which not quoted in an active market £m
Equities	259.0	(2.0)	628.7	(3.6)
Credit	203.2	-	250.0	-
Property	225.2	225.2	253.2	253.2
Diversified alternatives	247.3	-	536.4	-
LDI strategy	998.5	998.5	1,130.6	1,130.6
Other including cash and net current assets	(2.3)	(4.6)	28.4	(4.1)
Total	1,930.9	1,217.1	2,827.3	1,376.1

ESPS CN scheme assets are comprised as follows:

	31 March 2023		31 March 2022	
	Total £m	Of which not quoted in an active market £m	Total £m	Of which not quoted in an active market £m
Equities	204.2	(1.4)	686.2	(6.0)
Credit	295.4	-	351.7	-
Property	358.2	358.2	365.7	365.7
Diversified alternatives	461.0	-	798.1	-
LDI strategy	1,675.1	1,542.8	2,018.2	1,943.1
Other including cash and net current assets	(7.3)	(8.7)	(7.1)	(8.5)
Total	2,986.6	1,890.9	4,212.8	2,294.3

WPUPS scheme assets are comprised as follows:

	31 March 2023		31 March 2022	
	Total £m	Of which not quoted in an active market £m	Total £m	Of which not quoted in an active market £m
Corporate bonds	244.4	-	281.6	-
LDI strategy	211.7	204.9	312.9	309.5
Other	1.5	0.9	2.5	(0.9)
Total	457.6	205.8	597.0	308.6

Infralec 92 scheme assets are comprised as follows:

	31 March 2023		31 March 2022	
	Total £m	Of which not quoted in an active market £m	Total £m	Of which not quoted in an active market £m
Equities	7.7	-	7.9	-
Government bonds	3.2	-	5.8	-
Corporate bonds	2.6	-	3.5	-
Other	0.4	0.1	0.3	-
Total	13.9	0.1	17.5	-

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

25. Retirement benefit obligations (continued)

There is no self-investment in any of the schemes.

Through its defined benefit pension plans, the NGED Group is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility	The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The scheme holds a significant proportion of growth assets (e.g. equities) which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short-term. The allocation to growth assets is monitored such that it is suitable with the schemes' long-term objectives.
Changes in bond yields	A decrease in corporate bond yields will increase the schemes' liabilities, although this will be partially offset by an increase in the value of the schemes' bond holdings.
Inflation risk	The majority of the schemes' benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). A proportion of the assets are either unaffected by or loosely correlated with inflation, meaning that an increase in inflation will increase the deficit.
Life expectancy	The majority of the schemes' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

The schemes use Government bonds, corporate bonds and cash as matching assets in the LDI strategy holding. The remainder of assets are used as growth assets.

The current agreed employer contributions for the WPD segment of the ESPS are 43.1% per annum of pensionable salaries plus an additional £1.2m per annum covering future benefit accruals, expenses (including PPF levies) and death in service benefits. In addition, the Company is committed to deficit contributions of £18.0m per annum payable monthly from 1 April 2023 to 30 November 2024.

The current agreed employer contributions for the CN segment of the ESPS are 37.5% per annum of pensionable salaries plus an additional £1.2m per annum covering future benefit accrual, expenses (including PPF levies) and death in service benefits. The payment of deficit contributions into ESPS CN are currently suspended but will be restarted at £3m per month should the assessed funding level fall below a defined level.

The results of the 31 March 2019 funding valuation showed that WPUPS was in surplus and as a result, no contributions are expected to be paid into the scheme for the year ending 31 March 2024.

The Company is currently committed to payments of £0.2m per annum until 31 March 2024 (inclusive) in respect of Infracore 92.

Current expected total employer contributions for the year ending 31 March 2024 are £47.2m for the WPD segment of the ESPS and £31.8m for the CN segment of the ESPS.

The next triennial valuation for each scheme is being negotiated with an effective date of 31 March 2022. Pending the outcome of these valuations, the contribution requirements summarised above are likely to change.

The weighted average duration of the defined benefit obligation is around 13 years for the WPD segment of the ESPS, 12 years for the CN segment of the ESPS and around 10 years for WPUPS and Infracore 92.

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

26. Provisions

	WPUPS Reimbursement Agreement (i) £m	Asset Retirement Obligations (ii) £m	Insurance (iii) £m	Pensions (iv) £m	Other (v) £m	Total £m
At 1 April 2022	105.2	34.5	17.4	3.8	2.9	163.8
Additional / (release)	1.8	2.5	(0.8)	(0.4)	2.9	6.0
Net decrease due to discount rate change and unwinding of discount	-	(7.8)	-	-	-	(7.8)
WPUPS reimbursement remeasurements	(30.5)	-	-	-	-	(30.5)
Utilised during year	-	(1.1)	-	(0.7)	-	(1.8)
At 31 March 2023	76.5	28.1	16.6	2.7	5.8	129.7

Provisions have been analysed between current and non-current as follows:

Current	-	1.1	8.8	0.7	4.5	15.1
Non-current	76.5	27.0	7.8	2.0	1.3	114.6
At 31 March 2023	76.5	28.1	16.6	2.7	5.8	129.7

Current	-	1.5	9.1	0.8	1.9	13.3
Non-current	105.2	33.0	8.3	3.0	1.0	150.5

At 31 March 2022	105.2	34.5	17.4	3.8	2.9	163.8
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(i) NGED South Wales is the principal employer for WPUPS, which is a defined benefit scheme providing benefits relating to previous employees of a former affiliated group. NGED South Wales will fund the actuarial deficit. However, as National Grid Electricity Distribution Holdings Limited (formerly Western Power Distribution Holding Company Limited), the Company's parent, has taken full financial responsibility for this scheme, NGED South Wales will be reimbursed for these payments. As National Grid Electricity Distribution Holdings Limited is outside the NGED Group, the value of the reimbursement agreement is stated in the balance sheet as a provision above, and matches the gross asset recorded under IAS 19 (Note 25).

(ii) Asset retirement obligations relate to an estimate of the costs of disposing and removing wood poles, fluid filled cables, SF6 gas units and PCB contaminated units at the end of their useful lives and are expected to be settled over the next 85 years. These assets are included in distribution network within property, plant and equipment.

(iii) Insurance provisions relate to claims covered by the NGED Group's wholly-owned captive insurance company, Aztec Insurance Limited ("Aztec"), based in Guernsey, and claims covered by external insurers. This includes third party motor claims, employers' liability, public and product liability, and professional indemnity and includes claims that are reported but not yet paid and anticipated cost of claims incurred but not yet reported. The directors expect the provision to be settled in the next five years.

(iv) Pension provisions relate to expected settlements of liabilities relating to the pension liability relating to the Electricity Association Technology Limited ("EATL") and are expected to be settled over a period of approximately eight years.

(v) Other provisions relate principally to onerous uninsured losses, and miscellaneous claims arising in the ordinary course of business; the directors expect other provisions to be settled within the next two years.

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

27. Share capital

	2023 £m	2022 £m
Issued and fully paid:		
1,057,592,372 (2022: 1,057,592,372) ordinary shares of £1 each	1,057.6	1,057.6

The shares entitle the holders thereof to one vote per share held. Each share ranks equally for any dividend declared and any distribution made on a winding up. The shares are not redeemable.

28. Capital and reserves

	2023 £m	2022 £m
Share capital	1,057.6	1,057.6
Merger reserve	(963.1)	(963.1)
Hedging reserve	(26.4)	(13.8)
Non-cash capital contribution reserve	3.5	0.5
Retained earnings	6,179.9	6,275.5
	6,251.5	6,356.7

The **share capital** represents the nominal value of the authorised ordinary shares in the Company in issue which carry a right to participate in the distribution of dividends or capital of the Company.

The **merger reserve** arose on the restructuring of NGED Group entities under common control in October 2014 and September 2001.

The **hedging reserve** is stated net of tax and comprises of £0.5m gain in relation to cost of hedging and £26.9m loss in relation to cash flow hedge reserve being the effective portion of the cumulative net change in the fair value of cash flow hedge derivative instruments related to hedged transactions that have not yet occurred. Refer note 23 for details.

The **non-cash capital contribution reserve** pertains to the employee share option scheme offered by the parent to be settled in the shares of the parent.

29. Contingent liabilities

The NGED Group's businesses are parties to various legal claims, actions and complaints. Although the NGED Group is unable to predict with certainty whether or not it will ultimately be successful in these legal proceedings or, if not, what the impact might be, the directors currently believe that disposition of these matters will not have a materially adverse effect on the NGED Group's financial statements.

30. Commitments

Capital commitments

Capital expenditure contracted for at the balance sheet date but not recognised in the financial statements is as follows:

	2023 £m	2022 £m
Property, plant and equipment	182.3	146.1

Operating lease commitments - NGED Group as lessor

The NGED Group has entered into commercial property leases on its investment property portfolio, consisting of the NGED Group's surplus offices, shops remaining from a discontinued business, and surplus land, and also on its fibres. The leases have lease terms between 1 and 125 years, and have various terms, escalation clauses and renewable rights. Leases include a clause to enable upward revision of rental charge on a review cycle set on lease inception according to prevailing market conditions.

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

30. Commitments (continued)

Operating lease commitments - NGED Group as lessor (continued)

Future minimum rentals receivable under non-cancellable operating leases at 31 March are as follows:

	2023	2022
	£m	£m
Year 1	3.6	3.2
Year 2	3.0	2.9
Year 3	2.6	2.4
Year 4	2.5	1.8
Year 5	2.4	1.8
Year 6 and onwards	5.7	7.5
	19.8	19.6

Guarantees and indemnities

The NGED Group has provided guarantees in respect of the funding required by the NGED Group's pension schemes.

31. Related party transactions

The immediate parent undertaking of the NGED Group is National Grid Electricity Distribution Holdings Limited (formerly Western Power Distribution Holding Company Limited), which is registered in England and Wales. The ultimate controlling parent of the NGED Group is National Grid Plc, registered in England and Wales.

The smallest and largest group in which the results of the Company are consolidated is that by headed by National Grid plc, registered in England and Wales. Copies of these consolidated financial statements can be obtained from the Company Secretary, National Grid plc, 1-3 Strand, London WC2N 5EH.

There are no personnel, other than the directors, who as key management have authority and responsibility for planning, directing and controlling the activities, directly or indirectly, of the NGED Group. Details of directors' compensation are set out in Note 9.

The following significant transactions with related parties were in the normal course of business.

	2023	2022
	£m	£m
Revenue - National Grid affiliate companies (i)	12.4	14.0
Operating costs - National Grid affiliate companies (ii)	(49.1)	(19.8)
Net finance cost	(3.9)	(1.8)
Loan with ultimate parent company (iii)	(567.9)	(662.6)
Loan receivable from ultimate parent company (iii)	146.0	-
Amounts due to affiliated National Grid Companies	-	(4.4)
WPUPS reimbursement liability re WPUPS pension asset (iv)	(76.5)	(105.2)
Reimbursement asset re unfunded pension liability (v)	2.7	3.2

(i) Revenue from related parties consists of engineering recharge revenue from National Grid entities in relation to ongoing diversion projects.

(ii) Operating costs charged by related parties largely relates to National Grid exit charges (charges levied by National Grid Electricity Transmission for connection to the electricity transmission system) and corporate recharges.

(iii) The loan with and receivable from ultimate parent company pertains to amounts drawn under the two-way loan agreement with National Grid Plc. The loan is unsecured and is repayable demand. Interest is accrued on the balance daily at SONIA plus 0.25% margin.

Notes to the National Grid Electricity Distribution plc (formerly Western Power Distribution plc) consolidated financial statements (continued)

For the year ended 31 March 2023

31. Related party transactions (continued)

(iv) NGED South Wales is the principal employer for WPUPS, which is a defined benefit scheme providing benefits relating to previous employees of a former affiliated group. NGED South Wales will fund the actuarial deficit. However, National Grid Electricity Distribution Holdings Limited (formerly Western Power Distribution Holding Company Limited), the Company's parent, has taken full financial responsibility for this scheme, NGED South Wales will be reimbursed for these payments. As National Grid Electricity Distribution Holdings Limited is outside the NGED Group, the value of the reimbursement agreement is stated in the balance sheet and matches the asset recorded under IAS 19 (Note 25 and Note 26).

(v) NGED South Wales also has an unfunded pension liability in respect of previous executives. National Grid Electricity Distribution Holdings Limited has taken full responsibility for this scheme and, therefore, NGED South Wales will be reimbursed for these payments. The value of the reimbursement agreement is stated in the balance sheet and matches the liability recorded under IAS 19 (Note 25 and Note 16).

32. Events after the reporting period

On 3 April 2023, the £845m RCF facilities of the Group expiring in May 2025 were cancelled and replaced with a new facility of £845m with a 5 year maturity expiring on 3 April 2028.

On 24 April 2023, the Group repurchased £115.8m of the £800m 5.75% bond due in April 2032. The bond was repurchased at a fair value of £117.2m.

**Parent Company financial statements of National Grid Electricity Distribution plc (formerly Western Power Distribution plc)
Company balance sheet**

As at 31 March 2023

	Note	2023 £m	2022 £m
Non-current assets			
Investments:			
Shares in subsidiary undertakings	4	2,876.0	2,876.0
Derivative financial instruments		48.3	35.9
		2,924.3	2,911.9
Current assets			
Debtors	5	124.6	371.6
Cash at bank		0.1	0.2
		124.7	371.8
Creditors - amounts falling due within one year	6	(768.6)	(493.9)
Net current liabilities		(643.9)	(122.1)
Total assets less current liabilities		2,280.4	2,789.8
Creditors - amounts falling due after more than one year	6	(564.7)	(1,052.1)
Provision for liabilities			
Deferred tax	7	(1.8)	(1.2)
Net assets		1,713.9	1,736.5
Capital and reserves			
Share capital	8	1,057.6	1,057.6
Hedging reserve	9	1.1	1.0
Profit and loss account		655.2	677.9
Equity shareholders' funds		1,713.9	1,736.5

The Company reported a loss for the financial year ended 31 March 2023 of £22.5m (2022: £18.0m profit) and other comprehensive income of £0.1m (2022: £0.5m).

The financial statements of the Company on pages 124 to 133 were approved by the Board of Directors and authorised for issue on 30 June 2023 and signed on its behalf by:



Cordelia O'Hara
Director



Graham Roy Halladay
Director

Company statement of changes in equity

For the year ended 31 March 2023

	Share capital £m	Hedging reserve £m	Retained earnings £m	Total equity £m
At 1 April 2021	1,057.6	0.5	800.1	1,858.2
Profit for the year	-	-	18.0	18.0
Other comprehensive income	-	0.5	-	0.5
Total comprehensive income for the year	-	0.5	18.0	18.5
Share capital reduction	-	-	-	-
Equity dividends paid (13.26 pence per £1 share)	-	-	(140.2)	(140.2)
At 31 March 2022	1,057.6	1.0	677.9	1,736.5
Loss for the year	-	-	(22.5)	(22.5)
Other comprehensive income	-	0.1	-	0.1
Total comprehensive income/(loss) for the year	-	0.1	(22.5)	(22.4)
Equity dividends paid (0.02 pence per £1 share)	-	-	(0.2)	(0.2)
At 31 March 2023	1,057.6	1.1	655.2	1,713.9

Notes to the Company financial statements

For the year ended 31 March 2023

1. Authorisation of financial statements and statement of compliance with FRS 101

The parent Company financial statements of National Grid Electricity Distribution plc (formerly Western Power Distribution plc) (the "Company") for the year ended 31 March 2023 were authorised for issue by the board of directors on 30 June 2023 and the balance sheet was signed on the board's behalf by Cordelia O'Hara and Graham Roy Halladay. National Grid Electricity Distribution plc is a public limited company incorporated and registered in England and Wales.

The Company meets the definition of a qualifying entity under FRS 100 "Application of Financial Reporting Requirements". These financial statements were prepared in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" ("FRS 101") and in accordance with applicable accounting standards.

2. Significant accounting policies

Basis of preparation

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the group accounts of National Grid Electricity Distribution plc (formerly Western Power Distribution plc) which are included on pages to 1 to 126.

As permitted by Section 408 of the Companies Act 2006 the Company has elected not to present its own income statement or statement of comprehensive income for the year. The profit attributable to the Company is disclosed in the footnote to the Company's balance sheet.

The financial statements have been prepared on the historical cost basis, except for the revaluation of derivative financial instruments that are measured at fair value, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value such as net realisable value in IAS 2 or value in use in IAS 36.

The Company's financial statements are presented in Sterling as this is the currency of the primary economic environment in which the Company operates. All values are rounded to the nearest hundred thousand pounds except when otherwise indicated.

The principal accounting policies adopted are set out below.

Going concern

The directors have prepared the financial statements on the going concern basis as they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The current financial position of the Company shows net current liabilities of £643.9m (2022: £122.1m). The Company's net current liabilities will be settled with a combination of cash flows from operating activities, use of existing long-term facilities and issuances of long-term debt. The Company can access either short or long term borrowings in order to finance repayment of any loans due. The Company has credit ratings above the investment grade and there is sufficient evidence, including historical analysis of the Company's ability to raise debt, to indicate that the Company will be successfully able to raise debt to finance repayments as needed. A letter of support has also been obtained from the a parent undertaking confirming that it will provide financial support to the Group for not less than 12 months from the date of approval of the financial statements.

The NGED Group's operating companies are regulated DNOs. DNOs are essential in keeping critical infrastructure assets operating safely and securely and in making sure that homes and businesses across the country are receiving the energy needed. The work of the Group is crucial for the continuation of existing essential services, the establishment of new critical infrastructures and for keeping the public, including the most vulnerable in our society, safe. Since the Company's income is primarily dividend and interest income from NGED Group entities, the Company does not consider that stage there is a material uncertainty casting a doubt over the entity's ability to continue as a going concern.

Notes to the Company financial statements (continued)

For the year ended 31 March 2023

2. Significant accounting policies (continued)

Going concern (continued)

Having assessed the regulatory obligations of the business, the Company's investment portfolio, its consistent dividend inflow, the ability to raise finance externally and the ability of the parent undertaking to provide financial support, the directors have concluded that the going concern basis of preparation remains appropriate.

Impact of new International Financial Reporting Standards

The following new standards are effective for accounting periods beginning on or after 1 January 2022:

- Amendments to IFRS 3 - reference to the conceptual framework, effective for annual periods beginning on or after 1 January 2022;
- Amendments to IAS 16 - amendments regarding proceeds before intended use, effective for annual periods beginning on or after 1 January 2022;
- Amendments to IAS 37 - amendments regarding onerous contracts - cost of fulfilling a contract, effective for annual periods beginning on or after 1 January 2022;
- Annual improvements to IFRS standards 2018 - 2020 cycle - effective for annual periods beginning on or after 1 January 2022.

The Company has assessed the impact of these standards and concluded that these standards do not have any material impact on the Company's financial statements.

Foreign currencies

Transactions in foreign currencies are initially recorded in the entity's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit and loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Taxation

Current tax is measured at the amount expected to be payable (or recoverable) in respect of the taxable profit (or loss) for the period based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date. This includes UK corporation tax payable to HM Revenue & Customs ("HMRC") and amounts payable to (or receivable from) other UK group companies for losses and other amounts transferred between them ("group relief").

Deferred tax is the tax expected to be payable (or recoverable) in future periods due to differences between the time when profits and losses are recognised in the financial statements and the time when those profits and losses are included in tax returns filed with HMRC. These temporary differences arise in the current period and then reverse in future periods. The temporary differences are calculated by comparing the carrying value of assets and liabilities at the balance sheet date with their corresponding tax bases included in tax returns.

Deferred tax is recognised on all temporary differences except:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the asset may be recovered.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods when the temporary differences will reverse based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are offset only to the extent permitted by tax legislation.

Income tax is charged or credited to other comprehensive income if it relates to items that are charged or credited to other comprehensive income. Similarly, income tax is charged or credited directly to equity if it relates to items that are credited or charged directly to equity. Otherwise income tax is recognised in profit and loss.

Notes to the Company financial statements (continued)

For the year ended 31 March 2023

2. Significant accounting policies (continued)

Financial assets

Financial assets are classified as debt instruments at amortised cost; debt instruments at fair value through other comprehensive income ("FVOCI"); financial assets at fair value through profit and loss ("FVTPL"); derivatives designated as hedging instruments in an effective hedge; or as equity instruments designated at FVOCI, as appropriate. Financial assets include cash at bank, debtors, investments, and derivative financial instruments. The Company determines the classification of its financial assets at initial recognition. Financial assets are recognised initially at fair value, normally being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. For financial assets at FVTPL, transaction costs are immediately recognised in profit and loss.

The subsequent measurement of financial assets depends on their classification, as follows:

Debt instruments at amortised cost

Debt instruments that meet the hold-to-collect business model test and sole payment principal and interest ("SPPI") contractual cash flow test, are carried at amortised cost using the effective interest method, if the time value of money is significant. Gains and losses are recognised in income when the debt instruments are derecognised or impaired, as well as through the amortisation process. This category of financial assets includes cash at bank, debtors and investments.

Financial assets at FVOCI

Financial assets at FVOCI, that meet the sole payment principal and interest ("SPPI") contractual cash flow test and the objective of the Group is achieved both by collecting contractual cash flows and selling financial assets, are carried on the balance sheet at fair value with gains or losses recognised in other comprehensive income. This category of financial assets include derivatives designated as hedging instruments in an effective cash flow hedge.

Derivatives designated as hedging instruments in an effective hedge

These derivatives are carried on the balance sheet at fair value. The treatment of gains and losses arising from revaluation is described below in the accounting policy for derivative financial instruments and hedging activities.

Impairment of financial assets

The Company recognises impairment on financial assets following the expected credit loss ("ECL") model in IFRS 9.

Debtors

Debtors mainly comprise amounts owed by group undertakings and are considered to be low risk. Therefore the impairment provision is determined as 12 months expected credit loss. The 12-month ECL results from those default events on the financial assets that are possible within 12 months after the reporting date.

Investments

Investments are considered to be low risk, and therefore the impairment provision is determined as 12-month expected credit loss. The 12-month ECL results from those default events on the financial assets that are possible within 12 months after the reporting date.

Cash at bank and in hand

Cash at bank is subject to the impairment requirements of IFRS 9 but the impairment loss on these is deemed immaterial since they have an insignificant risk of change in value.

Financial liabilities

Financial liabilities are classified as financial liabilities at FVTPL; or as financial liabilities measured at amortised cost, as appropriate. Financial liabilities include creditors. The Company determines the classification of its financial liabilities at initial recognition. The measurement of financial liabilities depends on their classification, as follows:

Notes to the Company financial statements (continued)

For the year ended 31 March 2023

2. Significant accounting policies (continued)

Financial liabilities (continued)

Financial liabilities measured at amortised cost

All other financial liabilities are initially recognised at fair value. For interest-bearing loans and borrowings this is the fair value of the proceeds received net of issue costs associated with the borrowing.

After initial recognition, other financial liabilities are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses arising on the repurchase, settlement or cancellation of liabilities are recognised respectively in interest and other income and finance costs.

This category of financial liabilities includes creditors

Derivative financial instruments and hedging

The Company uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Gains or losses arising from changes in the fair value of derivatives that are not designated as effective hedging instruments or where hedge is not fully effective, are recognised in the income statement as remeasurements.

Offsetting of financial assets and liabilities

Financial assets and liabilities are presented gross in the balance sheet unless both of the following criteria are met: the Company currently has a legally enforceable right to set off the recognised amounts; and the Company intends to either settle on a net basis or realise the asset and settle the liability simultaneously. A right of set off is the Company's legal right to settle an amount payable to a creditor by applying against it an amount receivable from the same counterparty. The relevant legal jurisdiction and laws applicable to the relationships between the parties are considered when assessing whether a current legally enforceable right to set off exists.

Staff cost

The Company does not employ any personnel. All staff are employed by the relevant subsidiaries.

Dividends

Dividend distribution to the Company's shareholder is recognised as a liability in the NGED Group's financial statements in the year in which the dividends are approved by the Company's directors.

Share capital

Ordinary shares are classified as equity and are recorded at the par value of proceeds received, net of direct issue costs. Where shares are issued above par value, the proceeds in excess of par value are recorded in the share premium account.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in Note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

There are no estimates dependent upon assumptions which could change in the next financial year and have a material effect on the carrying amounts of assets and liabilities recognised at the balance sheet date.

There are no judgements dependent upon assumptions which could change in the next financial year and have a material effect on the carrying amounts of assets and liabilities recognised at the balance sheet date.

Notes to the Company financial statements (continued)

For the year ended 31 March 2023

4. Subsidiary undertakings

	2023 £m	2022 £m
Cost and Net book value	2,876.0	2,876.0

Details of the Company's subsidiary undertakings are as follows:

Subsidiary undertakings	Principal activity	Proportion %
National Grid Electricity Distribution (South West) plc (formerly Western Power Distribution (South West) plc)	Electricity distribution	100
National Grid Electricity Distribution (South Wales) plc (formerly Western Power Distribution (South Wales) plc)	Electricity distribution	100
National Grid Electricity Distribution (East Midlands) plc (formerly Western Power Distribution (East Midlands) plc)	Electricity distribution	100
National Grid Electricity Distribution (West Midlands) plc (formerly Western Power Distribution (West Midlands) plc)	Electricity distribution	100
National Grid Electricity Distribution Investment Holdings Limited (formerly WPD Investment Holdings Limited)	Investment company	100
National Grid Electricity Distribution Network Holdings Limited (formerly WPD Distribution Network Holdings Limited)	Investment company	100
WPD WEM Limited	Investment company	100
National Grid Electricity Distribution Midlands Limited (formerly WPD Midlands Limited)	Investment company	100
WPD WEM Holdings Limited	Investment company	100
National Grid Electricity Distribution Investments Limited (formerly Western Power Distribution Investments Limited)	Investment company	100
National Grid Telecoms Limited (formerly WPD Telecoms Limited)	Telecommunications	100
National Grid Electricity Distribution Generation Limited (formerly Western Power Generation Limited)	Power generation	100
National Grid Electricity Distribution Property Investments Limited (formerly WPD Property Investments Limited)	Property management	100
Kelston Properties 2 Limited	Property management	100
Aztec Insurance Limited ^	Insurance	100
National Grid Helicopters Limited (formerly South Western Helicopters Limited)	Helicopter operator	100
NG Electricity Distribution Limited (formerly WPD Limited) ^	Property management	100
Sheet Road Management Company Limited	Property management	51
South Wales Electricity Share Scheme Trustees Limited	Trustee company	100
Hyder Profit Sharing Trustees Limited	Dormant company	100
WW Share Scheme Trustees Limited	Dormant company	100
Central Networks Trustees Limited	Dormant company	100
WPD Share Scheme Trustees Limited	Dormant company	100
Western Power Pension Trustee Limited	Dormant company	100

^ Incorporated in Guernsey.

All undertakings are registered in England and Wales unless stated.

Except for National Grid Electricity Distribution Investment Holdings Limited (formerly WPD Investment Holdings Limited) and WPD WEM Holdings Limited, which are owned 100% directly, all shares are held by subsidiary undertakings. All holdings are in ordinary shares.

Except for Aztec Insurance Limited and NG Electricity Distribution Limited (formerly WPD Limited), the registered office of all subsidiary undertakings is Avonbank, Feeder Road, Bristol BS2 0TB. The registered office for Aztec Insurance Limited is PO Box 155, Mill Court, La Charroterie, St Peter Port, Guernsey, GY1 4ET and for NG Electricity Distribution Limited (formerly WPD Limited) is Elizabeth House, Les Ruettes Brayes, St Peter Port, Guernsey, GY1 1EW.

The exemption under s.394A and s.448A from preparing and filing the financial statements of the dormant subsidiaries has been availed.

Notes to the Company financial statements (continued)

For the year ended 31 March 2023

4. Subsidiary undertakings (continued)

The following UK subsidiaries will take advantage of the audit exemption set out within section 479A of the Companies Act 2006 for the year ended 31 March 2023:

Subsidiary undertakings	Company number
South Wales Electricity Share Scheme Trustees Limited	02525006
National Grid Electricity Distribution Network Holdings Limited (formerly WPD Distribution Network Holdings Limited)	08857746
National Grid Electricity Distribution Investment Holdings Limited (formerly WPD Investment Holdings Limited)	10991479
National Grid Electricity Distribution Midlands Limited (formerly WPD Midlands Limited)	02366928
WPD WEM Holdings Limited	07578676
WPD WEM Limited	04066211

5. Debtors

	2023	2022
	£m	£m
Amounts falling due within one year:		
Amounts owed by Group undertakings	115.9	371.6
Current tax receivable	8.7	-
	124.6	371.6

Amounts owed by Group undertakings

	2023	2022
	£m	£m
Inter-company loan due from WPD WEM Holdings Limited	112.4	370.0
Interest on loan due from WPD WEM Holdings Limited	3.5	1.7
	115.9	371.7

The note receivable is unsecured and repayable on demand. The note accrues interest at a rate of SONIA compounded to 6 monthly tenors, plus a margin of 1.25%.

6. Creditors

	2023	2022
	£m	£m
Amounts falling due within one year:		
3.625% GB£500m bonds due 2023	499.6	-
Loan with ultimate parent company (1)	209.2	476.6
Amounts owed to Group undertakings	43.3	0.9
Accruals and deferred income	16.5	16.4
	768.6	493.9

Notes to the Company financial statements (continued)

For the year ended 31 March 2023

6. Creditors (continued)

	2023 £m	2022 £m
Amounts falling due after more than one year:		
7.375% US\$255m bonds due 2028 (2)	217.1	206.3
3.625% GB£500m bonds due 2023	-	498.9
3.5% GB£350m bonds due 2026	347.6	346.9
	564.7	1,052.1

Borrowings are stated net of unamortised issue costs of £1.3m (2022: £2.0m), discount on issue of £1.5m (2022: £2.1m) and premium on issue of £10.4m (2022: £12.2m). These costs, together with the interest expense, are allocated to the income statement over the term of the bonds at a constant rate on the carrying amount.

(1) The loan with ultimate parent company pertains to amounts drawn under the two-way loan agreement with National Grid Plc. The loan is unsecured and is repayable on demand. Interest is accrued daily on the balance at SONIA plus 0.25% margin.

(2) The Company is a co-obligor and makes all payments on the \$255m 7.375% notes due 15 December 2028. In accordance with the agreements, the Company and National Grid Electricity Distribution Holdings Limited (formerly Western Power Distribution Holding Company Limited) are jointly and severally, and fully and unconditionally, liable for the notes. The Company has recognised the obligation for the notes, in full.

7. Deferred tax

The following are the deferred tax liabilities recognised by the Company and movements thereon during the current year. All balances relate to temporary differences in respect of non-trade financial transactions.

	2023 £m	2022 £m
At 1 April	1.2	0.7
Charged to the income statement	0.5	0.4
Charged to equity	0.1	0.1
At 31 March	1.8	1.2

8. Share capital

	2023 £m	2022 £m
Issued and fully paid:		
1,057,592,372 (2022: 1,057,592,372) ordinary shares of £1 each	1,057.6	1,057.6

The shares entitle the holders thereof to one vote per share held. Each share ranks equally for any dividend declared and any distribution made on a winding up. The shares are not redeemable.

Notes to the Company financial statements (continued)

For the year ended 31 March 2023

9. Hedging reserve

	2023 £m	2022 £m
At 1 April	1.0	0.5
Reclassification adjustments for gains on cash flow hedges included in profit or loss	0.2	0.6
Income tax effect	(0.1)	(0.1)
At 31 March	1.1	1.0

The hedging reserve is stated net of tax and relates to the effective portion of the value of interest rate derivatives associated with the issuance of existing long-term debt. The interest rate derivatives were settled in prior years and the net gain continues to be amortised through the profit and loss account over the term of the debt.

10. Events after the reporting period

There were no events after the reporting period.

11. Related party transactions

The immediate parent undertaking of the Company is National Grid electricity Distribution Holdings Limited (formerly Western Power Distribution Holding Company Limited), which is registered in England and Wales. The ultimate controlling parent of the Company is National Grid Plc, registered in England and Wales.

The largest group which includes the Company and for which consolidated financial statements are prepared is National Grid plc, registered in England and Wales. Copies of these consolidated financial statements can be obtained from the Company Secretary, National Grid plc, 1-3 Strand, London WC2N 5EH.

Loan with ultimate parent company

At 31 March 2023, the Company has drawn down £209.2m (2022: £476.6m) under the two-way loan agreement with the parent company, National Grid Plc. The loan is unsecured and is repayable on demand. Interest is accrued daily on the balance at SONIA plus 0.25% margin.

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