Registered number : 02366985

National Grid Electricity Distribution (South Wales) plc

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2024

nationalgrid

Contents **Page**

nationalgrid

The directors present their annual report and the audited financial statements of National Grid Electricity Distribution (South Wales) plc (the “Company” or "NGED South Wales"), company number 02366985, for the year ended 31 March 2024.

Overview

NGED South Wales is an electricity Distribution Network Operator ("DNO") delivering electricity to approximately 1.2 million (2023: 1.2 million) homes and businesses in South Wales and employing on average 1,071 (2023: 1,063) staff.

We play the critical role of keeping the lights on by looking after a network of poles, pylons, cables and substations, delivering power to homes and businesses in our region. We are also committed to supporting the UK's ambition to achieve a fully decarbonised electricity system. In doing so, we have developed new roles as Distribution System Operator ("DSO"), in addition to our traditional role as DNO. The DSO allows us to anticipate growth, develop and utilise flexibility markets, unlock capacity, and instruct investment in the network of the future.

Ownership

The Company is owned by National Grid Electricity Distribution plc, which is a public limited company registered in England and Wales. The ultimate controlling parent of the Company 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, operating in the UK and the US.

More information on the National Grid Group can be found in the National Grid plc Annual Report and Accounts 2023/24 and on the National Grid website:

https://www.nationalgrid.com/

National Grid acquired the NGED Group in June 2021 and rebranded the business to National Grid Electricity Distribution in September 2022. National Grid Electricity Distribution plc was formerly Western Power Distribution Plc.

Group background

National Grid Electricity Distribution plc is the parent of a group ("NGED Group" or "NGED" or "the Group") whose principal operating activity is conducted by the four DNOs; National Grid Electricity Distribution (South West) plc, ("NGED South West"), National Grid Electricity Distribution (South Wales) plc ("NGED South Wales"), National Grid Electricity Distribution (East Midlands) plc ("NGED East Midlands"), and National Grid Electricity Distribution (West Midlands) plc ("NGED West Midlands"). Where appropriate the four DNOs share engineering control and other systems.

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-network and investment properties of the Group.

Financial highlights

	2023/24	2022/23	%change
	£m	£m	
Turnover	**267.8**	304.3	(12)%
Profit before tax	**87.7**	103.6	(15)%
Cash generated from operations	**191.3**	182.7	5 %

	2023/24	2022/23
Regulatory asset value ("RAV")	**1,724.1**	1,613.1
Return on equity ("ROE")	**10.7 %**	12.3 %

*Cash generated from operations for 2022/23 has been restated due to a change in the classification of interest paid and received from operating activities to financing activities and investing activities respectively. Refer to pages 14-16 for further details on our financial highlights.

Overview (continued)

Non-financial highlights (NGED Group)

	2023/24	2022/23
Customer satisfaction score (out of 10)*	8.97	8.99
Network reliability	99.993 %	99.995 %

See pages 17- 22 for further details on our key performance indicators ("KPIs").

What we do

The electricity industry connects generation sources to homes and businesses through transmission and distribution networks. Companies that pay to use transmission and 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. NGED and the rest of the National Grid Group 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, with significant growth in distributed renewable generation installations across the UK networks. 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, Denmark and Netherlands. The National Grid Group is continuing to work on developing additional interconnector projects, which will include multi-purpose interconnectors.

National Grid plc, through separate companies held outside of NGED, sells capacity on its UK interconnectors 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 South Wales 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 transmission network, to lower voltages that can be used by customers. We deliver it safely into homes and businesses in our regions, via our safe and reliable network. As the country drives towards decarbonisation, the traditional, one-way flow of energy is changing, with many smaller-scale renewable generation installations connecting directly into our network, bypassing transmission and creating a two-way, dynamic distribution network. We are currently undergoing an unprecedented change in our industry, including a rise in electric vehicles, heat pumps and battery storage. We have connected more EVs to our network in the last two years than in all previous years combined. We aim to deliver transformation efficiently, while continuing to provide a resilient electricity supply.

What we do (continued)

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 us for use of the network. The National Grid Group manages these activities through a separate company. The Electricity System Operator ("ESO") is a separate legal entity governed by its own Board of Directors.

On 6 April 2022, the UK government announced its intention to establish an independent Future System Operator ("FSO"), which will take on the operations currently performed by ESO. National Grid has been working closely with the government, industry and the regulator on how the FSO will enable long-term holistic thinking, drive progress towards Net Zero, and lay the foundations for the regulatory reform necessary to deliver a clean, fair and affordable energy transition. An independent FSO may be established in 2024.

What we do - NGED Business model

Our core activities are:

Our network comprises approximately 18,000km (2023: 18,000km) of overhead lines,18,000km (2023: 18,000km) of underground cables and 41,000 (2023: 41,000) transformers. In the current year NGED South Wales distributed 1,790 (2023: 1,774) megawatts of electricity.

Our costs are regulated and based on an agreed allowance set by the Office of Gas and Electricity Markets ("Ofgem"); on average (based on an annual consumption of 3,100 kilowatt hours), NGED domestic customers pay £104.01 per annum (2023: £131.49 per annum) for electricity distribution costs. Our costs form part of the bill to customers from the electricity suppliers. The year on year decrease in the bill is due to prior year bills including recovery of Last Resort Supply Payment (“LRSP”) claims arising due to significant supplier liquidations in 2021. Excluding the impact of recovery of these claims, NGED customers paid £97.25 per annum for the electricity distribution costs in the prior year.

We provide a safe and reliable power supply at an affordable price, as well as supporting the most vulnerable people in the areas we serve. We are a regional business and believe in the power of our regional, in-house workforce. Our local teams understand their local network inside out, providing efficient and knowledgeable service to the customers and communities we serve.

In addition to keeping the power flowing, 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 ambition of achieving net zero carbon emissions by 2050.

What we do - Regulatory framework

DNOs are natural monopolies and, to ensure value for money for consumers, are regulated by the Gas and Electricity Markets Authority, which operates through Ofgem. The operations are regulated under the distribution license which sets the requirements that NGED South Wales needs to deliver for its customers. Ofgem has a statutory duty under the Electricity Act 1989 ("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. In the development of our current RIIO business plan, we engaged with over 25,000 stakeholders to develop our business outcomes.

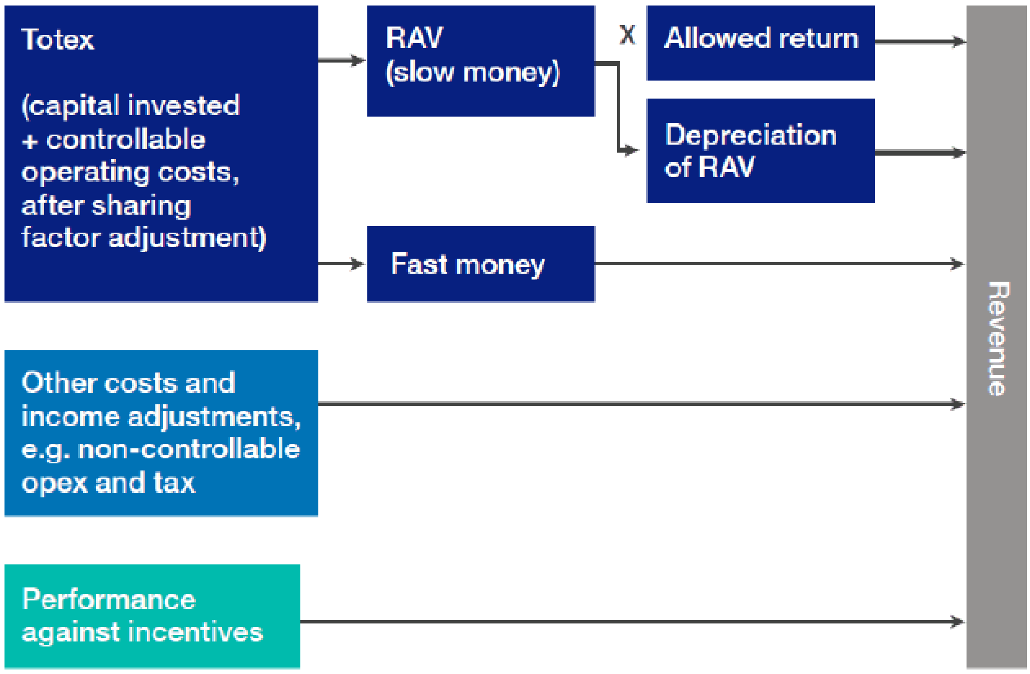
Ofgem, using information we have submitted, along with independent assessments, determines the efficient level of expected costs necessary for these deliverables to be achieved. Under RIIO this is known as ‘totex’, which is a component of total allowable expenditure and is broadly the sum of operating 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 over or under spent against the allowed totex there is a "sharing" factor. This means we share the over or under 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.

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. a combination of 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.

What we do - Regulatory framework (continued)

Simplified illustration of RIIO regulatory building blocks:



RIIO-ED2, covering the five year period April 2023 to March 2028, is the current price control 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 outlines the network investment we propose to deliver over the five year period, how much it will cost and the benefits to customers and stakeholders.

Ofgem has set a challenging price control and we are required to be ambitious and significantly improve our services for our customers with a challenging 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.

Key parameters from Ofgem's RIIO-ED2 determination are as follows:

Allowed return on equity	5.3%-5.6% real, relative to CPIH at 60% gearing. The cost of equity is subject to annual adjustments that are calculated using the Capital Asset Pricing Model, through indexation of the 'risk-free rate' parameter. The range shown above is Ofgem's estimate of the allowed RoE over the five years of RIIO-ED2, as updated in the RIIO-ED2 Price Control Financial Model published in December 2023.
Allowed debt funding	Calculated and updated each year using 17 year trailing average of iBoxx Utilities 10+ year index, plus 55bps calibration adjustment 25bps additional cost of borrowing and 6bps small issuer premium.
Depreciation of RAV	Straight line 45 year depreciation.
Notional gearing	60%
Split between fast/slow money	Capitalisation Rate 1 - 77%-79% capitalisation rate, being slow money. Capitalisation Rate 2 - 85% capitalisation rate, being slow money (used for specific categories of totex).
Sharing factor	50%
Core baselines totex in 2020/21 prices (cumulative for RIIO-ED2)	£1.0bn

Our purpose, vision, values and strategy

In delivering our RIIO-ED2 commitments and achieving our net-zero targets, 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.

The NGED Group is the largest electricity distribution network group in the UK, providing a great platform from which to play our role in the energy transition to net-zero.

Our purpose

To bring energy to life.

Our vision

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 strategic priorities

Our strategic priorities set out what we need to do to deliver our vision. Our strategic priorities for the year ended 31 March 2024 are as below:

Our strategic priorities are also aligned to our core business plan commitments. For RIIO-ED2 we aim to achieve four crucial outcomes for our customers as follows:

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 (excluding scope 3 emission). This is in line with our 1.5ºC Science Based Targets.

Connectability: A lack of network capacity should not be a barrier for our customers. NGED will accelerate delivery of smart, decarbonized electricity distribution networks in the UK, preparing for over a million electric vehicles, around 300,000 heat pumps, and a significant increase in renewable energy.

Vulnerability: NGED 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 power cuts at their lowest ever levels and crucially we will achieve all of this while keeping our portion of the average domestic customer bill affordable.

Our strategic priorities enable us to deliver above stated outcomes by investing our allowance efficiently.

Our strategic priorities (continued)

Evolving our strategy

For the 2024/25 financial year, National Grid has refreshed strategic priorities for the National Grid Group to reflect changes in the external environment and to better prepare us for the future.

Enabling the energy transition for all remains one of our strategic priorities. This will need much larger and smarter networks with the electrification of heat and transport. So, we have a new strategic priority to build the networks of the future now. Delivering for our customers remains a strategic priority. We have maintained the need to drive efficiency but given equal prominence to the need to operate safely. Our final objective recognises the growth in our workforce and the capabilities they will need to help us deliver these priorities.

We are deploying these through our organisation and using them to shape individual and team objectives for the year ahead. Reporting and reflections in this document are against the four priorities we had in place for 2023/24.

Explaining our updated strategic priorities

These refreshed priorities are key to delivering our vision for a clean, fair and affordable energy future and came into effect in April 2024 in readiness for 2024/25.

Enable the **energy transition** for all

We have a pivotal role in enabling the energy transition across all sectors of the economy through our networks. We work with policymakers, regulators and the wider industry to shape policy and regulatory frameworks needed to reach net zero by 2050.

Build the **networks of the future** now

We will scale a once-in-a-generation increase in capacity to connect to, and transport electricity across, our networks. We will modernise our electricity networks to improve capacity, visibility, security and reliability.

We will deliver a sustainable transition for our US gas networks.

Deliver for our **customers**

We will provide excellent service to all our customers, ensuring they can connect to the network in a timely fashion, that their energy provision is reliable and that we are easy to do business with.

Operate **safely and efficiently**

Our priority is to keep our colleagues safe. Being efficient means we play our part in making the energy transition affordable by investing in the right projects and solutions, and delivering them on (or ahead of) time and budget.

Build **tomorrow's workforce** today

All of this is enabled by our people. The energy transition is happening right now, so we need to build tomorrow's workforce today, with the diverse talent and skills needed to deliver our vision. Our ambition is to be the employer of choice for people who want to have a career in a company where they can have a clear and positive impact on the energy transition.

Delivering our strategic priorities

Enable the energy transition for all	
What this means	**2023/24 achievements**
We will increase the positive impact we have on the environment and society by innovating and influencing policy to enable clean electricity, decarbonise our gas networks, and for electrified heat and transport to connect to our networks.	• Our flexible services are low cost alternatives to conventional network reinforcement that help to manage constraints on the network and save customers money. We are committed to using flexibility services where viable. During the current year, NGED maintained it's position as the largest flexibility provider in Great Britain, and we continue to lead the way for DSO procurement of services with the development of our Market Gateway giving us access to over 70,000 flexible assets across the Group. The Group placed additional contracts for a total of 124MW this year and dispatched over 2.4GWh in the current regulatory year, deferring over £80m of reinforcement. • In addition to the existing sources of flexibility, we have been investigating the potential for domestic customers to flex their power requirements for heat pumps with our EQUINOX project, an innovative heat pump flexibility trial. Our first set of trials which concluded in April 2023, enabled us to demonstrate that customers were able to successfully turn down their heat pumps to reduce electricity demand without affecting their comfort. This first trial won the Heat Pump Project of the year award at the 2023 H&V News Awards and was a finalist in the Net Zero Engagement category at the 2023 Utility Week Awards. Building on this success, we have commenced the second stage of the project by enrolling over 1,000 customers and engaged in new commercial arrangements. In the future, outcomes from the project could assist in providing cost efficient deferral or avoidance of network reinforcement. • As part of NGED's pledge to drive sustainability and promote net zero in communities, a school in Gloucestershire has become the first to install solar panels with funding from us. The project was carried out in partnership with key local stakeholders, including school staff and governors, as well as a local ecologist who is monitoring biodiversity net gain and carbon levels. This is an important project for NGED as we increase our support for local community projects by helping them to decarbonise and will shape the model that will be scaled up across our network as we deliver on our RIIO-ED2 commitments. • As part of NGED's award winning 'Take Charge' innovation project, NGED is addressing the provision of electrical vehicle charging at motorway services and on trunk roads. The electrical vehicle rapid charging hub at Exeter motorway services has now been live for over a year, and delivers the electrical capacity of a small town. In summer 2023, a similar project at Tamworth motorway services was completed.

Delivering our strategic priorities (continued)

Deliver for our customers efficiently

What this means	2023/24 achievements
Our investments in energy system decarbonisation are underpinned by a track record of operational excellence and financial discipline, ensuring the affordable delivery of safe, reliable and resilient energy for our customers.	• We continue to digitalise the connection journey for our customers with our new 'self-serve' connections service speeding up the UK's journey to decarbonisation. Domestic customers and installers wanting to connect low carbon generation and storage to our network can now apply online in just 20 minutes using our new 'self-serve' form and in many cases get instant approval. If an application requires a network study, a network upgrade or other changes to the network, it will be referred to a planner to support them with the connection. The new service follows the successful launch of online applications for electric vehicle chargers last year. • To help customers navigate the complex connections landscape, we launched our connections portal, giving customers wanting a smaller connection (up to 69 KVA), the power to make and track every stage of their applications online. They can also directly message network planners with any queries during office hours. For staff, the portal will ultimately mean fewer high volume applications, giving them more time to concentrate on complex quotations. • We have implemented changes to our license through the Network Access Significant Code Review, which socialises more of the reinforcement costs facilitating cheaper connection of low carbon technologies ("LCTs"). • As part of the Energy Network Association ("ENA") PCB strategy group, chaired by NGED, we are involved in developing a Strategy and Cohort Model for dealing with assets containing Polychlorinated Biphenyls ("PCB") that has eliminated the need for vast numbers of assets to be tested or replaced, saving UK DNOs over £1bn and preventing high levels of customer interruptions. The project won the Collaborative Excellence category award at the 2023 Utility Week Awards. • The Group has continued to support vulnerable customers with our £6m community matters fund.

Delivering our strategic priorities (continued)

Grow our organisational capability	
What this means	**2023/24 achievements**
To deliver our part in a changing energy system, we are transforming our internal processes, strengthening our customer focus and sharpening our commercial edge. We are investing in the capabilities we will need in future and our ability to operate safely remains our top priority.	• We mobilised our new operating model in the year, building on the strength of our local delivery expertise through introduction of critical central planning functions of Customer Excellence, Connections, DSO and Asset Management. The increase in recruitment into these operational roles will ensure we are well placed to meet the predicted increase in demand from our customers. Focusing on our management of leadership talent across the business has provided us with a robust view of succession into our senior leadership roles. This will enable us to build new capabilities for our future success. • As part of our new operating model, we have introduced an independent DSO Panel, which is a substantial progress against our commitments to enable efficient and transparent governance within our functionally separate DSO. The panel is made up of industry experts who represent a broad range of stakeholder views and will strategically challenge and scrutinise the quality of DSO outputs. • We continue to transform our network to accommodate a significant growth of distributed generation. A total of 12.0GW distribution generation is connected to our Group network to date, of which 8.2GW is low-carbon generation, an increase of 9.5% compared to last year. This includes wind, solar, hydro and storage. • During the current year we launched our efficiency delivery programme that will assist in identifying initiatives to deliver unit cost savings in RIIO-ED2. As part of the programme, 17 change agents will facilitate sharing of best ideas across the organisation by piloting projects to find new ways of working to transform our business through sustainable change. • We have announced approximately 140 new Team Leader roles across the Group. It's a crucial role to help drive forward performance and give our field teams the support they need. They will support the Team Manager in areas of safety performance, productivity and customer service; resources allocation; and coordination of daily activities. It is a significant investment in our future to ensure we are getting the best value out of the work we do to improve service for our customers. • Our new interactive video tool, Stream, enables staff to provide virtual home visits for our customers. Stream enables customers to use their phone’s camera to show staff around their property to identify easy-to-resolve issues. For more technical issues, an engineer will join the call to offer expert advice. The tool is expected to reduce the need for physical visits by up to 20% within 12 months, providing customers with a more efficient service and freeing up staff to focus on other network priorities.

Delivering our strategic priorities (continued)

Empower our people for great performance

What this means	2023/24 achievements
Our colleagues shape the delivery of 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	• We have broadened our leadership development interventions, through introduction of leadership programmes and mobilisation of digital coaching to enhance leadership capability. As a result, the 2024 Group employment survey saw an increased Leadership Index score of 75%. • Safe to Say offers our colleagues the opportunity to raise issues and get positive feedback from leaders. Since it started in January 2023, Safe to Say has had more than 1,200 inquiries dealing with a range of diverse subjects. Of these, around 80% have been actioned and completed, while the rest are in progress. We are continuing to build a culture where our colleagues feel safe to raise concerns and nurture a collaborative work environment. This has led to a 11% increase in our Safe to Say scores over the last two employee surveys. • We launched a Technician development scheme during the year which provides employees the opportunity to develop their knowledge to enable them to apply for Technician opportunities when available. The 12 month scheme comprises of a structured development plan including working within the depot, at other locations within the business and undertaking the formal training courses. Employees will gain exposure to various departments within the Group, including time in the Control Centre and an overview of financial awareness relevant to a Technician role. • 34% of the new hires within the Group in the current year were gender and/or ethnicity diverse. We have also continued to run Diversity, Equity and Inclusion ("DE&I") training for all people managers, as well as diversity training workshops for senior leaders.

Business Review

With an ambitious five-year plan, the start of RIIO-ED2 has led our business into an exciting but challenging new phase of capital delivery. In the first year of the price control, the Group is on track to deliver it's £7.5 billion investment programme. We have continued to deliver a reliable and efficient network for our customers, maintaining world class network reliability at 99.993% availability, NGED's Return on Equity ("RoE") outperformance for the year ending March 2024 is 108 basis points, within it's target RIIO-ED2 range of 100-125 basis points. This is partly underpinned by synergy benefits identified across the National Grid Group.

As we end the first year of our new regulatory framework, we have published our two-year DSO Strategic Action Plan. Our DSO vision is to enable and coordinate a smart, flexible energy system that facilitates local decarbonisation for all customers and communities at the right time and lowest cost. We will achieve our DSO vision by accelerating the development of flexibility markets and expanding access. We have led the industry on Flexibility Market Development, with our unique Market Gateway platform making it simpler and quicker for Flexibility Service Providers to register and participate in flexibility procurement. This has supported us to embed our ‘flexibility first’ principle to deliver efficient network reinforcement and to manage network risks, while keeping costs down for the end consumer.

Making our connections process clearer and simpler for customers is a strategic priority for us and as a result we have been expanding our automated application service as a key part of our pledge to speed up the connections process and accelerate the UK’s journey to a net zero future. NGED has made over 80,000 Low Carbon Technology ("LCT") connections during the year, with 89% of direct enquiries approved on the same day.

Further, with the volume of new connection applications soaring, we know a ‘fit for the future’ network is vital to meet current and future needs of our customers. In response to these demands, NGED has announced plans to release 10GW of capacity in it's network for new renewable energy generation enabling customers to connect quicker than previously planned, with an average acceleration of 5.8 years. The identification and release of this additional capacity follows significant effort and engagement with stakeholders, including National Grid Electricity System Operator ("ESO"), Ofgem and the UK Government and has been made possible by a new flexible approach that will utilise interim, non-firm arrangements to allow customers to connect sooner. This is part of NGED's work with the Energy Networks Association ("ENA") to find innovative solutions to speed up the connection of LCTs.

Our network navigated through a challenging weather year. During storm Isha, one of the largest storm impacting the region, over 11,000 customers lost power to their homes and businesses. With the prompt deployment of field resources, including our helicopters, we were able to restore 100% our customers the within the guaranteed standard timeframes.

We have continued to deliver for our customers with an overall customer satisfaction score of 8.97 (2022/23: 8.99). For RIIO-ED2, a new penalty only performance measure in relation to customer satisfaction for major projects connections has been introduced. In the first year of the price control, we scored 8.65 which is above the penalty threshold for all our regions.

NGED's community matters fund was increased from £3.8m to £6m for the year ended 31 March 2024, with £5m to tackle fuel poverty. In the current year we have been recognised for our unparalleled customer engagement and support for vulnerable customers at the 2023 International Engage Awards, where NGED won an award for best customer centric strategy.

In August 2023 we tragically suffered a fatality where a colleague fell from height during overhead line work. This event deeply impacted our entire organisation and has reinforced our unwavering commitment to safety. We continue to cooperate with the ongoing Health and Safety Executive investigation and provide support for impacted colleagues. More broadly, NGED's Long Term Injury Frequency Rate ("LTIFR") remained low at 0.098 (2023: 0.076) against a Group target of 0.1.

Business Review (continued)

Looking ahead

We will work to actively drive the nation's move to decarbonisation. Through targeted green investment, widespread rollout of flexibility services and development of new products and digitalised solutions we will look to unlock the network capacity our customers need in order to adopt LCTs at scale. Across the NGED Group, we will aim to prepare our network for over a million electric vehicles during RIIO-ED2, around 300,000 heat pumps, and a significant increase in renewable energy, whilst making it quicker and easier for our growing customer base to connect to the network. We will need to continue to collaborate with our regional stakeholders to enable them to achieve their aspirations, helping them build local energy action plans and we will continue to empower our people to deliver safe, effective and efficient performance for customers through our Integration Synergy and Efficient Work programmes.

Financial highlights

Financial measure	2023/24 £m	2022/23 £m	% change	Performance and comments
Turnover	267.8	304.3	(12)%	Our allowed revenues are set in accordance with our regulatory price control. We calculate the tariffs we charge our customers based on the estimated volume of energy we expect will be delivered during the coming period. The actual volumes delivered will differ from this estimate. Therefore, our total actual revenue will be different from our total allowed revenue. These differences are commonly referred to as timing differences. If we collect more than the allowed level of revenue, the balance must be returned to customers in subsequent periods, and if we collect less than the allowed level of revenue we may recover the balance from customers in subsequent periods. The decline in revenue is mainly due to the fact that DUoS revenue for the prior year included the recovery of supplier of last resort claims that had arisen due to significant supplier liquidations in December 2021.
Profit before taxation ("PBT")	87.7	103.6	(15)%	As part of the regulatory process Ofgem sets the allowed rate of return within each price control. As evident from the level of capital expenditure below, we invest any excess of profits back into the networks to ensure that we continue to provide an efficient, reliable and secure service to our customers. The decline in PBT is mainly due to an increase in depreciation of £3.0m and an increase in other operating costs of £5.6m.
Fixed asset additions	175.9	176.0	— %	The Company 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. Due to the age of the network and technological advancements significant investment is required in capital related activities.
Cash generated from operations	191.3	182.7	5 %	Cash generated from operations has increased due to increased customer contributions received for capital projects. *Cash generated from operations for 2022/23 has been restated due to a change in the classification of interest paid and received from operating activities to financing activities and investing activities respectively.* *Refer to note 1b on page 76 for details on restatement.*

Business Review (continued)

Financial highlights (continued)

Financial measure			Performance and comments
RAV *Because of timing, the 2023/24 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 2024 and April 2024 inflation (using Ofgem's splice index, reflecting the transition from RPI to CPIH in RIIO-ED2).*	**2023/24 £m** 1,724.1	**2022/23 £m** 1,613.1	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. The movement in RAV is largely driven by additions to our RAV during the year which are based on a percentage of our total expenditure ("totex") calculated in accordance with methodology provided by Ofgem and after application of the totex incentive. Note, the differences in the carrying value of our fixed assets based on IFRS methodology and RAV based on regulatory guidance have accumulated over time and as such cannot be reconciled.

Gearing ratio	**2023/24**	**2022/23**	
Net debt* (£m)	937.8	858.1	Gearing is calculated as the ratio of net debt to RAV. The gearing ratio is monitored in relation to the covenants for several bond issuances and is used as a key internal measure. To comply with covenants, the gearing ratio for the NGED Group does not exceed 85%. The regulatory gearing target is 60% for RIIO-ED2.
RAV (£m)	1,724.1	1,613.1	
Net debt to RAV	54.4 %	53.2 %	
** The calculation of net debt has been amended during the year due to accounting policy alignment with the ultimate parent, National Grid Plc. Refer note 26 on page 107 for the calculation of net debt.*			

Interest cover	**2023/24**	**2022/23**	
PBT (£m)	87.7	103.6	A minimum ratio of earnings before interest, tax, depreciation and amortisation ("EBITDA") to interest payable is used as a key internal indicator of the financial health of the DNOs. The Company aims for the interest cover ratio to 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.
Finance cost (£m)	39.1	38.6	
Depreciation (£m)	47.5	44.5	
Amortisation (£m)	0.5	0.4	
EBITDA (£m)	174.8	187.1	
Interest payable (£m)	39.1	38.6	
Interest cover	4.5	4.8	

Business Review (continued)

Financial highlights (continued)

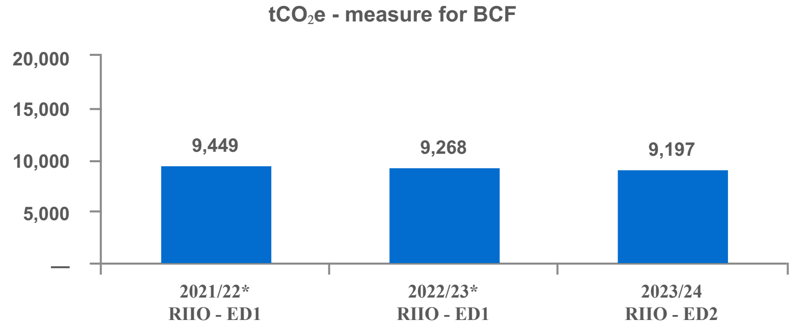
Financial measure			Performance and comments
Return on equity ("ROE")	**2023/24 %**	**2022/23 %**	Our ROE is based on the allowed regulated return on equity. Regulated return on equity is a measure of how a business is performing operationally against the assumptions used by Ofgem. These returns are 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	7.4 %	9.6 %	As part of the regulatory process Ofgem sets the allowed rate of return which fluctuates based on the risk free rate. For RIIO-E2 this is set five months prior in advance of commencing the next financial year. For the year ended 31 March 2024, this was set at 5.3%, normalised for a long-run inflation rate of 2%, base ROE was at 7.4%
Totex incentive mechanism	3.1 %	0.5 %	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.
Other revenue incentives	0.2 %	2.2 %	Totex incentives have increased due to efficient delivery of ED2 commitments and targets. There has been a reduction in incentives revenue earned due to the tightening of targets in RIIO-ED2.
ROE	10.7 %	12.3 %	*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.*

Key performance indicators ("KPIs")

We utilise KPIs to assess progress against our overall purpose and strategic priorities.

Business carbon footprint ("BCF")

Strategy link: Enable the energy transition for all



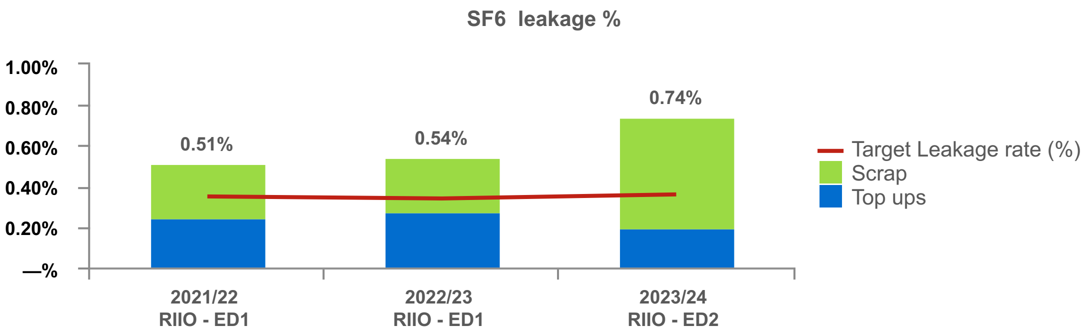
*Comparatives have been restated to exclude contractor emissions to align with Ofgem's RIIO-ED2 reporting requirement.

Performance and comments: Our BCF details the impact that our operational activities have on the environment in terms of associated carbon dioxide ("CO_2") emissions. We report our BCF using equivalent tonnes of carbon dioxide ("tCO_2e"). 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.

Our Business Carbon Footprint has reduced by 0.8% compared to last year. The target is in line with our verified 1.5ºC Science Based Target. For details on the methodology for the calculation of our BCF refer to page 57.

SF6 emissions (emissions as % of SF6 bank)

Strategy link: Enable the energy transition for all



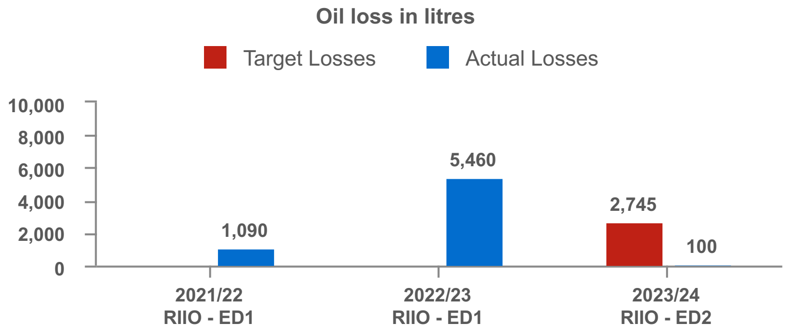
Performance and comments: SF6 gas is used throughout our industry as an insulating medium in switchgear. Although it provides many benefits it is a potent greenhouse gas. There are currently no viable alternatives to SF6. Therefore we continuously monitor our SF6 emissions. The amount of SF6 emitted is expressed as a percentage of the overall 'bank' of SF6 contained within our switchgear. Overall the level of leakage is reducing over time as older units are replaced with new units which also contain lower levels of SF6. When replacing switchgear we give priority to the switchgear with the highest leak rates. 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.

For RIIO-ED1, the SF6 target was a 17% reduction over the RIIO-ED1 period and related only to top ups % leakage as the scrap and manufacturers return data was not compiled at that time. For RIIO-ED2, the target is a 20% reduction in total SF6 leakage rate from the 2019/20 baseline actual leakage rates. Please note that manufacturers return is nil and therefore not part of the chart above.

Key performance indicators ("KPIs") (continued)

Fluid cable losses

Strategy link: Enable the energy transition for all



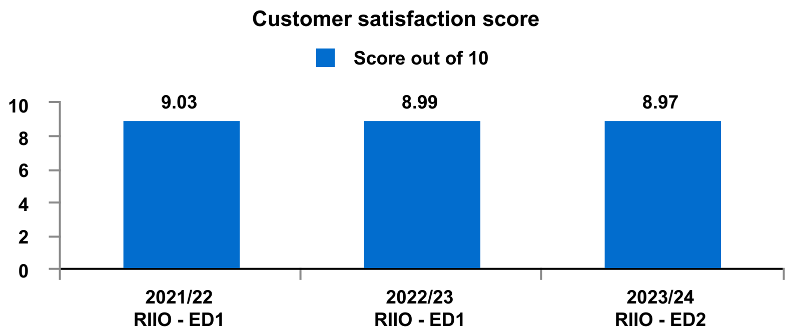
Performance and comments: The design of very high voltage underground cables has evolved over many years and our new cables all use a solid plastic-like insulation. Old designs of 33kV and higher voltage cables used an insulating oil in ducts inside the cable. Whilst these cables are normally very reliable, in the event of a fault or damage by third parties, this oil may leak. 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.

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. Older styles of electricity cables containing oil occasionally leak when equipment is damaged, seals deteriorate or as a result of changing ground conditions. Replacement programmes for the older styles of cables have been planned.

It is our commitment to reduce fluid filled cable losses by 50% over the course of RIIO-ED2. The baseline is the average fluid filled cable losses over the last three years of RIIO-ED1 for each licence area. During the year ended 31 March 2024, we met the target, with only 100 litres of loss in the current year.

Overall customer satisfaction (NGED Group)

Strategy link: Grow our organisational capability



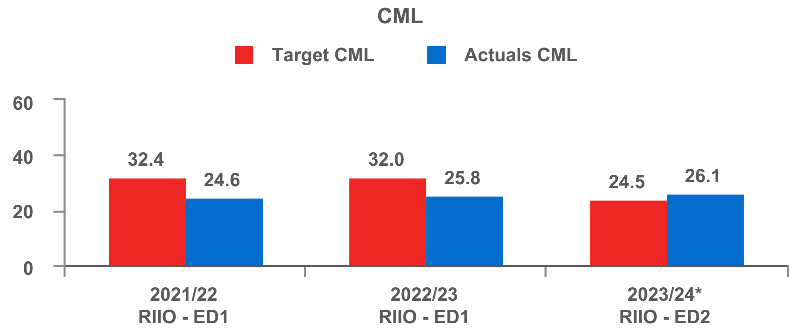
Performance and comments: As part of Ofgem’s Broad Measure of Customer Satisfaction Incentive, a research agency undertakes a monthly satisfaction survey assessing customers' satisfaction for connection quotations and delivery, power interruptions and general enquiries. The customer satisfaction score is given out of 10. For NGED’s four licence areas around 20,000 customers are surveyed per year.

For RIIO-ED2, a score of less than 8.90 results in penalty and a score greater than 9.12 generates a reward under the Ofgem's incentive scheme. NGED continues to look to identify opportunities across our four DNOs to improve our service to customers and hence our performance scores.

Key performance indicators ("KPIs") (continued)

Customer minutes lost ("CML")

Strategy link: Deliver for our customers efficiently



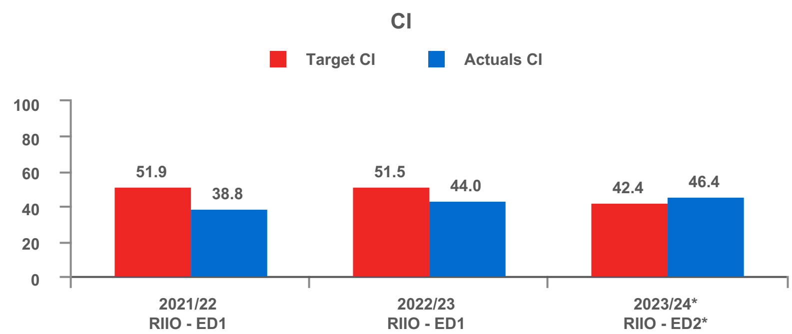
*The 2023/24 actuals are subject to Ofgem confirmation.

Performance and comments: 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.

The current year targets are significantly more challenging than the previous year and reflect the increased performance challenge that RIIO-ED2 poses compared to RIIO-ED1. Although our response efforts during the storms were acknowledged by Ofgem to be outstanding, customer outages negatively impacted our incentives performance. Delivering our FY24 performance under the ED1 incentive package would have resulted in a reward for the first year of ED2. It is our focus for the upcoming year to improve our operational performance on our incentive measures.

Number of customer interruptions ("CI")

Strategy link: Deliver for our customers efficiently



*The 2023/24 actuals are subject to Ofgem confirmation.

Performance and comments: 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.

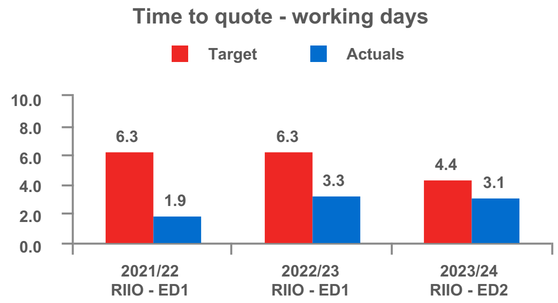
The current year targets are significantly more challenging than the previous year and reflect the increased performance challenge that RIIO-ED2 poses compared to RIIO-ED1. Although our response efforts during the storms were acknowledged by Ofgem to be outstanding, customer outages negatively impacted our incentives performance. Delivering our FY24 performance under the ED1 incentive package would have resulted in a reward for the first year of ED2. It is our focus for the upcoming year to improve our operational performance on our incentive measures.

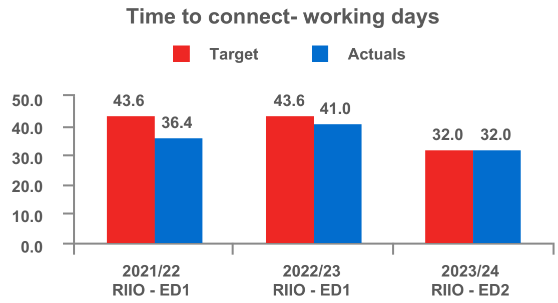
.

Key performance indicators ("KPIs")(continued)

Connections (time to quote and time to connect)

<u>*Strategy link: Deliver for our customers efficiently*</u>



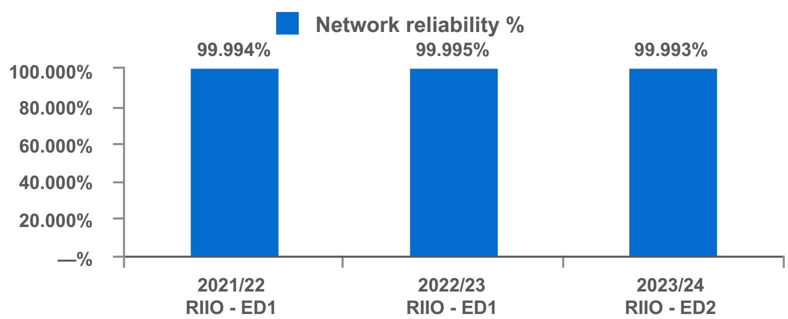


Performance and comments: Ofgem sets the targets for the overall "time to quote" and "time to connect" for single domestic connections and small commercial connections. LVSSA customers are those seeking single domestic connections requiring no mains work at low voltage. LVSSB customers are those seeking two to four domestic connections or one-off commercial connections at low voltage requiring no network reinforcement work. LVSSA and LVSSB actuals are reported separately against separate targets. The above actual and target is an average for LVSSA and LVSSB.

For RIIO-ED1, this performance measure was an incentive only measure. For RIIO-ED2, this performance measure is an incentive and penalty measure. The above targets are based on the reward threshold scores set by Ofgem. If we incur less time than the above target thresholds, we earn a reward. The above reflects that we have met the reward threshold for this performance measure..

Network reliability (NGED Group)

<u>*Strategy link: Deliver for our customers efficiently*</u>

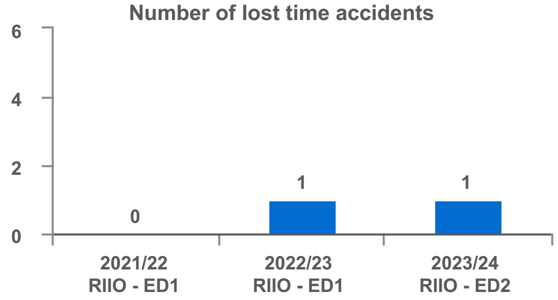


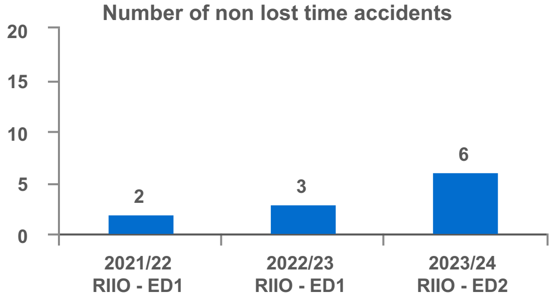
Performance and comments: We aim to deliver reliability by planning our capital investments to meet challenging demand and supply patterns, designing and building robust networks, having risk-based maintenance and replacement programmes, and detailed and tested incident response plans.

Key performance indicators ("KPIs")(continued)

Level of work related accidents

Strategy link: Grow our organisational capability





Performance and comments: In August 2023 we tragically suffered a fatality where a colleague fell from height during overhead line work. This event deeply impacted our entire organisation and has reinforced our unwavering commitment to safety. We continue to cooperate with the ongoing Health and Safety Executive investigation and provide support for impacted colleagues. More broadly, NGED's Long Term Injury Frequency Rate ("LTIFR") remained low at 0.098 (2023: 0.076) against a Group target of 0.1.

The total number of accidents reported across the Company has increased during the current year, but we remain below the National Grid Group target. We remain committed to the highest levels of safety in all areas and in order to reduce accidents to a minimum, all accidents and near misses are investigated so that causes and lessons can be learned to help prevent a recurrence.

During the current year, we made significant efforts to encourage staff to diligently report near misses and minor accidents. This has resulted in reporting of incidents that may not have been previously reported, This approach is crucial to enhancing safety culture, ensuring due investigation focusing on actual or potential for harm and allowing us to be more effective in our analysis of accidents to avoid future occurrence.

Many of the additional accidents reported this year were slip, trip and fall related, as well as a number of dog attacks. No common root cause was identified and they involved situations outside of NGED control, which includes ground conditions, dangerous animals, weather and access and egress arrangements where the local hazards had not been sufficiently identified.

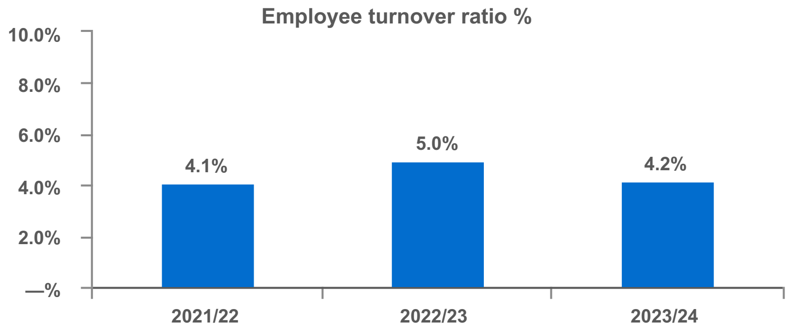
We will continue to ensure all planned safety inspection and maintenance programmes are completed during the year and, in an effort to reduce injuries a new behavioural safety programme will be implemented to ensure staff are reminded of their training, the need to consider all the hazards in the vicinity of their work area and their safety responsibilities to themselves and to others.

NGED also monitors the overall rate of accidents per 100 employee. The accident rate for the NGED Group for 2023/24 is 1.13 (2022/23: 0.72).

Key performance indicators ("KPIs")(continued)

Employee turnover ratio (NGED Group)

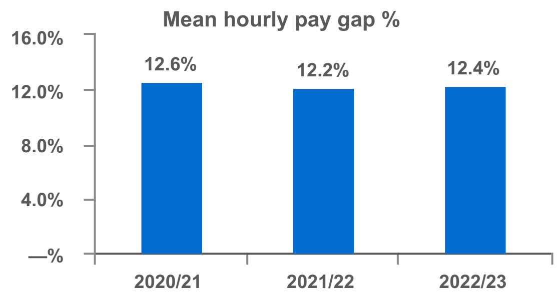
Strategy link: Empower our people for great performance

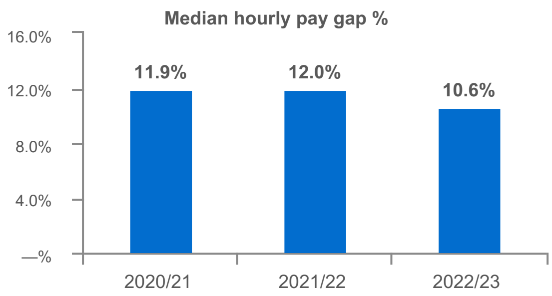


Performance and comments: There is a decline in the year on year turnover ratio. On an overall basis, NGED has a low employee turnover ratio, indicating a positive working environment for our colleagues.

Employee gender pay gap

Strategy link: Empower our people for great performance





*2022/23 are the latest available results and is for data on the snapshot date of 5 April 2023. The report for the snapshot date of April 2024 will be available by April 2025.

Performance and comments: Whilst the Company's mean hourly pay gap has shown slight decline year on year, significant improvement has been noted in the Company's median hourly pay gap.

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

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

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. In response to the changing business environment, we have refreshed our strategic priorities and transformation activities which underpin them.

	Impact on our industry	Our response
Net zero Decarbonisation in the UK is the dominant driver of change and growth for our portfolio, and we are committed to delivering the energy systems which are critical to the wider energy transition.	• Global momentum behind decarbonisation continues to build, and we are committed to delivering the energy systems which are critical to the wider energy transition. • The UK government is prioritising reforms that reduce barriers to electricity infrastructure investment to deliver the net zero transition, including connections reform. Despite challenges, even in our most pessimistic scenarios, we expect significant electricity network infrastructure upgrades.	• The NGED Group is driving the shift towards a low carbon, net zero future for our customers and work is already well underway to transform the energy grid to achieve this. Over the five year period 2023-2028, the Group will turbo charge the pace of that change in order to meet the energy needs of our customers today and create a sustainable future for generations to come. NGED's long-term forecasts, called Distribution Future Energy Scenarios ("DFES"), identify how customers will use our network in the future. We use this information to predict the future requirements on our network and decide when and where to invest in the network. This ensures that our strategic network planning provides sufficient network capacity as the country transitions to net zero. • NGED continued with it's journey of fleet electrification. The percentage of electric vehicles in NGED's commercial fleet is 12% (up from 9% in previous year) and leased fleet is 50% (up from 25% in previous year). Contracts for Electric Vehicle Charge Point Infrastructure were awarded in the current year. These contracts will enable our project management teams to begin installing one of the largest private electric vehicle charging networks in the UK. This will mean our operational teams will always be within a 10 mile radius of an NGED owned and operated charger. • As part of the ENA, we are working collaboratively with other DNOs to develop and implement a collaborative and common approach to measuring and implementing biodiversity net gain across the network. • NGED is trialling the utilisation of a biodiversity net gain metric tool at around 40 substations to establish a baseline from which bespoke biodiversity management plans will be developed. • We are working with the wider National Grid Group to transform our supply chain focusing on circular economy principles, addressing scope 3 emissions and reducing unnecessary waste. • Alongside Octopus Energy, we have introduced a new process to speed up the installation of heat pumps and other low carbon technologies, such as domestic batteries and electric vehicle chargers. The additional power required by these clean tech devices can mean that the fuse on the incoming electricity supply would need to be upgraded by the local DNO. This new agreement allows Octopus Energy engineers to upgrade the fuse themselves at the same time as they are installing heat pumps, EV chargers and solar panels in their customers' homes, reducing the installation time by up to 10 weeks.

Our business environment (continued)

	Impact on our industry	Our response
Fairness and affordability We are committed to delivering the energy transition as efficiently and fairly as we can to create the best long-term value.	• We closely monitor developments in economic outlooks in the UK. An improving economic environment could deliver lower debt costs and reduce the number of projects which are delayed or cancelled, although borrowing costs will still remain a key consideration particularly for customers deciding whether to electrify heat and transport. The cost of materials remains elevated. For families, the cost of living crisis remains front of mind.	NGED established a 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. Key initiatives are outlined below: • NGED has awarded £6m to local good causes via it's shareholder-funded Community Matters Fund. This includes: – £5m to help tackle fuel poverty in our region. The Group supported 715 local organisations and an estimated 272,000 beneficiaries are now receiving support through warm banks, energy efficiency advice and access to funding schemes; – £500,000 aimed at supporting biodiversity schemes and community green spaces. The fund was distributed to 103 organisations to support the development of green spaces to bring communities together, encourage more wildlife and biodiversity, improve air quality and reduce noise, as well as delivering health benefits, and creating employment and volunteering opportunities; – £500,000 focused on promoting physical health and wellbeing for people of all ages across our region. The fund was distributed to 120 organisations to support new exercise and sporting initiatives in their area and approximately 120,000 people have benefited from these grants. • NGED partners 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 and confidential advice on a full range of interventions. The project works by partner organisations taking referrals directly from NGED. 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. Both these schemes collectively contributed to the total 23,705 (2023: 24,463) customers who saved over £23.4m (2023: £20.6m). • NGED's Energy Affordability Fund has enabled seven new innovative projects aimed at enhancing local provider advice capacity across our region. This would assist organisations to provide support in areas such as home improvements, energy efficiency, winter resilience and raising awareness of the link between cold, damp homes and health issues.

Our business environment (continued)

	Impact on our industry	Our response
Technological change We expect technology to change rapidly on the demand and supply side of energy. In many industries, generative AI (including ours) will be a key enabler, but will also increase electricity demand. We will stay ahead of technological change, leveraging and enabling where we can, mitigating and preparing where we need.	• Innovations in energy technology continue to drive change in the pace and shape of the energy transition. The increased deployment of weather-dependent generation requires innovative technological and commercial processes to balance supply and demand and ensure resilience. • Rapid developments in the capability of generative AI open new opportunities for energy industry applications including generation and demand forecasting, infrastructure planning, predictive maintenance and improvements to physical safety. • Data centres which enable generative AI and digitalisation will be a significant source of future energy demand. The likely scale of this impact is still evolving and we are monitoring closely. • Cyber security and resilience are key priorities for us, as is the ethical and safe use of generative AI technologies.	• Our digitalisation strategy and action plan ensure that we remain an efficient and effective operator of our network and deliver data and solutions in the right format, at the right time, to customers and stakeholders to meet their needs and ambitions. Enhancing the visibility of our network information and harnessing the latest data and digital solutions helps us to operate a dynamic network. Our data and digitalisation governance group drives our programme to ensure that a consistent and appropriate approach is taken across our complete business. This ensures we continue to focus in the right areas, do not leave any part of our business, employees, customers, or stakeholders behind. Our investment in our connected data portal now enables huge amounts of valuable data to be accessed centrally and we continue to invest in our Integrated Network Model, ensuring we have a single source of the truth for our data, providing greater detail for us and our customers to benefit from. • We launched our Low Voltage ("LV") Network Insights Platform. The platform is an open data interface that displays data from monitoring units installed on distribution substations across NGED's electricity network, helping to provide insights into network usage and capacity, low carbon technology connections and carbon intensity. This will enable us to present data in a clear and user-friendly way, to inform decision making and enable users to understand their electricity usage and needs. • The Smart Meter Innovations and Test Network project examined 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. Following the success of this project, we are implementing the data analytics used within the business to improve the data quality of our LV network. Ensuring we have accurate records for how customers are connected to the network, what LCTs are present and the planning profiles is an essential pre-requisite to unlock the potential of automated network analysis, whether for new connections self-serve tools or widespread analysis to inform strategic planning. • As a part of the critical work NGED does to keep the electricity network safe and secure, our telecoms team installed almost a kilometre of underground fibre optic cable to a new pylon in Nottinghamshire. The cable will help to monitor power supplies. It will also protect and control the network by carrying additional services and giving a more 'real time' view of the electricity network so we can keep the power flowing to homes and businesses. Fibre optic technology like this is replacing traditional radio links and will be added to overhead lines and underground cable routes across all of the Group's region as we build the energy network of the future.

Our business environment (continued)

	Impact on our industry	Our response
Global uncertainty Geopolitical tensions and competition for resources threaten supply chains, while a new UK Government brings policy uncertainty that could impact our ability to plan.	• Geopolitical volatility is the biggest risk identified in the World Economic Forum's Chief Risk Officers Outlook, 2023. • Conflict in the Middle East and the possibility of escalation continues to threaten supply chains and energy security remains a top priority. • In response to this volatile global environment, governments are implementing policies to provide greater certainty and opportunity for our sector, The UK's Energy Act received Royal Assent in October 2023 and sets the foundation for the future of energy in the UK, including the establishment of an Independent System Operator and Planner ("ISOP").	• We continually review our strategy in response to changes in our business environment, and closely monitor geopolitical and economic shifts. The National Grid Group has introduced our new strategic priorities for the upcoming year and these reflect the need to be more proactive in setting a foundation for the future. • As part of our new operating model, we have established a new Asset Management function that will assist in managing supply chain risks. This function will be responsible for enhancing asset performance, implementing effective asset risk management approaches, and providing efficient operations support that aligns with our future objectives. Within this new function, we have commenced the process of quarterly forecasting and in the future we intend to use these forecasts to offer our suppliers earlier and longer-term commitments to enable optimised planning and visibility to allocate capacity and allow us to manage common constraints. • Our efficiency delivery program launched in the current year will be instrumental in ensuring that we have the necessary specialised resources at the appropriate levels within the organisation to meet the resourcing and efficiency requirements for delivering our significant capital investment during RIIO-ED2. • National Grid's 'Delivering for 2035' report in the UK lays out five priority areas where action is needed from industry, the UK government and Ofgem to meet the UK's target to decarbonise the power system by 2035. You can read more here: https://www.nationalgrid.com/document/149501/download

Distribution System Operator ("DSO") Function

Electricity distribution networks must adapt to the changing needs of their customers and stakeholders. We are committed to playing our part in enabling local and regional decarbonisation, and to address these evolving needs on our network we have prioritised development of our DSO function and capabilities. The DSO function is about developing and operating a smarter and more flexible electricity system. To deliver benefits from this smarter approach requires investment in data, systems and processes to enable this capability, and also for this capability to be exploited. This is the role of the DSO.

In our first full year as a functionally separate DSO, we have made significant progress developing and refining our DSO capabilities. The aim of our approach is to achieve positive outcomes for the customers and communities that we serve, and we are proud to have already delivered the following tangible benefits for our customers and stakeholders:

– Identified 10 GW of additional capacity for renewable energy projects;
– Deferred over £80m investment in conventional reinforcement through flexibility, delivering consumer savings;
– Procured over 17 GWh of flexibility availability, with 19,000 dispatch events;
– Delivered 290 Net Zero Surgeries with our local authority stakeholders, to support their decarbonisation journeys;
– Engaged over 200 stakeholders from across the whole energy system through our Electricity Futures DSO event series; and
– Launched our independent DSO Panel.

In addition to the above, we have published our seventh Distribution Network Options Assessment ("DNOA") – our market leading method of communicating how we are managing network constraints and eighth Distribution Future Energy Scenarios ("DFES") annual forecasts which incorporate 7,200 strategic projects being developed by local authorities across our regions.

Since April 2023, we have embarked on an extensive programme of engagement so we can make sure our stakeholders' voices directly shape development of our DSO plans and priorities. Through our Electricity Futures engagement series, we sought feedback on our initial view of the DSO vision, commitments and deliverables. We are committed to ensuring that our DSO was set up to deliver the services that our stakeholders value. Our forward plans are built around five key themes that our customers and stakeholders say are important:

Planning and Network Development: Enable local and regional decarbonisation by supporting ambitious initiatives from planning through to delivery on the ground.

Network Operation: Enhance the visibility of our network by harnessing the latest data and digital solutions to drive smart, whole-system outcomes.

Flexibility Market Development: Continue to lead the curve on flexibility, doing all that we can to create market opportunities and simplify access.

Governance: Promote transparent, independent and efficient decision-making through effective DSO governance.

Engagement: Proactively collaborate through partnerships to deliver whole-system outcomes, and be transparent with stakeholders how we measure DSO success.

For further details refer to our complete DSO strategic action plan at below link:

https://www.nationalgrid.co.uk/dso

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 and deliver financial benefits to communities and consumers, including vulnerable customers. The projects help develop crucial knowledge and expertise which is being shared across the industry. In February 2024, we hosted our ‘26 to Zero' event to update our stakeholders on the progress of our key innovation projects.

From April 2023 onwards, the larger projects that were previously funded via the Network Innovation Competition have been replaced by the Strategic Innovation Fund ("SIF"). This has the advantage of breaking down these larger projects into Discovery, 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.

Planning Regional Infrastructure in a Digital Environment ("PRIDE") is the first NGED SIF project that has progressed to Alpha phase following successful completion of the Discovery phase. The project focuses on using data and digital demand planning, across multiple levels of the energy system, to facilitate, manage and integrate demands across heat, transport and energy demand reduction. PRIDE aims to support local area energy planning and serve network investment decision needs, to fast-track low-carbon technology deployment at a regional level. The project includes developing a “whole systems digital planning tool”. The project will test how this tool works across different regional energy planning stakeholders, and how it could be used in broader governance structures, specifically in the upcoming Regional Energy Strategic Planning process. The project is being delivered collaboratively with four project partners: West Midlands Combined Authority, Advanced Infrastructure Technology Limited, Regen and National Grid ESO.

Another project that has made progress in the current year is Active Creosote Extraction ("ACE"). This project has looked at creating, trialing and testing a new methodology that can extract creosote from wood to sufficient levels where they can be classified as non-hazardous waste. In the current year, we have finalised the test design and commissioned the test plant. We are now in the testing phase to assess effectiveness of each methodology. So far we have achieved extractions that have yielded up to 80% reduction within a pole and have generated valuable new learnings around refining the system with the potential of it being rolled out / commercialised. In the next few months, we will continue to focus on gathering valuable data from each pole being tested and assessing the commercial validity of the process. The project was a finalist at the 2023 Utility Week Award for the Environmental, Social and Governance Initiative of the Year.

Decarbonisation is at the heart of two of our latest innovation projects to be awarded Ofgem funding. The Rural Energy and Community Heat ("REACH") project has won nearly £117,000 from the energy regulator to support rural communities to decarbonise quicker. Our Road to Power project has also won £141,000 to support the roadworks sector in its move to electric plant machinery and net zero emissions.

The REACH project will work with innovative suppliers to develop shipping container-sized rural energy centres. These prefabricated units will contain standardised equipment that can be easily sited within communities to enable the connection of heat pumps, electric vehicle chargers and renewable generation.

The Road to Power project will examine how electricity networks can support the street and roadworks sector’s move to electric plant machinery and net zero emissions. National Highways have set an ambitious 2030 target for zero emission plant equipment on all work sites. Greater electrification of plant machinery will pose challenges to the electricity network due to its high and inflexible charging demands at regularly changing locations. However, there is still some uncertainty as to how decarbonisation will play out with electrification of some equipment expected to be complemented by the use of hydrogen by other plant. Road to Power aims to understand the drivers and to create realistic scenarios for planning. The project will assess these demands, forecast future consumption and explore different electrification pathways and infrastructure needs. It will then create online tools to help roadworks contractors obtain temporary grid connections while helping networks forecast the impact of temporary works on their infrastructure.

During the current year experts from our innovation and digitalisation teams were invited to attend CIRED (International Conference on Electricity Distribution) – one of the distribution industry’s leading international events – alongside experts from 70 countries to address some of the biggest issues facing the industry. NGED representatives actively shared their knowledge and expertise at events throughout the conference and nine NGED papers were accepted at the conference. This was a unique opportunity for our teams to present our innovation projects and compare our findings with thousands of electricity distribution professionals.

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

NGED is exposed to a range of uncertainties that could have a material effect on achieving its strategic objectives, its financial condition, operational results, reputation and its value. The National Grid Plc Board sets and monitors the amount of risk that the National Grid Group is prepared to seek or accept in pursuing its strategic objectives, via the National Grid Group's risk appetite framework. This framework applies in all cases (unless specifically agreed otherwise) to NGED. The NGED Board reviews its Principal Risks ("PRs") at least annually with any urgent risks raised to the Board as needed. This process is being reviewed for the next financial year to align more closely with the approach followed by the National Grid Group. There is a monthly NGED Ethics, Risk & Compliance Committee ("ERCC") which the senior leadership team sit on and monitors NGED Principal and Emerging risks ("ER"s). ERs are those risks which do not pose an immediate threat but which nevertheless have the potential for significant impact. The risk management framework and process is further set out in our Code of corporate governance statement on page 45.

Actions during the year

Our risk profile continues to be managed by drawing upon the most significant risks across our business. This year we reviewed our risk management framework and our PRs to align better to our parent company, National Grid Plc's Group Principal Risks ("GPRs") along with our own business plan commitments. We assessed risks against the strategic business objectives of the Group, and devised a new set of PRs for the NGED Group, aligning these with the Group Board's strategic objectives, risk appetite and associated key controls, which are clearly defined and assessed.

The rapidly evolving political and economic landscape continues to dominate our risk profile. The uncertainty of this landscape has created an increase in the underlying (inherent) threat. This is particularly relevant to cyber, disruption of energy, political and societal expectations, and regulatory risks. We are continuously reviewing these risks.

The "Sustained loss of customer supply" PR focuses on significant disruptions of energy from network reliability and resilience issues across our own operations, whereas the "Loss of upstream energy supply" PR has been created in response to our ability to meet customer demand and to provide appropriate stakeholder management in the event of upstream energy supply constraints outside of our control.

There is continued focus by the executive directors on the delivery risk associated with the RIIO-ED2 price control and increased scrutiny on regulatory and legal compliance risks and associated controls. We have also developed a standalone 'connections' risk, reflecting the importance of our ability to manage the challenges around new connections effectively.

The PRs are discussed monthly by the executive directors via the ERCC, to help maintain focus on progress of mitigating actions, development of the risks and alignment to the Group's risk appetite framework.

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 section 404 of the US Sarbanes-Oxley Act of 2002 and are received directly from the Group Controls & SOX team and through the Executive and Audit Committees. This is to satisfy the reporting requirements for our parent company, 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.

Internal controls and risk management (continued)

Key risks

Strategic risks	
Risk	**Actions taken by management**
Capability and talent: There is a risk that the NGED business does not have a sufficiently diverse and engaged workforce and leadership with the appropriate skills and capabilities to meet current and future strategic priorities. *Strategy link: Grow our organisational capability.*	To manage this risk: • We continue to increase our external recruitment into operational and critical roles, so we can adjust our talent mix strategically, bringing in diverse leaders both with the skills we need now and with potential for the future; • We are moving towards more clarity on our high potentials and credible successors and are actively ensuring all development plans are robust and informed by identified capability strengths and risk areas. Through our leadership and talent strategy we will continue to use quality leadership development activities to support; • We are also developing our Strategic Workforce Planning to ensure we understand the capabilities needed in the future and can plan accordingly to build these capabilities.
Political & Societal Expectations: There is a risk of unfavourable public policy or negative societal perception *Strategy link: Enable the energy transition for all.*	To manage this risk, we have a range of well-established structures in place to ensure stakeholder expectations are clearly understood by the business, including: • An annual programme of stakeholder interventions to ensure we understand stakeholder needs and our priorities are aligned appropriately; • An Independent Scrutiny Group and Customer Panel, which meets quarterly and tracks progress against our Business Plan commitments and customer sentiment; • Monthly reporting to our Policy, Regulation and Reputation Committee on horizon scanning for relevant political / societal changes and customer sentiment data; • A newly established public affairs function, to engage with Government, local authority and other regional stakeholders to ensure strong relationships and two-way communication on priorities.
Energy transition role and delivery of net zero: There is a risk that we fail to sufficiently enable the UK's transition to net zero across our region, potentially not meeting local stakeholder requirements and/or our own net zero commitments. *Strategy link: Enable energy transition for all.*	To manage this risk, we focus on: • Understanding stakeholder requirements, through both long-term forecasting and monitoring of local growth and load risk; • Maintaining a strategic investment plan which reflects the needs of key stakeholders across the whole energy system; • Building capability in a range of tools to deliver required capacity, across both conventional reinforcement and new flexibility markets; • Coordinating and optimising investment across our wider programmes of activity to ensure we deliver against both our internal and external net zero commitments.

Internal controls and risk management (continued)

Operational risks	
Risk	**Actions taken by management**
Employee and Third-Party safety: There is a risk of significant injury or loss of life to employees, contractors or the public as a result of operational business activity. This risk also includes similar safety impacts from environmental events. *Strategy link: Enable the energy transition for all.*	To manage this risk our preventative and detective safety controls focus on: • 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; • Our Safety Refresh Program, launched in February 2024 which aims to drive organisational safety culture, tighten and clarify safety accountabilities, enhance controls and improve incident management; • Strengthening our asset management risk framework to enable us to deliver effective asset management decision making, implementing targeted inspection and maintenance plans to maintain asset integrity.
Cyber security incident: There is a risk that we are unable to adequately prevent, detect or manage disruptive forces on our systems resulting from a cyber-attack (from internal/ external sources). *Strategy link: Grow our organisational capability.*	To manage this risk, 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; • Have stringent policies and procedures to provide controls over network security, proactive threat intelligence gathering, asset monitoring and management, data integrity, back-ups and incident response; • Work collaboratively with our parent Company, Government agencies, expert third parties and with cyber security frameworks to build resilience, incident response planning and contingency and to validate our performance.
Sustained loss of customer supply due to failure of our network: There is a risk that we fail to predict and appropriately respond to a significant disruption of energy supply. This could be caused by numerous events such as significant component failure, unavailability of key materials/labour, network resilience weaknesses, lack of preparation for extreme weather events. *Strategy link: Deliver for our customers efficiently.*	To manage this risk our planning and incident response controls are widespread across our assets, systems, communications and infrastructure. They include: • Installations and changes within a controlled change management framework and to industry leading standards; • Planned, effective maintenance of the network including preventative vegetation management programmes; • 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.

Internal controls and risk management (continued)

Operational risks	
Risk	**Actions taken by management**
Loss of Upstream Energy Supply: There is a risk of disruption to the upstream energy supply chain that we fail to prepare for and/or respond adequately to. *Strategy link: Deliver for our customers efficiently.*	To manage this risk key mitigations include: • Distribution planning and design undertaken in compliance with relevant sector Codes; • Horizon scanning for potential upstream supply issues; • Business continuity planning and preparedness activities; • Clear communications plans.
Customer Connections: There is a risk that we are unable to connect customers when or where they want (within a reasonable timeframe) – or are perceived as being unable to do so - and are unable to make significant improvements soon. *Strategy link: Deliver for our customers efficiently.*	To manage this risk, we are: • Working to bring down connection queue times through a variety of mechanisms; • Continuously testing our forecasting assumptions to ensure they are as robust as possible and use this to strengthen our long-term procurement and HR planning; • Investing in network growth to meet future demand; • Improving our customer communication and analysis and use of feedback.
Business transformation: There is a risk that we fail to identify and/or implement appropriate transformational initiatives to future proof the business due to a failure to manage our transformation roadmap effectively with the appropriate flexibility to adapt to changing circumstances. *Strategy link: Enable the energy transition for all and deliver for our customers efficiently*	To manage this risk key controls include: • A multi-year business transformation plan aligned with NGED's strategic priorities and developed with and approved by the NGED Executive; • Regular reporting against that plan; • Clear communication to support implementation; • Appropriate capacity and capability to implement the plan; • Horizon scanning to ensure the plan remains relevant.
Delivering ED2 price control: There is a risk that we fail to deliver the price control outputs within the regulatory settlement. Should we fail to meet efficiency targets within the business the likelihood of this risk materialising will increase. *Strategy link: Deliver for our customers efficiently.*	To manage this risk, we have: • An efficiency delivery team in place; • 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.

Compliance risk	
Risk	**Actions taken by management**
Regulatory and legal compliance: *There is a risk that NGED may not be fully compliant with all regulatory licence or statutory obligations due, in particular, to this being the first year of new requirements as part of RIIO ED2. Depending on the non-compliance there could be adverse impacts on customers and/or other stakeholders, with potential for a significant fine and reputational damage.* *Strategy link: Deliver for our customers efficiently*	To manage this risk, we have: • A dedicated regulatory compliance team in place, as well as both internal and external audits of priority compliance areas; • A programme of work in training to further strengthen our controls testing processes during FY25 as well as hiring additional resource to support with compliance advice and monitoring; • Horizon scanning and regular dialogue with National Grid (our parent company) on regulatory and compliance developments which may affect NGED; • Regular monitoring of compliance performance.

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 principal risks.

Refer to page 54 in the Director's report for details on our financial risks. The NGED Group's financial risks are described in the NGED Group consolidated annual report for March 2024, available on our website.

Our commitment to being a responsible business

At NGED, 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.

NGED 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. Structured around three key focus areas: our customers and communities, our people and our environment, our 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.

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. While we work to achieve net zero and deliver a clean and affordable energy system, we must also work to deliver that fairly, equitably and 'justly'. We must do this while still considering; our role in developing, operating and maintaining critical national infrastructure, the complexities and the risk associated with leaving people and communities behind.

Some of the key outcomes in 2023/2024 were as follows:

- In addition to the Community Matters Fund highlighted on page 24 NGED provided over £60,000 in donations and around £39,000 in sponsorship, supporting local charities and community groups.
- Across the organisation, NGED delivered 6,155 volunteering hours to assist a range of charitable organisations with activities from tree planting, to DIY and safety education.
- Our project EV Respond was granted Ofgem's innovation funding and is looking to find innovative solutions to assist vulnerable customers during a power outage. The project will look at the potential of using electricity stored in electric vehicle batteries to provide supplies during an outage. The team will examine if this can be done via an app, while also looking at the benefits and drawbacks when compared to using diesel generators.
- NGED's Science, Technology, Engineering and Maths ("STEM") ambassador programme has grown to 29 colleagues, who deliver outreach and education to students across our region. NGED has continued to support the Engineering Education Scheme Wales ("EESW") Sixth Form Project, promising to give a wider understanding of the STEM careers available to students. 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 six months, run by three NGED STEM ambassadors who visit regularly to answer students' questions. The students are also given the opportunity to visit sites. 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.

Our commitment to being a responsible business (continued)

Customers and community (continued)

- NGED has expanded it's support for the Greenpower Challenge, working with four teams across three schools. The Greenpower Challenge is a project for teams of students (aged 11-16) to design, build and race their own electric cars, and this year 75 students participated with assistance from our STEM ambassadors. The initiative aims to promote low carbon transport, the use of recycled materials and the varied career opportunities in engineering. In the current year, the all-girl team from Ivybridge Community College in Devon had designed and built their own racing car, with support from National Grid STEM ambassadors. The car – called ‘Spare Parts’ – was competing in the F24 category in the Greenpower Challenge International Final.
- Pylon to Power is a project that gives talks to students about the future of renewable energy. Over the year, 182 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.
- Working with 2B Enterprising NGED has partnered with five primary schools to deliver ‘The Bumbles of Honeywood’ enterprise education programme to 300 students, which includes resources for students and teachers. The programme covers themes of diversity, sustainability and wellbeing, and focuses on skills such as communication, teamwork and leadership.
- NGED donated five monitors as part of its ongoing partnership with the Good Things Foundation. The monitors will be provided to community organisations supporting digitally excluded people.

Customer vulnerability and fuel poverty

We currently support around 335,000 customers on our Priority Services Register ("PSR"), in order to provide additional tailored support when a customer contacts us or when their supply is interrupted. We have a dedicated team who proactively contacts 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 shares PSR data monthly (two-way) with seven water companies and is working alongside industry colleagues to strive towards an automated standard industry approach to PSR data sharing. 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 197 referral partners (up from 180 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.

It remains vital that we keep customers updated on ways to save energy and manage their consumption more effectively. NGED continues to work with its Customer Panel and stakeholders who, at this year’s Social Obligations Workshop, highlighted concerns with the ongoing cost of living crisis and the financial burden of energy bills for customers. Such burdens can trigger widespread anxiety and mental health issues. The unrelenting demand for support and the stretched resources of fuel poverty support organisations mean our partners are often restricted to firefighting through short-term interventions. To counteract this we have continued to offer long-term contracts to partners providing guaranteed, consistent funding so they can support customers who are struggling to heat their homes. We work with over 100 partner agencies to provide fuel poverty support and advice. Please refer to the “Fairness and Affordability” section on page 24 for details on work done by us during the in the area of customer vulnerability and fuel poverty.

Our commitment to being a responsible business (continued)

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.

We ensure all colleagues receive fair and equitable pay, regardless of location, gender, ethnicity or disability. We review gender and ethnicity pay gaps annually. In the UK, we remain an accredited Living Wage Foundation employer demonstrating that we go beyond the Living Wage requirements, this commitment extends to our contractors.

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 focused on key topics identified from our annual SHE action 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 Group's safety culture. There are regular meetings between managers and colleague representatives to discuss, agree and implement initiatives related to health and safety. During the current year, teams across the business that completed a calendar year with no reported accidents each won £500 to donate to charities of their choice. Various initiatives like this help foster a culture where a 'safety first' approach is embedded within all teams. In addition the "Safe to Say" initiative encourages 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. Our Employee Resource Groups play a vital role in creating a community where our colleagues feel comfortable to bring their whole selves to work. They are the crucial enablers of our DE&I aspirations providing support, opportunities and development for employees as well as delivering events and awareness-raising campaigns throughout the year. Some examples of actions during the current year are as follows:

- We continually aim to improve social mobility by attracting a diverse range of people into the industry. Our Power Network Craft Assistant ("PNCA"), is specifically aimed at people who have left school without or with minimal qualifications but have the skills and ability to thrive at NGED. This scheme provides a paid 12-15 months training programme, following which a craft assistant job will be offered. 11 employees were appointed in the current year by NGED under this scheme.
- During the year, we transformed the DE&I content of our internal intranet and on an overall basis have increased DE&I communications and visibility. Within the content on intranet, we explore a different DE&I topic in an easily-digestible, quick and interesting read on our intranet. Bite sized videos are created sharing with employees the key definitions and concepts.
- We have introduced quiet rooms across various offices which can be used for prayer, meditation, for rest, or for neurodivergent colleagues, disabled colleagues, staff experiencing menopause or anyone in need of a moment of quiet when feeling overwhelmed.
- We have rolled out unconscious bias training for our staff.

Our commitment to being a responsible business (continued)

Our people (continued)

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

- We launched a Self-ID campaign for staff; this helps us understand our gender and ethnicity pay gap and also helps us to identify the diversity make up of our workforce so that we are able to plan the right trainings, initiatives, benefits, and inclusion activities for our workforce.
- With the aim of creating a space that reduces unintended hurt and allows people to bring their true selves to work, we have launched new form of ID cards that gives colleagues the option of including their personal pronouns.

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. In the current year, NGED employed seven new interns through this programme, three of whom were successful in securing longer term roles within the business.
- 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. In the current year, NGED employed one intern through this programme, who has now taken on a full time role within the business.

Employee wellbeing

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.

In the current year, we launched our new partnership with Thrive Mental Wellbeing. Thrive Mental Wellbeing is a clinically effective mental health care service, provided via an app. This will allow our employees to access more than 100 hours of self-help tools and techniques along with one-to-one sessions with qualified therapists

Some other examples of support available for our employees are as follows:

- Switched on to Health intranet, providing a wide range of resources for 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 and hybrid working policies, providing support to eligible colleagues who wish to incorporate homeworking or flexible working.

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. 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 commitment to being a responsible business (continued)

Our environment

NGED is 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.

Since 2011, we are 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. Continued certification ensures that we strive for continual improvement and innovation in our approach to the environment, while maintaining legal compliance.

We have continued to work collaboratively with our waste management partners to significantly reduce the amount of waste disposed of to landfill. In 2023/24, only 0.01% (2022/23: 0.01%) of waste from our operations is being sent to landfill.

We work 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. Further as part of our commitment to biodiversity and the environment, we also plant native trees and shrubs across our operating regions each year, in partnership with The Conservation Volunteers ("TCV") and Groundwork Wales. 10,000 trees were planted this year with TCV, and three tree planting sessions supported by NGED volunteers with both TCV and Groundwork Wales.

NGED is also working to restore natural habitats on land around NGED Group's larger sub-stations, beginning with the site at Cheltenham. The project demonstrated how we have been working differently with our contractors, moving the emphasis away from grounds maintenance and towards habitat management. We’ve been advised by an ecologist throughout the process to make sure we deliver the maximum benefit for the local environment – all without impacting theelectrical assets. The Cheltenham project is the first of several to form part of Group's Biodiversity Net Gain initiative.

As part of our partnership with the Heart of England Forest, we are also funding research into planting saplings without the need of plastic tree guards. Tree guards are used for the first five years of a sapling’s life to protect it from animals and heavy wind and rain. Research published in 2021 pointed out there are significant carbon emissions from the manufacture of the guards and they are rarely collected after use, meaning they break down into microplastics, which pollute the environment and harm wildlife. Organisations such as the Woodland Trust have committed to plastic-free planting and there is plenty of ongoing research into testing alternatives but there is also the question of which tree species do best without any guards. It is in this area where our funding of saplings, tools and staff resource is helping out.

For further details on our net zero activities refer to page 23 of our Strategic report.

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 Company's effective tax rate see note 7 on 87.

Our commitment to being a responsible business (continued)

Human rights

NGED South Wales 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 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:

https://www.nationalgrid.com/modern-slavery-statement

Anti-corruption and anti-bribery

NGED South Wales has robust policies on anti-corruption and anti-bribery. These policies apply to all employees, including agency workers and contractors, of the Group and form part of the employee Code of Ethics. Through our policies and procedures we are able to foster an environment of zero tolerance towards bribery and corruption. As a result there are 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 44-58 for TCFD disclosures, including climate related risks of National Grid Group.

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

Non-financial and sustainability information statement

Refer to the Annual Report and Accounts of National Grid plc, page 59 for the National Grid Group's Non-financial and sustainability information statement.

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

Section 172 Statement

Refer to pages 50-53 for our Section 172 statement.

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

DocuSigned by:
Cordi O'Hara
5E4268D54028488...

Cordelia O'Hara, Director

Director

24 July 2024

National Grid Electricity Distribution (South Wales) plc

Avonbank, Feeder Road, Bristol BS2 0TB.

The Company aims to achieve high standards of leadership and governance. At National Grid plc level, the Company's ultimate shareholder, its Board considers that it complied in full with the provisions of the UK Corporate Governance Code 2018 (the Code) during the year being reported on. The Company's Board has complied with the Wates Corporate Governance Principles for Large Private Companies (the Wates Principles) for the year ended 31 March 2024. The Wates Principles provide a code of corporate governance for large private companies to raise awareness of good practice and over time to continue to improve the standards of corporate governance. They also support directors to meet the requirements of section 172 Companies Act 2006.

The Corporate Governance Statement sets out the principal areas of the Company's governance together with an explanation of areas where it considers it has operated consistently with the Wates Principles. For ease of reference, the governance is explained under the Wates Principles headings.

1. Purpose and leadership

An effective board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose.

Our purpose is to Bring Energy to Life. As described on page 6 of the Strategic report, we work within the purpose, vision, values and strategy 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.

Our purpose, vision and values are constantly reinforced to the workforce through regular engagement of the senior leadership with the wider workforce. The President in conjunction with the senior leadership team conducts regular all-colleague calls, offering updates on our achievements to date and highlighting ongoing focus areas. In addition, the President visits smaller workforce groups and operational sites to monitor the alignment of the workforce culture with the Company's purpose. Other executive directors also actively engage with the workforce through informal and formal methods. There is a range of other internal communications that occurs within the business such as regular intranet news updates and direct emails from the President and other executive directors of the Group and from the Chief Executive of National Grid Group. Our leadership conferences, presented by the President and other executive directors to the management, support open dialogue between the executives and the management team. During the current year, sufficiently independent directors also attended the leadership conference. This is an effective way of strengthening the feedback from managers and cascading key messages by the executive directors throughout the organisation and ensuring all colleagues can contribute to delivering the Company's purpose. The Board is confident that they have, throughout the organisation articulated that we are a purpose-led Company.

The directors support an annual 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 strategic priorities serve as the framework through which we develop our transformation plans and our performance contract reportable to our ultimate parent company, National Grid Plc. Our transformation plans define our long term plans, initiatives and change roadmaps for our business. Our performance contract sets out the annual outcomes for our business transformation initiatives and business as usual goals. The performance contract is then used to set aligned team and individual objectives, so that there is a clear line of sight between the work of each individual and our strategic priorities.

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. At NGED, 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. The proactive involvement of the Board and the Company as a whole with our stakeholders, under the Board's leadership is detailed in the 'stakeholder relationships and engagement' section on pages 46-49.

2. Board composition

Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company.

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 four executive directors, two Group-appointed non-executive directors and two Sufficiently Independent Directors ("SIDs"). 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 appropriate for the operations of the Company and to enable an effective oversight of the Company.

As at the year end, the designation of the executive director roles are the President, Director of Regulation, Director of Field Operations and Chief Financial Officer. All the executive directors are experienced in their respective roles and responsibilities.

Oversight responsibilities lie with the Group-appointed non-executive directors and they possess the necessary skills and experience of the utility sector and wider business sectors to provide oversight of the Company and constructive challenge in relation to the implementation of strategy in accordance with the framework of governance and risk appetite. The Group-appointed non-executive directors fulfil their responsibility by regularly attending the board meetings of the Company.

The SIDs provide the Board with independent challenge and input to the decision making process. The SIDs bring to the Board a wealth of experience and knowledge in the utility and regulatory sector and other business and organisations outside of the energy sector. In addition to regularly attending Board meetings, the SID's regularly attend the Group's holding company board meetings and in doing so gain an understanding of matters at the group level and the views of the Shareholder.

Outside of formal meetings, the SIDs and the Group-appointed 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.

The SIDs and the Group-appointed non-executive directors have access to the Company Secretary and to legal advisors funded by the NGED Group. As with all Board members, the SIDs and Group-appointed non-executive directors have the authority to request Board meetings.

Currently, the ratio of female directors on the board is 50% (2023: 37.5%).

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 Board have considered separating the roles of Chair and President as per the Wates Principles' guidance, however, it determined that through the President's participation at a National Grid Group level as well as their role as President of NGED and as Chair of the Company's Board, the President is well placed to identify and facilitate understanding of the views of its 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.

2. Board composition (continued)

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 plc 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, SIDs, 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 the NGED Group.

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 the senior leadership and management teams to ensure that they are updated on the latest business developments and have immediate access to the current information.

3. Directors' responsibilities

The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision-making and independent challenge.

Accountability 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.

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 Company lies with the President. The President fulfils this responsibility in conjunction with and through oversight of the directors and senior leadership. The President conducts regular meetings attended by the executive directors and senior leadership team of the Group. These meetings act as a forum for the discussion of business performance, strategic considerations, risk considerations and identification of matters to be considered by the Board. Any key items are circulated and communicated to the Board in a timely manner.

3. Directors' responsibilities (continued)

Accountability and discharge of responsibilities (continued)

Each of the senior leaders are responsible for the organisational performance of their directorate and are accountable to the President and the Board. Senior leaders regularly meet with their respective teams to discuss matters impacting the Group. KPI monitoring is delegated to the respective Senior leaders who report directly to the Board and President. In order to operate efficiently and to give the right level of attention and consideration to relevant matters, while maintaining complete oversight, the Board empowers the senior leadership team 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 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.

Board Committees

To support the Board, there are committees 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”). The Board has following committees to assist in discharging of its responsibilities:

Finance Committee

The Finance 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 this 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.

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

Governance Committee

There is a sub-committee of the Board with responsibility for Corporate Governance. This Committee is charged with monitoring the Company's adherence to the six principles of the Wates Code while fulfilling the Company’s purpose of the delivery of exceptional service to our customers and the support of environmental and social well-being for all the communities we serve.

The independence of the Committee is ensured by the majority of the Governance Committee membership being independent, with the appointment of the SIDs, one of those being the Chair of the Committee. The members of the Committee have the appropriate skills and experience to deliver high quality oversight in governance matters. The Board considers that the Governance Committee provides efficiency by being able to focus on governance matters during their meetings, of which there will be at least three during any financial year, to advise the Board so meaningful decisions can be reached by the Board.

The Board and it's 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.

3. Directors' responsibilities (continued)

Accountability and discharge of responsibilities (continued)

Management Committees

In addition to the above Board Committees, there are Management Committees comprising of executive directors and senior leadership team members to support the Board in discharge of its responsibilities.

- Ethics, Risk and Compliance Committee (“ERCC”): Membership comprises of four executive directors, including the President and other members of the senior leadership team. The NGED General Counsel, Risk & Compliance is the chair of the Committee. The key duty of the Committee is to provide oversight of NGED’s risk, ethics, and compliance processes, and the implementation of effective frameworks, including an effective internal control framework, across the Company.
- SHE Committee: Membership comprises of four executive directors, including the President and other members of the senior leadership team. The NGED President and Director of SHE are the chairs of the Committee. The purpose of the SHE Committee is to ensure the performance of NGED functions with a focus on safety, health and the environment.
- Regulation and Reputation Committee: Membership comprises of five executive directors, including the President and other members of the senior leadership team. The Director of Corporate Affairs and Director of Regulation are the chairs of the Committee. The key purpose of the Committee is to review and monitor changes and developments in regulatory and public policy that could impact NGED and to ensure compliance with policies and regulations and implement plans to close any identified gaps. The Committee is also responsible for developing and regularly reviewing the Company’s reputational risk register, conducting ongoing risk assessments and, where needed, identifying mitigations.

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 88-114) for information about the National Grid Group Audit & Risk 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

Integrity of information

The Company does not have a separate internal audit function. This function is provided by National Grid's Corporate Audit function, which provides independent, objective, assurance to the Board on whether the existing control and governance frameworks are operating effectively in order to meet National Grid's strategic objectives. Assurance work is conducted and managed in accordance with the IIA international standards for the Professional Practice of Internal Auditing and Code of Ethics.

Inputs to the audit plan include principal risks, risk registers, corporate priorities, and external research of emerging risks and trends, and discussions with senior management to make sure the plan aligns with the Committee and Company’s view of risk.

The audit plan is considered and approved by the Board annually and progress against the plan is monitored throughout the year. The Board received regular controls updates from the Corporate Audit team. Management actions on audit findings have continued to be a focus at Executive meetings resulting in greater visibility of audit findings, increased ownership of actions and greater engagement by senior management.

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.

Key financial information is taken from the 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.

3. Directors' responsibilities (continued)

Integrity of information (continued)

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.

The independence of the external auditor is essential to the provision of an objective opinion on the true and fair view presented in the financial statements. Following consideration of the auditor's independence from NGED, their objectivity, the audit quality and the auditor's performance, the Board was satisfied with the effectiveness, independence and objectivity of Deloitte. The audit report presents the results of Deloitte’s own independence assessment on page 61. A resolution to re-appoint Deloitte and giving authority to the Directors to determine their remuneration will be submitted to shareholders at the 2024 AGM.

4. Opportunity and risk

A board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks.

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 in 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. Our business plan for 2023 to 2028 outlines how we will create a smart, flexible energy grid and facilitate the mass connection of low carbon technologies ("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.

The Board oversaw the development of our 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 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.

4. Opportunity and risk (continued)

Opportunity (continued)

With the final determination of the RIIO-ED2 business plan requiring significant efficiency challenges from the DNOs, the Board is now 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. Some of the example of this in the current year are the implementation of various digital solutions to speed up our connections process, launch of various innovation projects with decarbonisation at the heart of these initiatives and the release of 10GW of distribution capacity for our customers with 'shovel ready' projects across the Midlands, South West and South Wales. All of this has also been enabled by successful completion of our first year as a functionally separate DSO. The changes we have made will not just allow some customers to accelerate their connections dates but will allow a more agile approach to managing connections requests. Reforms like these are a pivotal part of the country's ability to install the renewable generation it needs to decarbonise the electricity system by 2035. For further details of all these achievements in the current year refer to pages 9, 10, 11, 13, 23, 25 and 28 of the Strategic report.

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 1.5ºC Science Based Target (Scope 1 and Scope 2 emissions). This will be delivered by reducing the amount of waste we send to landfill, adopting electric vehicles across our transport fleet to reduce emissions, installing renewable energy at our depots and non-operational sites, 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. As part of our RIIO-ED2 plans to develop a portfolio of UK based offsettings, we are working in collaboration with a number of charitable organisations across our four licence areas. For example our collaboration agreement with The Heart of England Forest across the RIIO-ED2 price control period will help to ensure that natural native habitats are restored and managed, local biodiversity is improved and extensive native tree planting schemes are undertaken.

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 organisation and reviews the NGED Principal Risks ("PR") at least annually. Consideration of PR and Emerging Risks ("ER") and related decisions are undertaken via the monthly NGED ERCC. The NGED ERCC exercises suitable judgement as to any control decisions and risk developments that merit Board attention. Board reporting on risk is being further developed and will align with the National Grid Group over the course of the next financial year. 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 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 has continued to align its risk management approach to the National Grid Group risk management framework. NGED's PRs have been reviewed and revised to better fit the three lines of assurance 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.

Pages 30 to 33 of the Strategic report outline the key risks and the related mitigating actions for the Company.

5. Remuneration

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

The remuneration of executive directors, including the role of President and of the Group-appointed non-executive directors is controlled 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 100-114.

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.

6. Stakeholder relations and engagement

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

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 including our communities, 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.

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.

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 assessments of customer service and engagement. We have achieved the British Standard Institution ("BSI") for Inclusive Service Provision ("BS18477") for ten consecutive years and now look to move to the new BSI Kite mark for inclusive service energy provision. We were also re-accredited with the Customer Service Excellence ("CSE") Standard which we have held for over 30 years and remain compliant with all elements with 48/57 (2023: 47/57) elements boasting 'compliance plus' level, demonstrating UK-wide best practice. Far from providing just validation, such accreditations 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.

Some of the key customer engagement during the year is highlighted below:

<u>Customer panel</u>

Our established customer panel meets three times annually and undertakes bespoke topic-specific sub-group surgeries (for example, on smart energy action plans or funding allocation) on an ad-hoc basis. 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.

As part of RIIO-ED2's enhanced engagement, a Customer Engagement Group ("CEG") was established to scrutinise our business plan. 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 focused on delivery of the RIIO-ED2 Business Plan.

6. Stakeholder relations and engagement (continued)

Customers (continued)

Shaped by our expert Customer Panel, our largest ever winter preparedness communications campaign was launched in the current year. The campaign, helping customers to 'Be Winter Ready' ran before and during winter and raised awareness of preparing for adverse weather and potential power cuts; this included information for customers in vulnerable situations on the benefits of signing up to our Priority Services Register. Through a mix of radio, bus, digital, social media and print advertising, as well as emails and texts, we reached more than 12 million customers.

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 team and the Board to ensure there is informed decision making.

Workshops and events include collaborative DNO engagement and topic-specific events including workshops on connections, flexibility, low carbon technologies, community energy and social obligations. To address the challenges of engaging with end customers, who often have little prior knowledge of NGED, we have also continued with our deliberative focus group discussions which engage customers over a number of years, enriching their understanding and ability to offer informed scrutiny of our plans.

In November 2023, NGED organised a connections workshop to engage stakeholders in discussions about its connections strategy. The primary focus was to gather stakeholder feedback on delivering faster connections, streamlining the applications process through digital tools, and providing comprehensive support to customers throughout the connections journey. Each session included a brief presentation by NGED representatives, followed by facilitated group discussions at roundtables or in virtual breakout rooms to capture feedback. Attendees were also encouraged to provide feedback through an online voting platform and had the opportunity to ask questions during a Q&A panel session at the end of the event.

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.

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 feeds into our Major Connections Strategy for RIIO-ED2, to enable facilitation of continued development to the connections services and to establish ahead of need foundation.

Case Study - Customer engagement

An example of effective collaboration with our customers during the year is the launch of our ClearViewConnect report. The report is designed to provide a window on our connections pipelines and for the first time it brings together valuable connections data and insights for customers and developers in a single, easily accessible format. We listened to our customers about finding practical ways to accelerate connections reform. Customers developing new schemes want to understand the connection points that offer them the best chance to connect when they want, at the lowest cost. The ClearViewConnect report is an important step in the right direction because it will deliver earlier insights about the profile of connection pipelines to help customers make informed decisions. We worked alongside three of our largest business-to-business large generation customers to shape the report. Their insights as early users helped to inform the way that the tool operates. This report is one part of a suite of tools that we're developing to support wider industry reform of the connections process. We will be working collaboratively with customers in the coming months and listening to their feedback so that we can evolve the report and potentially add more functionality in future.

6. Stakeholder relations and engagement (continued)

The workforce

The directors recognise and acknowledge that we need to invest in our people and build the skills needed to deliver on our clean energy future and help our employees to learn and grow with us so we can tackle the challenges ahead. The directors are committed to creating an inclusive culture where it is safe to speak up and where our colleagues voices are heard by the Board and the senior leadership teams. Each year our colleagues share their views on working life at National Grid through Grid:voice. This employee engagement survey helps us to understand what we are doing well and identify the areas we need to improve. The survey provides valuable insights into our workforce's understanding of our vision and strategic priorities, including how well their work aligns with them. It also helps us gauge whether our collegueas perceive us as adaptable and customer-focused in our approach. This year we received over 4,000 responses to the survey.

The President, along with the senior leadership team, regularly conducts "all colleagues calls" to provide important business updates and create an opportunity for colleagues to ask questions. Additionally, leadership conferences led by the President and directors, as well as various internal communication channels such as team briefs, colleagues' webinars and podcasts, news bulletins, and direct email updates from the directors, have all been utilised throughout the year to foster meaningful engagement with the workforce. For significant initiatives or organisational changes, we establish dedicated engagement channels. The transition to our new operating model serves as an example. To ensure effective communication regarding the process and key steps of the transition plans, we have introduced a weekly transition letter that delivers relevant updates.

Our efficiency delivery program, launched this year to reduce costs during RIIO-ED2, reflects the Board's unwavering commitment to engaging our workforce in achieving our strategic priorities. Workforce engagement is at the core of this program, which aims to achieve unit cost savings by working smarter, maximising value, and minimising wasted effort. The program involves piloting projects across our regions and collaborating closely with our local teams, managers, and trade unions to explore innovative ways of working and drive sustainable change. NGED's team of 17 Change Agents, recruited from across the business, will play a key role in developing new solutions by actively listening and learning. Feedback will be sought and the initiatives adapted based on the ideas and comments generated within the field teams and from trade unions representatives. As part of this program, we conducted a comprehensive questionnaire to gather employee feedback on planned work activities such as connections, asset replacement, reinforcement, and maintenance & inspections. We received an impressive 859 responses from employees across all regions, grades, and roles, effectively identifying crucial areas for improvement. This valuable insight will significantly shape our future work changes, ensuring the creation and design of optimal solutions. In our Grid:voice survey, our employees expressed a desire for a more involved role in implementing changes necessitated by the current challenging price controls. Our directors are fully committed to addressing this feedback and actively involving local teams in all relevant initiatives.

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 decarbonisation targets. All key communications and engagements with Ofgem are discussed at Board meetings.

NGED's Director of SHE 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.

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

6. Stakeholder relations and engagement (continued)

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 NGED Director of Asset Management and Operations Support has oversight responsibility for logistics, including the supply chain function. The Director of Asset Management and Operations Support is supported by the Head of the Operations Support 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 meetings.

We carry out payment performance reporting for suppliers. We are fair to our suppliers and committed to paying them promptly. On average we pay our suppliers in 19 days (2022/23: 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 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.

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.

The Board recognises its responsibilities to each of the Company's stakeholder groups and to wider society. The directors endeavour to ascertain the interests and views of our stakeholders and consider these when making decisions.

The Board acknowledges its responsibility for setting and monitoring the culture and values of the Company and the importance of maintaining a reputation for high standards of business conduct. Every day our colleagues seek to live by our values – do the right thing, find a better way and make it happen – and consider these in making decisions. When making key decisions, the directors have regard to all stakeholders but also acknowledge that not every decision will have the preferred outcome for each stakeholder. The Board strives to balance the different and competing priorities and interests of the 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.

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.

Our 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 17 - 22. We have an established performance contract that is aligned to our strategic priorities and sets out the annual outcomes for transformation initiatives and business-as-usual goals for our business. The performance contract is then used to set aligned team and individual objectives, so that there is clear line of sight between the work of each individual and our strategic priorities. Regular reporting on our performance contract is provided to Board.

The Board recognises its responsibilities to each of the Group'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 Company's long term success.

The Board has oversight responsibility for risk management across the Company. 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 Company. For details on the Company's risk management approach refer to page 29 of Strategic report and page 45 of the Corporate governance statement.

The interests of our colleagues

Our workforce is 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 South Wales 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 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 12, 35 and 36 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 Company's purpose and strategic priorities. Details of this can be found on pages 46-49 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.

Pages 33-38 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 24 of the Strategic report sets out actions taken by us in relation to fairness and affordability.

We recognise the role that the electricity sector plays in contributing to the UK’s ambitions towards carbon reduction. Pages 9 and 23 set out how we are enabling the energy transition for all and responding 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'. The Board understands that taken together, our values will guide our actions and behaviours as a responsible business and help us create the environment we need to tackle the world’s greatest energy challenges with passion and purpose. To put our values into action, we need to look at our behaviours in the work we do every day, in ways that mean something for colleagues across the business. Our code of ethics supports this by outlining the behaviours that are expected of us all, including the Board and Group executives. Our code of ethics is updated every three years and all our mandatory training courses for the existing workforce as well as new recruits align to our code of ethics.

In the current year we have launched our new 'Speak up' policy supporting our code of ethics. The Board wants to ensure that employees feel safe in raising concerns and firmly upholds a zero-tolerance approach to retaliations against the workforce. The 'Speak up' policy makes it easy for the workforce to raise issues in a way that they feel supported. The workforce has access to National Grid's internal ethics helpline at all times. The contact information is publicised so all colleagues with concerns can be reported anonymously. We will support and protect whistle blowers.

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

By providing a framework for reporting business conduct matters, educating employees and promoting a culture of integrity at all levels of the business, the Board aspire 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 Company 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 this aim and 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.

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 35 and 36 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. The Group resolved 86% (2022/23: 85%) of complaints within one day and 98% of complaints within 25 days (2022/23: 99% within 31 days). There have been no repeat complaints across the Group.

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, regular colleague communications focused 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. Our near miss statistics and outcomes are published on our intranet to ensure that these are easily accessible to staff for their learning and awareness. 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.

The need to act fairly between members of the Company

The Company's ultimate shareholder is National Grid plc. 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.

Key decisions during the year

Set out below is an example of a key decision taken during the year which demonstrates the Board's consideration, discussion and decision making process.

Operating Model Changes

Context

We face exciting challenges as the UK works towards achieving the Government's target of net zero carbon emissions by 2050. The Board has long recognised the role that the electricity sector plays in supporting the decarbonisation of energy and is committed to delivering a transformed energy network that is fundamental in achieving the UK's net-zero targets. Further, Ofgem has set a challenging price control for the next five years and we are required to be ambitious and significantly improve our services for our customers with a challenging incentive package in terms of rewards and penalties. In its business plan submission to Ofgem, NGED 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 already embedded £700m of efficiency savings into the business plan. However, in its final determinations, Ofgem allowed NGED £5.9 billion. Whilst this is the largest amount allowed of any DNO Group in the UK, delivering the price control involves a significant efficiency challenge.

Decision taken

Given the scale of changes within the energy sector and the massive investment needed to deliver the energy transition coupled with the efficiency challenges, the Board decided to launch a new operating model during the year. The Board is fully aware that the world in which we operate has changed and as a result the expectations of our customers and stakeholders have increased. Recognising its responsibility to promote the success of the Company in a manner that is beneficial to its stakeholders, the directors undertook a detailed review of the way we are structured and organised. The review clearly identified that in order to revolutionise the network by delivering unprecedented levels of flexibility, efficiency and new distribution system operator capabilities, there was a need to spend more time planning the long term success of the business. There was also a need to find ways to accomplish our current tasks more efficiently and at a lower cost for us to be able to empower our colleagues to meet the growing needs of our customers. Innovation and digitalised solutions will have to be kept at the heart of our journey of working smarter for our customers and our colleagues. Keeping this in mind, as part of our new operating model, we set new functions critical to our success i.e. Customer Excellence, Connections, Asset Management and Data and Digital. Another key change within the operating model was segregating all key operations support activities as separate functions and establishing an operations efficiency team. Broader, more diverse and more specialised leadership team is also another key aspect of our new operating model.

The stakeholder groups considered by the Board in arriving at this decision of a new operating model includes our customers, communities, employees, regulator and our shareholder. The new operating model will:

- Allow us to improve the way we plan and prepare for the future and set us up for growth benefiting all our stakeholders specifically our customers and our shareholder;
- It will support the development & growth of new capabilities such as Asset Management, Customer and Digital that are crucial to achieve efficient energy transition for our customers as required by our regulator;
- It will remove inefficiencies and develop much needed capacity by bringing similar activities together, thus creating greater focus and attention for the benefit our employees and customers.

The directors present their annual report on the affairs of the National Grid Electricity Distribution (South Wales) plc ("NGED South Wales"), together with financial statements and auditor's report, for the year ended 31 March 2024.

Results and dividends

The profit for the financial year to 31 March 2024 is £65.2m (2023: £78.9m).

The Company also reports other comprehensive loss, which was posted directly to capital and reserves, of £33.5m (2023: £96.9m). This primarily relates to the defined benefit pension plan remeasurement, net of tax.

For the year to 31 March 2024 dividends paid by the Company totalled £60.0m (2023: £75.0m). Dividends of £55.0m are proposed after 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 Company 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-ED2 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 the Company's cost of equity at 5.3% (7.4% when normalised for a long-run inflation rate of 2%) for RIIO-ED2. As is evident from the levels of our annual capital expenditure (see page 14 of the Strategic report), we reinvest our 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.

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 2024, the payments into the fund by the Group were in excess of the funding the Group reclaimed.

Financial risk management objectives and policies

Inflation risk

The Company's allowed revenue is linked to the Consumer Prices Index including owner occupiers' housing costs ("CPIH"), as published by the Office for National Statistics to provide protection against economy-wide inflation. Thus, if costs increase due to inflation, for the most part there is a natural hedge for the Company as a result of operating in a regulated industry.

The Company's index-linked borrowings and interest liabilities are exposed to a risk of change in the carrying value due to changes in the UK Retail Price Index ("RPI"). This form of liability is a good match to the Company's regulated assets ("RAV"), which are also indexed due to the price setting mechanism imposed by the regulator, and also the price cap is linked to inflation. By matching liabilities to assets, index-linked debt hedges the exposure to changes in inflation and delivers a cash flow benefit, as compensation for the inflation risk is provided through adjustment to the principal rather than in cash.

Financial risk management objectives and policies (continued)

Interest rate risk

The Company has external debt during the year, at floating and fixed rates of interest, which exposes it to interest rate risk.

Our interest rate risk management policy is to seek to minimise total financing costs (being interest costs and changes in the market value of debt). Hedging instruments principally consist of interest rate and cross-currency swaps that are used to translate foreign currency debt into functional currency and to adjust the proportion of fixed-rate and floating-rate in the borrowings portfolio to within a range set by the Finance Committee of the National Grid plc Board. The benchmark interest rates hedged are based on Overnight Index Average (SONIA).

Currency risk

The Company's assets and liabilities are principally sterling denominated; however, the Company 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. This risk is managed using financial instruments including derivatives as approved by policy, typically cross-currency interest rate swaps, foreign exchange swaps and forwards.

Our policy is to borrow in the most advantageous market available. Foreign currency funding gives rise to risk of volatility in the amount of functional currency cash to be repaid. This risk is reduced by swapping principal and interest back into the functional currency of the issuer. All foreign currency debt and transactions are hedged except where they provide a natural offset to assets elsewhere in the Group.

Liquidity and going concern

NGED South Wales is supported by its credit facilities. At 31 March 2024 NGED South Wales had a committed borrowing facility available, in respect of which all conditions precedent had been met at that date of £125m, maturing in April 2028. At 31 March 2024 no borrowings had been drawn against the facility. In addition NGED South Wales also has an uncommitted two-way loan agreement with its ultimate parent, National Grid Electricity Distribution Network Holdings Limited, of which £nil is drawn as at 31 March 2024.

On a day-to-day basis, NGED South West provides liquidity to the whole of NGED, with balances with other Group companies being settled periodically. At 31 March 2024, NGED South West had committed borrowing facilities available in respect of which all conditions precedent had been met at that date of £220.0m maturing in April 2028, of which nil was drawn.

At 31 March 2024, NGED South Wales had £1,090.0m (2023: £782.0m) of external debt outstanding of which £8.9m (2023: £5.3m) was due within one year. The Company has net current assets (including pension asset) of £185.2m (2023: £4.6m). The Company has £nil (2023: £nil) cash (excluding restricted cash) and has short-term deposits of £0.4m (2023: £0.2m). Net balances owed to other NGED Group undertakings amount to £9.9m (2023: £10.4m).

The Company's liabilities will be settled with a combination of cash flows from operating activities, borrowings from the NGED Group undertakings, use of existing 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. 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.

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 Board does not consider that there is material uncertainty over the entity's ability to continue as a going concern.

Financial risk management objectives and policies (continued)

Liquidity and 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 the Company, the existing and future forecasted covenant compliance of the Company, which includes the gearing ratio and the anticipated ability of the Company to be able to raise additional long term debt in the future. The directors have also assessed the principal risks discussed in the Strategic report (pages 30-33) in arriving at the going concern assumption for the preparation of the financial statements.

Thus, the Directors have concluded that Company 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.

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 35 and 36 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 14, 27 and 28;
- an indication of activities of the Group in the field of research and development - see page 28;
- employee policies on pages 35 and 36.

Corporate governance statement

The Group's Corporate governance statement is detailed on pages 39-49.

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 page 48.

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 10 ,18, 24 and 33;
- Corporate governance statement - see pages 46 and 47.

Suppliers

- Corporate governance statement - see page 49.

Regulators

- Corporate governance statement - see page 48.

Streamline energy and carbon reporting ('SECR')

Total annual quantity of emissions using equivalent tonnes of carbon dioxide ("tCO_2e") - including own use

	tCO_2e		tCO_2e per employee	
	2024	**2023**	**2024**	**2023**
Scope 1 (direct emissions)				
Operational transport	**3,294**	3,442	**3.1**	3.2
SF6 gas	**2,778**	2,658	**2.6**	2.5
Fuel combustion (diesel / gas oil)	**122**	347	**0.1**	0.3
Buildings	**-**	-	**0.0**	0.1
	6,194	6,447	**5.8**	6.1
Scope 2 (energy indirect emissions)				
Buildings electricity	**600**	566	**0.6**	0.5
Substation electricity	**2,082**	1,942	**1.9**	1.8
NGED Telecom	**140**	140	**0.1**	0.1
	2,822	2,648	**2.6**	2.4
Total scope 1 & 2	**9,016**	9,095	**8.4**	8.5
Scope 3 (other indirect emissions)				
Business transport	**181**	173	**0.2**	0.2
Total scope 1, 2 & 3	**9,197**	9,268	**8.6**	8.7

*Comparatives have been restated to exclude contractor emissions to align with Ofgem's RIIO-ED2 reporting requirement.

The Group's chosen intensity measurement is tonnes of carbon dioxide equivalent per employee. Considering the activities of the Group and the scale and size of our workforce, this intensity measure is the most relevant. It also involves minimum judgement in calculation and therefore is the most reliable measure that can be used consistently by the Group.

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

Electricity energy consumed for the year to 31 March 2024 is kWH 3,573,625 (2023: kWH 2,928,775).

Gas energy consumed for the year to 31 March 2024 is kWH nil (2023: nil).

Energy consumed for helicopters for the year to 31 March 2024 is kWH 772,887(2023 :kWH 1,017,017)

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). Under RIIO-ED1, in accordance with the Ofgem's reporting requirements, the reported data for operational transport (road) and fuel combustion also took account of a number of our larger contractor emissions as required under the Ofgem reporting requirements. For RIIO-ED2, Ofgem's reporting requirements have been amended and contractor emissions are no longer required. Therefore the SECR reporting for March 2024 does not include the contractor emissions. Comparatives have been restated to ensure consistent presentation year on year.

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

Methodologies used in calculating energy and carbon reporting data (continued)

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. This data is included within National Grid plc's responsible business reporting disclosures. National Grid plc engaged PricewaterhouseCoopers LLP (PwC) to undertake a limited assurance engagement, using the International Standard on Assurance Engagements (ISAE) 3000 (Revised): ‘Assurance Engagements Other Than Audits or Reviews of Historical Financial Information’ and ISAE 3410: ‘Assurance Engagements on Greenhouse Gas Statements’ over a range of data points within it's responsible business reporting. For further details on this refer to the full document at:

https://www.nationalgrid.com/responsibility

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.

Where only Group wide data is available, such as business transport, the emission totals have been apportioned according to the following corporate allocation percentages:

South West	25 %
South Wales	15 %
East Midlands	30 %
West Midlands	30 %

The corporate allocation percentages are based on the relative size, as measured by RAV, of each DNO.

Measures for increasing the Group's efficiency during the year

During 2023/24, 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 Building Research Establishment Environmental Assessment Method ("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

Subsequent to year end, on 24 July 2024, a dividend of £55.0m was approved by the directors.

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

Graham Roy Halladay, Director

Darren Pettifer, Director

Paul Branston, Director (appointed 15 December 2023)

Jennifer Anne Dillon, Director (appointed 1 April 2024)

Tanya Joy Sharma, Director (appointed 1 July 2024)

Anthony John Cardew, Independent non-executive Director

Lindsay Fussell, Independent non-executive Director (appointed 21 August 2023)

Alison Jane Sleightholm, Director (resigned 15 December 2023)

Laura Sophie Scudamore Barbrook, Group-appointed non-executive Director (resigned 31 March 2024)

Justine Campbell, Group-appointed non-executive Director (resigned 30 June 2024)

During and at the end of the financial year, no director had interest 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 they ought to have taken as a director to make themself 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. A resolution to their reappointment and giving authority to the directors to determine their remuneration has been approved by the shareholders at the 2024 Annual General Meeting.

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

DocuSigned by:
Cordi O'Hara
5E4268D54028488...

Cordelia O'Hara, Director
Director
24 July 2024

Directors' responsibilities statement

For the year ended 31 March 2024

The directors are responsible for preparing the Annual report and the financial statements 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 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 state of affairs of the Company and the profit or loss of the Company for that year. In preparing these 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 and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

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:

DocuSigned by:
Cordi O'Hara
5E4268D54028488...

Cordelia O'Hara, Director

Director
24 July 2024

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ELECTRICITY DISTRIBUTION (SOUTH WALES) PLC

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of National Grid Electricity Distribution (South Wales) Plc (the 'company'):
- give a true and fair view of the state of the company's affairs as at 31 March 2024 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the statement of changes in equity;
- the balance sheet;
- the statement of cash flows; and
- the related notes 1 to 31.

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

2. Basis for opinion

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

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

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

3. Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was the capitalisation of overheads, which is consistent with the prior year.
Materiality	The materiality that we used in the current year was £4.2m (2023: £5.3m) which was determined on the basis of 5% of profit before tax. This is consistent with the methodology applied in 2023.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	There were no significant changes in our approach compared to the prior year.

4. Conclusions relating to going concern

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

Our evaluation of the directors’ assessment of the 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 and covenant compliance;
- assessing the assumptions used in the forecasts;
- assessing the historical accuracy of forecasts prepared by management; and
- evaluating whether the company’s disclosures in respect of going concern within the financial statements are appropriate.

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

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

5. Key audit matters

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

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

The key audit matter identified in the current year, capitalisation of overheads, was also a key audit matter in the prior year in relation to the judgement involved in assessing the value to be capitalised.

5. Key audit matters (continued)

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 are judgements 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 £16.6 m (2023: £15.2 m) have been capitalised during the year and these are included within the fixed assets additions of £175.9 m (2023: £176.0 m) as shown in note 10 'Property, plant and equipment' to the financial statements. Refer to note 1(a) "Critical judgements in applying the Company's accounting policies" and note 10 "Property, plant and equipment" to the financial statements for further discussion of the company's policy and judgements in capitalisation of overheads.
How the scope of our audit responded to the key audit matter	We have tested and placed reliance on the relevant controls over both the assumptions made when determining which costs should be capitalised and the application of those assumptions. 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 supporting evidence, to test whether they have been recorded accurately. We also tested management's estimate of the percentage of costs that are directly attributable to capital projects by verifying the inputs into the calculation and agreeing them 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 2024.

6. Our application of materiality

6.1. Materiality

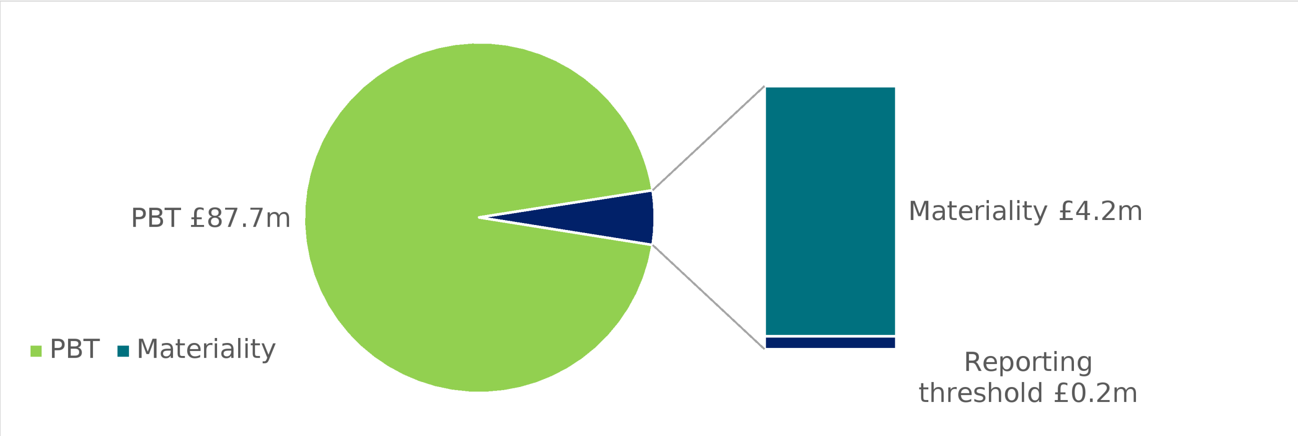
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our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

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

Materiality	£4.2m (2023: £5.3m)
Basis for determining materiality	5% of profit before tax ("PBT") This is consistent with the methodology applied in 2023.
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.

6.Our application of materiality (continued)

6.1. Materiality (continued)



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2024 audit (2023: 70%). In determining performance materiality, we considered the following factors:

- our cumulative experience from prior year audits;
- the low level of corrected and uncorrected misstatements identified from the prior year audits;
- our risk assessment, including our understanding of the entity and its environment; and
- our assessment of the company's overall control environment and that we consider it appropriate to rely on internal controls over a number of business processes including fixed assets and revenue.

6.3. Error reporting threshold

We agreed with the Board of Directors that we would report to them all audit differences in excess of £0.2m (2023: £0.3m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Scoping

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

7.2. Our consideration of the control environment

We placed reliance on management's relevant controls over the most significant business cycles affecting in scope financial statement line items, including revenue and fixed assets. We tested controls through a combination of tests of inquiry, observation, inspection and re-performance.

The company's IT environment contains a number of systems, applications and tools used to support business processes and for financial reporting. We involved our internal IT specialists in performing an independent risk assessment of the systems, applications and tools to determine those which are of greatest relevance to the company's financial reporting, including those that contain system configured automated controls that host financially relevant data and associated reports.

7. An overview of the scope of our audit (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 the business cycles in scope to understand whether the purpose of the control was effectively designed to address the IT related risk. We subsequently performed testing of the control across the audit period, to determine whether the control had been consistently applied as designed.

Our procedures enabled us to place reliance on IT controls, as planned, in the audit approach across the business cycles affecting in scope financial statement line items.

7.3. Our consideration of climate-related risks

Climate change impacts the company's business in several ways as set out in the strategic report on page 38 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 company 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 'Our Environment' section of the 'Our commitment to being a responsible business' in the strategic report) and considered whether these were in line with our understanding of management's approach to climate change and the narrative reporting was in line with financial statements and the knowledge obtained throughout the audit.

8. Other information

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

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

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

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

We have nothing to report in this regard.

9. Responsibilities of directors

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

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

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

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

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

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

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

11.1. Identifying and assessing potential risks related to irregularities

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

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of 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 company's sector;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
    - 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, climate change 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.

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

11.1. Identifying and assessing potential risks related to irregularities (continued)

We also obtained an understanding of the legal and regulatory frameworks that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, 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 company's ability to operate or to avoid a material penalty. These included environmental regulations and the company'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. 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.

Report on other legal and regulatory requirements

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

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

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

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

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

13.1. Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

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

We have nothing to report in respect of this matter.

14. Other matters which we are required to address

14.1. Auditor tenure

Following the recommendation of the 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 8 years, covering the years ending 31 March 2017 to 31 March 2024.

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.

DocuSigned by:
Kate Hadley
98A8CA261D104B5...

Kate Hadley FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Birmingham, United Kingdom

24 July 2024

Profit and loss account

For the year ended 31 March 2024

	Note	**2024** **£m**	2023 £m
Turnover	2	**267.8**	304.3
Operating expenses	3	**(147.1)**	(167.5)
Operating profit	4	**120.7**	136.8
Profit on sale of tangible fixed assets		**0.1**	0.1
Other income		**0.1**	0.4
Interest receivable and similar income	5	**5.9**	4.9
Interest payable and similar charges	6	**(39.1)**	(38.6)
Profit before tax		**87.7**	**103.6**
Tax	7	**(22.5)**	(24.7)
Profit for the financial year		**65.2**	78.9

As a result of alignment of accounting policies with the ultimate parent company, National Grid plc, there have been presentation and classification changes during the year. Comparatives have been restated to reflect the amended presentation and classification. Refer to note 1(b) on page 76 for details.

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

The accompanying notes 1 to 31 are an integral part of these financial statements.

Statement of comprehensive income

For the year ended 31 March 2024

	Note	2024 £m	2023 £m
Profit for the financial year		**65.2**	78.9
Other comprehensive loss			
Items that will never be reclassified to profit or loss:			
Remeasurement losses on net pension assets	23	**(42.4)**	(139.2)
Tax on items that will never be reclassified to profit or loss	7	**10.6**	42.4
Total items that will never be reclassified to profit or loss		**(31.8)**	(96.8)
Items that may be reclassified subsequently to profit or loss:			
Net losses in respect of cash flow hedges and cost of hedging		**(2.0)**	(0.1)
Transferred to profit and loss account in respect of cash flow hedge		**(0.2)**	-
Tax on items that may be reclassified subsequently to profit or loss	7	**0.5**	-
Total items that may be reclassified subsequently to profit or loss		**(1.7)**	(0.1)
Other comprehensive loss for the year, net of tax		**(33.5)**	(96.9)
Total comprehensive gain / (loss) for the year		**31.7**	(18.0)

As a result of alignment of accounting policies with the ultimate parent company, National Grid plc, there have been presentation and classification changes during the year. Comparatives have been restated to reflect the amended presentation and classification. Refer to note 1(b) on page 76 for details.

Statement of changes in equity

For the year ended 31 March 2024

	Share capital £m	Share premium account £m	Other equity reserves £m	Profit and loss account £m	Total shareholders' equity £m
At 1 April 2022	291.7	23.2	3.2	641.4	959.5
Profit for the financial year	-	-	-	78.9	78.9
Other comprehensive loss for the year	-	-	(0.1)	(96.8)	(96.9)
Total comprehensive loss for the year	-	-	(0.1)	(17.9)	(18.0)
					-
Equity dividend (note 8)	-	-	-	(75.0)	(75.0)
Share-based payments - net of tax	-	-	0.4	-	0.4
At 31 March 2023	291.7	23.2	3.5	548.5	866.9
					-
Profit for the financial year	-	-	-	65.2	65.2
Other comprehensive loss for the year	-	-	(1.7)	(31.8)	(33.5)
Total comprehensive income for the year	-	-	(1.7)	33.4	31.7
					-
Equity dividend (note 8)	-	-	-	(60.0)	(60.0)
Share-based payments - net of tax	-	-	0.5	-	0.5
At 31 March 2024	**291.7**	**23.2**	**2.3**	**521.9**	**839.1**

Balance sheet

As at 31 March 2024

	Note	2024 £m	2023 £m
Fixed assets			
Property, plant and equipment	10	**2,501.8**	2,379.6
Intangible assets	11	**9.3**	7.7
		2,511.1	2,387.3
Current assets			
Stocks	12	**3.1**	2.6
Debtors (amounts falling due within one year)	13	**201.0**	49.4
Debtors (amounts falling due after more than one year)	13	**2.6**	2.9
Pension asset	23	**102.1**	126.3
Investments	14	**0.4**	0.2
Cash at bank and in hand	15	**0.1**	0.2
Total current assets		**309.3**	181.6
Creditors (amounts falling due within one year)	16	**(124.1)**	(177.0)
Net current assets		**185.2**	4.6
Total assets less current liabilities		**2,696.3**	2,391.9
Creditors (amounts falling due after more than one year)	17	**(1,547.4)**	(1,226.2)
Provisions for liabilities	21	**(307.4)**	(296.1)
Pensions liability	23	**(2.4)**	(2.7)
Net assets		**839.1**	866.9
Capital and reserves			
Share capital	24	**291.7**	291.7
Share premium account		**23.2**	23.2
Other equity reserves	25	**2.3**	3.5
Profit and loss account		**521.9**	548.5
Equity shareholder's funds		**839.1**	866.9

As a result of alignment of accounting policies with the ultimate parent company, National Grid plc, there have been presentation and classification changes during the year. Comparatives have been restated to reflect the amended presentation and classification. Refer to note 1(b) on page 76 for details.

The financial statements of the Company (registered number 02366985) set out on pages 69 to 109 were approved by the Board of Directors on 24 July 2024 and were signed on its behalf by:

DocuSigned by:
Cordi O'Hara
5E4268D54028488...
Cordelia O'Hara, Director

DocuSigned by:
Darren Pettifer
2ADC88EDF4864AE...
Darren Pettifer, Director

Statement of cash flows
For the year ended 31 March 2024

	Note	2024 £m	2023 £m
Operating activities			
Profit for the year		**65.2**	78.9
Adjustments to reconcile profit for the year to net cash flows from operating activities:			
Income tax expense		**22.5**	24.7
Interest payable	6	**39.1**	38.6
Interest receivable	5	**(5.9)**	(4.9)
Share-based payment		**0.5**	0.3
Depreciation of tangible fixed assets	4	**47.5**	44.5
Amortisation of customer contributions		**(8.6)**	(8.0)
Amortisation of intangible assets	4	**0.5**	0.4
Profit on sale of tangible fixed assets	4	**(0.1)**	(0.1)
Difference between pension contributions paid and amounts recognised in the profit and loss account		**(12.7)**	(5.5)
Decrease in provisions		**4.7**	0.7
Working capital adjustments:			
Increase in inventories		**(0.5)**	-
Decrease/(increase) in trade and other receivables		**0.7**	(2.5)
Decrease in trade and other payables		**(0.1)**	(3.5)
Customers' contributions received		**44.8**	32.2
Income taxes paid		**(6.3)**	(13.1)
Net cash from operating activities		**191.3**	182.7
Investing activities			
Purchase of tangible fixed assets		**(168.0)**	(169.0)
Purchase of intangible assets		**(2.1)**	(1.4)
Loan proceeds to ultimate parent company		**(150.4)**	-
Proceeds from sale of tangible fixed assets		**0.1**	0.1
Dividend received		**0.1**	-
Interest received		**0.1**	0.4
Net cash used in investing activities		**(320.2)**	(169.9)
Financing activities			
Proceeds from long term borrowing		**298.5**	-
Proceeds from loan with ultimate parent company		**-**	76.0
Repayment of loan with ultimate parent company		**(79.1)**	-
Payment of lease liabilities		**(0.1)**	(0.1)
Cash outflow on derivatives		**(2.0)**	-
Interest paid		**(28.3)**	(27.6)
Dividends or equivalent distributions paid		**(60.0)**	(75.0)
Net cash from/(used) in financing activities		**129.0**	(26.7)
Net increase/(decrease) in cash and cash equivalents		**0.1**	(13.9)
Cash and cash equivalents at beginning of year		**0.4**	14.3
Cash and cash equivalents at end of year	15	**0.5**	0.4

As a result of alignment of accounting policies with the ultimate parent company, National Grid plc, there have been presentation and classification changes during the year. Comparatives have been restated to reflect the amended presentation and classification. Refer to note 1(b) on page 76 for details.

1. Summary of material accounting policies

National Grid Electricity Distribution (South Wales) plc ("the Company") is a private company, limited by shares. The nature of the Company's principal activities is set out in the Strategic Report on page 1. The Company is incorporated and registered in England and Wales, with its registered office at Avonbank, Feeder road, Bristol, BS2 0TB, England.

(a) Basis of preparation

The financial statements of National Grid Electricity Distribution (South Wales) plc for the year ended 31 March 2024 were approved by the Board of Directors on 24 July 2024. The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 ("FRS 100") issued by the Financial Reporting Council. Accordingly, these financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101").In preparing these financial statements, the Company applies the recognition and measurement requirements of International Financial Reporting Standards ("IFRS") as adopted by the UK, but makes amendments where necessary in order to comply with the Companies Act 2006 and sets out below where advantage of the FRS 101 disclosure exemptions has been taken.

These financial statements have been prepared on an historical cost basis, except for the recording of pension assets and liabilities, the revaluation of derivative financial instruments, share-based payments and certain financial assets and liabilities measured at fair value. The financial statements are presented in pounds sterling which is the currency of the primary economic environment in which the Company operates. The 2023 comparative financial information, other than as highlighted in note 1(b), has also been prepared on this basis. All values are rounded to the nearest hundred thousand pounds except when otherwise indicated.

These financial statements have been prepared on a going concern basis, which presumes that the Company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements are signed.

The Company is expected to generate positive cash flows in the next twelve months. In addition, the Directors expect to be in a position to draw on committed facilities and intercompany loans, should this liquidity be required for the Company to meet its future obligations as they fall due. Refer to page 55 for further details on this

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

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

- disclosures in respect of transactions with National Grid plc and its wholly owned subsidiaries;
- disclosures in respect of capital management;
- disclosures in respect of share-based payments settled in the equity instruments of the parent company;
- disclosures in respect of impairment of assets; and
- the effects of new but not yet effective IFRS standards.

As the consolidated financial statements of National Grid Electricity Distribution plc which are available from the registered office, include the equivalent disclosures, the Company has taken the exemptions under FRS 101 in respect of certain disclosures required by IFRS 13 'Fair value measurement' and the disclosures required by IFRS 7 'Financial instruments: Disclosures'.

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 March 2024 that have a material impact on the Company's financial statements.

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

1. Summary of material accounting policies (continued)

(a) Basis of preparation (continued)

In the application of the Company's accounting policies, that are described below, 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.

Critical areas of judgement are those that have the most significant effect on the amounts recognised in the financial statement.

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

Information about such judgements and estimations is contained in the notes to the financial statements, and the key areas are summarised below:

Critical judgements in applying the Company'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 Company'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.

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.

Pension obligations

The Company has a commitment to pay pension benefits. The cost of these benefits and the present value of the Company's pension liabilities depend on such factors as the life expectancy of the members, the salary progression of current employees 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.

A change in the assumptions used may have a significant effect on the amounts recognised in the profit and loss account, the statement of other comprehensive income and the net asset or liability recognised in the balance sheet. Refer to note 23 for further details and sensitivity information on key estimates.

For the year ended 31 March 2024

1. Summary of material accounting policies (continued

(b) Impact of presentation and classification changes

As a result of the alignment of accounting policies with the ultimate parent classification and presentation changes have occurred in the financial statements. These changes are accounting policy choices and we have elected to restate for all such policy changes, despite the relative immateriality of certain items, considering the totality of the alignment exercise undertaken. If classification has been amended within the balance sheet and profit and loss account, the consequent impact of classification within the consolidated cash flow statement has also been considered and effected, where needed.

- For the year ended 31 March 2023, 'Net interest income relating to pensions and other post-retirement benefits' was presented on the face of the profit and loss account. For the year ended 31 March 2024, the presentation has been amended and 'Net interest income relating to pensions and other post-retirement benefits' amounting to £3.7m (2023: £4.5m) has been included within the 'Interest receivable and similar income' line item on the face of the profit and loss account. The 'Net interest income relating to pensions and other post-retirement benefits' is identified separately within the interest receivable note (refer to note 5) in the notes to the financial statements. Comparatives have been restated to reflect the amended presentation.
- For the year ended 31 March 2023, the reimbursement of WPUPS re-measurement (losses)/gains on defined benefit pension plans was reflected as a separate line item named 'Reimbursement agreement relating to WPUPS pension scheme' on the face of the statement of comprehensive income. For the year ended 31 March 2024, the reimbursement agreement relating to WPUPS pension scheme amounting to nil (2023: £30.5m) has been classified within 'Remeasurement losses on pension assets and post-retirement benefit obligations' on the face of the statement of comprehensive income.
- During the current year, the presentation of the balance sheet has been amended to align with the prescribed format of FRS 101 financial statements. This has resulted in the presentation of a 'Fixed assets' line item instead of a 'Non-current asset' line item on the face of the balance sheet. As a result, 'Debtors (amounts falling due after more than one year)' amounting to £2.6m (2023: £2.9m) and 'pensions asset' amounting to £102.1m (2023: £126.3m) has been classified within 'Current assets'. This has resulted in the 'Net current liabilities' for 31 March 2023 to be restated from £124.6m to net current assets of £4.6m. Further, deferred tax amounting to £215.7m (2023: £211.0m) has been included within 'Provisions for liabilities'. Refer to note 21.
- For the year ended 31 March 2023, 'Short-term deposits' were classified as 'Cash at bank and in hand'. For the year ended 31 March 2024, 'Short-term deposits' amounting to £0.4m (2023: £0.2m) has been classified as 'Investments' within 'Current assets'. Comparatives have been restated to reflect the amended presentation. Refer to note 14.
- Classification of interest paid in the cash flow statement and interest payable within the notes to the financial statements has changed. For the year ended 31 March 2023, 'Interest paid' was classified within 'Operating activities' in the cash flow statement and interest payable was classified under 'Accruals' within 'Creditors (amounts falling due within one year)' in the notes to the financial statements. For the year ended 31 March 2024, 'Interest paid' amounting to £(28.3)m (2023: £27.6m) is classified within 'Financing activities' in the cash flow statement and interest payable amounting to £28.5m (2023: £5.2m) is classified under 'Borrowings' within 'Creditors (amounts falling due within one year)' in the notes to the financial statements. Comparatives have been restated to reflect the amended presentation. Refer notes 16 and 19.
- Classification of interest received in the cash flow statement has changed. For the year ended 31 March 2023, 'Interest Received' was classified within 'Operating activities' in the cash flow statement. For the year ended 31 March 2024, 'Interest received' amounting to £0.1m (2023: £0.4m) is classified within 'Investing activities' in the cash flow statement. Comparatives have been restated to reflect the amended presentation.
- For the year ended 31 March 2023, unbilled income was included under 'Trade debtors' within 'Debtors (amounts falling due within one year)' in the notes to the financial statements. For the year ended 31 March 2024, unbilled income amounting £21.5m (2023: £25.3m) has been reclassified to be included under 'Accrued income' within 'Debtors (amounts falling due within one year)'. Comparatives have been restated to reflect the amended presentation. Refer to note 13.

1. Summary of material accounting policies (continued)

(c) Intangible assets

Identifiable intangible assets are recorded at cost less accumulated amortisation and any provision for impairment. Intangible assets are tested for impairment only if there is an indication that the carrying value of the assets may have been impaired. Impairments of assets are calculated as the difference between the carrying value of the asset and the recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash-generating unit to which that asset belongs is estimated. Impairments are recognised in the profit and loss account and are disclosed separately. Any assets which suffered impairment in a previous period are reviewed for possible reversal of the impairment at each reporting date.

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

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets are amortised on a straight-line basis over their estimated useful economic lives. The amortisation period for intangible assets is up to 5 years.

(d) Property, plant and equipment

Property, plant and equipment is recorded at cost, less accumulated depreciation and any impairment losses.

Cost includes the purchase price of the asset; any payroll and finance costs incurred which are directly attributable to the construction of property, plant and equipment together with an appropriate portion of overheads which are directly linked to the capital work performed; and the cost of any associated asset retirement obligations.

Property, plant and equipment include assets in which the Company's interest comprises legally protected statutory or contractual rights of use. Additions represent the purchase or construction of new assets, including capital expenditure for safety and environmental assets, and extensions to, enhancements to, or replacements of existing assets. All costs associated with projects or activities which have not been fully commissioned at the period end are classified within assets in the course of construction.

No depreciation is provided on freehold land or assets in the course of construction. Other items of property, plant and equipment are depreciated on a straight-line basis, at rates estimated to write off their book values over their estimated useful economic lives. In assessing estimated useful economic lives, consideration is given to any contractual arrangements and operational requirements relating to particular assets. Certain network assets are depreciated using the group method of depreciation, in which a single composite depreciation rate is applied to a particular class of property, plant and equipment. This method pools similar assets together, and then depreciates each group as a whole over their respective useful lives. Composite depreciation rates are benchmarked to internal engineering studies and known asset performance lives. Depreciation expense includes a component for the original cost of assets and a component for estimated cost of future removal, net of any salvage value at retirement. Upon retirement of components of the Company's network assets, the original cost of the retired assets, net of salvage value, is charged against accumulated depreciation, with no gain or loss recognised. The assessments of estimated useful economic lives and residual values of assets are performed annually. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of tangible fixed assets are, in general, as shown in the table below:

Plant and machinery assets:	**Years**
Overhead lines and poles	65
Underground cables	85
Transformers and switchgear	55
Meters	3
Other (towers and substation buildings)	Up to 80
Buildings - freehold	Up to 60
Motor vehicles	Up to 10
Office equipment	Up to 20

1. Summary of material accounting policies (continued)

(d) Property, plant and equipment (continued)

Contributions received towards the cost of tangible fixed assets which include low carbon network funding are included in trade and other payables as contract liabilities and credited on a straight-line basis to the profit and loss account over the estimated economic useful lives of the assets to which they relate.

Right of use assets

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

The Company leases various properties, land, equipment and cars. New lease arrangements entered into are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

The right-of-use asset and associated lease liability arising from a lease are initially measured at the present value of the lease payments expected over the lease term. The lease payments include fixed payments, any variable lease payments dependent on an index or a rate, and any break fees or renewal option costs that the Company is reasonably certain to incur. The discount rate applied is the rate implicit in the lease or, if that is not available, the incremental rate of borrowing for a similar term and similar security. This is determined based on observable data for borrowing rates for the Company, with specific adjustments for the term of the lease and any lease-specific risk premium. The lease term takes account of exercising any extension options that are at our option if we are reasonably certain to exercise the option and any lease termination options unless we are reasonably certain not to exercise the option. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit and loss account over the lease period using the effective interest rate method. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as computers), the Company continues to recognise a lease expense on a straight-line basis.

(e) Tax

The tax charge for the period is recognised in the profit and loss account, the statement of comprehensive income or directly in equity, according to the accounting treatment of the related transaction. The tax charge comprises both current and deferred tax. Cash taxes are paid via another group company.

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

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

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

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

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

For the year ended 31 March 2024

1. Summary of material accounting policies (continued)

(e) Tax (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority, and the Company intends to settle their current tax assets and liabilities on a net basis.

(f) Foreign currency transactions and balances

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

(g) Stocks

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

(h) Financial instruments

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

Financial assets that have contractual cash flows that are solely payments of principal and interest, and which are held within a business model whose objective is to collect contractual cash flows, are held at amortised cost. These instruments include trade and other debtors, accrued income, amounts owed by other NGED undertakings and loan receivable from ultimate parent Company. For impairment assessment purposes, amounts owed by other NGED undertakings and loans receivable from the ultimate parent Company are individually assessed based on a review of solvency and liquidity arrangement. The expected credit loss for the year is £nil as these are subject to an insignificant risk of change in value.

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

To measure the expected credit losses, trade and other debtors 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 debtors 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 90 days past due.

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

1. Summary of material accounting policies (continued)

(h) Financial instruments (continued)

Lease liabilities - IFRS 16

Lease liabilities are initially measured at the present value of the lease payments expected over the lease term. The discount rate applied is the rate implicit in the lease or if that is not available, then the incremental rate of borrowing for a similar term and similar security. The lease term takes account of exercising any extension options that are at the Company's option if the Company is reasonably certain to exercise the option and any lease termination options unless the Company is reasonably certain not to exercise the option. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit and loss account over the lease period using the effective interest rate method.

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value and subsequently remeasured to fair value at each reporting date. Changes in fair values are recorded in the period they arise, in either the profit and loss account or other comprehensive income as required by IFRS 9. Where the fair value of a derivative is positive, it is carried as a derivative asset and where negative, as a derivative liability.

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.

No adjustment is made with respect to derivative clauses embedded in financial instruments or other contracts that are defined as closely related to those instruments or contracts. Consequently, these embedded derivatives are not accounted for separately from the debt instrument. Where there are embedded derivatives in host contracts not closely related, the embedded derivative is separately accounted for as a derivative financial instrument.

(i) Hedge accounting

Cash flow hedges

The Company enters into derivatives and non-derivative financial instruments in order to manage its foreign currency exposures, with a view to managing these risks associated with the Company’s underlying business activities and the financing of those activities. The principal derivatives used are forward foreign currency contracts.

Where appropriate, derivatives and other financial instruments used for hedging currency exposures are formally designated as 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. The Company uses the cash flow hedge accounting method which is described further below.

Cash flow hedging of currency risk of capital expenditure and revenues is designated as hedging the exposure to movements in the spot translation rates only. The timing of forecasted transactions is not designated as a hedged risk. Gains and losses on hedging instruments arising from forward points and foreign currency basis spreads are excluded from designation and are recognised immediately in profit or loss, along with any hedge ineffectiveness.

On recognition of the hedged purchase or sale in the financial statements, the associated hedge gains and losses deferred in cash flow hedge reserve in other equity reserves, are transferred out of reserves and included with the recognition of the underlying transaction. Where a non- financial asset or non-financial liability results from a forecast transaction or firm commitment being hedged, the amounts deferred in reserves are not recycled into profit or loss but are included directly in the initial measurement of that asset or liability. For these items under IFRS 9, the cash flow hedge reserve information is presented in the statement of other comprehensive income as “never recycled to profit or loss”.

1. Summary of material accounting policies (continued)

(i) Hedge accounting (continued)

Cash flow hedges (continued)

Discontinuation of hedge accounting

Hedge accounting is discontinued when a hedging relationship no longer qualifies for hedge accounting. Any cumulative gains or losses relating to cash flow hedges recognised in equity are initially retained in equity and subsequently recognised in the profit and loss account in the same periods in which the previously hedged item affects net profit and loss. If a forecasted transaction is no longer expected to occur, the cumulative gain or loss previously reported in equity would be transferred to the profit and loss account. This has not occurred in the current or comparative periods.

Fair value hedges

The Company enters into derivatives and foreign currency denominated intercompany loans in order to manage its foreign currency exposures, with a view to managing the risk associated with the Company's underlying business activities and the financing of those activities. The principal derivatives used are forward foreign currency contracts.

Hedge accounting allows derivatives and foreign currency denominated intercompany loans to be designated as a hedge of other financial instruments, to mitigate the impact of potential volatility in the profit and loss account.

Changes in the carrying value of financial instruments that are designated as hedges of the changes in the fair value of assets or liabilities ('fair value hedges') are recognised in the profit and loss account. An offsetting amount is recorded as an adjustment to the carrying value of hedged items, with a corresponding entry in the profit and loss account, to the extent that the change is attributable to the risk being hedged and that the fair value hedge is effective.

Fair value hedging is designated as hedging the exposure to movements in the spot rate of exchange rates only. Changes in the fair value of derivatives that do not qualify for hedge accounting are recognised in the profit and loss account as they arise.

Discontinuation of hedge accounting

Hedge accounting is discontinued when a hedging relationship no longer qualifies for hedge accounting. For fair value hedges the cumulative adjustment recorded to its carrying value at the date hedge accounting is discontinued is recognised in the profit and loss account as the hedged item impacts profit or loss.

(j) Provision for liabilities

Provisions for liabilities are recognised where a legal or constructive obligation exists at the balance sheet date, as a result of a past event, where the amount of the obligation can be reliably estimated and where the outcome of economic benefit is probable.

Decommissioning

Provision is made for decommissioning and environmental costs, based on future estimated expenditures, discounted to present values. An initial estimate of decommissioning and environmental costs attributable to property, plant and equipment is recorded as part of the original cost of the related property, plant and equipment.

Changes in the provision arising from revised estimates, discount rates or changes in the expected timing of expenditures that relate to property, plant and equipment are recorded as adjustments to their carrying values and depreciated prospectively over their remaining estimated useful economic lives, otherwise such changes are recognised in the profit and loss account.

The unwinding of discount is included within the profit and loss account as an interest expense.

(k) Equity instruments

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

1. Summary of material accounting policies (continued)

(l) Dividends

Dividend income is recognised when the right to receive payment is established. Dividend distributions to the Company's shareholders are recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

(m) Turnover

Distribution Use of System ("DUoS") Revenue

The Company, as a DNO, earns the majority of its turnover from providing distribution use of system services. The services are provided under a Distribution Connection and Use of System Agreement ("DCUSA") with its customers.

There is a single performance obligation under the DCUSA: the DNO is required to use its distribution network to deliver to its customers electricity from metered entry points to exit point. NGED's performance obligations 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) NGED's 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. Output method recognised revenue is based on direct measurements of value transferred to the customer. Accordingly NGED records turnover on a monthly basis, based on the amount of kWh of electricity delivered.

Turnover 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 turnover received or receivable exceeds the maximum amount permitted by regulatory agreement, adjustments will be made to future prices to reflect this over-recovery; adjustment to future prices relates to the provision of future services. Similarly no asset is recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under-recovery.

Finance revenue

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

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 property, plant and equipment are treated as contract liabilities, which is credited to the profit and loss account within turnover over the estimated weighted life of the related assets of 69 years.

(n) Pensions

The Company participates in three defined benefit pension plans, the WPD Group segment of the industry-wide Electricity Supply Pension Scheme ("ESPS"), the Infralec 1992 Pension Scheme ("Infralec 92") and the Western Power Utilities Pension Scheme ("WPUPS"). The ESPS scheme is, with very limited exception, closed to new members. A defined contribution plan is offered to new employees. Neither the Infralec 92 nor the WPUPS schemes have active members.

For the year ended 31 March 2024

1. Summary of material accounting policies (continued)

(n) Pensions (continued)

The ESPS is a group defined benefit pension plan that shares risks between entities under common control. Under FRS 101, the scheme has been accounted for as a defined benefit scheme by the Company as it has legal responsibility for the plan which it holds jointly with NGED South West. The net defined benefit cost and net deficit of the plan have been allocated to NGED South West and NGED South Wales in accordance with pensionable salaries.

NGED South Wales is the principal employer for WPUPS, which is a defined benefit scheme providing benefits relating to previous employees of an affiliate group which was previously headed by Hyder plc (now Hyder Limited in liquidation). NGED South Wales will fund the deficit. However, as another NGED Group company (National Grid Electricity Distribution Holding Company Limited) has taken full financial responsibility for this scheme, NGED South Wales will be reimbursed for these payments. The value of the reimbursement agreement is stated under provisions in the balance sheet and matches the gross asset recorded under IAS 19.

The cost of providing benefits under the defined benefit plan is determined 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 amendments or curtailments occur. The current service cost (including administration costs) is allocated to the profit and loss account or capital expenditure as appropriate.

Net interest expense or income 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 profit and loss account.

Remeasurement 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 pension liability/asset recognised in the balance sheet represents the deficit or surplus in the defined benefit pension plan. Any 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 profit and loss account or capital expenditure as appropriate in the year in which they become payable.

(o) Share-based payments

National Grid Plc issues equity-settled share-based payments to certain employees of the Company. Equity-settled share-based payments are measured at fair value at the date of grant, based on an estimate of the number of shares that will eventually vest. This fair value is recognised on a straight-line basis over the vesting period, as an operating cost and an increase in equity. Payments made by the Company to National Grid in respect of share-based payments are recognised as a reduction in equity.

(p) Cash and cash equivalents

In the 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.

Notes to the financial statements (continued)

For the year ended 31 March 2024

1. Summary of material accounting policies (continued)

(q) 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.

2. Turnover

Substantially all of the Company's turnover and profit before tax are derived from the delivery of electricity across its distribution network in the United Kingdom and related activities.

Revenue from its five largest customers amounted to £50.3m, £50.0m, £40.8m, £19.4m and £17.9m (2023: £61.0m, £49.4m, £44.7m, £23.5m and £22.8m).

Geographical analysis of turnover is not provided as the Company's operations are all undertaken in the UK for customers based in the UK. Other sources of revenue are not material and so are not shown separately.

3. Operating expenses

The directors consider that the nature of the business is such that the analysis of expenses shown below is more informative than that set out in the formats specified by the Companies Act 2006.

	2024	2023
	£m	£m
Employee costs (note 9)	**26.6**	27.7
Depreciation (note 4)	**47.5**	44.5
Amortisation of intangible assets (note 4)	**0.5**	0.4
Property rates	**15.2**	14.3
Last Resort Supply Payment ("LRSP") claims (i)	**9.3**	39.2
Other operating expenses (ii)	**48.0**	41.4
	147.1	167.5

For the year ended 31 March 2023 the share-based payment cost (net of capitalisation) was included within other operating expenses. This has been amended during the year and for the year ended 31 March 2024, share-based payment cost (net of capitalisation) of £0.2m (2023: £0.2m) has been classified within employee costs. Comparatives have been restated.

(i) 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 Company via its DUoS charges.

(ii) Other operating expenses 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.

4. Operating profit

	2024 £m	2023 £m
Operating profit is stated after charging/(crediting):		
Employee costs	**26.6**	27.7
Amortisation of intangible fixed assets	**0.5**	0.4
Depreciation of tangible fixed assets:	**47.5**	44.5
- Owned assets	**47.4**	44.4
- Leased assets	**0.1**	0.1
Profit on sale of tangible fixed assets	**(0.1)**	(0.1)
Operating lease charges:		
- Plant and machinery	**0.5**	0.8
- Land and Buildings	**0.3**	0.6
Services provided by the Company's auditor		
Audit fees of the Company	**0.2**	0.2
Audit fees of subsidiary undertakings	**0.1**	–

Depreciation of property, plant and equipment is stated net of depreciation capitalised of £6.2m (2023: £5.7m) in respect of equipment consumed during the construction of the electricity network. It also includes depreciation of right-of-use-assets amounting to £0.1m (2023: £0.1m).

Amortisation of intangibles is stated net of amortisation capitalised of £1.1m (2023: £0.9m) in respect of software consumed during the construction of the electricity network.

Operating lease charges comprises of short term and low value leases.

Other audit related services relate to fees payable for audit services which are required to be carried out by auditors in relation to the Group's reporting requirements to National Grid plc. In particular, this includes fees for reports under section 404 of the US Public Company Accounting Reform and Investor Protection Act of 2002 (Sarbanes-Oxley), and assurance fees in relation to regulatory returns.

5. Interest receivable and similar income

	2024 £m	2023 £m
Interest receivable from other NGED undertakings	**0.1**	-
Interest receivable from ultimate parent company	**1.9**	0.3
Bank interest receivable	**0.2**	0.1
Net interest income relating to pensions and other post-retirement benefits	**3.7**	4.5
	5.9	4.9

For the year ended 31 March 2024

6. Interest payable and similar charges

	2024 £m	2023 £m
Interest payable on loans from other NGED undertakings	**0.7**	0.4
Interest payable to ultimate parent company	**3.1**	-
Interest payable on bank loans and overdrafts	**0.2**	0.4
Interest payable on other borrowings	**36.4**	39.3
Interest payable on lease liabilities	**-**	0.1
Unwinding of discount of provisions	**0.3**	0.2
Changes in fair values of derivatives not designated as hedges	**0.2**	-
Less: interest capitalised	**(1.8)**	(1.8)
	39.1	38.6

Interest in 2024 was capitalised at a rate of 5.24% (2023: 5.28%), based on the yield on the Company's borrowings.

7. Tax

Tax charged to the profit and loss account:

	2024 £m	2023 £m
Current tax:		
UK corporation tax on profits for the year	**7.9**	10.6
Adjustment in respect of prior years	**(1.3)**	(0.2)
Total current tax	**6.6**	10.4
Deferred tax:		
Origination and reversal of temporary differences	**15.3**	10.2
Impact of change in tax rate	**-**	3.4
Adjustment in respect of prior years	**0.6**	0.7
Total deferred tax	**15.9**	14.3
Tax charge in the profit and loss account	**22.5**	24.7

Tax credited to the statement of other comprehensive income and equity

	2024 £m	2023 £m
Remeasurements on net pension assets	**(10.6)**	(42.4)
Cash flow hedges and cost of hedging reserves	**(0.5)**	-
Share-based payments	**(0.1)**	(0.1)
Total tax credited to the statement of other comprehensive income and equity	**(11.2)**	(42.5)
Total tax credit to the statement of other comprehensive income	**(11.1)**	(42.4)
Total tax relating to share-based payments recognised directly in equity	**(0.1)**	(0.1)
	(11.2)	(42.5)

For the year ended 31 March 2024

7. Tax (continued)

The total tax expense as a percentage of profit before tax gives an effective tax rate of 25.7% (2023: 23.8%) compared to the standard rate of 25% (2023: 19%) due to the effects of the items explained below.

	2024	2023
	£m	£m
Profit before tax	**87.7**	103.6
Profit before tax multiplied by standard rate of corporation tax in the UK of 25% (2023: 19%)	**21.9**	19.7
Effect of:		
Expenses not deductible for tax purposes	**0.9**	1.6
Non-taxable income	**0.5**	-
Impact of change in UK tax rate	**-**	3.4
Enhanced tax relief on capital expenditure	**-**	(0.5)
Other	**(0.1)**	-
Adjustments in respect of prior years	**(0.7)**	0.5
Total tax charge in the profit and loss account	**22.5**	24.7

Adjustments in respect of prior years mainly relate to the revised analysis of capital expenditure included in tax returns filed with HMRC.

Factors affecting current and future tax charges

The main UK corporation tax rate is 25% with effect from 1 April 2023. Deferred tax balances as at 31 March 2024 have been calculated at 25%.

8. Equity dividends

	2024	2023
	£m	£m
Equity - ordinary:		
Equity dividends - 10.3 pence per share (2023: 12.9 pence)	**60.0**	75.0
	60.0	75.0

9. Directors and employees

	2024	2023
	£m	£m
Wages and salaries	**66.5**	62.2
Social security costs	**7.9**	7.7
Defined contribution scheme pension costs	**3.3**	2.3
Defined benefit scheme pension costs	**5.3**	9.0
Share-based payments	**0.5**	0.4
Recharged from parent	**1.2**	-
Total employee cost	**84.7**	81.6
Less: amounts capitalised as part of property, plant and equipment	**(58.1)**	(53.9)
Charged to the profit and loss account	**26.6**	27.7

9. Directors and employees (continued)

For the year ended 31 March 2023 the share-based payment cost (net of capitalisation) was included within other operating expenses. This has been corrected during the year and for the year ended 31 March 2024, share-based payment cost has been classified within employee costs. Comparatives have been restated.

The average number of employees in the year was 1,071 (2023: 1,063). All employees work for the network distribution activity. This includes a proportion of other NGED DNO staff who work in part for NGED South Wales and excludes a proportion of NGED South Wales staff who work in part for other NGED DNOs.

Employee costs in the year were capitalised at a rate of 68.6% (2023: 66.1%).

Key management compensation

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

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.

	Highest paid director		**Total**	
	2024	2023	**2024**	2023
NGED Group	**£'000**	£'000	**£'000**	£'000
The emoluments of the executive directors comprised:				
Base salary (note i)	**466**	476	**1,273**	1,279
Performance dependent bonus (note ii)	**264**	681	**1,086**	1,774
Termination benefits (note iii)	**—**	5,453	**—**	8,703
Pension compensation allowance (note iv)	**114**	247	**429**	522
Sub-total directors' remuneration	**844**	6,857	**2,788**	12,278
Share-based payments	**686**	—	**872**	155
Fees to the independent non executive directors (note v)	**—**	—	**50**	100
	1,530	6,857	**3,710**	12,533

(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. The current year bonus total includes a bonus payment made to a director who resigned from the business during the prior period. 2023 includes retention award payments following the completion of the sale of the WPD Group to National Grid plc on 14 June 2021.

(iii) 2023 includes termination benefits in respect of two executive directors who resigned from the business during the reporting period. The amount of termination benefits for 2024 is nil.

(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" - see note 23), 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).

(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.

(v) The two sufficiently independent directors are entitled to fees as determined by the appropriate Board. No emoluments are paid to National Grid appointed non-executive directors, who are officers of National Grid, in respect of their services as directors to the Group.

(vi) During 2024, three directors including the highest paid director exercised share options (2023: nil).

(vii) During the year, four executive directors (2023: four) were members of the defined benefit ESPS.

For the year ended 31 March 2024

10. Property, plant and equipment

During the year ended 31 March 2024, the presentation of the below note has been amended to reflect Property, plant and equipment categories aligned to the reporting by the ultimate parent company, National Grid Plc. Key changes are as follows:

- For the year ended 31 March 2023, Fixtures & equipment with a net book value of £29.1m and Vehicles & mobile plant with a net book value of £10.1m were presented as two separate categories. For the year ended 31 March 2024, these have been merged together as a single category of Motor vehicles & office equipment.
- For the year ended 31 March 2023, the network assets of the Group were named as Distribution network. This has been renamed to Plant & machinery for the year ended 31 March 2024.
- For the year ended 31 March 2023, radio sites with a net book value of £0.2m were classified as Fixtures & equipment. These have now been reclassified to Plant & machinery for the year ended 31 March 2024.

	Land & buildings	Plant & machinery	Motor vehicles & office equipment	Total
	£m	£m	£m	£m
Cost				
At 1 April 2023	31.8	3,195.2	72.5	3,299.5
Additions	-	167.9	8.0	175.9
Transfers	(0.3)	-	0.3	-
Disposals and retirements	-	(1.9)	(5.0)	(6.9)
At 31 March 2024	**31.5**	**3,361.2**	**75.8**	**3,468.5**
Depreciation				
At 1 April 2023	2.6	883.8	33.5	919.9
Charge for the year	0.8	44.1	8.8	53.7
Disposals and retirements	-	(1.9)	(5.0)	(6.9)
At 31 March 2024	**3.4**	**926.0**	**37.3**	**966.7**
Net book value				
At 31 March 2024	**28.1**	**2,435.2**	**38.5**	**2,501.8**
At 31 March 2023	29.2	2,311.4	39.0	2,379.6

Included within the Company's fixed assets is land at a cost of £52.3m (2023: £51.5m). This is included within Land & building and Plant & machinery. Operational land such as substations is included within Plant & machinery.

Included within the Company's plant and machinery and motor vehicles & office equipment are assets in the course of construction amounting at 31 March 2024 to £31.9m (2023: £27.3m).

Included in additions are staff costs of £58.1m (2023: £53.9m), corporate overheads of £16.6m (2023: £15.2m), capitalised depreciation of £6.2m (2023: £5.7m) and interest of £1.8m (2023: £1.8m).

For the year ended 31 March 2024

10. Property, plant and equipment (continued)

The table below shows the net book value of right-of-use assets included within property, plant and equipment at 31 March 2024 and 31 March 2023, split by category. The associated lease liabilities are disclosed in 19.

Right-of-use assets	Land & buildings	Plant & machinery	Total
	£m	£m	£m
Net book value at 1 April 2022	1.5	0.2	1.7
Additions	-	-	-
Depreciation	(0.1)	-	(0.1)
Net book value at 31 March 2023	**1.4**	**0.2**	**1.6**
Additions	**-**	**-**	**-**
Depreciation	**(0.1)**	**-**	**(0.1)**
Net book value at 31 March 2024	**1.3**	**0.2**	**1.5**

11. Intangible assets

	Software
	£m
Cost:	
At 1 April 2023	12.1
Additions	3.2
At 31 March 2024	15.3
Accumulated amortisation:	
At 1 April 2023	4.4
Amortisation charge for the year	1.6
At 31 March 2024	6.0
Net book value:	
At 31 March 2024	**9.3**
At 31 March 2023	7.7

Included in additions is capitalised amortisation of £1.1m (2023: £0.9m).

12. Stocks

	2024	2023
	£m	£m
Raw materials and consumables	**3.0**	2.6
Work in progress	**0.1**	-
	3.1	2.6

The cost of stocks recognised as an expense during the year was £1.3m (2023: £1.2m).

13. Debtors

	2024 £m	2023 £m
Amounts falling due within one year:		
Trade debtors	**19.8**	18.6
Amounts owed by other NGED undertakings	**2.0**	2.1
Amounts owed by ultimate parent company	**152.4**	-
Corporation tax receivable	**0.2**	0.4
Other debtors	**1.3**	0.1
Prepayments	**2.4**	2.1
Accrued income	**22.9**	26.1
	201.0	49.4
Amounts falling due after more than one year:		
Prepayments	**0.2**	0.2
Other debtors	**2.4**	2.7
	2.6	2.9
Total trade and other receivables	**203.6**	52.3

Trade debtors are stated after provisions for impairment of nil (2023: £0.1m).

Accrued income includes unbilled DUoS income of £21.5m (2023: £25.3m). For the year ended 31 March 2023, unbilled DUos income was included within trade debtors. As a result of accounting policy changes during the current year, this has now been reclassified to be included within accrued income. Comparatives have also been restated to reflect amended presentation.

Amounts owed by other NGED undertakings are unsecured and are repayable on demand. Interest is received monthly at the Bank of England base rate at the end of the month.

Loan receivable from the ultimate parent company is the 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. For impairment assessment purposes, such loans to group undertakings are considered low risk as the subsidiaries are solvent and are covered by the National Grid group's liquidity arrangements and as such the expected credit loss for the year is nil.

14. Investments

	2024 £m	2023 £m
Short-term deposits	**0.4**	0.2

Short-term bank deposits comprise cash held in a mixture of deposit accounts and sterling liquidity funds, earning interest of between 4.15% and 5.25%. They are all instant access liquidity funds.

For the year ended 31 March 2024

15. Cash at bank and in hand

	2024	2023
	£m	£m
Cash at bank	**0.1**	0.2

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

	2024	2023
	£m	£m
Cash at bank and in hand (from above)	**0.1**	0.2
Short-term bank deposits (note 14)	**0.4**	0.2
Cash and cash equivalents	**0.5**	0.4

Included in cash and short-term bank deposits are restricted amounts totalling £0.5m (2023: £0.5m)

16. Creditors (amounts falling due within one year)

	2024	2023
	£m	£m
Borrowings (note 19)	**8.9**	81.3
Trade creditors	**9.8**	8.2
Payments received in advance	**50.8**	32.9
Contract liabilities (note 18)	**8.6**	8.0
Amounts owed to other NGED undertakings	**11.9**	12.5
Other taxation and social security	**9.9**	11.3
Other creditors	**4.5**	5.6
Accruals	**19.7**	17.2
	124.1	177.0

For the year ended 31 March 2023, interest payable was included within accruals. As a result of the alignment of accounting policies with the ultimate parent, National Grid Plc, the classification of interest payable has been amended. For the year ended 31 March 2024, interest payable amounting to £28.5m (2023: £5.2m) is classified within borrowings. In addition, lease liabilities amounting to £0.1m (2023: £0.1m) are also classified within borrowings. Comparatives have been restated to reflect the amended presentation.

Payments received in advance primarily relate to the advance payments received from customers for construction contracts, mainly in relation to connections, for which work has not yet commenced.

For the year ended 31 March 2024, deferred contributions has been renamed to contract liabilities.

Amounts owed to other NGED undertakings are unsecured and are repayable on demand. Interest is paid monthly at the Bank of England base rate at the end of the month.

Other creditors include £3.6m (2023: £5.5m) DUoS collateral deposits received from suppliers in accordance with the DCUSA.

17. Creditors (amounts falling due after more than one year)

	2024	2023
	£m	£m
Derivative financial instruments (note 20)	**0.2**	-
Borrowings (note 19)	**1,081.1**	776.7
Contract liabilities (note 18)	**466.1**	449.5
	1,547.4	1,226.2

For the year ended 31 March 2024

18. Contract liabilities

	2024	2023
	£m	£m
Current	**8.6**	8.0
Non-current	**466.1**	449.5
	474.7	457.5

Contract liabilities primarily relate to the advance consideration received from customers for construction contracts, mainly in relation to connections, for which revenue is recognised over the life of the asset.

Significant changes in the contract liabilities balances during the year are as follows:

	2024	2023
	£m	£m
At 1 April	**457.5**	437.0
Revenue recognised that was included in the contract liability balance at the beginning of the period	**(8.6)**	(8.0)
Increase due to cash received, excluding amounts recognised as revenue during the period	**25.8**	28.5
At 31 March	**474.7**	457.5

19. Borrowings

	2024	2023
	£m	£m
Amounts falling due within one year		
Bonds	**8.8**	5.2
Loan with ultimate parent company	**-**	76.0
Lease liabilities	**0.1**	0.1
	8.9	81.3
Amounts falling due after more than one year		
Bonds	**1,079.6**	775.2
Lease liabilities	**1.5**	1.5
	1,081.1	776.7
Total borrowings	**1,090.0**	858.0

	2024	2023
	£m	£m
Total borrowings are repayable as follows:		
Less than 1 year	**8.9**	81.3
In 1-2 years	**0.1**	0.1
In 2-3 years	**0.1**	0.1
In 3-4 years	**0.1**	0.1
In 4-5 years	**72.3**	0.1
More than 5 years	**1,008.5**	776.3
	1,090.0	858.0

For the year ended 31 March 2024

19. Borrowings (continued)

The notional amount of borrowings outstanding as at 31 March 2024 was £1,086.9m (2023: £1,081.7m).

At 31 March 2024, the Company had available £125.0m (2023: £125.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. All facilities incur commitment fees at market rates.

Lease liabilities	**2024**	2023
	£m	£m
Opening	**1.6**	1.7
Payments during the year	**(0.1)**	(0.1)
Interest expense	**0.1**	-
At 31 March	**1.6**	1.6
of which:		
Current	**0.1**	0.1
Non-current	**1.5**	1.5

The Company leases various properties including land for substations and radio sites and also radio site towers under non-cancellable lease arrangements. 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 of expense charged to rent expense pertaining to short term leases amounts to 0.7m (2023: £1.2m) and pertaining to low value leases amounts to £0.2m (2023: £0.2m).

20. Derivative financial instruments

		2024	
	Assets	**Liabilities**	**Total**
	£m	**£m**	**£m**
Amounts falling due within one year	**-**	**-**	**-**
Amounts falling due after more than one year	**-**	**(0.2)**	**(0.2)**
	-	**(0.2)**	**(0.2)**

		2023	
	Assets	Liabilities	Total
	£m	£m	£m
Amounts falling due within one year	-	-	-
Amounts falling due after more than one year	-	-	-
	-	-	-

For each class of derivative the notional contract amounts* are as follows: :

	2024	2023
	£m	£m
Inflation linked swaps	**(39.1)**	-

*The notional contract amounts of derivatives indicate the gross nominal value of transactions outstanding at the balance sheet date.

For the year ended 31 March 2024

21. Provision for liabilities

	WPUPS reimbursement Agreement	Deferred tax (note 22)	Asset retirement obligations	Other	Total
	£m	£m	£m	£m	£m
At 1 April 2023	76.5	211.0	5.1	3.5	296.1
Arising during the year	2.0	4.7	0.5	3.6	10.8
Net increase due to discount rate change	-	-	0.7	-	0.7
Unwinding of discount	-	-	0.3	-	0.3
Utilised during the year	-	-	-	(0.5)	(0.5)
31 March 2024	**78.5**	**215.7**	**6.6**	**6.6**	**307.4**

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 tangible fixed assets.

Other provisions at 31 March 2024 substantially relate to the uninsured losses and an expected settlement of liabilities relating to the Electricity Association Technology Limited ("EATL") of £0.4m relating primarily to a pension deficit relating to that company.

22. Deferred tax

	Accelerated capital allowances	Pension assets	Other	Total
	£m	£m	£m	£m
At 1 April 2022	169.6	70.3	(0.7)	**239.2**
Charge to the profit and loss account	11.3	3.0	-	**14.3**
Credit to the statement of other comprehensive income and equity	-	(42.4)	(0.1)	**(42.5)**
At 1 April 2023	180.9	30.9	(0.8)	**211.0**
Charge/(credit) to the profit and loss account	11.5	4.5	(0.1)	**15.9**
Credit to the statement of other comprehensive income and equity	-	(10.6)	(0.6)	**(11.2)**
At 31 March 2024	**192.4**	**24.8**	**(1.5)**	**215.7**

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 Company’s tax payments over a very long period of time mainly due to the long expected useful lives of fixed assets and the Company’s pension schemes having no fixed maturity dates.

23. Pension commitments

All of our employees are eligible to participate in a pension scheme. We have defined benefit ("DB") and defined contribution ("DC") pension plans in the UK. The fair value of associated plan assets and present value of DB obligations are updated annually in accordance with IAS 19 ‘Employee Benefits’. Below we provide a more detailed analysis of the amounts recorded in the primary financial statements and the actuarial assumptions used to value the DB obligations.

Defined contribution plan

During the year, the ongoing DC pension provision for NGED employees was transferred from the Western Power Pension Scheme ("WPPS") to the National Grid UK Retirement Plan ("NGUKRP"), a section of a Master Trust arrangement managed by Legal & General. The Company pays contributions into the NGUKRP to provide DC benefits on behalf of its employees, generally providing a double match of member contributions up to a maximum Company contribution of 12% of salary. Investment risks are borne by the member and there is no legal or constructive obligation on the Company to pay additional contributions in the instance that investment performance is poor. Payments to these DC plans are charged as an expense as they fall due.

The Company also operates a closed section of WPPS with no active members. At 31 March 2024 there were 181 members with deferred benefits in the scheme (2023: 188) and 9 pensioners (2023: 7). Market value of the assets was £2.5m (2023: £2.3m).

Defined benefit plans

The Company participates in three defined benefit schemes, the WPD Group section of the Electricity Supply Pension Scheme ("ESPS"), the Western Power Pension Scheme - Infralec 1992section ("WPPS I92"), and the Western Power Utilities Pension Scheme ("WPUPS").

The WPD Group section of the ESPS ("ESPS WPD"), relates to NGED South West and NGED South Wales and most employees of these companies are members of the ESPS. These two companies are liable for the WPD Group section and would benefit from any surplus if wound up. The assets are held in a trustee administered fund. ESPS WPD provides pension and other related defined benefits based on final pensionable pay but is closed to new members except in very limited circumstances.

WPPS I92 provides benefits on both a money purchase and final salary basis and is operated by NGED South Wales.

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, 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 (Note 21) and matches the gross asset/liability recorded under IAS 19 below.

WPUPS and WPPS I92 are closed with no active members.

The schemes are funded, defined benefit, final salary and cash balance pension plans. The level of benefits provided for final salary members (who make up the majority of the scheme) depends on members' length of service and their salary at their date of leaving the Company. The majority of pensions in payment receive inflationary increases in line with the RPI (Retail Prices Index) inflation (subject to caps and collars, as appropriate). 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 scheme's investment strategy is decided by the Trustees, in consultation with the employer. The Board of Trustees must be composed of representatives of the employer and plan participants in accordance with the scheme's legal documentation.

The arrangements are subject to independent actuarial funding valuations every three years and, following consultation and agreement with the Company, the qualified actuary certifies the employers’ contributions which together with the specified contributions payable by the employees and proceeds from the plans’ assets, are expected to be sufficient to fund the benefits payable. The latest full actuarial valuations for each of the DB plans were carried out at 31 March 2022.

ESPS WPD showed a shortfall at the valuation date and it was agreed that this would be funded via a recovery plan payment from the Company of £18.0m per annum until November 2024. The Company also agreed employer contributions of 48.2% per annum of pensionable salaries covering future benefit accrual.

For the year ended 31 March 2024

23. Pension commitments (continued)

Defined benefit plans (continued)

Current expected total employer contributions to the Scheme for the year ending 31 March 2025 are £14.7m

The net defined benefit cost and net surplus or deficit of the plan have been allocated to NGED South West and NGED South Wales in accordance with pensionable salaries, currently 62.6% to NGED South West (2023: 62.1%) and 37.4% to NGED South Wales (2023: 37.9%). The figures below show the proportion allocated to NGED South Wales.

The company has no exposure to other funding requirements or liability for other entities' obligations, including upon wind-up of the plan.

The WPUPS and WPPS I92 schemes were in surplus at the valuation date and therefore no contributions are being paid into these schemes.

Unfunded obligation

NGED South Wales also has an unfunded pension 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, and therefore a corresponding reimbursement asset is stated on the balance sheet (note 13) and matches the liability recorded under IAS 19.

Actuarial assumptions

On retirement, members of DB plans receive benefits whose value is dependent on factors such as salary and length of pensionable service. The Company's obligation in respect of DB pension plans is calculated separately for each DB plan by projecting the estimated amount of future benefit payments that employees have earned for their pensionable service in the current and prior periods. These future benefit payments are discounted to determine the present value of the liabilities. Current service cost and any unrecognised past service cost are recognised immediately.

Advice is taken from independent actuaries relating to the appropriateness of the key assumptions applied, including life expectancy, expected salary and pension increases, and inflation. Comparatively small changes in the assumptions used may have a significant effect on the amounts recognised in the profit and loss account, the statement of other comprehensive income and the net asset recognised in the balance sheet. Remeasurements of pension assets and post retirement benefit obligations are recognised in full in the period in which they occur in the statement of other comprehensive income.

The Company has applied the following financial assumptions in assessing DB liabilities:

		2024	
	ESPS WPD	**WPUPS**	**WPPS I92**
	%	**%**	**%**
Discount rate - past service	**4.88**	**4.85**	**4.88**
Discount rate - future service	**4.91**	**n/a**	**n/a**
Salary increases	**3.09**	**n/a**	**n/a**
Rate of increase in RPI - past service	**2.99**	**3.11**	**3.04**
Rate of increase in RPI - future service	**2.89**	**n/a**	**n/a**

		2023	
	ESPS WPD	WPUPS	WPPS I92
	%	%	%
Discount rate - past service	4.80	4.80	4.80
Discount rate - future service	4.80	n/a	n/a
Salary increases	3.10	n/a	n/a
Rate of increase in RPI - past service	3.15	3.20	3.20
Rate of increase in RPI - future service	3.05	n/a	n/a

For the year ended 31 March 2024

23. Pension commitments (continued)

Single equivalent financial assumptions are shown above for presentational purposes, although full yield curves have been used in our calculations. The discount rate is determined by reference to high-quality UK corporate bonds at the reporting date. The rate of increase in salaries has been set using a promotional scale where appropriate. The rates of increases stated are not indicative of historical increases awarded or a guarantee of future increase, but merely an appropriate assumption used in assessing DB liabilities.

The table below sets out the projected life expectancies adopted for the pension arrangements:

		2024	
	ESPS WPD	**WPUPS**	**WPPS I92**
Assumed life expectations for a retiree age 65:			
Males	**21.4**	**21.4**	**22.1**
Females	**23.3**	**24.0**	**24.0**
In 20 years:			
Males	**22.3**	**22.4**	**22.7**
Females	**24.4**	**24.8**	**24.8**

		2023	
	ESPS WPD	WPUPS	WPPS I92
Assumed life expectations for a retiree age 65:			
Males	22.0	21.8	22.0
Females	23.8	24.1	23.8
In 20 years:			
Males	22.9	23.0	23.3
Females	24.9	25.5	25.3

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 Infralec 92.

As at the reporting date, the present value of the funded obligations split according to member status, was approximately 26% active members (2023: 29%); 4% deferred members (2022: 4%); 70% pensioner members (2023: 67%).

Amounts recognised in the balance sheet

			2024		
	ESPS WPD	**WPUPS**	**WPPS I92**	**Unfunded**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Present value of obligations	**(663.8)**	**(356.0)**	**(9.0)**	**(2.4)**	**(1,031.2)**
Fair value of scheme assets	**683.6**	**434.5**	**12.8**	**-**	**1,130.9**
Surplus/(deficit) of funded plan and asset/(liability) recognised in the balance sheet	**19.8**	**78.5**	**3.8**	**(2.4)**	**99.7**
Represented by:					
Asset	**19.8**	**78.5**	**3.8**	**-**	**102.1**
Liability	**-**	**-**	**-**	**(2.4)**	**(2.4)**
	19.8	**78.5**	**3.8**	**(2.4)**	**99.7**

23. Pension commitments (continued)

Amounts recognised in the balance sheet (continued)

	2023				
	ESPS WPD	WPUPS	WPPS I92	Unfunded	Total
	£m	£m	£m	£m	£m
Present value of obligations	(685.9)	(381.0)	(10.0)	(2.7)	(1,079.6)
Fair value of scheme assets	731.9	457.5	13.8	-	1,203.2
Surplus/(deficit) of funded plan and asset/(liability) recognised in the balance sheet	46.0	76.5	3.8	(2.7)	123.6
Represented by:					
Asset	46.0	76.5	3.8	-	126.3
Liability	-	-	-	(2.7)	(2.7)
	46.0	76.5	3.8	(2.7)	123.6

The recognition of the pension asset reflects legal and actuarial advice that we have taken regarding recognition of surpluses under IFRIC 14. The Company has an unconditional right to a refund in the event of a winding up.

The regulator, Ofgem, currently allows ongoing service costs and a proportion of the deficit costs to be recovered through regulated income.

Amounts recognised in the profit and loss account and the statement of comprehensive income

Analysis of the amount charged to profit before interest and taxation or to capital expenditure:

	2024			
	ESPS WPD	**WPUPS**	**WPPS I92**	**Total**
	£m	**£m**	**£m**	**£m**
Included within operating costs (including payroll costs)				
Current service cost	**5.3**	**-**	**-**	**5.3**
Administrative costs	**0.8**	**1.0**	**-**	**1.8**
WPUPS reimbursement agreement	**-**	**(1.0)**	**-**	**(1.0)**
Total included within operating costs	**6.1**	**-**	**-**	**6.1**
Interest income on plan assets	**(36.4)**	**(22.0)**	**(1.0)**	**(59.4)**
Interest on plan liabilities	**33.7**	**19.0**	**-**	**52.7**
WPUPS reimbursement agreement	**-**	**3.0**	**-**	**3.0**
Net interest income	**(2.7)**	**-**	**(1.0)**	**(3.7)**
Total included within profit and loss account	**3.4**	**-**	**(1.0)**	**2.4**

For the year ended 31 March 2024

23. Pension commitments (continued)

Amounts recognised in the profit and loss account and the statement of comprehensive income (continued)

	2023			
	ESPS WPD	WPUPS	WPPS I92	Total
	£m	£m	£m	£m
Included within operating costs (including payroll costs)				
Current service cost	9.0	-	-	9.0
Administrative costs	0.6	0.7	-	1.3
WPUPS reimbursement agreement	-	(0.7)	-	(0.7)
Total included within operating costs	9.6	-	-	9.6
Included within finance income and costs				
Interest income on plan assets	(25.6)	(14.0)	(0.4)	(40.0)
Interest on plan liabilities	21.2	11.5	0.3	33.0
WPUPS reimbursement agreement	-	2.5	-	2.5
Total included within finance income and costs	(4.4)	-	(0.1)	(4.5)
Total included within income statement	5.2	-	(0.1)	-

The operating charge is allocated to the operating costs in the profit and loss account or to capital expenditure as appropriate.

Analysis of the amount recognised in other comprehensive income:

	2024			
	ESPS WPD	**WPUPS**	**WPPS I92**	**Total**
	£m	**£m**	**£m**	**£m**
Return on plan assets excluding amounts included in interest (income)/expense	**51.2**	**17.0**	**1.0**	**69.2**
Gain from change in demographic assumptions	**(6.4)**	**(11.0)**	**-**	**(17.4)**
Gain from change in financial assumptions	**(14.6)**	**(4.0)**	**-**	**(18.6)**
Experience losses/(gains)	**10.1**	**(2.0)**	**-**	**8.1**
Change in percentage allocation rate	**1.1**	**-**	**-**	**1.1**
WPUPS Reimbursement agreement	**-**	**-**	**-**	**-**
Remeasurement losses recognised in other comprehensive income	**41.4**	**-**	**1.0**	**42.4**

	2023			
	ESPS WPD	WPUPS	WPPS I92	Total
	£m	£m	£m	£m
Return on plan assets excluding amounts included in interest (income)/expense	342.0	126.2	3.7	471.9
Gain from change in demographic assumptions	(8.5)	(4.7)	(0.1)	(13.3)
Gain from change in financial assumptions	(217.4)	(92.0)	(2.2)	(311.6)
Experience losses/(gains)	21.0	1.0	(0.2)	21.8
Change in percentage allocation rate	0.9	–	–	0.9
WPUPS Reimbursement agreement	-	(30.5)	-	(30.5)
Remeasurement losses recognised in other comprehensive income	138.0	-	1.2	139.2

23. Pension commitments (continued)

The movement in the net pension asset over the accounting period is as follows:

ESPS WPD	Year ended 31 Mar 2024 Present value of obligation	Fair value of plan assets	Net	Year ended 31 Mar 2023 Present value of obligation	Fair value of plan assets	Net
	£m	£m	£m	£m	£m	£m
(Liability)/asset at 1 April	**(685.9)**	**731.9**	**46.0**	(902.4)	1,077.2	174.8
Current service cost	**(5.3)**	**-**	**(5.3)**	(9.0)	-	(9.0)
Administrative costs	**(0.8)**	**-**	**(0.8)**	(0.6)	-	(0.6)
Interest (expense)/income	**(33.7)**	**36.4**	**2.7**	(21.2)	25.6	4.4
Past service cost and gains and losses on settlements	**(1.1)**	**-**	**(1.1)**	(1.8)	-	(1.8)
	(40.9)	**36.4**	**(4.5)**	(32.6)	25.6	(7.0)
Remeasurements:						
Return on plan assets excluding amounts included in interest (income)/expense	**-**	**(51.2)**	**(51.2)**	-	(342.0)	(342.0)
Gain from change in demographic assumptions	**6.4**	**-**	**6.4**	8.5	-	8.5
Gain from change in financial assumptions	**14.6**	**-**	**14.6**	217.4	-	217.4
Experience losses	**(10.1)**	**-**	**(10.1)**	(21.0)	-	(21.0)
Change in percentage allocation rate	**9.6**	**(10.7)**	**(1.1)**	4.8	(5.7)	(0.9)
	20.5	**(61.9)**	**(41.4)**	209.7	(347.7)	(138.0)
Contributions:						
Employers	**-**	**19.7**	**19.7**	-	16.2	16.2
Plan participants	**(1.5)**	**1.5**	**-**	(1.4)	1.4	-
	(1.5)	**21.2**	**19.7**	(1.4)	17.6	16.2
Payments from plan:						
Benefit payments	**44.0**	**(44.0)**	**-**	40.2	(40.2)	-
Administrative costs			**-**	0.6	(0.6)	-
	44.0	**(44.0)**	**-**	40.8	(40.8)	-
(Liability)/asset at 31 March	**(663.8)**	**683.6**	**19.8**	(685.9)	731.9	46.0

23. Pension commitments (continued)

WPUPS	Year ended 31 March 2024 Present value of obligation	Year ended 31 March 2024 Fair value of plan assets	Year ended 31 March 2024 Net	Year ended 31 March 2023 Present value of obligation	Year ended 31 March 2023 Fair value of plan assets	Year ended 31 March 2023 Net
	£m	£m	£m	£m	£m	£m
(Liability)/asset at 1 April	**(381.0)**	**457.5**	**76.5**	(491.7)	596.9	105.2
Administrative costs	**(1.0)**	**-**	**(1.0)**	(0.7)	-	(0.7)
Interest (expense)/income	**(19.0)**	**22.0**	**3.0**	(11.5)	14.0	2.5
	(20.0)	**22.0**	**2.0**	(12.2)	14.0	1.8
Remeasurements:						
Return on plan assets excluding amounts included in interest (income)/expense	**-**	**(17.0)**	**(17.0)**	-	(126.2)	(126.2)
Gain from change in demographic assumptions	**11.0**	**-**	**11.0**	4.7	-	4.7
Gain from change in financial assumptions	**4.0**	**-**	**4.0**	92.0	-	92.0
Experience gains/(losses)	**2.0**	**-**	**2.0**	(1.0)	-	(1.0)
	17.0	**(17.0)**	**-**	95.7	(126.2)	(30.5)
Contributions:						
Employers	**-**	**-**	**-**	-	-	-
	-	**-**	**-**	-	-	-
Payments from plan:						
Benefit payments	**27.0**	**(27.0)**	**-**	26.5	(26.5)	-
Administrative costs	**1.0**	**(1.0)**	**-**	0.7	(0.7)	-
	28.0	**(28.0)**	**-**	27.2	(27.2)	-
(Liability)/asset at 31 March	**(356.0)**	**434.5**	**78.5**	(381.0)	457.5	76.5

For the year ended 31 March 2024

23. Pension commitments (continued)

WPPS I92	Year ended 31 March 2024 Present value of obligation	Fair value of plan assets	Net	Year ended 31 March 2023 Present value of obligation	Fair value of plan assets	Net
	£m	£m	£m	£m	£m	£m
(Liability)/asset at 1 April	**(10.0)**	**13.8**	**3.8**	(12.8)	17.5	4.7
Interest (expense)/income	**-**	**1.0**	**1.0**	(0.3)	0.4	0.1
	-	**1.0**	**1.0**	(0.3)	0.4	0.1
Remeasurements:						
Return/(loss) on plan assets excluding amounts included in interest (income)/expense	**-**	**(1.0)**	**(1.0)**	-	(3.7)	(3.7)
Gain from change in demographic assumptions	**-**	**-**	**-**	0.1	-	0.1
Gain from change in financial assumptions	**-**	**-**	**-**	2.2	-	2.2
Experience gains	**-**	**-**	**-**	0.2	-	0.2
	-	**(1.0)**	**(1.0)**	2.5	(3.7)	(1.2)
Contributions:						
Employers	**-**	**-**	**-**	-	0.2	0.2
	-	**-**	**-**	-	0.2	0.2
Payments from plan:						
Benefit payments	**1.0**	**(1.0)**	**-**	0.6	(0.6)	-
	1.0	**(1.0)**	**-**	0.6	(0.6)	-
(Liability)/asset at 31 March	**(9.0)**	**12.8**	**3.8**	(10.0)	13.8	3.8

Sensitivities

2024		Impact on income statement			Impact on defined benefit obligation		
	Change in assumption	ESPS	WPUPS	Infralec 92	ESPS	WPUPS	Infralec 92
	%	£m	£m	£m	£m	£m	£m
Discount rate	-/+1%	**1.9**	**1.0**	**-**	**83.8**	**35.0**	**1.0**
RPI Inflation	+/-1%	**1.1**	**-**	**-**	**73.5**	**21.0**	**1.0**
Long-term rate of increase in salaries	+/-1%	**0.4**	**-**	**-**	**14.0**	**-**	**-**
Life expectancy	+ 1 year	**0.4**	**-**	**-**	**24.5**	**15.0**	**-**

23. Pension commitments (continued)

Sensitivities (continued)

2023	Change in assumption	Impact on income statement			Impact on defined benefit obligation		
		ESPS	WPUPS	Infralec 92	ESPS	WPUPS	Infralec 92
	%	£m	£m	£m	£m	£m	£m
Discount rate	-/+1%	1.5	1.0	-	90.2	38.0	1.0
RPI Inflation	+/-1%	0.8	-	-	71.3	34.0	1.0
Long-term rate of increase in salaries	+/-1%	0.4	-	-	4.2	-	-
Life expectancy	+ 1 year	0.4	-	-	24.3	19.0	-

A change in the discount rate is likely to occur as a result of changes in bond yields and as such would be expected to be offset to a significant degree by a change in the value of the bond assets held by the plans. Any such offset is not reflected in this table.

The projected impact resulting from a change in RPI reflects the underlying effect on pensions in payment, pensions in deferment and resultant increases in salary assumptions.

Sensitivities have been prepared to show how the defined benefit obligations and annual service costs could potentially be impacted by changes in the relevant actuarial assumption that were reasonably possible as at 31 March 2024. In preparing sensitivities the potential impact has been calculated by applying the change to each assumption in isolation and assuming all other assumptions remain unchanged. This is with the exception of RPI in the UK where the corresponding change to increases to pensions in payment, increases to pensions in deferment and increases in salary is recognised.

Asset allocations

The allocation of assets by asset class is set out below. Within these asset allocations there is significant diversification across regions, asset managers, currencies and bond categories.

ESPS WPD scheme assets are comprised as follows:

	31 March 2024			31 March 2023		
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
	£m	**£m**	**£m**	£m	£m	£m
Equities	**121.6**	**-**	**121.6**	99.0	(0.8)	98.2
Credit	**85.3**	**-**	**85.3**	77.0	-	77.0
Property	**-**	**53.1**	**53.1**	-	85.3	85.3
Diversified alternatives	**96.5**	**(0.4)**	**96.1**	93.7	-	93.7
LDI strategy	**-**	**328.4**	**328.4**	-	378.4	378.4
Other including cash and net current assets	**-**	**(0.7)**	**(0.7)**	1.0	(1.7)	(0.7)
Total	**303.4**	**380.4**	**683.8**	270.7	461.2	731.9

23. Pension commitments (continued)

Asset allocations (continued)

WPUPS scheme assets are comprised as follows:

	31 March 2024			31 March 2023		
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
	£m	**£m**	**£m**	£m	£m	£m
Corporate bonds	**243.0**	**-**	**243.0**	244.4	-	244.4
LDI strategy	**-**	**192.0**	**192.0**	6.9	204.9	211.8
Other	**-**	**(0.5)**	**(0.5)**	0.4	0.9	1.3
Total	**243.0**	**191.5**	**434.5**	251.7	205.8	457.5

WPPS I92 scheme assets are comprised as follows:

	31 March 2024			31 March 2023		
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
	£m	**£m**	**£m**	£m	£m	£m
Equities	**-**	**-**	**-**	7.7	-	7.7
Government bonds	**-**	**12.8**	**12.8**	3.2	-	3.2
Corporate bonds	**-**	**-**	**-**	2.6	-	2.6
Other	**-**	**-**	**-**	0.3	-	0.3
Total	**-**	**12.8**	**12.8**	13.8	-	13.8

Main defined benefit risks

The Company underwrites the financial and demographic risks associated with the plan. Although the Trustee has sole responsibility for setting investment strategies and managing risks, the Company closely works with and supports the Trustee, to assist in mitigating the risks associated with the plan and to ensure that the plan is funded to meet its obligations.

The most significant risks associated with the DB plan are:

- Investment risk – The plan invests in a variety of asset classes, with actual returns likely to differ from the underlying discount rate adopted, impacting on the funding position of the plan through the net balance sheet asset or liability. The plan seeks to balance the level of investment return required with the risk that it can afford to take, to design the most appropriate investment portfolio.
- Changes in bond yields – Liabilities will fluctuate as yields change. Volatility of the net balance sheet asset or liability is controlled through a liability-matching strategy. The investment strategy allows for the use of synthetic as well as physical assets to be used to hedge interest rate risk.
- Inflation risk – Changes in inflation will affect current and future pensions but are partially mitigated through investing in inflation matching assets and hedging instruments. The investment strategies allow for the use of synthetic as well as physical assets to be used to hedge inflation risk.
- Member longevity – Improvements in life expectancy will lead to pension payments being paid for longer than expected and benefits ultimately being more expensive;
- Liquidity risk - The pension plan holds sufficient cash to meet benefit requirements, with other investments being held in liquid or realisable assets to meet unexpected cash flow requirements. These could include collateral calls relating to the plan’s liability-matching assets which could result from extreme market movements. Should the plan not have sufficient liquidity to meet cash flow requirements, they could be forced to take sub-optimal investment decisions such as selling assets at a reduced price. The plan does not borrow money, or act as guarantor, to provide liquidity to other parties (unless it is temporary).

- Default risk - Debt investments are predominantly made in regulated markets in assets considered to be of investment grade. Where investments are made either in non-investment grade assets or outside of regulated markets, investment levels are kept to prudent levels and subject to agreed control ranges, to control the risk.

23. Pension commitments (continued)

Defined Benefit plan investment strategy

The Trustees, after taking advice from professional investment advisors and in consultation with the Company, set their key principles, including expected returns, risk and liquidity requirements. They formulate an investment strategy to manage risk through diversification, taking into account expected contributions, maturity of the pension liabilities, and the strength of the covenant. These strategies allocate investments between return-seeking assets such as equities and property, and liability-matching assets such as government securities and corporate bonds which are intended to protect the funding position.

The Trustees generally delegate responsibility for the selection of specific bonds, securities and other investments to appointed investment managers. Investment managers are selected based on the required skills, expertise in those markets, process and financial security to manage the investments. Their performance is regularly reviewed against measurable objectives, consistent with the pension plan's long-term objectives and accepted risk levels.

The extreme volatility of the UK gilt market during 2022 led to significant liquidity pressures on DB pension schemes, with large collateral calls from Liability-Driven Investment ("LDI") fund managers requiring some schemes to either sell illiquid assets at short notice or reduce their level of hedging. These collateral calls were met by the scheme and the Trustees continue to review its strategy for hedging interest rates and inflation to ensure it is not exposed to undue risk given further future market volatility.

In June 2023, the UK High Court issued a ruling in the case of Virgin Media Limited versus NTL Pension Trustees II Limited and others relating to the validity of certain historical pension changes. This case may have implications for other defined benefit schemes in the UK, although is subject to possible appeal in 2024. The Company has performed an initial review of past significant changes made to its pension arrangements. Based on this initial review, there is no financial impact from the ruling of the case, although the Company will monitor the impact of future developments.

24. Share capital

	2024	2023
	£m	£m
Allotted, called up and fully paid:		
583,442,224 (2023: 583,442,224) ordinary shares of 50p each	**291.7**	291.7

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

For the year ended 31 March 2024

25. Other equity reserves

	Non-Cash Capital Contribution	Hedging reserve	Capital redemption reserve	Total
	£m	£m	£m	£m
At 1 April 2022	0.1	(2.0)	5.1	3.2
Net movement on cash flow hedges (net of tax)	-	(0.1)	-	(0.1)
Share-based payment	0.4	-	-	0.4
At 31 March 2023	0.5	(2.1)	5.1	3.5
Net movement on cash flow hedges (net of tax)	-	(1.7)	-	(1.7)
Share-based payment (net of tax)	0.5	-	-	0.5
At 31 March 2024	**1.0**	**(3.8)**	**5.1**	**2.3**

The share premium account arose on the issue of shares under share option schemes prior to acquisition together with the issue of shares to the Company's parent for cash since acquisition.

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.

26. Net debt

(a) Composition of net debt

Net debt is comprised as follows:

	2024	2023
	£m	£m
Cash and cash equivalents (excluding restricted cash) (note 15)	**-**	(0.1)
Loan receivable from ultimate parent company	**152.4**	-
Borrowings (note 19)	**(1,090.0)**	(858.0)
Derivatives (note 20)	**(0.2)**	-
	(937.8)	(858.1)

The net debt for the year ended 31 March 2023 has been restated as follows:

- Interest payable of £5.2m has been included within net debt. For the year ended 31 March 2024, accrued interest payable was classified within 'accruals'. As a result of accounting policy changes during the current year, interest payable is classified within 'borrowings' and is included within net debt.
- Amounts owed to other NGED undertakings of £12.4m are not payables in the ordinary course of business and do not reflect borrowings of the Company. These have been excluded from net debt.

As a result of the net impact of the above restatements, the net debt for 31 March 2023 has reduced by £7.2m.

For the year ended 31 March 2024

26. Net debt (continued)

(b) Analysis of changes in net debt

	Cash and in hand and	Loan receivable	Borrowings	Derivative	Total
	£m	£m	£m	£m	£m
At 1 April 2022	13.8	-	(769.1)	-	(755.3)
Cash flow	(13.9)	-	(48.3)	-	(62.2)
Fair value gains and losses	-	-	(12.6)	-	(12.6)
Interest income/(charges)	-	-	(27.6)	-	(27.6)
Other non-cash movements	-	-	(0.4)	-	(0.4)
At 1 April 2023	(0.1)	-	(858.0)	-	(858.1)
Cash flow	0.1	150.4	(191.0)	2.0	(38.5)
Fair value movement	-	-	-	(2.2)	(2.2)
Interest income/(charges)	-	2.0	(40.4)	-	(38.4)
Other non-cash movements	-	-	(0.6)	-	(0.6)
At 31 March 2024	**-**	**152.4**	**(1,090.0)**	**(0.2)**	**(937.8)**
Balances at 31 March 2024 comprise:					
Non-current asset	-	-	-	-	-
Current assets	-	152.4	-	-	152.4
Current liabilities	-	-	(8.9)	-	(8.9)
Non-current liabilities	-	-	(1,081.1)	(0.2)	(1,081.3)
	-	**152.4**	**(1,090.0)**	**(0.2)**	**(937.8)**

(c) Reconciliation of changes in liabilities arising from financing activities

	2024		2023	
	Borrowing	**Derivatives**	Borrowings	Derivatives
	£m	**£m**	£m	£m
Cash flow per financing activity section of cash flow statement:				
Repayment of short term borrowing	**(79.1)**	**-**	-	-
Proceeds from long term borrowing	**298.5**	**-**	76.0	-
Payment of lease liabilities	**(0.1)**	**-**	(0.1)	-
Cash outflow on derivatives	**-**	**(2.0)**	-	-
Interest paid	**(28.3)**	**-**	(27.6)	-
Change in liabilities arising from financing activities	**191.0**	**(2.0)**	48.3	-
Adjustments				
Fair value movement in derivatives	**-**	**2.2**	-	-
Net increase in borrowings due to indexation	**-**	**-**	12.6	-
Interest expense	**40.4**	**-**	27.6	-
Other non-cash movements	**0.6**	**-**	0.4	-
Movement in the year the year	**232.0**	**0.2**	88.9	-
Balances at start of the year	858.0	**-**		
Balance at end of the year	**1,090.0**	**0.2**	858.0	**-**

For the year ended 31 March 2024

27. Capital and other commitments

	2024	2023
	£m	£m
Contracts for future capital expenditure not provided in the financial statements	**44.1**	23.1

The Company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2024	2023
	£m	£m
Less than 1 year	**0.1**	0.1
In 2 to 5 years	**0.4**	0.4
More than 5 years	**3.2**	3.3
	3.7	3.8

28. Contingent liabilities

Through the ordinary course of operations, the Company is party to various litigation, claims and investigations. The Directors do not expect the ultimate resolution of any of these proceedings to have a material adverse effect on the Company's results of operations, cash flows or financial position.

29. Events after reporting date

Subsequent to year end, on 24 July 2024, a dividend of £55.0m was approved by the directors.

30. Related party transactions

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

31. Ultimate parent undertaking

The immediate parent undertaking of the Company is National Grid Electricity Distribution Network Holdings 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 smallest group in which the results of the Company are consolidated is headed by National Grid Electricity Distribution plc. Copies of these financial statements may be obtained from the Company's registered office at Avonbank, Feeder Road, Bristol BS2 0TB.

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.