

4.

Additional Information

The business in detail	217
Key milestones	217
Where we operate	218
UK regulation	219
US regulation	221
Internal control and risk factors	227
Disclosure controls	227
Internal control over financial reporting	227
Risk factors	227
Shareholder information	231
Articles of Association	231
Depository payments to the Company	232
Description of securities other than equity securities: depository fees and charges	232
Documents on display	232
Events after the reporting period	233
Exchange controls	233
Material interests in shares	233
Share capital	233
Share information	234
Shareholder analysis	234
Taxation	234
Other disclosures	236
All-employee share plans	236
Change of control provisions	236
Code of Ethics	236
Conflicts of interest	236
Corporate governance practices: differences from New York Stock Exchange (NYSE) listing standards	236
Directors' indemnity	237
Employees	237
Human Rights	237
Listing Rule 9.8.4 R cross-reference table	237
Material contracts	237
Political donations and expenditure	237
Property, plant and equipment	237
Research, development and innovation activity	237
Unresolved SEC staff comments	239
Other unaudited financial information	240
Commentary on consolidated financial information	250
Definitions and glossary of terms	253
Want more information or help?	257
Cautionary statement	258



The business in detail

Key milestones

Some of the key dates and actions in the corporate history of National Grid are listed below. Our full history goes back much further.

1986

British Gas (BG) privatisation

1990

Electricity transmission network in England and Wales transfers to National Grid on electricity privatisation

1995

National Grid listed on the London Stock Exchange

1997

Centrica demerges from BG

Energis demerges from National Grid

2000

Lattice Group demerges from BG and is listed separately

New England Electric System and Eastern Utilities Associates acquired

2002

Niagara Mohawk Power Corporation merges with National Grid in US

National Grid and Lattice Group merge to form National Grid Transco

2004

UK wireless infrastructure network acquired from Crown Castle International Corp

2005

Four UK regional gas distribution networks sold and we adopt National Grid as our name

2006

Rhode Island gas distribution network acquired

2007

UK and US wireless infrastructure operations and the Basslink electricity interconnector in Australia sold

KeySpan Corporation acquired

2008

Ravenswood generation station sold

2010

Rights issue raises £3.2 billion

2012

New Hampshire electricity and gas distribution businesses sold

2016

National Grid separates the UK Gas Distribution business

2017

National Grid sells a 61% equity interest in the UK Gas Distribution business

2019

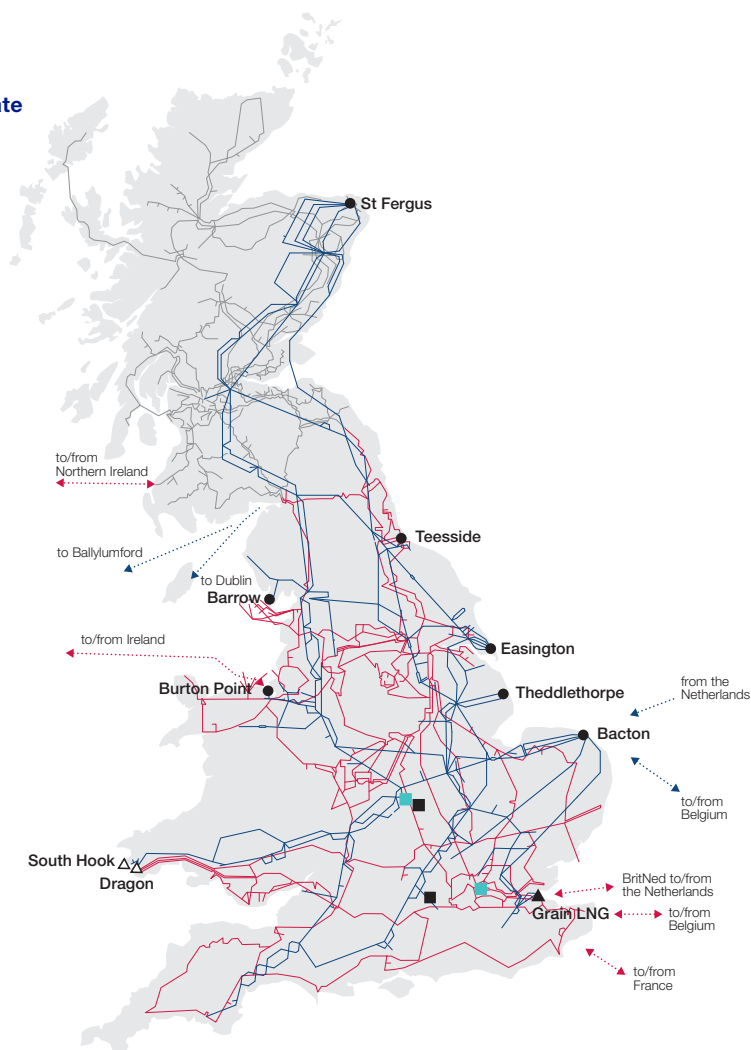
National Grid separates the UK Electricity System Operator business

National Grid sells its remaining 39% equity interest in UK Gas Distribution business

Acquisition of Geronimo

The business in detail continued

Where we operate Our UK network



UK Transmission¹

- Scottish electricity transmission system
- English and Welsh electricity transmission system

Approximately 4,481 miles (7,212 kilometres) of overhead line, 1,391 miles (2,239 kilometres) of the underground cable and 347 substations.

- Gas transmission system

Approximately 4,740 miles (7,630 kilometres) of high-pressure pipe and 24 compressor stations connecting to eight distribution networks and third-party independent systems.

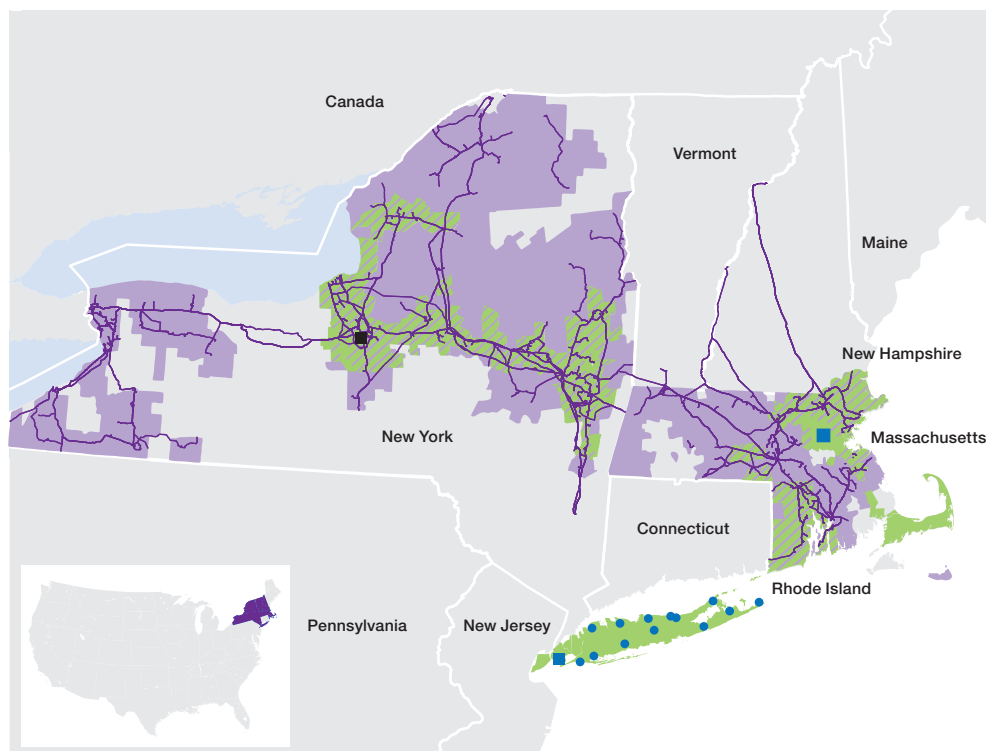
- Terminal
- ▲ LNG terminal owned by National Grid
- △ LNG terminal
- ↔ Electricity interconnector
- ↔ Gas interconnector

Principal offices

- Owned office space: Warwick and Wokingham
- Leased office space²: Solihull and London

Leased office space totalling 134,704 square feet (12,515 square metres) with remaining terms three to six years.

Our US network



US regulated¹

- Electricity transmission network
- Gas distribution operating area
- Electricity distribution area
- Gas and electricity distribution area overlap

An electricity transmission network of approximately 9,109 miles (14,659 kilometres) of overhead line, 105 miles (169 kilometres) of underground cable and 396 transmission substations.

An electricity distribution network of approximately 73,004 circuit miles (117,488 kilometres) and 730 distribution substations in New England and upstate New York.

A network of approximately 35,682 miles (57,425 kilometres) of gas pipeline. Our network also consists of approximately 498 miles (801 kilometres) of gas transmission pipe, as defined by the US Department of Transportation.

- Generation

Principal offices

- Owned office space: Syracuse, New York
- Leased office space: Brooklyn, New York and Waltham, Massachusetts

Leased office space totalling approximately 635,000 square feet (58,993 square metres) with remaining terms of five to nine years.

In January 2020, we announced we had executed a lease for 86,000 square feet (7,990 square metres) of office space at 2 Hanson Place, Downtown Brooklyn, New York. The lease is anticipated to commence in January 2021. We will begin to exit our current One MetroTech Brooklyn location in phases at the end of the calendar year 2020. Space anticipated to be vacated is being marketed for sub-lease. The MetroTech lease terminates in February 2025 and will not be renewed.

At present, environmental issues are not preventing our UK and US businesses from utilising any material operating assets in the course of their operations.

1. Access to electricity and gas transmission assets on property owned by others is controlled through various agreements.
2. The Warwick (Telent) building lease was terminated on a break clause and was vacated on 24 December 2019.

UK regulation

Our licences to participate in transmission and interconnection activities are established under the Gas Act 1986 and the Electricity Act 1989, as amended (the Acts). These require us to develop, maintain and operate economic and efficient networks and to facilitate competition in the supply of gas and electricity in Great Britain (GB). They also give us statutory powers, including the right to bury our pipes or cables under public highways and the ability to use compulsory powers to purchase land so we can conduct our business.

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

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

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

The main price controls for electricity and gas transmission networks came into effect on 1 April 2013 for the eight-year period until 31 March 2021. They follow the RII0 (revenue = incentives + innovation + outputs) framework established by Ofgem.

Following the sale of a majority interest in the National Grid UK Gas Distribution business (now known as Cadent) on 31 March 2017, Cadent now has responsibility for operating within the price controls relating to its four gas distribution networks. In November 2018, we announced our decision to exercise our Options for the sale of our remaining 39% share in Cadent and this completed in June 2019.

Our UK gas and electricity transmission and system operator businesses operate under four separate price controls. These comprise two for our electricity operations, one covering our role as Transmission Owner (TO) and the other for our role as System Operator (SO), and two for our gas operations, again one as TO and one as SO. In addition to the four regulated network price controls, there is also a tariff cap price control applied to certain elements of domestic sized metering activities carried out by National Grid Metering and also regulation of our electricity interconnector interests.

In 2017 Ofgem, the Department for Business, Energy and Industrial Strategy (BEIS) and National Grid plc agreed to create a legally separate business, the Electricity System Operator (ESO), within the National Grid Group. The ESO became a separate entity within the Group on 1 April 2019.

A primary goal of ESO legal separation in April 2019 was to increase transparency of our activities and help minimise any perceived conflicts of interest as we take on the challenge of driving forward the energy transformation. There are clear signals from Ofgem and the broader regulatory context that the ESO will play a crucial role in the changing energy environment. As an asset-light and service-based entity the ESO is also fundamentally different from other regulated network companies. The new price control arrangements for RII0-2 are therefore an opportunity to implement a new regulatory framework that enables us to meet our stakeholders' expectations.

In April 2018, Ofgem introduced a new regulatory and incentives framework for the ESO. This moved away from the use of targeted, mechanistic incentives towards a 'principles-based' evaluative incentives approach. The new approach includes a set of 'Roles and Principles' designed to set clear expectations about the baseline behaviours we expect from the ESO and a requirement for the ESO to produce a Forward Plan, following stakeholder engagement, demonstrating the activities it

will undertake over the year to add value for consumers. Ofgem's ESO Performance Panel will challenge the ESO on its plans, evaluate its performance and make recommendations to Ofgem. At the end of the year, Ofgem will decide whether to financially reward or penalise the ESO up to a maximum cap and floor (where sales revenues above the cap are returned to transmission system users, and revenues below the floor are topped up by transmission system users, thus reducing the overall project risk) of \pm £30 million, informed by the Performance Panel's recommendations, as well as other evidence collected throughout the year.

In 2019, the ESO published a mission and set of ambitious goals accompanied by its Forward Plan and its RII0-2 business plan to set out what, when and how it delivers. This RII0-2 business plan reflects the ambition shared by us and Ofgem for the ESO to be innovative, ambitious and agile, responding to stakeholder needs and the changing energy landscape.

Ofgem published terms of reference for a review of system operators on 13 February 2020. The aim of the review is to consider the current and future challenges facing GB System Operation and assess whether the right governance framework is in place to deliver the UK's net zero emissions target at lowest cost to consumers. A report on the outcome of the review will be produced which is expected to be received in June 2020 or later.

Interconnectors derive their revenues from sales of capacity to users who wish to move power between market areas with different prices. Under European legislation, these capacity sales are classified as 'congestion revenues'. This is because the market price differences result from congestion on the established interconnector capacity which limits full price convergence. European legislation governs how congestion revenues may be used and how interconnection capacity is allocated. It requires all interconnection capacity to be allocated to the market through auctions. Under UK legislation, interconnection businesses must be separate from transmission businesses.

There is a range of different regulatory models available for interconnector projects. These involve various levels of regulatory intervention, ranging from fully merchant (where the project is fully reliant on sales of interconnector capacity) to cap and floor.

The cap and floor regime is now the regulated route for interconnector investment in GB and may be sought by project developers who do not qualify for, or do not wish to apply for, exemptions from European legislation which would facilitate a merchant development.

RII0 price controls

The building blocks of the RII0 price control are broadly similar to the price controls historically used in the UK. There are, however, some significant differences in the mechanics of the calculations.

How is revenue calculated?

Under RII0, the outputs we deliver are explicitly articulated and our allowed revenues are linked to their delivery. These outputs were determined through an extensive consultation process, which gave stakeholders a greater opportunity to influence the decisions.

There are five output categories for transmission under the current RII0 price controls:

Safety: ensuring the provision of a safe energy network.

Reliability (and availability): promoting networks capable of delivering long-term reliability, minimising the number and duration of interruptions experienced during the price control period and ensuring adaptation to climate change.

Environmental impact: encouraging companies to play their role in achieving broader environmental objectives, specifically, facilitating the reduction of carbon emissions, as well as minimising their own carbon footprint.

Customer and stakeholder satisfaction: maintaining high levels of customer satisfaction and stakeholder engagement, and improving service levels.

Customer connections: encouraging networks to connect customers quickly and efficiently.

The business in detail continued

Within each of these output categories are a number of primary and secondary deliverables that reflect what our stakeholders want us to deliver over the remaining price control period and in preparation for future periods. The nature and number of these deliverables vary according to the output category. Some are linked directly to our allowed revenue and some to legislation, while others have only a reputational impact.

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

A number of assumptions are necessary in setting allowances for these outputs, including the volumes of work that will be needed and the price of the various external inputs required to achieve them. Consequently, there are a number of uncertainty mechanisms within the RIIO framework that can result in adjustments to totex allowances if actual input prices or work volumes differ from the assumptions.

Where we under- or over-spend the allowed totex for reasons that are not covered by uncertainty mechanisms, there is a 'sharing' factor. This means we share the under- or over-spend with 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.

The extended eight-year length of the first round of RIIO price controls is one of the ways that RIIO has given innovation more prominence. Innovation refers to all the new ways of working that deliver outputs more efficiently. This broad challenge has an impact on everyone in our business.

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

In addition to fast money, each year we are allowed to recover regulatory depreciation, i.e. a portion of the RAV and a return on the outstanding RAV balance. Regulatory depreciation in electricity and gas transmission permits recovery of RAV consistent with each addition bringing benefit to consumers for a period of up to 45 years. We are also allowed to collect additional revenues related to non-controllable costs and incentives. In addition to totex sharing, RIIO incentive mechanisms can increase or decrease our allowed revenue to reflect our performance against various other measures related to our outputs. For example, performance against our customer and stakeholder satisfaction targets can have a positive or negative effect of up to 1% of allowed annual revenues. Many of our incentives affect our revenues two years after the year of performance.

During the eight-year period of the RIIO-T1 price control, our regulator included a provision for a mid-period review, which was completed during 2017 and led to some changes in allowances relating to certain specific costs. Further to the mid-period review, National Grid volunteered that £480 million (in 2009/10 prices) of allowances for electricity transmission investments should be deferred. In August 2017, Ofgem determined how the RIIO allowances would be correspondingly adjusted.

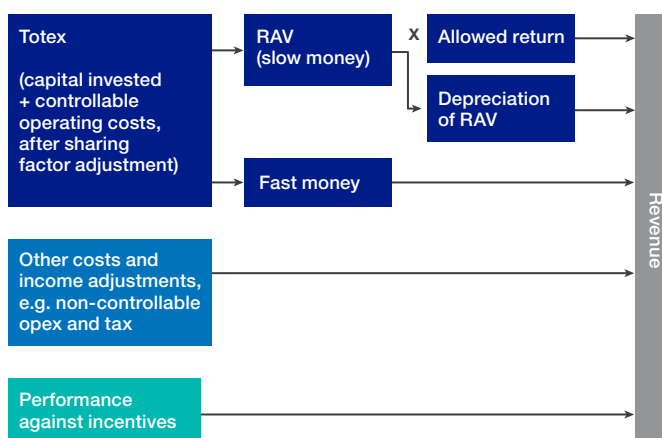
In addition, the RIIO-T1 price controls for transmission included a 're-opener mechanism', in relation to certain specific cost categories where there was uncertainty about expenditure requirements at the time of setting allowances. Both our gas and electricity transmission businesses requested additional funding under this mechanism in May 2018, leading to some changes to the allowed revenues.

Competition in onshore transmission

Ofgem stated in its final decision on the RIIO-T1 price control for electricity transmission that it would consider holding a competition to appoint the constructor and owner of suitably large new transmission projects, rather than including these new outputs and allowances in existing transmission licensee price controls. In the absence of the legislation needed to support a competition, at the end of July 2018, and after consultation, Ofgem decided to fund the delivery of the Hinkley-Seabank (HSB) electricity transmission project by National Grid through a regulatory model called the 'Competition Proxy Model' (CPM). This regulatory model seeks to replicate the outcome of an efficient competitive process for the financing, construction and operation of the project and to provide National Grid Electricity Transmission with a project-specific revenue allowance over the period of its construction and 25 years of operation, but with reduced allowances reflecting prices that Ofgem has observed in other competitions. Ofgem subsequently updated the analysis which supported this decision, and in October 2019 consulted on a new minded-to position to fund delivery of the HSB project through the Strategic Wider Works (SWW) mechanism under the RIIO price control framework, rather than through the CPM as previously intended. The CPM is intended to be a 'late competition' model.

The ESO, at Ofgem's request, is developing an Early Competition Plan. This plan will set out how a model for Early Competition could be implemented, identifying the process, roles and responsibilities, code and licence changes required along with cost and timescales to implement. Plans are being co-created with stakeholders to ensure developed model(s) are attractive to potential bidders in addition to being achievable and aligned with network planning processes. As part of this work, the ESO is also considering what, if any, role the ESO could have in distribution level competition. The Early Competition Plan is due to be completed by the end of February 2021.

Simplified illustration of RIIO regulatory building blocks



Allowed returns

The cost of capital allowed under our current RIIO price controls is as follows:

	Transmission	
	Gas	Electricity
Cost of equity (post-tax real)	6.8%	7.0%
Cost of debt (pre-tax real)	iBoxx 10-year simple trailing average index (1.58% for 2019/20)	
Notional gearing	62.5%	60.0%
Vanilla WACC ¹	3.54%	3.75%

1. Vanilla WACC = cost of debt × gearing + cost of equity × (1-gearing).

Sharing factors are used to share over- and under-spends of allowed totex between the businesses and customers. The sharing figures displayed in the table below are the sharing factors that apply to our electricity and gas transmission businesses, for both TO and SO.

Sharing factors and fast/slow money ratios under our current RIIO price controls are as follows:

	Gas Transmission		Electricity Transmission	
	Transmission owner	System operator	Transmission owner	System operator
Fast ¹	Baseline ³ 35.6% Uncertainty 10%	62.60%	15.00%	72.10%
Slow ²	Baseline ³ 64.4% Uncertainty 90%	37.40%	85.00%	27.90%
Sharing	44.36%		46.89%	

1. Fast money allows network companies to recover a percentage of totex within a one-year period.
2. Slow money is where costs are added to RAV and, therefore, revenues are recovered slowly (e.g. over 45 years) from both current and future customers.
3. The baseline is the expenditure that is funded through ex-ante allowances, whereas the uncertainty adjusts the allowed expenditure where the level of outputs delivered differ from the baseline level, or if triggered by an event.

RIIO-2

Ofgem has started work on the next round of RIIO price controls (RIIO-2) for the energy network sectors it regulates, including both gas and electricity transmission. It has consulted on a wide range of topics, including incentives, outputs, the cost of capital and other financial parameters. Decisions that have already been taken include reducing the default price control duration back to five years from eight years, extending the role of competition where appropriate from electricity transmission to other sectors and moving away from RPI to CPIH for inflation measurement when calculating RAV and allowed returns. In addition, Ofgem has proposed a methodology for the baseline-allowed cost of equity which, based on the evidence available, it used in May 2019 to calculate its working assumption for RIIO-2 that is lower than the value under the current RIIO price controls. The RIIO-2 proposals will also apply, in part, to the ESO, but due to the nature of its activities some elements are less applicable to the ESO, and Ofgem has proposed that the duration will remain as a five-year price control, but with business plans (and totex allowances) it will be on a two-year cycle and overall the financial framework for the ESO is likely to be very different.

We and other stakeholders will continue to work with Ofgem to develop the framework and parameters for RIIO-2. We submitted business plans in December 2019 and Ofgem is expected to publish and consult on its draft determination in summer 2020, followed by the final price control determination for transmission companies before the end of 2020.

US regulation

Regulators

In the US, public utilities' retail transactions are regulated by state utility commissions. The commissions serve as economic regulators, approving cost recovery and authorised rates of return. The state commissions establish the retail rates to recover the cost of transmission and distribution services, and focus on services and costs within their jurisdictions. They also serve the public interest by making sure utilities provide safe and reliable services at just and reasonable prices. The commissions establish service standards and approve public utility mergers and acquisitions.

The Federal Energy Regulatory Commission (FERC) regulates wholesale transactions for utilities, such as interstate transmission and wholesale electricity sales, including rates for these services, at the federal level. FERC also regulates public utility holding companies and centralised service companies, including those of our US businesses.

Regulatory process

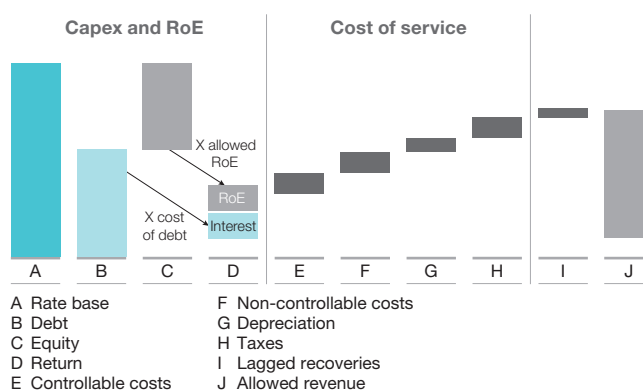
The US regulatory regime is premised on allowing the utility the opportunity to recover its cost of service and earn a reasonable return on its investments as determined by the commission. Utilities submit formal rate filings (rate cases) to the relevant state regulator when additional revenues are necessary to provide safe, reliable service to customers. Utilities can be compelled to file a rate case, either due to complaints filed with the commission or at the commission's own discretion.

The rate case is typically litigated with parties representing customers and other interests. In the states where we operate, it can take 9 to 13 months for the commission to render a final decision. The utility is required to prove that the requested rate change is prudent and reasonable, and the requested rate plan can span multiple years. Unlike the state processes, the federal regulator has no specified timeline for adjudicating a rate case; typically it makes a final decision retroactive when the case is completed.

Gas and electricity rates are established from a revenue requirement, or cost of service, equal to the utility's total cost of providing distribution or delivery service to its customers, as approved by the commission in the rate case. This revenue requirement includes operating expenses, depreciation, taxes and a fair and reasonable return on shareholder capital invested in certain components of the utility's regulated asset base. This is typically referred to as its rate base.

The final revenue requirement and rates for service are approved in the rate case decision. The revenue requirement is derived from a comprehensive study of the utility's total costs during a recent 12-month period of operations, referred to as a test year. Each commission has its own rules and standards for adjustments to the test year. These may include forecast capital investments and operating costs.

US regulatory revenue requirement



Our rate plans

Each operating company has a set of rates for service. We have three electric distribution operations (upstate New York, Massachusetts and Rhode Island) and six gas distribution networks (upstate New York, New York City, Long Island, Massachusetts (two) and Rhode Island).

Our distribution operating companies have revenue decoupling mechanisms that delink their revenues from the quantity of energy delivered and billed to customers. These mechanisms remove the natural disincentive utility companies have for promoting and encouraging customer participation in energy-efficiency programmes that lower energy end use and distribution volumes.

The business in detail continued

We bill our customers for their use of electricity and gas services. Customer bills typically cover the cost of electricity or gas delivered, and charges covering our delivery service. With the exception of residential gas customers in Rhode Island, our customers are allowed to select an unregulated competitive supplier for the commodity component of electricity and gas utility services.

A substantial proportion of our costs, in particular electricity and gas commodity purchases, are 'pass-through' costs. This means they are fully recoverable from our customers. We recover 'pass-through' costs through making separate charges to customers, designed to recover those costs with no profit. We adjust rates from time to time to make sure that any over- or under-recovery of these costs is returned to, or recovered from, our customers.

Our rate plans are designed to a specific allowed Return on Equity (RoE), by reference to an allowed operating expense level and rate base. Some rate plans include earnings-sharing mechanisms that allow us to retain a proportion of the earnings above our allowed RoE, achieved through improving efficiency, with the balance benefiting customers.

In addition, our performance under certain plans is subject to service performance targets. We may be subject to monetary penalties in cases where we do not meet those targets.

Our FERC-regulated transmission companies use formula rates (instead of periodic stated rate cases) to set rates annually that recover their cost of service. Through the use of annual true-ups, formula rates recover our actual costs incurred and the allowed RoE based on the actual transmission rate base each year. We must make annual formula rate filings documenting the revenue requirement that customers can review and challenge.

Revenue for our wholesale transmission businesses in New England and New York is collected from wholesale transmission customers. These are typically other utilities and include our own New England electricity distribution businesses. With the exception of upstate New York, which continues to combine retail transmission and distribution rates to end-use customers, these wholesale transmission costs are incurred by distribution utilities on behalf of their customers. They are fully recovered as a pass-through from end-use customers, as approved by each state commission.

Our Long Island generation plants sell capacity to the Long Island Power Authority (LIPA) under 15-year and 25-year power supply agreements and within wholesale tariffs approved by FERC. Through the use of cost-based formula rates, these long-term contracts provide a similar economic effect to cost-of-service rate regulation.

One measure used to monitor the performance of our regulated businesses is a comparison of achieved RoE to allowed RoE. However, this measure cannot be used in isolation, as several factors may prevent us from achieving the allowed RoE. These include financial market conditions, regulatory lag and decisions by the regulator preventing cost recovery in rates from customers.

We work to increase achieved RoE through:

- productivity improvements;
- positive performance against incentives or earned savings mechanisms, such as available energy-efficiency programmes; and
- filing a new rate case when achieved returns are lower than those the Company could reasonably expect to attain through a new rate case.

US regulatory filings

The objectives of our rate case filings are to make sure we have the right cost of service and are able to earn a fair and reasonable rate of return, while providing safe, reliable and economical service. To achieve these objectives and reduce regulatory lag, we have been requesting structural changes, such as:

- revenue decoupling mechanisms;
- capital trackers;
- commodity-related bad debt true-ups;
- pension and other post-employment benefit true-ups, separately from base rates; and
- performance-based frameworks such as incentives and multi-year plans.

We explain these terms below in the table on page 226.

Below, we summarise significant, recent developments in rate filings and the regulatory environment. In 2017/18, we made full rate case filings with Niagara Mohawk (electric and gas), in April 2017; Boston Gas and Colonial Gas, in November 2017; and the Narragansett Electric Company, also in November 2017. A joint proposal, setting forth a three-year rate plan for Niagara Mohawk, was approved by the New York State Public Service Commission (NYPSC) in March 2018. An amended settlement agreement setting forth a three-year rate plan for the Narragansett Electric Company was approved by the Rhode Island Public Utilities Commission (RIPUC) in August 2018. An order, establishing new base rates for Boston Gas and Colonial Gas, was approved by the Massachusetts Department of Public Utilities (MADPU) in September 2018. In 2018/19, we made a full rate case filing for Massachusetts Electric in November 2018. In 2019/20, we made a full rate case filing for KEDNY and KEDLI in April 2019. More recently, an order, setting forth a five-year performance-based ratemaking plan, was approved by MADPU in September 2019. These filings are expected to capture the benefit of recent increased investments in asset replacement and network reliability, and reflect long-term growth in costs, including property tax and healthcare costs.

Massachusetts

Massachusetts Electric and Nantucket Electric rate cases

We filed a rate case for Massachusetts Electric and Nantucket Electric with MADPU on 15 November 2018 with new rates effective on 1 October 2019. The Massachusetts Electric rate case is the first for Massachusetts Electric and Nantucket Electric since the case filed in 2015. It updates the electric companies' rates to more closely align revenues with the cost of service and bring their earned RoEs closer to the allowed RoE. New rates were approved with an allowed RoE of 9.6% on an equity ratio of 53.5%. MADPU approved a five-year performance-based ratemaking plan, which adjusts distribution rates annually based on a predetermined formula. As part of its decision, MADPU is requiring a management audit addressing the Company's strategic planning processes, staffing decisions and its relationship to National Grid USA Service Company. The audit will take place in two phases beginning in mid-2020 and ending with a final report in 2021. The Company cannot predict the outcome of this proceeding.

Merger of Boston Gas Company and Colonial Gas Company

On 16 December 2019, MADPU approved the Company's proposal to legally merge Colonial Gas Company into Boston Gas Company. The two companies had already effectively consolidated their operations, but the legal merger of these two entities allows for certain small efficiencies and cost savings. The legal merger was effective as of 15 March 2020. However, for ratemaking purposes, the Company must still maintain separate rates for customers of legacy Boston Gas Company and legacy Colonial Gas Company, until otherwise approved by MADPU.

Statewide assessment of gas pipeline safety

In November 2018, MADPU initiated an independent statewide pipeline safety audit of the natural gas distribution systems in Massachusetts and hired an independent auditor. The auditor assessed the safety of the gas systems in the entire state and made recommendations for improvements that may impact operations of Boston and Colonial Gas and pipeline safety compliance requirements in the future. The auditor's final report was issued 29 January 2020, and included 37 recommendations for all the gas companies in Massachusetts as well as state agencies and other stakeholders. The final report also included a number of opportunities specific to Boston Gas and Colonial Gas. MADPU directed the gas companies to file plans in response to the final report. Boston Gas and Colonial Gas filed their plan on 28 February 2020, in which they accepted the final report's recommendations and opportunities, and detailed their actions to assess and address the recommendations and observations. MADPU may take further action on the auditor's final report, but the Company cannot predict what that action may be.

Gas System Enhancement Plan (GSEP)

On 30 April 2019, MADPU approved our recovery of approximately \$49.5 million in revenue requirements, related to \$269.2 million of anticipated investments in 2019 under an accelerated pipe replacement programme, through rates effective from May 2019 to April 2020. MADPU also raised the cap on GSEP recoveries from 1.5% of revenue to 3% of revenue.

Grid modernisation

In response to a 2014 regulatory requirement, we filed a Massachusetts electricity grid modernisation plan on 19 August 2015 that proposed multiple investment options. An order from MADPU approving some of the proposed investment was received on 10 May 2018. In its order, MADPU refined their objectives for grid modernisation to be: optimise system performance; optimise system demand and interconnect; and integrate distributed energy resources. We continue to implement our grid modernisation plan, and will be making annual cost recovery and annual update filings in conjunction with the plan in March and April of each year, respectively. We will also file our next proposed three-year grid modernisation plan (for 2021–23) on 1 July 2020.

Massachusetts large-scale renewable contracts/clean energy contracts

During 2018, pursuant to state legislation enacted in 2016, our Massachusetts electric distribution companies, Massachusetts Electric Company and Nantucket Electric Company, filed with MADPU requests for approval of long-term contracts for their pro rata share of output and associated transmission from hydroelectric generation from Canada (approximately 1,200 MW), and from an offshore wind energy generation project (approximately 800 MW) to be located on the outer continental shelf.

Between April and June 2019, MADPU approved all of these contracts, along with the companies' request to recover the costs and remuneration equal to 2.75% of the annual payments under the contracts. The MADPU approval of the contracts for hydroelectric generation from Canada was appealed to the Massachusetts Supreme Judicial Court in July 2019. Despite COVID-19, the parties have been heard, but the court has no specific deadline to issue a decision, and the contracts will not become effective without a decision from the court affirming final regulatory approval.

Also, the 2016 legislation requires the companies to solicit a total of 1,600 MW of offshore wind energy generation, and a second competitive solicitation was issued in March 2019. In February 2020, Massachusetts Electric Company and Nantucket Electric Company submitted long-term contracts for their pro rata share of offshore wind energy generation (approximately 804 MW) to MADPU, seeking regulatory approval of the contracts, along with a request to recover the costs and remuneration equal to 2.75% of the annual payments under the contracts. While MADPU has no specific deadline to approve the contracts, despite COVID-19, hearings have been scheduled for July 2020.

The contracts will not become effective without regulatory approval.

Electric vehicle programmes

In September 2018, MADPU approved with modifications a petition filed by Massachusetts Electric Company and Nantucket Electric Company for approval of a three-year pilot Electric Vehicle Market Development Programme (EV Programme). The total allowed cost, including a performance incentive, is approximately \$20 million. The companies submitted their first cost recovery filing in May 2020 with effect from 1 July 2020.

In September 2019 MADPU issued its final order in the Petition of Massachusetts Electric Company and Nantucket Electric Company for Approval of General Increases in Base Distribution Rates for Electric Service, which included approval of limited components of the companies' proposed five-year Phase II Electric Vehicle Programme (Phase II). The total allowed cost for Phase II is approximately \$9 million.

MADPU allowed the companies to file future EV proposals under the umbrella of the grid modification proceedings, which the companies plan to do. Cost recovery for both the EV Programme and Phase II is governed by the Electric Vehicle Programme Provision.

Solar Massachusetts Renewable Target Program

In September 2018, MADPU approved a petition jointly filed by the Massachusetts electric distribution companies, including Massachusetts Electric Company and Nantucket Electric Company, to offer their customers a new solar programme. Following state legislation enacted in 2016, the Solar Massachusetts Renewable Target (SMART) Programme is required by state regulations issued by the Department of Energy Resources (DOER). The programme's objective is to develop a further 1,600 MW of customer-based solar power, at a lower cost than the prior two solar programmes. It aims to do this by providing on-bill credits and incentive payments, directly from the Company to the customer, at a lower cost than previous programmes. Massachusetts Electric Company's SMART allocation for large solar projects was filled up shortly after SMART opened. In November 2019, the Company has completed its first full year of enrolling projects in SMART and has submitted its proposed 2020 SMART Factor to recover its costs, which MADPU has approved subject to further review and investigation. In April 2020, DOER issued emergency regulations for additional SMART capacity, for review and comment. The SMART regulations require an additional 1,600 MW of customer-based solar power, and DOER has proposed certain changes to the programme incentive structure. About half of the total capacity will be located within the service territories of Massachusetts Electric Company and Nantucket Electric Company, as with the initial SMART programme. The regulations are effective immediately. In May 2020, DOER conducted a virtual public hearing and accepted written comments. Once DOER adopts final regulations, the electric distribution companies must file amended tariffs to allow for the expansion of SMART in summer/autumn 2020.

The business in detail continued

New York

Downstate New York 2019 rate cases

KEDNY and KEDLI filed a rate case with the NYPSC on 30 April 2019 seeking to increase delivery revenues by \$195 million and \$61 million, respectively, for the year ending 31 March 2021. The filings propose more than \$1.5 billion in capital investments to modernise KEDNY and KEDLI's gas infrastructure by replacing ageing pipelines, implementing safety improvements, enhancing storm hardening and resiliency, and reducing methane emissions. The filings also include proposals to enhance gas safety and promote a sustainable and affordable path towards a low-carbon energy future. We are resuming settlement negotiations in the interest of agreeing on a multi-year rate plan that mitigates bill impacts for our customers while allowing us to maintain safe and reliable service, advance our clean energy goals, and earn a reasonable return. If we are unable to reach a negotiated settlement, the rate cases will continue to a litigated outcome at which time we would then plan to file a new multi-year rate case proposal.

In light of the financial hardships our customers have experienced from COVID-19, we delayed implementation of certain previously approved rate increases. We also delayed filing a rate case this Spring and are exploring options including an extension of the current rate plan or a rate case filing later this Summer.

New York regulatory audits

Under the New York Public Service Law, the NYPSC is required to conduct periodic audits of various aspects of public utility activities. In 2018 the NYPSC initiated a comprehensive management and operations audit of our three New York regulated businesses. New York law requires periodic management audits of all utilities at least once every five years.

National Grid's New York regulated business last underwent a New York management audit in 2014, when the NYPSC audited our New York gas business.

In September 2018, the NYPSC selected Saleeby Consulting Group as the independent auditor to perform the audit. The Company was fully committed to the audit with the goal of demonstrating its full capabilities and receiving meaningful feedback that would drive useful recommendations to improve the Company's electric and gas operations for the benefit of its customers. The audit began in November 2018 and ran until August 2019, with a final report due in September 2019. Unexpectedly, in October 2019, the NYPSC employees advised us that they were terminating the contract with the auditors, effective immediately, because of the poor quality of the draft audit report by the auditor, with no fault whatsoever on the part of the Company. NYPSC employees advised their intention to complete the management audit themselves. The audit is expected to be completed sometime in the second half of 2020.

Downstate New York settlement

In May 2019, KEDNY and KEDLI stopped fulfilling applications for new and expanded firm service in most of their downstate New York service territories because the available firm gas supplies were insufficient to keep pace with demand. On 11 October 2019, the NYPSC issued an 'Order Instituting Proceeding and to Show Cause' that directed the Companies to provide gas service to a subset of previously denied applicants and show cause why the Companies should not be subject to financial penalties. On 24 November 2019, the Companies reached a settlement that was approved on 26 November 2019 by the NYPSC. The agreement resolves the proceeding opened by the NYPSC relating to the moratorium and provides the necessary framework for resolving the longer-term energy supply issues. Specifically, the settlement provides that KEDNY and KEDLI will lift the moratorium for approximately two years. National Grid will offer \$7 million in customer assistance to address hardships resulting from the moratorium. National Grid also agreed to fund \$8 million for new energy-efficiency and gas-conservation measures designed to relieve stress on the system and reduce peak-day gas usage, as well as \$20 million of clean technology investments and programmes in New York. The settlement provides for the appointment of a monitor to oversee our downstate New York gas supply operations and compliance with the settlement.

We also agreed to develop a range of options to address the natural gas constraints facing the region, which were initially presented in a report on 24 February 2020 outlining the gas capacity constraints affecting the downstate New York service territory and the reasonably available options for meeting long-term customer demand. These options were further presented at a series of six public meetings during March 2020 in the downstate New York service territory. These meetings were designed to facilitate a dialogue with customers, residents, advocates, business leaders and local elected officials on potential solutions. On 8 May 2020, we published a supplemental report with refined forecasts and additional analyses to evaluate the options for addressing the downstate New York supply constraints, including a preliminary assessment of the impacts of COVID-19 on customer demand, as well as a summary of the public's comments and feedback on the potential solutions. In mid-May certain permits were denied in New York and New Jersey for a pipeline solution and therefore we are advancing a portfolio of solutions that were identified in the supplementary report.

Advanced Metering Infrastructure

On 15 November 2018, Niagara Mohawk Power Corporation (NMPC) filed a report with the NYPSC detailing the initial outcome of NMPC's Advanced Metering Infrastructure (AMI) research and collaborative sessions. The report, which included an AMI Business Plan, a detailed benefit-cost analysis, and a Customer Engagement Plan, proposed a six-year deployment of electric AMI meters and AMI-compatible gas modules in NMPC's service territory beginning in 2019/20. This investment would modernise both customer and grid-facing components of the Company's distribution system and is considered a key enabler of NMPC's strategy to address the comprehensive state energy goals expressed in New York's Reforming the Energy Vision proceedings. The near-term benefits include greater customer choice and control over energy use; improved system modelling, load forecasting, and capital investment planning; increased system efficiency; and operational efficiencies for outage response. On 4 September 2019, we filed a supplemental report detailing the AMI collaborative's continued work. The filing provided an updated benefit-cost analysis and proposed a six-year, \$640 million (20-year NPV) deployment of electric AMI meters and AMI-compatible gas modules in NMPC's service territory beginning in 2019/20. Our proposal to deploy AMI is currently pending before the NYPSC. If approved by the NYPSC, the Company would replace approximately 1.7 million electric and 640,000 gas metering points.

Rhode Island

Rhode Island combined gas and electric rate case

On 24 August 2018, the Rhode Island Public Utilities Commission (RIPUC) approved the terms of an Amended Settlement Agreement (ASA). We are currently in year two of the Company's multi-year rate plan. The rate plan includes a 9.275% RoE on an equity ratio of 51%. The ASA also requires the Company to file the next rate case so that new rates take effect no later than 1 September 2022, unless the RIPUC consents to an extension of the term and specifies another date upon which rates are to take effect. The Company will file its Rate Year 3 compliance filing on 1 June 2020 for distribution rates for year three of the multi-year rate plan, effective 1 September 2020.

Rhode Island Aquidneck Island gas service interruption

On 21 January 2019, we suffered a significant loss of gas supply to the distribution system that serves our customers on Aquidneck Island in Rhode Island. As a result, we made the decision to interrupt the gas service to the Aquidneck Island system to protect the safety of our customers and the public. Overall, approximately 7,500 customers lost their gas service. On 30 October 2019, RIPUC issued an Investigation Report regarding the gas service interruption which identified the causes of the outages, which included multiple factors, some of which were outside the control of the Narragansett Electric Company. RIPUC's Report also recommended several gas system improvements, many of which we have addressed already. On 13 December 2019, we filed our response to the RIPUC's Report and continue to meet with RIPUC on a quarterly basis regarding winter reliability issues for Aquidneck Island and Rhode Island.

Power Sector Transformation/Advanced Metering Functionality

On 27 November 2017, we filed a Power Sector Transformation (PST) Vision and Implementation Plan in conjunction with our combined gas and electric rate case (the PST Plan). The PST Plan proposed a suite of investments, including the full deployment of Advanced Metering Functionality (AMF), which were designed to modernise the state's energy infrastructure. We intend to file our Updated AMF Business Case and Grid Modernisation Plan (GMP) with the RIPUC in the second half of 2020/21. The Updated AMF Business Case will present a detailed plan for full-scale AMF deployment in Rhode Island, using a Rhode Island-only scenario and a combination Rhode Island and New York deployment scenario to demonstrate the cost synergies that can be achieved through a multi-jurisdictional deployment. The estimated cost of the Rhode Island programme is approximately \$414 million over 20 years in nominal terms (assuming a Rhode Island-only deployment), which reflects the estimated useful life of the meters. The GMP will present a ten-year road map to guide the future development of projects and programmes to enhance distribution system planning and operations, which will be separately recovered as part of the Infrastructure, Safety and Reliability Plan or a future rate case.

Heating Sector Transformation

On 8 July 2019, the Governor signed Executive Order 19-06 launching the Heating Sector Transformation (HST) Initiative to advance the state's development of clean, affordable, and reliable heating technologies. Two state agencies, the Office of Energy Resources (OER) and the Division of Public Utilities and Carriers (Division), were tasked to lead the initiative and instructed to work with government and non-government partners in the development of a report. We engaged with OER, the Division, and external stakeholders through a series of facilitated workshops. On 22 April 2020, the recommendations were provided to the Governor concluding that no one solution was more economically attractive than any other, and the state's decarbonisation solutions should include increased energy efficiency, decarbonised electrification through air and ground source heat pumps, and fuel decarbonisation through renewable natural gas and renewable oil. The document presented guiding principles, rather than technology mandates, for additional policy development proffering that the heating sector policy should remain technology-agnostic while promoting early demonstration and development of promising, carbon-reducing technologies. The report does not specify next steps; however, OER acknowledged it will be conducting an energy and economic analysis to inform actional pathways to meet the Governor's January 2020 Executive Order goal of meeting the state's electricity demand with 100% renewable resources by 2030, which will be linked to decarbonising the heating sector.

Infrastructure, Safety and Reliability Plans

We filed our 2021 Gas and Electric Infrastructure, Safety and Reliability (ISR) Plans on 20 December 2019 for effect 1 April 2020. The Electric ISR Plan proposes capital spending of \$103.8 million, plus \$10.4 million for vegetation management and total operation and maintenance expense of \$1.8 million. The Gas ISR Plan proposes total capital spending of \$198.6 million. On 17 March 2020, RIPUC approved the Company's Gas and Electric ISR Plans, which include \$200 million and \$104 million of investments, respectively, for 2020/21. The Electric ISR Plan investment also includes \$3.7 million to readily respond to distributed energy resource (DER) interconnections and \$12 million of operation and maintenance expense for vegetation management and inspection and maintenance programmes. RIPUC slightly modified the Electric ISR Plan to move \$2 million for certain strategic DER investments such as advance capacitors and feeder monitor systems from the discretionary category (system capacity and performance) to the non-discretionary category. This means that the Company is allowed to invest in those assets if required by the system needs or customer connections, but we may defer the proactive investment in those technologies until after the Grid Modernisation plan is approved. The RIPUC approved both plans with only a \$1 million reduction to the gas capital spending proposal.

Rhode Island large-scale renewable contracts

In February 2019, the Company's Rhode Island electric distribution company, the Narragansett Electric Company, filed with the RIPUC for approval of a long-term contract for output from offshore wind energy generation from an approximately 400 MW project to be located on the outer continental shelf. This contract is a voluntary obligation consistent with Governor Raimondo's 1,000 MW clean energy goal for Rhode Island. The bid was submitted in response to the Massachusetts solicitation for offshore wind energy generation, and such bids were shared with Rhode Island. RIPUC approved the contract in May 2019.

In February 2020, the Narragansett Electric Company filed with the RIPUC for approval of a long-term contract for output from an approximately 50 MW solar facility to be located in Connecticut.

The contract resulted from a competitive solicitation issued in 2018 to satisfy the Company's obligations under the Rhode Island Long-term Contracting Standard. RIPUC approved the contract at a virtual open meeting on 27 March 2020 and the Company received its written decision on 11 May 2020.

Federal Energy Regulatory Commission

Complaints on New England transmission allowed RoE

In September 2011, December 2012, July 2014 and April 2016, a series of four complaints were filed with FERC against certain transmission owners, including our New England electricity transmission business. These complaints aimed to lower the base RoE, which FERC had authorised at 11.14% prior to the first complaint. FERC issued orders resolving only the first complaint, with the last order in March 2015, lowering the base RoE to 10.57%. A number of parties, including the Company, appealed FERC's order on the first complaint to the US federal court. On 14 April 2017, the court vacated FERC's order and remanded the first complaint back to FERC. This required FERC to reconsider the methodology it adopted in its order. On 5 June 2017, the New England Transmission Owners (NETOs), including the Company, submitted a filing to FERC to document the reinstatement of their transmission rates that had been in effect on 15 October 2014. FERC denied this filing and stated that, until further notice, the base RoE in New England must remain at the filed rate of 10.57%. On 16 October 2018, FERC issued a Preliminary Order Directing Brief on our four New England RoE complaints. In this, FERC proposed a new methodology for determining whether an existing RoE remains just and reasonable and also for determining a new RoE where an existing RoE is found to be unjust and unreasonable. FERC also proposed to set the base RoE in New England at 10.41% with a 13.08% cap on incentives. Briefs were due in January 2019 and responses to the briefs were filed on 8 March 2019. FERC is under no deadline to act on the briefs and it is too early to determine when or how FERC will come to a decision.

On 21 November 2019, FERC issued an order addressing customer complaints involving the transmission RoE for the transmission owners in the Midcontinent Independent System Operator (MISO TOs). FERC issued an order on rehearing addressing the initial order on 21 May 2020. In those orders, FERC adopted a revised methodology for determining base RoEs for the MISO TOs. This differed significantly from the methodology and framework set forth in its 16 October 2018 preliminary order, which proposed a new RoE methodology in the dockets covering the four RoE complaints against the NETOs. On 23 December 2019, the NETOs filed a Supplemental Paper Hearing Brief and a Motion to Supplement the Record in the NETOs' RoE dockets to respond to the new methodology adopted in the November 2019 MISO TOs' order, as there is uncertainty as to whether the outcome in that proceeding may be applied to the NETOs' cases. Further changes to the FERC RoE methodology applicable to the Company are possible as a result of the orders in the MISO TOs' proceeding and the issues raised in pending pleadings in the NETOs' proceedings. Given the significant uncertainty relating to FERC's methodology, the Company is unable to predict the potential effect of the November 2019 and 21 May 2020 MISO TO orders on the NETOs' RoE dockets or the outcome of the four complaints. Further, the Company cannot reasonably estimate a range of gain or loss for any of the four complaint proceedings.

Formula Rate 206 proceeding

On 28 December 2015, FERC initiated a proceeding under Section 206 of the Federal Power Act. It found that ISO-New England Transmission, Markets, and Services Tariff is unjust, unreasonable and unduly discriminatory or preferential. FERC found that ISO-New England's tariff lacks adequate transparency and challenge procedures regarding the formula rates for ISO-NE Participating Transmission Owners (ISO-NE PTOs). In addition, the Commission found that the ISO-NE PTOs' current Regional Network Service and Local Network Service formula rates appear to be unjust, unreasonable, unduly discriminatory or preferential, or otherwise unlawful. FERC explained that the formula rates appear to lack sufficient detail to determine how certain costs are derived and recovered in the formula rates. Accordingly, FERC established hearing and settlement judge procedures. Several parties are active in the proceeding, including FERC employees, various interested consumer parties, the New England States Committee on Electricity (NESCOE), and several municipal light departments. In August 2018, the parties to the proceeding agreed to the terms of a settlement and subsequently filed the proposed settlement with the settlement judge in the proceeding. It was opposed by certain municipal parties, making it a contested settlement. On 22 May 2019, FERC rejected the Formula Rate 206 settlement in its entirety and remanded the matter to the Chief Administrative Law Judge for hearing procedures. The parties have continued settlement negotiations and have been granted a suspension of the procedural schedule to attempt to finalise a settlement.

The business in detail continued

Summary of US price controls and rate plans

		2016	2017	2018	2019	2020	2021	2022	Rate base (31 Mar 2020)	Equity-to-debt ratio	Allowed Return on Equity	Achieved Return on Equity (31 Mar 2020)	Revenue decoupling [†]	Capital tracker [‡]	Commodity- related bad debt true-up [§]	Pension/OPEB true-up [¶]
New York Public Service Commission	Niagara Mohawk ¹ (upstate, electricity)	◆	—	●	—	—	●	—	\$5,881m	48:52	9.0%	8.9%	✓	P	P	✓
	Niagara Mohawk (upstate, gas)	◆	—	●	—	—	●	—	\$1,328m	48:52	9.0%	8.7%	✓	P	P	✓
	KEDNY (downstate) ²	—	●	—	◆	—	●	—	\$4,555m	48:52	9.0%	7.7%	P	P	P	✓
	KEDLI (downstate) ³	—	●	—	◆	—	●	—	\$2,932m	48:52	9.0%	9.7%	P	P	P	✓
Massachusetts Department of Public Utilities	Massachusetts Electric/Nantucket Electric	—	●	—	●	—	—	—	\$2,858m	53:47	9.6%	10.3%	✓	P	✓	✓
	Massachusetts Gas	—	—	—	●	—	●	—	\$3,108m	53:47	9.5%	7.8%	✓	P	✓	✓
Rhode Island Public Utilities Commission	Narragansett Electric	—	—	●	—	—	—	●	\$895m	51:49	9.28%	11.9%	✓	✓	P	✓
	Narragansett Gas	—	—	●	—	—	—	●	\$944m	51:49	9.28%	8.8%	✓	✓	P	✓
Federal Energy Regulatory Commission	Narragansett	—	—	—	—	—	—	—	\$788m	50:50	10.57%	11.1%	n/a	✓	n/a	✓
	Canadian Interconnector	—	—	—	—	—	—	—	\$52m	100:0	13.0%	13.0%	n/a	✓	n/a	✓
	New England Power	—	—	—	—	—	—	—	\$1,844m	64:36	10.57%	11.0%	n/a	✓	n/a	✓
	Long Island Generation	—	—	—	—	—	—	—	\$456m	47:53	9.9%	14.1%	n/a	✓	n/a	✓

1. Both transmission and distribution, excluding stranded costs.

2. KeySpan Energy Delivery New York (the Brooklyn Union Gas Company).

3. KeySpan Energy Delivery Long Island (KeySpan Gas East Corporation).

— Rate filing made

● New rates effective

◆ Rate plan ends

--- Rates continue indefinitely

— Multi-year rate plan

✓ Feature in place

P Feature partially in place

†Revenue decoupling

A mechanism that removes the link between a utility's revenue and sales volume so that the utility is indifferent to changes in usage. Revenues are reconciled to a revenue target, with differences billed or credited to customers. Allows the utility to support energy efficiency.

‡Capital tracker

A mechanism that allows the recovery of the revenue requirement of incremental capital investment above that embedded in base rates, including depreciation, property taxes and a return on the incremental investment.

§Commodity-related bad debt true-up

A mechanism that allows a utility to reconcile commodity-related bad debt to either actual commodity-related bad debt or to a specified commodity-related bad debt write-off percentage. For electricity utilities, this mechanism also includes working capital.

¶Pension/OPEB true-up

A mechanism that reconciles the actual non-capitalised costs of pension and OPEB and the actual amount recovered in base rates. The difference may be amortised and recovered over a period or deferred for a future rate case.

Internal control and risk factors

Disclosure controls

Working with management, including the Chief Executive and Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as at 31 March 2020. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives; however, their effectiveness has limitations, including the possibility of human error and the circumvention or overriding of the controls and procedures.

Even effective disclosure controls and procedures provide only reasonable assurance of achieving their objectives. Based on the evaluation, the Chief Executive and Chief Financial Officer concluded that the disclosure controls and procedures are effective to provide reasonable assurance that information required for disclosure in the reports that we file and submit under the Exchange Act is recorded, processed, summarised and reported as and when required and that such information is accumulated and communicated to our management, including the Chief Executive and Chief Financial Officer, as appropriate, to allow timely decisions regarding disclosure.

Internal control over financial reporting

Our management, including the Chief Executive and Chief Financial Officer, has carried out an evaluation of our internal control over financial reporting pursuant to the Disclosure Guidance and Transparency Rules sourcebook and Section 404 of the Sarbanes-Oxley Act 2002. As required by Section 404, management is responsible for establishing and maintaining an adequate system of internal control over financial reporting (as defined in Rules 13a-5(f) and 15d-15(f) under the Exchange Act).

Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management's evaluation of the effectiveness of the Company's internal control over financial reporting was based on the revised Internal Control-Integrated Framework 2013 issued by the Committee of Sponsoring Organizations of the Treadway Commission. Using this evaluation, management concluded that our internal control over financial reporting was effective as at 31 March 2020.

Deloitte LLP, which has audited our consolidated financial statements for the year ended 31 March 2020, has also audited the effectiveness of our internal control over financial reporting.

During the year, there were no changes in our internal control over financial reporting that have materially affected it, or are reasonably likely to materially affect it.

Risk factors

Management of our risks is an important part of our internal control environment, as we describe on pages 22 – 25. In addition to the principal risks listed, we face a number of inherent risks that could have a material adverse effect on our business, financial condition, results of operations and reputation, as well as the value and liquidity of our securities.

Any investment decision regarding our securities and any forward-looking statements made by us should be considered in the light of these risk factors and the cautionary statement set out on page 258. An overview of the key inherent risks we face is provided below.

Risk factors

Potentially harmful activities

Aspects of the work we do could potentially harm employees, contractors, members of the public or the environment.

Potentially hazardous activities that arise in connection with our business include: the generation, transmission and distribution of electricity; and the storage, transmission and distribution of gas. Electricity and gas utilities also typically use and generate hazardous and potentially hazardous products and by-products. In addition, there may be other aspects of our operations that are not currently regarded or proved to have adverse effects but could become so, such as the effects of electric and magnetic fields.

A significant safety or environmental incident, or the failure of our safety processes or of our occupational health plans, as well as the breach of our regulatory or contractual obligations or our climate change targets, could materially adversely affect our results of operations and our reputation.

Safety is a fundamental priority for us and we commit significant resources and expenditure to ensuring process safety; to monitoring personal safety, occupational health and environmental performance; and to meeting our obligations under negotiated settlements.

We are subject to laws and regulations in the UK and US governing health and safety matters to protect the public and our employees and contractors, who could potentially be harmed by these activities, as well as laws and regulations relating to pollution, the protection of the environment, and the use and disposal of hazardous substances and waste materials.

These expose us to costs and liabilities relating to our operations and properties, including those inherited from predecessor bodies, whether currently or formerly owned by us, and sites used for the disposal of our waste.

The cost of future environmental remediation obligations is often inherently difficult to estimate and uncertainties can include the extent of contamination, the appropriate corrective actions and our share of the liability. We are increasingly subject to regulation in relation to climate change and are affected by requirements to reduce our own carbon emissions as well as to enable reduction in energy use by our customers. If more onerous requirements are imposed or our ability to recover these costs under regulatory frameworks changes, this could have a material adverse impact on our business, reputation, results of operations and financial position.

Pandemics

We face risks related to health epidemics and other outbreaks.

As seen in the context of COVID-19, pandemics and their associated counter-measures may affect countries, communities, supply chains and markets, including the UK and our service territory in the US. The spread of such pandemics could have adverse effects on our workforce, which could affect our ability to maintain our networks and provide service. In addition, disruption of supply chains could adversely affect our systems or networks.

Pandemics such as COVID-19 can also result in extraordinary economic circumstances in our markets which could negatively affect our customers' ability to pay our invoices in the US or the charges payable to the system operators for transmission services in the UK. The suspension of debt collection and customer termination activities across our service area in response to such pandemics is likely to result in near-term lower customer collections, and could result in increasing levels of bad debt and associated provisions.

The extent to which pandemics such as COVID-19 may affect our liquidity, business, financial condition, results of operations and reputation will depend on future developments, which are highly uncertain and cannot be predicted, and will depend on the severity of the relevant pandemic, the scope, duration, cost to National Grid and overall economic impact of actions taken to contain it or treat its effects.

Internal control and risk factors continued

Infrastructure and IT systems

We may suffer a major network failure or interruption, or may not be able to carry out critical operations due to the failure of infrastructure, data or technology or a lack of supply.

Operational performance could be materially adversely affected by: a failure to maintain the health of our assets or networks; inadequate forecasting of demand; inadequate record keeping or control of data or failure of information systems and supporting technology. This, in turn, could cause us to fail to meet agreed standards of service, incentive and reliability targets, or be in breach of a licence, approval, regulatory requirement or contractual obligation. Even incidents that do not amount to a breach could result in adverse regulatory and financial consequences, as well as harming our reputation.

Where demand for electricity or gas exceeds supply, including where we do not adequately forecast and respond to disruptions in energy supplies, and our balancing mechanisms are not able to mitigate this fully, a lack of supply to consumers may damage our reputation.

In addition to these risks, we may be affected by other potential events that are largely outside our control, such as the impact of the COVID-19 pandemic (including on our operations and as a result of large-scale working from home by our employees), weather (including as a result of climate change and major storms), unlawful or unintentional acts of third parties, insufficient or unreliable supply, or force majeure.

Weather conditions can affect financial performance, and severe weather that causes outages or damages infrastructure, together with our actual or perceived response, could materially adversely affect operational and potentially business performance and our reputation.

Malicious attack, sabotage or other intentional acts, including breaches of our cyber security, may also damage our assets (which include critical national infrastructure) or otherwise significantly affect corporate activities and, as a consequence, have a material adverse impact on our reputation, business, results of operations and financial condition.

Unauthorised access to, or deliberate breaches of, our IT systems may also lead to manipulation of our proprietary business data or customer information. Unauthorised access to private customer information may make us liable for a violation of data privacy regulations. Even where we establish business continuity controls and security against threats to our systems, these may not be sufficient.

Law, regulation and political and economic uncertainty

Changes in law or regulation, or decisions by governmental bodies or regulators and increased political and economic uncertainty, could materially adversely affect us.

Most of our businesses are utilities or networks subject to regulation by governments and other authorities. Changes in law or regulation or regulatory policy and precedent (including any changes arising as a result of emergency legislation to address the COVID-19 pandemic and the UK's exit from the European Union), including decisions of governmental bodies or regulators, in the countries or states in which we operate could materially adversely affect us. We may fail to deliver any one of our customer, investor and wider stakeholder propositions due to increased political and economic uncertainty.

If we fail to engage in the energy policy debate, we may be unable to influence future energy policy and deliver our strategy.

Decisions or rulings concerning the following (as examples) could have a material adverse impact on our results of operations, cash flows, the financial condition of our businesses and the ability to develop those businesses in the future:

- the RIIIO-2 price controls; whether licences, approvals or agreements to operate or supply are granted, amended or renewed; whether consents for construction projects are granted in a timely manner; or whether there has been any breach of the terms of a licence, approval or regulatory requirement; and
- timely recovery of incurred expenditure or obligations; the ability to pass through commodity costs; a decoupling of energy usage and revenue, and other decisions relating to the impact of general economic conditions on us, our markets and customers; implications of climate change and of advancing energy technologies; whether aspects of our activities are contestable; and the level of permitted revenues and dividend distributions for our businesses and in relation to proposed business development activities.

For further information, see pages 219 – 226, which explain our regulatory environment in detail.

Business performance

Current and future business performance may not meet our expectations or those of our regulators and shareholders.

Earnings maintenance and growth from our regulated gas and electricity businesses will be affected by our ability to meet or exceed efficiency targets and service quality standards set by, or agreed with, our regulators.

If we do not meet these targets and standards, or if we are not able to deliver the US rate plans strategy successfully, we may not achieve the expected benefits, our business may be materially adversely affected and our performance, results of operations and reputation may be materially harmed and we may be in breach of regulatory or contractual obligations.

Growth and business development activity

Failure to respond to external market developments and execute our growth strategy may negatively affect our performance. Conversely, new businesses or activities that we undertake alone or with partners may not deliver target outcomes and may expose us to additional operational and financial risk.

Failure to grow our core business sufficiently and have viable options for new future business over the longer term, or failure to respond to the threats and opportunities presented by emerging technology or innovation (including for the purposes of adapting our networks to meet the challenges of increasing distributed energy resources), could negatively affect the Group's credibility and reputation and jeopardise the achievement of intended financial returns.

Our business development activities and the delivery of our growth ambition include acquisitions, disposals, joint ventures, partnering and organic investment opportunities, such as development activities relating to changes to the energy mix and the integration of distributed energy resources and other advanced technologies. These are subject to a wide range of both external uncertainties (including the availability of potential investment targets and attractive financing and the impact of competition for onshore transmission in both the UK and US) and internal uncertainties (including actual performance of our existing operating companies and our business planning model assumptions and ability to integrate acquired businesses effectively). As a result, we may suffer unanticipated costs and liabilities and other unanticipated effects.

We may also be liable for the past acts, omissions or liabilities of companies or businesses we have acquired, which may be unforeseen or greater than anticipated. In the case of joint ventures, we may have limited control over operations and our joint venture partners may have interests that diverge from our own.

The occurrence of any of these events could have a material adverse impact on our results of operations or financial condition, and could also impact our ability to enter into other transactions.

Exchange rates, interest rates and commodity price indices

Changes in foreign currency rates, interest rates or commodity prices could materially impact earnings or our financial condition.

We have significant operations in the US and are therefore subject to the exchange rate risks normally associated with non-UK operations including the need to translate US assets, liabilities, income and expenses into sterling (our reporting currency).

In addition, our results of operations and net debt position may be affected because a significant proportion of our borrowings, derivative financial instruments and commodity contracts are affected by changes in interest rates, commodity price indices and exchange rates, in particular the dollar-to-sterling exchange rate.

Furthermore, our cash flow may be materially affected as a result of settling hedging arrangements entered into to manage our exchange rate, interest rate and commodity price exposure, or by cash collateral movements relating to derivative market values, which also depend on the sterling exchange rate into the euro and other currencies.

Post-retirement benefits

We may be required to make significant contributions to fund pension and other post-retirement benefits.

We participate in a number of pension schemes that together cover substantially all our employees. In both the UK and US, the principal schemes are DB schemes where the scheme assets are held independently of our own financial resources.

In the US, we also have other post-retirement benefit schemes. Estimates of the amount and timing of future funding for the UK and US schemes are based on actuarial assumptions and other factors, including: the actual and projected market performance of the scheme assets; future long-term bond yields; average life expectancies; and relevant legal requirements.

Actual performance of scheme assets may be affected by volatility in debt and equity markets (including as a result of the COVID-19 pandemic).

Changes in these assumptions or other factors may require us to make additional contributions to these pension schemes which, to the extent they are not recoverable under our price controls or state rate plans, could materially adversely affect the results of our operations and financial condition.

Financing and liquidity

An inability to access capital markets at commercially acceptable interest rates could affect how we maintain and grow our businesses.

Our businesses are financed through cash generated from our ongoing operations, bank lending facilities and the capital markets, particularly the long-term debt capital markets.

Some of the debt we issue is rated by credit rating agencies, and changes to these ratings may affect both our borrowing capacity and borrowing costs. In addition, restrictions imposed by regulators may also limit how we service the financial requirements of our current businesses or the financing of newly acquired or developing businesses.

Financial markets can be subject to periods of volatility and shortages of liquidity – for example, as a result of unexpected political or economic events or the COVID-19 pandemic. If we were unable to access the capital markets or other sources of finance at commercially acceptable rates for a prolonged period, our cost of financing may increase, the discretionary and uncommitted elements of our proposed capital investment programme may need to be reconsidered, and the manner in which we implement our strategy may need to be reassessed.

Such events could have a material adverse impact on our business, results of operations and prospects.

Some of our regulatory agreements impose lower limits for the long-term unsecured debt credit ratings that certain companies within the Group must hold or the amount of equity within their capital structures, including a limit requiring National Grid plc to hold an investment-grade long-term senior unsecured debt credit rating.

In addition, some of our regulatory arrangements impose restrictions on the way we can operate. These include regulatory requirements for us to maintain adequate financial resources within certain parts of our operating businesses and may restrict the ability of National Grid plc and some of our subsidiaries to engage in certain transactions, including paying dividends, lending cash and levying charges.

The inability to meet such requirements, or the occurrence of any such restrictions, may have a material adverse impact on our business and financial condition.

Our debt agreements and banking facilities contain covenants, including those relating to the periodic and timely provision of financial information by the issuing entity, and financial covenants, such as restrictions on the level of subsidiary indebtedness.

Failure to comply with these covenants, or to obtain waivers of those requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of our debt and may restrict our ability to draw upon our facilities or access the capital markets.

Customers and counterparties

Customers and counterparties may not perform their obligations.

Our operations are exposed to the risk that customers, suppliers, banks and other financial institutions, and others with whom we do business, will not satisfy their obligations, which could materially adversely affect our financial position.

This risk is significant where our subsidiaries have concentrations of receivables from gas and electricity utilities and their affiliates, as well as industrial customers and other purchasers, and may also arise where customers are unable to pay us as a result of increasing commodity prices or adverse economic conditions (including as a result of the COVID-19 pandemic).

To the extent that counterparties are contracted with for physical commodities (gas and electricity) and they experience events that impact their own ability to deliver, we may suffer supply interruption as described in Infrastructure and IT systems on page 228.

There is also a risk to us where we invest excess cash or enter into derivatives and other financial contracts with banks or other financial institutions. Banks who provide us with credit facilities may also fail to perform under those contracts.

Employees and others

We may fail to attract, develop and retain employees with the competencies (including leadership and business capabilities), values and behaviours required to deliver our strategy and vision and ensure they are engaged to act in our best interests.

Our ability to implement our strategy depends on the capabilities and performance of our employees and leadership at all levels of the business. Our ability to implement our strategy and vision may be negatively affected by the loss of key personnel (including personnel on sick leave or otherwise unable to work on an extended basis because of the COVID-19 pandemic) or an inability to attract, integrate, engage and retain appropriately qualified personnel, or if significant disputes arise with our employees.

As a result, there may be a material adverse effect on our business, financial condition, results of operations and prospects.

There is a risk that an employee or someone acting on our behalf may breach our internal controls or internal governance framework, or may contravene applicable laws and regulations. This could have an impact on the results of our operations, our reputation and our relationship with our regulators and other stakeholders.

Shareholder information

Articles of Association

The following description is a summary of the material terms of our Articles of Association (Articles) and applicable English law. It is a summary only and is qualified in its entirety by reference to the Articles.

Summary

The Articles set out the Company's internal regulations. Copies are available on our website and upon request. Amendments to the Articles have to be approved by at least 75% of those voting at a general meeting of the Company. Subject to company law and the Articles, the Directors may exercise all the powers of the Company. They may delegate authorities to committees and day-to-day management and decision-making to individual Executive Directors. We set out the committee structure on page 68.

General

The Company is incorporated under the name National Grid plc and is registered in England and Wales with registered number 4031152. Under the Companies Act 2006, the Company's objects are unrestricted.

Directors

Under the Articles, a Director must disclose any personal interest in a matter and may not vote in respect of that matter, subject to certain limited exceptions. As permitted under the Companies Act 2006, the Articles allow non-conflicted Directors to authorise a conflict or potential conflict for a particular matter. In doing so, the non-conflicted Directors must act in a way they consider, in good faith, will be most likely to promote the success of the Company for the benefit of the shareholders as a whole.

The Directors (other than a Director acting in an executive capacity) are paid fees for their services. In total, these fees must not exceed £2,000,000 per year or any higher sum decided by an ordinary resolution at a general meeting of shareholders. In addition, special pay may be awarded to a Director who acts in an executive capacity, serves on a committee, performs services which the Directors consider to extend beyond the ordinary duties of a Director, devotes special attention to the business of National Grid, or goes or lives abroad on the Company's behalf. Directors may also receive reimbursement for expenses properly incurred, and may be awarded pensions and other benefits. The compensation awarded to the Executive Directors is determined by the Remuneration Committee. Further details of Directors' remuneration are set out in the Directors' Remuneration Report (see pages 88 – 107).

The Directors may exercise all the powers of National Grid to borrow money. However, the aggregate principal amount of all the Group's borrowings outstanding at any time must not exceed £35 billion or any other amount approved by shareholders by an ordinary resolution at a general meeting. At the Company's AGM for 2020, shareholders will be asked to approve, by ordinary resolution, an increase in this amount (which has remained unchanged since the 2009 AGM) to £45 billion to enable the funding of growth over the medium-term in an efficient manner.

Directors can be appointed or removed by the Board or shareholders at a general meeting. Directors must stand for election at the first AGM following their appointment to the Board. Each Director must retire at least every three years, although they will be eligible for re-election. In accordance with best practice introduced by the UK Corporate Governance Code, all Directors wishing to continue in office currently offer themselves for re-election annually. No person is disqualified from being a Director or is required to vacate that office by reason of attaining a maximum age.

A Director is not required to hold shares in National Grid in order to qualify as a Director.

Rights, preferences and restrictions

(i) Dividend rights

National Grid may not pay any dividend otherwise than out of profits available for distribution under the Companies Act 2006 and other applicable provisions of English law. In addition, as a public company, National Grid may only make a distribution if, at the time of the distribution, the amount of its net assets is not less than the aggregate of its called-up share capital and undistributable reserves (as defined in the Companies Act 2006), and to the extent that the distribution does not reduce the amount of those assets to less than that aggregate. Ordinary shareholders and American Depositary Share (ADS) holders receive dividends.

Subject to these points, shareholders may, by ordinary resolution, declare dividends in accordance with the respective rights of the shareholders, but not exceeding the amount recommended by the Board. The Board may pay interim dividends if it considers that National Grid's financial position justifies the payment. Any dividend or interest unclaimed for 12 years from the date when it was declared or became due for payment will be forfeited and revert to National Grid.

(ii) Voting rights

Subject to any rights or restrictions attached to any shares and to any other provisions of the Articles, at any general meeting on a show of hands, every shareholder who is present in person will have one vote and, on a poll, every shareholder will have one vote for every share they hold. On a show of hands or poll, shareholders may cast votes either personally or by proxy. A proxy need not be a shareholder. Under the Articles, all substantive resolutions at a general meeting must be decided on a poll. Ordinary shareholders and ADS holders can vote at general meetings.

(iii) Liquidation rights

In a winding up, a liquidator may (in each case with the sanction of a special resolution passed by the shareholders and any other sanction required under English law): (a) divide among the shareholders the whole or any part of National Grid's assets (whether the assets are of the same kind or not); the liquidator may, for this purpose, value any assets and determine how the division should be carried out as between shareholders or different classes of shareholders, or (b) transfer any part of the assets to trustees on trust for the benefit of the shareholders as the liquidator determines. In neither case will a shareholder be compelled to accept assets upon which there is a liability.

(iv) Restrictions

There are no restrictions on the transfer or sale of ordinary shares. Some of the Company's employee share plans, details of which are contained in the Directors' Remuneration Report, include restrictions on the transfer of ordinary shares while the ordinary shares are subject to the plan. Where, under an employee share plan operated by the Company, participants are the beneficial owners of the ordinary shares but not the registered owner, the voting rights may be exercised by the registered owner at the direction of the participant. Treasury shares do not attract a vote or dividends.

(v) Variation of rights

Subject to applicable provisions of English law, the rights attached to any class of shares of National Grid may be varied or cancelled. This must be with the written consent of the holders of three quarters in nominal value of the issued shares of that class, or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class.

Shareholder information continued

General meetings

AGMs must be convened each year within six months of the Company's accounting reference date upon 21 clear days' advance written notice. Under the Articles, any other general meeting may be convened provided at least 14 clear days' written notice is given, subject to annual approval of shareholders. In certain limited circumstances, the Company can convene a general meeting by shorter notice. The notice must specify, among other things, the nature of the business to be transacted, the place, the date and the time of the meeting. Consistent with the UK government restrictions in relation to the COVID-19 pandemic, the Company's AGM for 2020 will take place as a closed meeting.

Rights of non-residents

There are no restrictions under the Articles that would limit the rights of persons not resident in the UK to vote in relation to ordinary shares.

Disclosure of interests

Under the Companies Act 2006, National Grid may, by written notice, require a person whom it has reasonable cause to believe to be or to have been, in the last three years, interested in its shares to provide additional information relating to that interest. Under the Articles, failure to provide such information may result in a shareholder losing their rights to attend, vote or exercise any other right in relation to shareholders' meetings.

Under the UK Disclosure Guidance and Transparency Rules (DTR) sourcebook, there is also an obligation on a person who acquires or ceases to have a notifiable interest in shares in National Grid to notify the Company of that fact. The disclosure threshold is 3% and disclosure is required each time the person's direct and indirect holdings reach, exceed or fall below each 1% threshold thereafter.

The UK City Code on Takeovers and Mergers imposes strict disclosure requirements regarding dealings in the securities of an offeror or offeree company, and also on their respective associates, during the course of an offer period. Other regulators in the UK, US and elsewhere may have, or assert, notification or approval rights over acquisitions or transfers of shares.

Depository payments to the Company

The Depository (The Bank of New York Mellon) reimburses the Company for certain expenses it incurs in relation to the ADS programme. The Depository also pays the standard out-of-pocket maintenance costs for the ADSs, which consist of the expenses for the mailing of annual and interim financial reports, printing and distributing dividend cheques, the electronic filing of US federal tax information, mailing required tax forms, stationery, postage, facsimiles and telephone calls. It also reimburses the Company for certain investor relationship programmes or special investor relations promotional activities. There are limits on the amount of expenses for which the Depository will reimburse the Company, but the amount of reimbursement is not necessarily tied to the amount of fees the Depository collects from investors.

For the period 16 May 2019 to 17 June 2020, the Company received a total of \$1,835,589.41 in reimbursements from the Depository consisting of \$1,225,480.47 and \$610,108.94 received in October 2019 and February 2020 respectively. Fees that are charged on cash dividends will be apportioned between the Depository and the Company.

Any questions from ADS holders should be directed to The Bank of New York Mellon at the contact details on page 257.

Description of securities other than equity securities:

Depository fees and charges

The Depository collects fees by deducting them from the amounts distributed or by selling a portion of distributable property for:

- delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them; and
- making distributions to investors (including, it is expected, cash dividends).

The Depository may generally refuse to provide fee-attracting services until its fees for those services are paid.

Persons depositing or withdrawing shares must pay:	For:
\$5.00 per 100 ADSs (or portion of 100 ADSs)	Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property; cancellation of ADSs for the purpose of withdrawal, including if the Deposit agreement terminates; and distribution of securities distributed to holders of deposited securities that are distributed by the Depository to ADS holders.
Registration or transfer fees	Transfer and registration of shares on our share register to or from the name of the Depository or its agent when they deposit or withdraw shares.
Expenses of the Depository	Cable, telex and facsimile transmissions (when expressly provided in the Deposit agreement); and converting foreign currency to dollars.
Taxes and other governmental charges the Depository or the Custodian has to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes	As necessary.

The Company's Deposit agreement under which the ADSs are issued allows a fee of up to \$0.05 per ADS to be charged for any cash distribution made to ADS holders, including cash dividends. ADS holders who receive cash in relation to the 2019/20 final dividend will be charged a fee of \$0.02 per ADS by the Depository prior to distribution of the cash dividend.

Documents on display

National Grid is subject to the US Securities and Exchange Commission (SEC) reporting requirements for foreign companies. The Company's Form 20-F and other filings can be viewed on the National Grid website as well as the SEC website at www.sec.gov.

Events after the reporting period

In the period between 31 March 2020 and 17 June 2020, there have continued to be substantial environmental, economic and social changes in both the UK and US. As described further in the Strategic Report, these have had, and will continue to have, significant ramifications for the Group. Other than in respect of those areas where forward-looking forecasts are relevant (notably goodwill impairment reviews (note 11), expected credit losses on financial instruments including trade receivables (notes 19 and 32) and the presumption of the going concern basis generally (note 1)), none of these developments have caused adjustment to the financial statements.

Exchange controls

There are currently no UK laws, decrees or regulations that restrict the export or import of capital, including, but not limited to, foreign exchange control restrictions, or that affect the remittance of dividends, interest or other payments to non-UK resident holders of ordinary shares except as otherwise set out in Taxation on pages 234 and 235 and except in respect of the governments of and/or certain citizens, residents or bodies of certain countries (described in applicable Bank of England Notices or European Union Council Regulations in force as at the date of this document).

Material interests in shares

As at 31 March 2020, National Grid had been notified of the following holdings in voting rights of 3% or more in the issued share capital of the Company:

	Number of ordinary shares	% of voting rights ¹	Date of last notification of interest
BlackRock, Inc.	238,695,907	6.85	3 December 2019
The Capital Group Companies, Inc.	145,094,617	3.88	16 April 2015

1. This number is calculated in relation to the issued share capital at the time the holding was disclosed.

As at 17 June 2020, no further notifications have been received.

The rights attached to ordinary shares are detailed on page 231. All ordinary shares and all major shareholders have the same voting rights. The Company is not, to the best of its knowledge, directly or indirectly controlled.

Share capital

As at 17 June 2020, the share capital of the Company consists of ordinary shares of 12^{204/473} pence nominal value each and ADSs, which represent five ordinary shares each.

Authority to purchase shares

Shareholder approval was given at the 2019 AGM to purchase up to 10% of the Company's share capital (being 341,188,512 ordinary shares). The Directors intend to seek shareholder approval to renew this authority at the 2020 AGM.

In some circumstances, the Company may find it advantageous to have the authority to purchase its own shares in the market, where the Directors believe this would be in the interests of shareholders generally. The Directors believe that it is an important part of the financial management of the Company to have the flexibility to repurchase issued shares to manage its capital base, including actively managing share issuances from the operation of the scrip dividend scheme. It is expected that repurchases to manage share issuances under the scrip dividend scheme will not exceed 2.5% of the issued share capital (excluding treasury shares) per annum.

When purchasing shares, the Company has taken, and will continue to take, into account market conditions prevailing at the time, other investment and financing opportunities, and the overall financial position of the Company.

At the 2019 AGM, the Company sought authority to purchase ordinary shares in the capital of the Company as part of the management of the dilutive effect of share issuances under the scrip dividend scheme. During the year, the Company did not purchase any of its own shares.

	Number of shares	Total nominal value	% of called up share capital
Shares held in Treasury purchased in prior years ¹	277,263,224	£34,467,394.44	7.52 ¹
Shares purchased and held in Treasury during the year	–	–	–
Shares transferred from Treasury during the year (to employees under employee share plans)	5,331,440	£662,766.75 ²	0.14 ³
Maximum number of shares held in Treasury during the year	277,263,224	£34,467,394.44 ²	7.33 ³

1. Called-up share capital: 3,687,483,073 as at 31 March 2019.

2. Nominal value: 12^{204/473}p.

3. Called-up share capital of 3,780,237,016 ordinary shares as at the date of this report.

As at the date of this report, the Company held 270,105,462 ordinary shares as treasury shares. This represented 7.15% of the Company's called-up share capital.

Authority to allot shares

Shareholder approval was given at the 2019 AGM to allot shares of up to one third of the Company's share capital. The Directors are seeking this same level of authority this year. The Directors consider that the Company will have sufficient flexibility with this level of authority to respond to market developments and that this authority is in line with investor guidelines.

The Directors currently have no intention of issuing new shares or of granting rights to subscribe for or convert any security into shares. This is except in relation to, or in connection with, the operation and management of the Company's scrip dividend scheme and the exercise of options under the Company's share plans. No issue of shares will be made that would effectively alter control of the Company without the sanction of shareholders in a general meeting.

The Company expects to actively manage the dilutive effect of share issuance arising from the operation of the scrip dividend scheme. In some circumstances, additional shares may be allotted to the market for this purpose under the authority provided by this resolution. Under these circumstances, it is expected that the associated allotment of new shares (or rights to subscribe for or convert any security into shares) will not exceed 1% of the issued share capital (excluding treasury shares) per annum.

Shareholder information continued

Dividend waivers

The trustee of the National Grid Employee Share Trust, which is independent of the Company, waived the right to dividends paid during the year. They have also agreed to waive the right to future dividends, in relation to the ordinary shares and ADSs held by the trust.

Under the Company's ADS programme, the right to dividends in relation to the ordinary shares underlying the ADSs was waived during the year, under an arrangement whereby the Company pays the monies to satisfy any dividends separately to the Depositary for distribution to ADS holders entitled to the dividend. This arrangement is expected to continue for future dividends.

Share information

National Grid ordinary shares are listed on the London Stock Exchange under the symbol NG. The ADSs are listed on the New York Stock Exchange under the symbol NGG.

Shareholder analysis

The following table includes a brief analysis of shareholder numbers and shareholdings as at 31 March 2020.

	Number of shareholders	% of shareholders	Number of shares	% of shares
1–50	170,394	21.39	5,185,345	0.14
51–100	202,748	25.46	14,246,560	0.38
101–500	331,032	41.57	68,966,441	1.82
501–1,000	46,110	5.79	32,119,610	0.85
1,001–10,000	43,274	5.43	106,072,161	2.81
10,001–50,000	1,727	0.22	31,718,701	0.84
50,001–100,000	235	0.03	17,096,831	0.45
100,001–500,000	441	0.05	106,039,599	2.81
500,001–1,000,000	144	0.02	102,719,196	2.72
1,000,001+	300	0.04	3,296,072,572	87.19
Total	796,405	100	3,780,237,016	100

Taxation

The discussion in this section provides information about certain US federal income tax and UK tax consequences for US Holders (defined below) of owning ADSs and ordinary shares. A US Holder is the beneficial owner of ADSs or ordinary shares who:

- is for US federal income tax purposes (i) an individual citizen or resident of the United States; (ii) a corporation created or organised under the laws of the United States, any state thereof or the District of Columbia; (iii) an estate, the income of which is subject to US federal income tax without regard to its source; or (iv) a trust, if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust, or the trust has elected to be treated as a domestic trust for US federal income tax purposes;
- is not resident or ordinarily resident in the UK for UK tax purposes; and
- does not hold ADSs or ordinary shares in connection with the conduct of a business or the performance of services in the UK or otherwise in connection with a branch, agency or permanent establishment in the UK.

This discussion is not a comprehensive description of all the US federal income tax and UK tax considerations that may be relevant to any particular investor (including consequences under the US alternative minimum tax or net investment income tax). Neither does it address state, local or other tax laws. National Grid has assumed that shareholders, including US Holders, are familiar with the tax rules applicable to investments in securities generally and with any special rules to which they may be subject. This discussion deals only with US Holders who hold ADSs or ordinary shares as capital assets. It does not address the tax treatment of investors who are subject to special rules. Such investors may include:

- financial institutions;
- insurance companies;
- dealers in securities or currencies;
- investors who elect mark-to-market treatment;
- entities treated as partnerships or other pass-through entities and their partners;
- individual retirement accounts and other tax-deferred accounts;
- tax-exempt organisations;
- investors who own (directly or indirectly) 10% or more of our shares (by vote or value);
- investors who hold ADSs or ordinary shares as a position in a straddle, hedging transaction or conversion transaction;
- individual investors who have ceased to be resident in the UK for a period of five years or less;
- persons that have ceased to be US citizens or lawful permanent residents of the US; and
- US Holders whose functional currency is not the US dollar.

The statements regarding US and UK tax laws and administrative practices set forth below are based on laws, treaties, judicial decisions and regulatory interpretations that were in effect on the date of this document. These laws and practices are subject to change without notice, potentially with retroactive effect. In addition, the statements set forth below are based on the representations of the Depositary and assume that each party to the Deposit agreement will perform its obligations thereunder in accordance with its terms.

US Holders of ADSs generally will be treated as the owners of the ordinary shares represented by those ADSs for US federal income tax purposes. For the purposes of the Tax Convention, the Estate Tax Convention and UK tax considerations, this discussion assumes that a US Holder of ADSs will be treated as the owner of the ordinary shares represented by those ADSs. HMRC has stated that it will continue to apply its long-standing practice of treating a holder of ADSs as holding the beneficial interest in the ordinary shares represented by the ADSs; however, we note that this is an area of some uncertainty and may be subject to change.

US Holders should consult their own advisors regarding the tax consequences of buying, owning and disposing of ADSs or ordinary shares depending on their particular circumstances, including the effect of any state, local or other tax laws.

Taxation of dividends

The UK does not currently impose a withholding tax on dividends paid to US Holders.

US Holders should assume that any cash distribution paid by us with respect to ADSs or ordinary shares will be reported as dividend income for US federal income tax purposes. While dividend income received from non-US corporations is generally taxable to a non-corporate US Holder as ordinary income for US federal income tax purposes, dividend income received by a non-corporate US Holder from us generally will be taxable at the same favourable rates applicable to long-term capital gains provided (i) either: (a) we are eligible for the benefits of the Tax Convention or (b) ADSs or ordinary shares are treated as 'readily tradable' on an established securities market in the United States; and (ii) we are not, for our taxable year during which the dividend is paid or the prior year, a passive foreign investment company for US federal income tax purposes (a PFIC), and certain other requirements are met. We expect that our shares will be treated as 'readily tradable' on an established securities market in the United States as a result of the trading of ADSs on the New York Stock Exchange. We also believe we are eligible for the benefits of the Tax Convention.

Based on our audited financial statements and the nature of our business activities, we believe that we were not treated as a PFIC for US federal income tax purposes with respect to our taxable year ending 31 March 2019. In addition, based on our current expectations regarding the value and nature of our assets, the sources and nature of our income, and the nature of our business activities, we do not anticipate becoming a PFIC in the foreseeable future.

Dividends received by corporate US Holders with respect to ADSs or ordinary shares will not be eligible for the dividends-received deduction that is generally allowed to corporations.

Taxation of capital gains

Subject to specific rules relating to assets that derive at least 75% of their value from UK land, US Holders will not be subject to UK taxation on any capital gain realised on the sale or other disposition of ADSs or ordinary shares.

Provided that we are not a PFIC for any taxable year during which a US Holder holds their ADSs or ordinary shares, upon a sale or other disposition of ADSs or ordinary shares, a US Holder generally will recognise a capital gain or loss for US federal income tax purposes that is equal to the difference between the US dollar value of the amount realised on the sale or other disposition and the US Holder's adjusted tax basis in the ADSs or ordinary shares. Such capital gain or loss generally will be long-term capital gain or loss if the ADSs or ordinary shares were held for more than one year. For non-corporate US Holders, long-term capital gain is generally taxed at a lower rate than ordinary income. A US Holder's ability to deduct capital losses is subject to significant limitations.

US information reporting and backup withholding tax

Dividend payments made to US Holders and proceeds paid from the sale, exchange, redemption or disposal of ADSs or ordinary shares to US Holders may be subject to information reporting to the US Internal Revenue Service (IRS). Such payments may be subject to backup withholding taxes if the US Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to comply with applicable certification requirements.

US Holders should consult their tax advisors about these rules and any other reporting obligations that may apply to the ownership or disposition of ADSs or ordinary shares. Such obligations include reporting requirements related to the holding of certain foreign financial assets.

UK stamp duty and stamp duty reserve tax (SDRT)

Transfers of ordinary shares – SDRT at the rate of 0.5% of the amount or value of the consideration will generally be payable on any agreement to transfer ordinary shares that is not completed using a duly stamped instrument of transfer (such as a stock transfer form).

The SDRT liability will be cancelled where an instrument of transfer is executed and duly stamped before the expiry of the six-year period beginning with the date on which the agreement is made. If a claim is made within the specified period, any SDRT which has been paid will be refunded. SDRT is due whether or not the agreement or transfer is made or carried out in the UK and whether or not any party to that agreement or transfer is a UK resident.

Purchases of ordinary shares completed using a stock transfer form will generally result in a UK stamp duty liability at the rate of 0.5% (rounded up to the nearest £5) of the amount or value of the consideration. Paperless transfers under the CREST paperless settlement system will generally be liable to SDRT at the rate of 0.5%, and not stamp duty. SDRT is generally the liability of the purchaser, and UK stamp duty is usually paid by the purchaser or transferee.

Transfers of ADSs – no UK stamp duty will be payable on the acquisition or transfer of existing ADSs or beneficial ownership of ADSs, provided that any instrument of transfer or written agreement to transfer is executed outside the UK and remains at all times outside the UK.

An agreement for the transfer of ADSs in the form of American Depositary Receipts will not result in an SDRT liability. A charge to stamp duty or SDRT may arise on the transfer of ordinary shares to the Depository or The Bank of New York Mellon as agent of the Depository (the Custodian).

The rate of stamp duty or SDRT will generally be 1.5% of the value of the consideration or, in some circumstances, the value of the ordinary shares concerned. However, there is no 1.5% SDRT charge on the issue of ordinary shares (or, where it is integral to the raising of new capital, the transfer of ordinary shares) to the Depository or the Custodian.

The Depository will generally be liable for the stamp duty or SDRT. Under the terms of the Deposit Agreement, the Depository will charge any tax payable by the Depository or the Custodian (or their nominees) on the deposit of ordinary shares to the party to whom the ADSs are delivered against such deposits. If the stamp duty is not a multiple of £5, the duty will be rounded up to the nearest multiple of £5.

UK inheritance tax

An individual who is domiciled in the US for the purposes of the Estate Tax Convention and who is not a UK national for the purposes of the Estate Tax Convention will generally not be subject to UK inheritance tax in respect of (i) the ADSs or ordinary shares on the individual's death or (ii) a gift of the ADSs or ordinary shares during the individual's lifetime. This is not the case where the ADSs or ordinary shares are part of the business property of the individual's permanent establishment in the UK or relate to a fixed base in the UK of an individual who performs independent personal services.

Special rules apply to ADSs or ordinary shares held in trust.

In the exceptional case where the ADSs or shares are subject both to UK inheritance tax and to US federal gift or estate tax, the Estate Tax Convention generally provides for the tax paid in the UK to be credited against tax paid in the US or vice versa.

Capital gains tax (CGT) for UK resident shareholders

You can find CGT information relating to National Grid shares for UK resident shareholders on the investor section of our website. Share prices on specific dates are also available on our website.

Other disclosures

All-employee share plans

The Company has a number of all-employee share plans as described below, which operated during the year. These allow UK or US-based employees to participate in tax-advantaged plans and to become shareholders in National Grid.

Sharesave

UK employees are eligible to participate in the Sharesave plan. Under this plan, participants may contribute between £5 and £500 in total each month, for a fixed period of three years, five years or both. Contributions are taken from net salary. At the end of the three or five years, participants may use their savings to purchase ordinary shares in National Grid at a 20% discounted option price, which is set at the time of each annual Sharesave launch.

Share Incentive Plan (SIP)

UK employees are eligible to participate in the SIP. Contributions up to £150 per month are deducted from participants' gross salary and used to purchase ordinary shares in National Grid each month. The shares are placed in a UK resident trust.

US Incentive Thrift Plans

Thrift Plans are open to all US employees of participating National Grid companies; these are tax-advantaged savings plans (commonly referred to as 401k plans). These are defined contribution (DC) pension plans that give participants the opportunity to invest up to applicable federal salary limits. The federal limits for calendar year 2019 were: for pre-tax contributions, a maximum of 50% of salary limited to \$19,000 for those under the age of 50 and \$25,000 for those aged 50 and above; for post-tax contributions, up to 15% of salary. The total amount of employee contributions (pre-tax and post-tax) could not exceed 50% of compensation, and was further subject to the combined federal annual contribution limit of \$56,000. For the calendar year 2020, participants may invest up to the applicable federal salary limits: for pre-tax contributions, this is a maximum of 50% of salary limited to \$19,500 for those under the age of 50 and \$26,000 for those aged 50 and above; for post-tax contributions, this is up to 15% of salary. The total amount of employee contributions (pre-tax and post-tax) may not exceed 50% of compensation, and is further subject to the combined federal annual contribution limit of \$57,000.

Employee Stock Purchase Plan (ESPP)

Employees of National Grid's participating US companies are eligible to participate in the ESPP (commonly referred to as a 423b plan). Eligible employees have the opportunity to purchase ADSs in National Grid on a monthly basis at a 15% discounted price. Under the plan, employees may contribute up to 20% of base pay each year, up to a maximum annual contribution of \$18,888, to purchase ADSs.

Change of control provisions

No compensation would be paid for loss of office of Directors on a change of control of the Company. As at 31 March 2020, the Company had borrowing facilities of £4.2 billion available to it with a number of banks, which, on a change of control of the Company following a takeover bid, may alter or terminate; however, the Company is currently not drawing on any of such borrowing facilities. All of the Company's share plans contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time. In the event of a change of control of the Company, a number of governmental and regulatory consents or approvals are likely to be required, arising from laws or regulations of the UK, the US or the EU. Such consents or approvals may also be required for acquisitions of equity securities that do not amount to a change of control.

No other agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid are considered to be significant in terms of their potential impact on the business as a whole.

Code of Ethics

In accordance with US legal requirements, the Board has adopted a Code of Ethics for senior financial professionals. This Code is available on our website: www.nationalgrid.com (where any amendments or waivers will also be posted). There were no amendments to, or waivers of, our Code of Ethics during the year.

Conflicts of interest

In accordance with the Companies Act 2006, the Board has a policy and procedure in place for the disclosure and authorisation (if appropriate) of actual and potential conflicts of interest. The Board continues to monitor and note possible conflicts of interest that each Director may have. The Directors are regularly reminded of their continuing obligations in relation to conflicts, and are required to review and confirm their external interests annually. During the year ended 31 March 2020, no new actual or potential conflicts of interest were identified that required approval by the Board. The Board has considered and noted a number of situations in relation to which no actual conflict of interest was identified. Due to current ongoing contractual negotiations that the Company has with Costain plc, the situational conflict that Paul Golby has by virtue of being a Non-executive Director of the Company and Chairman of Costain plc has been kept under constant review during the year and Paul Golby has been recused of all discussions in relation to contractual issues with Costain plc. He has also confirmed to us in writing that the same arrangements are in place in Costain plc.

Corporate governance practices: differences from New York Stock Exchange (NYSE) listing standards

The Company is listed on the NYSE and is therefore required to disclose differences in its corporate governance practices adopted as a UK listed company, compared with those of a US company.

The corporate governance practices of the Company are primarily based on the requirements of the Corporate Governance Code 2018 but substantially conform to those required of US companies listed on the NYSE. The following is a summary of the significant ways in which the Company's corporate governance practices differ from those followed by US companies under Section 303A Corporate Governance Standards of the NYSE.

The NYSE rules and the Code apply different tests for the independence of Board members.

The NYSE rules require a separate nominating/corporate governance committee composed entirely of independent Directors. There is no requirement for a separate corporate governance committee in the UK. Under the Company's corporate governance policies, all Directors on the Board discuss and decide upon governance issues, and the Nominations Committee makes recommendations to the Board with regard to certain responsibilities of a corporate governance committee.

The NYSE rules require listed companies to adopt and disclose corporate governance guidelines. While the Company reports compliance with the Code in each Annual Report and Accounts, the UK requirements do not require the Company to adopt and disclose separate corporate governance guidelines.

The NYSE rules require a separate audit committee composed of at least three independent members. While the Company's Audit Committee exceeds the NYSE's minimum independent Non-executive Director membership requirements, it should be noted that the quorum for a meeting of the Audit Committee, of two independent Non-executive Directors, is less than the minimum membership requirements under the NYSE rules.

The NYSE rules require a compensation committee composed entirely of independent Directors, and prescribe criteria to evaluate the independence of the committee's members and its ability to engage external compensation advisors. While the Code prescribes different independence criteria, the Non-executive Directors on the Company's Remuneration Committee have each been deemed independent by the Board under the NYSE rules. Although the evaluation criteria for appointment of external advisors differ under the Code, the Remuneration Committee is solely responsible for the appointment, retention and termination of such advisors.

Directors' indemnity

The Company has arranged, in accordance with the Companies Act 2006 and the Articles of Association, qualifying third-party indemnities against financial exposure that Directors may incur in the course of their professional duties. Equivalent qualifying third-party indemnities were, and remain, in force for the benefit of those Directors who stood down from the Board in prior financial years for matters arising when they were Directors of the Company. Alongside these indemnities, the Company places Directors' and Officers' liability insurance cover for each Director.

Employees

We negotiate with recognised unions. It is our policy to maintain well developed communications and consultation programmes. Other than the implementation of the Massachusetts workforce contingency plan in June 2018 there have been no material disruptions to our operations from labour disputes during the past five years. The agreement under dispute between the Company and the Massachusetts Gas unions was satisfactorily renegotiated in January 2019. National Grid believes that it can conduct its relationships with trade unions and employees in a satisfactory manner. Further details on the Company's colleagues can be found on pages 52 – 54.

Human rights

Respect for human rights is incorporated into our employment practices and our core values, which are integral to our Code of Ethical Business Conduct. The way in which we conduct ourselves allows us to build trust with the people with whom we work. As a global utility company, we earn this trust by doing things in the right way, complying with the laws of the countries in which we do business while building our reputation as a responsible company that our stakeholders want to do business with and our employees want to work for. Although we do not have specific policies relating to human rights, slavery or human trafficking, our commitment is guided by our Global Supplier Code of Conduct (GSCoC) that integrates human rights into the way we do business throughout our supply chain alongside other areas of sustainability. This Code outlines our values and expectations to ensure we treat people with respect and protect their human rights, protect the environment and preserve natural resources and positively impact the interests of the communities we serve and from which we procure goods and services. Through our GSCoC, we expect our suppliers to act in accordance with the highest ethical standards and comply with all the relevant laws, regulations and licences relating to their business, as well as adhere to the Principles of the United Nations Global Compact, the International Labour Organization (ILO) minimum standards, the Ethical Trading Initiative (ETI) Base Code, the UK Modern Slavery Act 2015, Trafficking and Violence Protection Act 2000 and, for our UK suppliers, the requirements of the Living Wage Foundation.

Listing Rule 9.8.4 R cross-reference table

Information required to be disclosed by LR 9.8.4 R (starting on page indicated):

Interest capitalised	Page 140
Publication of unaudited financial information	Not applicable
Details of long-term incentive schemes	Not applicable
Waiver of emoluments by a director	Not applicable
Waiver of future emoluments by a director	Not applicable
Non-pre-emptive issues of equity for cash	Not applicable
Item (7) in relation to major subsidiary undertakings	Not applicable
Parent participation in a placing by a listed subsidiary	Not applicable
Contracts of significance	Not applicable
Provision of services by a controlling shareholder	Not applicable
Shareholder waivers of dividends	Page 234
Shareholder waivers of future dividends	Page 234
Agreements with controlling shareholders	Not applicable

Material contracts

Each of our Executive Directors has a Service Agreement and each Non-executive Director has a Letter of Appointment. Apart from these, no contract (other than contracts entered into in the ordinary course of business) has been entered into by the Group within the two years immediately preceding the date of this report that is, or may be, material, or that contains any provision under which any member of the Group has any obligation or entitlement that is material to the Group at the date of this report.

Political donations and expenditure

At this year's AGM, the Directors will again seek authority from shareholders, on a precautionary basis, for the Company and its subsidiaries to make donations to registered political parties and other political organisations and/or incur political expenditure as such terms are defined in the Companies Act 2006. In each case, donations will be in amounts not exceeding £125,000 in aggregate. The definitions of these terms in the Companies Act 2006 are very wide. As a result, this can cover bodies such as those concerned with policy review, law reform and the representation of the business community. It could include special interest groups, such as those involved with the environment, which the Company and its subsidiaries might wish to support, even though these activities are not designed to support or influence support for a particular party. The Companies Act 2006 states that all-party parliamentary groups are not political organisations for these purposes, meaning the authority to be sought from shareholders is not relevant to interactions with such groups. The Company has no intention of changing its current practice of not making political donations or incurring political expenditure within the ordinary meaning of those words. This authority is, therefore, being sought to ensure that none of the Company's activities inadvertently infringe these rules.

National Grid made no political donations in the UK or the EU during the year, including donations as defined for the purposes of the Political Parties, Elections and Referendums Act 2000. National Grid USA and its affiliated New York and federal political action committees (PAC) made political donations in the US totalling \$46,050 (£36,978) during the year. National Grid USA's affiliated New York PAC was funded partly by contributions from National Grid USA and certain of its subsidiaries and partly by voluntary employee contributions. National Grid USA's affiliated federal PAC was funded wholly by voluntary employee contributions.

Property, plant and equipment

This information can be found in note 13 property, plant and equipment on pages 150 – 152, note 21 borrowing on pages 161 – 163 and where we operate on page 218.

Research, development and innovation activity

Investment in research and development during the year for the Group was £14 million (2018/19: £19 million; 2017/18: £13 million). Due to the way in which we work with a large number of partners on new ideas, our disclosed research and development expenditure is lower than the overall contribution we make to the industry. We only disclose directly incurred expenditure, and not those amounts our partners contribute to joint or collaborative projects. Collaborating across the industry has played a crucial role in our ability to develop new programmes and deliver value to our stakeholders throughout 2019/20.

Continued collaboration and stakeholder engagement have driven the research programmes for ET innovation. Our engagement with stakeholders as part of webinars, podcasts, formal meetings, conferences and dissemination events has been instrumental to developing our strategies including our overall innovation strategy as well as technology and asset-related innovation strategies.

As a result, our project portfolio has been developed around the themes of delivering cleaner and cheaper energy. Our commitment to the 'Net Zero' target for 2050 has provided the focus for our research programme on carbon emission reduction. We have started cross-sector collaboration in order to drive a whole-system approach to decarbonising key sectors such as heat, transport and industry. Our Zero2050 project in South Wales has brought diverse stakeholders from utilities, industry, academia, SMEs, consultants and government together to design a pathway to decarbonisation for South Wales that delivers best value to consumers.

Other disclosures continued

We are also increasing research into decarbonising our own operations and preparing our network for the changes we need to make to accommodate a fully decarbonised energy sector. We have worked with our partners on several projects, investigating ways to eliminate greenhouse gases from our gas-insulated equipment as well as the reduction of our carbon footprint relating to our construction work. Our future network will need to accommodate more renewable energy sources and other converter-based connections and equipment. Providing the infrastructure for a secure, efficient and reliable network requires an increased understanding of network stability with reduced inertia in the system. We have started four projects investigating the impacts of reduced inertia, potential controller interactions and reduced fault levels. As part of these projects we are developing our capabilities to accurately model the electricity transmission network and are developing schemes to mitigate the impacts on system stability and protection performance.

The second key aspect that our stakeholder engagement has highlighted is the delivery of cheaper energy. This has been implemented in our research programme on optimised asset management and monitoring as well as the digitisation of operational technology, considering in particular, cyber security in a context of increasing cyber threats.

As a key enabler for future innovation we have continued the delivery of our Deeside Centre for Innovation. Significant progress has been made with the completion of the control building, good progress on the construction of the overhead line test area and detailed design for the substation area, which notably includes a trial for construction with cement-free concrete.

The ESO has been innovating to make sure the electricity network operates safely and efficiently around the clock. Innovation is key to creating a sustainable, low-carbon electricity system for the future that will help the UK meet its net zero commitments. We refresh our strategy and innovation priorities annually, based on consultation with our stakeholders and this ensures we continue to focus innovation funding only on the most effective projects which can deliver consumer benefits. Next year will see us continue delivering large-scale ESO-led innovation projects, including Distributed ReStart, a £10 million Network Innovation Competition (NIC) project with SP Energy Networks and specialist energy consultancy TNEI. In a world first, this project will develop and demonstrate coordination of DERs to provide a safe and effective Black Start service at lower cost to consumers.

Gas Transmission innovation has continued to focus on developing innovation programmes across core areas such as net zero, safety, reliability and asset health, and embedding these in the business, while also preparing to deliver the energy network of the future and facilitate UK decarbonisation. Highlights from the year include:

- expanding our focus on hydrogen with a number of new projects, including Hydrogen Injection into the NTS, looking at the requirements to carry out a physical trial of hydrogen in the NTS;
- the Monitoring of Real-Time Fugitive Emissions project, looking at developing a robust measurement protocol and a new, low-cost, distributed sensor scheme to monitor fugitive emissions;
- the Spatial GB Clean Heat model, a National Grid-led collaborative project with the gas distribution networks to develop an integrated, cross-vector heat decarbonisation model of the whole heating system within GB to optimise future investment plans;
- launching a number of innovation calls with the Energy Innovation Centre (EIC), reaching out to innovators and small and medium-sized enterprises (SMEs) to find new technologies and solutions to some of our biggest challenges on the NTS;
- the GRAID ART project, which will investigate the addition of Acoustic Resonance Technology (ART) onto the GRAID robotic platform to enhance our underground pipeline inspections, provide robust data about their condition and reduce maintenance and repair costs;
- the installation of the Composite Transition Pieces at Peterborough and Huntingdon; these innovative seal units make it quicker, cheaper and safer to assess pipelines for corrosion.

Research and Development (R&D) work in the US focused on the advancement of products, processes, systems and work methods that may be new to National Grid. This is accomplished by working with internal departments to identify where strategic R&D investment is needed and is likely to prove beneficial. To achieve these goals, we work in collaboration with technical organisations, academia and vendors in the energy sector that align with our goals and objectives to provide a safe, reliable, efficient and clean service. This collaboration has also helped inform our strategic direction in response to jurisdictional requests for electric modernisation (Grid Modernisation in Massachusetts, Rhode Island and Reforming the Energy Vision (REV) in New York). We continue to focus our R&D on increasing public safety, protecting our workforce and reducing the cost of the work we perform.

In 2019/20, we continued to invest and participate in several significant pilot projects with the intention of obtaining operational knowledge and experience of technology-driven system impacts. Below are a few examples of our R&D projects:

US Electricity:

- In Massachusetts under our 'Solar Phase II' programme, we contracted and built 15.27 MW of company-owned photovoltaics facilities. The objective is to better understand the real-world impact advanced technologies can bring to the grid; such as reduced customer interconnection costs and time; increasing hosting capacity; and improving the distribution system's overall power quality and reliability. We partnered with the Electric Power Research Institute (EPRI), Sandia National Laboratories (Sandia) and Fraunhofer Gesellschaft (Fraunhofer);
- With the EPRI, we explored the value of customised smart inverter settings and advanced metering at the Point of Common Coupling (PCC) and published our findings in a white paper titled 'Recommended Smart Inverter Settings for Grid Support and Test Plan: Interim Report'. We also worked with them to calculate the severity of PV Arc Flashes, of which the team shared their findings in a paper titled 'DC Arc Flash on Photovoltaic Equipment';
- With National Grid's support, Sandia initiated an Advanced Distribution Management Systems (ADMS) to optimise commands to allow PV penetration of 50% or greater. Our work was published in a paper titled 'Optimal Distribution System Voltage Regulation using State Estimation and DER Grid-Support Functions';
- Under the support of the US Department of Energy, the Fraunhofer CSE-led project, called 'SunDial', we created a system that optimally manages facility loads and energy storage charging and discharging with PV to mitigate potential problems due to intermittency and large ramps in generation;
- In the 'Solar Phase III' programme, we developed seven additional sites each equipped with a unique combination of smart inverters, energy storage, advanced metering, plant level control, and other equipment with features beyond today's industry standards. We will be testing these new technologies on a variety of distribution circuits; and
- Last year, we completed two New York REV pilot projects:
 - Fruit Belt Neighbourhood Solar and Community Resilience. This year we have completed an additional New York REV demonstration project; and
 - The Distributed System Platform (DSP) REV demonstration project tested a small-scale distribution system energy market involving customer-owned DERs to support the Distribution System Operator (DSO) concept.

- We continued to progress our Smart City REV demonstration project in partnership with the city of Schenectady. Phase 1, which involves procurement, deployment and initial operation of all selected technologies, has progressed beyond 90% completion. Now we are collaborating on the establishment and assessment of functional performance characteristics, including feedback from city stakeholders to evaluate the public acceptance and the overall value proposition. Phase 2 of the project is currently in the technology procurement phase, which will then be deployed in the remaining areas of the city.
- National Grid is heavily engaged on several programmes, including bulk system renewables, DERs integration, planning and asset management, energy storage, asset management for transmission and distribution, system automation and integrating emerging technologies.
- To proactively monitor environmental conditions within underground structures (manholes) we have piloted the installation of manhole monitoring technology produced by CNIGuard. Underground infrastructure can be susceptible to the accumulation of water, debris and salt that can result in the degradation of assets. This can result in failure of the assets thereby increasing the operation and loading on parallel equipment. National Grid has installed nine units in Providence, Rhode Island and 11 in Brockton, Massachusetts and will be installing 12 in Albany, NY, 12 in Brockton, Massachusetts and 12 in Providence, Rhode Island in the second quarter of 2020.
- National Grid is preparing to demonstrate online monitoring technology at transmission substations and lines in our New England service area. These technologies will allow the Company to utilise the capacity of lines and transformers more efficiently and focus maintenance efforts on the assets which are at the greatest risk.
- Over the next 10 years we will be deploying up to 170 digital substations in New England and New York as we transition to fully digital substations on our transmission network, which will utilise the IEC 61850 communications standard. The digital substation reduces construction and operation costs, engineering and construction time, increases system flexibility, and helps facilitate the large-scale incorporation of renewable power.

US gas:

- While partnering with a robotics company and another utility, we have been developing and testing new technology to locate inadvertent sewer cross bores created when using some trenchless technology. This technology is deployed in our gas main immediately after installation, prior to the introduction of natural gas. It differs from the current process, which requires us to gain access to the municipal sewer system. Deployment will reduce the risk and cost associated with sewer cross bores. We constructed a functional sewer system covering five hectares at one of our facilities to test the accuracy of the technology. We purposefully created cross bores in the system at several points to determine if the technology could locate them. The technology found all the cross bores with no false negatives. We are currently transitioning the technology to the field for live testing.
- We have been working with a Canadian valve manufacturer to develop a service isolation valve to locally and remotely isolate a gas service. The application has become necessary due to recent industry incidents in the US. The valve has passed all industry and National Grid required testing and can be installed on service lines up to 11 bar of pressure. The valve can take a switched signal from any source and locally isolate the gas service. Signals include flood, fire, seismic, under-pressurisation, over-pressurisation and methane. The valve can also be closed via a wireless signal from National Grid. We are currently building 75 units to be deployed in the New York State service territory. We are in conversations with our regulators to expand the testing to 1,000 units as a solution to hurricane Sandy flooding issues.
- To enhance the functionality of the service isolation valve, we have been working to develop and deploy enhanced residential methane detectors (RMDs). With the deployment of the 75 service isolation valves, we are installing European manufactured RMDs that are powered by 120 V and hard wired to the valve control. We are working with several manufacturers on enhancements: first to power the unit with long-term batteries (current technology limits battery life to three years); and second, to introduce wireless communication to the valve controller (as current technology requires wiring from the RMD to the isolation valve). We are developing an RMD with communications technology that would allow installation of the RMD in remote locations in residential flats, and installation of the RMD in locations where gas is being used to signal if gas escapes.

The Company is utilising all the R&D efforts described above, to create the Grid modernisation plans for all jurisdictions.

Unresolved SEC staff comments

There are no unresolved SEC staff comments required to be reported.

Other unaudited financial information

Alternative performance measures/non-IFRS reconciliations

Within the Annual Report, a number of financial measures are presented. These measures have been categorised as alternative performance measures (APMs), as per the European Securities and Markets Authority (ESMA) guidelines and the Securities and Exchange Commission (SEC) conditions for use of non-GAAP financial measures.

An APM is a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined under IFRS. The Group uses a range of these measures to provide a better understanding of its underlying performance. APMs are reconciled to the most directly comparable IFRS financial measure where practicable.

The Group has defined the following financial measures as APMs derived from IFRS: net revenue, the various adjusted operating profit, earnings and earnings per share metrics detailed in the 'adjusted profit measures' section below, net debt, capital investment, funds from operations (FFO), FFO interest cover and retained cash flow (RCF)/adjusted net debt. For each of these we present a reconciliation to the most directly comparable IFRS measure.

We also have a number of APMs derived from regulatory measures which have no basis under IFRS; we call these Regulatory Performance Measures (RPMs). They comprise: Group Return on Equity (RoE), UK and US regulatory RoE, regulated asset base, regulated financial performance, regulatory gearing, asset growth, Value Added, including Value Added per share and Value Growth. These measures include the inputs used by utility regulators to set the allowed revenues for many of our businesses.

We use RPMs to monitor progress against our regulatory agreements and certain aspects of our strategic objectives. Further, targets for certain of these performance measures are included in the Company's Annual Performance Plan (APP) and Long Term Performance Plan (LTPP) and contribute to how we reward our employees. As such, we believe that they provide close correlation to the economic value we generate for our shareholders and are therefore important supplemental measures for our shareholders to understand the performance of the business and to ensure a complete understanding of Group performance.

As the starting point for our RPMs is not IFRS, and these measures are not governed by IFRS, we are unable to provide meaningful reconciliations to any directly comparable IFRS measures, as differences between IFRS and the regulatory recognition rules applied have built up over many years. Instead, for each of these we present an explanation of how the measure has been determined and why it is important, and an overview as to why it would not be meaningful to provide a reconciliation to IFRS.

Alternative performance measures

Net revenue

Net revenue is revenue less pass-through costs, such as UK system balancing costs, gas and electricity commodity costs in the US and, prior to the adoption of IFRS 15, payments to other UK network owners. Pass-through costs are fully recoverable from our customers and are recovered through separate charges that are designed to recover those costs with no profit. Any over- or under-recovery of these costs is returned to, or recovered from, our customers.

	2020			2019			2018		
	Gross revenue £m	Pass-through costs £m	Net revenue £m	Gross revenue £m	Pass-through costs £m	Net revenue £m	Gross revenue £m	Pass-through costs £m	Net revenue £m
UK Electricity Transmission	3,702	(1,528)	2,174	3,351	(1,397)	1,954	4,154	(2,243)	1,911
UK Gas Transmission	927	(242)	685	896	(227)	669	1,091	(257)	834
US Regulated	9,205	(3,460)	5,745	9,846	(3,978)	5,868	9,272	(3,804)	5,468
NGV and Other	736	–	736	876	–	876	776	–	776
Sales between segments	(30)	–	(30)	(36)	–	(36)	(43)	–	(43)
Total	14,540	(5,230)	9,310	14,933	(5,602)	9,331	15,250	(6,304)	8,946

Adjusted profit measures

In considering the financial performance of our business and segments, we use various adjusted profit measures in order to aid comparability of results year-on-year.

The various measures are presented on pages 28 – 37 and reconciled below.

Adjusted results, also referred to as Headline results – these exclude the impact of exceptional items and remeasurements that are treated as discrete transactions under IFRS and can accordingly be classified as such. This is a measure used by management that forms part of the incentive target set annually for remunerating certain Executive Directors, and further details of these items are included in Note 5 to the financial statements.

Underlying results – further adapts our adjusted results to take account of volumetric and other revenue timing differences arising due to the in-year difference between allowed and collected revenues, including revenue incentives, as governed by our rate plans in the US or regulatory price controls in the UK (but excluding totex-related allowances and adjustments). For 2019/20, as highlighted on page 241, our underlying results exclude £147 million (2018/19: £108 million) of timing differences. We have not excluded major storm costs this year as costs were below our \$100 million storm cost timing threshold (2018/19: £93 million). We expect to recover major storm costs incurred through regulatory mechanisms in the US.

Constant currency – the adjusted profit measures are also shown on a constant currency basis to show the year-on-year comparisons excluding any impact of foreign currency movements.

Reconciliation of statutory, adjusted and underlying profits and earnings – at actual exchange rates – continuing operations

Year ended 31 March 2020	Statutory £m	Exceptionals and remeasurements £m	Adjusted £m	Timing £m	Major storm costs £m	Underlying £m
UK Electricity Transmission	1,316	4	1,320	(146)	–	1,174
UK Gas Transmission	347	1	348	54	–	402
US Regulated	880	517	1,397	239	–	1,636
NGV and Other	237	5	242	–	–	242
Total operating profit	2,780	527	3,307	147	–	3,454
Net finance costs	(1,113)	64	(1,049)	–	–	(1,049)
Share of post-tax results of joint ventures and associates	87	1	88	–	–	88
Profit before tax	1,754	592	2,346	147	–	2,493
Tax	(480)	47	(433)	(45)	–	(478)
Profit after tax	1,274	639	1,913	102	–	2,015

Year ended 31 March 2019	Statutory £m	Exceptionals and remeasurements £m	Adjusted £m	Timing £m	Major storm costs £m	Underlying £m
UK Electricity Transmission	778	237	1,015	77	–	1,092
UK Gas Transmission	267	36	303	38	–	341
US Regulated	1,425	299	1,724	(223)	93	1,594
NGV and Other	400	–	400	–	–	400
Total operating profit	2,870	572	3,442	(108)	93	3,427
Net finance costs	(1,069)	76	(993)	–	–	(993)
Share of post-tax results of joint ventures and associates	40	–	40	–	–	40
Profit before tax	1,841	648	2,489	(108)	93	2,474
Tax	(339)	(149)	(488)	36	(24)	(476)
Profit after tax	1,502	499	2,001	(72)	69	1,998

Year ended 31 March 2018	Statutory £m	Exceptionals and remeasurements £m	Adjusted £m	Timing £m	Major storm costs £m	Underlying £m
UK Electricity Transmission	1,041	–	1,041	14	–	1,055
UK Gas Transmission	487	–	487	18	–	505
US Regulated	1,734	(36)	1,698	(136)	142	1,704
NGV and Other	231	–	231	–	–	231
Total operating profit	3,493	(36)	3,457	(104)	142	3,495
Net finance costs	(882)	(119)	(1,001)	–	–	(1,001)
Share of post-tax results of joint ventures and associates	49	(5)	44	–	–	44
Profit before tax	2,660	(160)	2,500	(104)	142	2,538
Tax	889	(1,473)	(584)	42	(51)	(593)
Profit after tax	3,549	(1,633)	1,916	(62)	91	1,945

Other unaudited financial information continued

Reconciliation of adjusted and underlying profits – at constant currency

	At constant currency					
	Adjusted at actual exchange rate £m	Constant currency adjustment £m	Adjusted £m	Timing £m	Major storm costs £m	Underlying £m
Year ended 31 March 2019						
UK Electricity Transmission	1,015	–	1,015	77	–	1,092
UK Gas Transmission	303	–	303	38	–	341
US Regulated	1,724	25	1,749	(226)	94	1,617
NGV and Other	400	1	401	–	–	401
Total operating profit	3,442	26	3,468	(111)	94	3,451
Net finance costs	(993)	(11)	(1,004)	–	–	(1,004)
Share of post-tax results of joint ventures and associates	40	–	40	–	–	40
Profit before tax	2,489	15	2,504	(111)	94	2,487

	At constant currency					
	Adjusted at actual exchange rate £m	Constant currency adjustment £m	Adjusted £m	Timing £m	Major storm costs £m	Underlying £m
Year ended 31 March 2018						
UK Electricity Transmission	1,041	–	1,041	14	–	1,055
UK Gas Transmission	487	–	487	18	–	505
US Regulated	1,698	94	1,792	(144)	150	1,798
NGV and Other	231	(4)	227	–	–	227
Total operating profit	3,457	90	3,547	(112)	150	3,585
Net finance costs	(1,001)	(38)	(1,039)	–	–	(1,039)
Share of post-tax results of joint ventures and associates	44	1	45	–	–	45
Profit before tax	2,500	53	2,553	(112)	150	2,591

Earnings per share calculations from continuing operations – at actual exchange rates

The table below reconciles the profit before tax from continuing operations as per the previous tables back to the earnings per share from continuing operations for each of the adjusted profit measures. Earnings per share is only presented for those adjusted profit measures that are at actual exchange rates, and not for those at constant currency.

	Profit after tax £m	Non-controlling interest £m	Profit after tax attributable to shareholders £m	Weighted average number of shares millions	Earnings per share pence
Year ended 31 March 2020					
Statutory	1,274	(1)	1,273	3,461	36.8
Adjusted (also referred to as Headline)	1,913	(1)	1,912	3,461	55.2
Underlying	2,015	(1)	2,014	3,461	58.2

	Profit after tax £m	Non-controlling interest £m	Profit after tax attributable to shareholders £m	Weighted average number of shares millions	Earnings per share pence
Year ended 31 March 2019					
Statutory	1,502	(3)	1,499	3,386	44.3
Adjusted (also referred to as Headline)	2,001	(3)	1,998	3,386	59.0
Underlying	1,998	(3)	1,995	3,386	58.9

	Profit after tax £m	Non-controlling interest £m	Profit after tax attributable to shareholders £m	Weighted average number of shares millions	Earnings per share pence
Year ended 31 March 2018					
Statutory	3,549	(1)	3,548	3,461	102.5
Adjusted (also referred to as Headline)	1,916	(1)	1,915	3,461	55.3
Underlying	1,945	(1)	1,944	3,461	56.2

Timing and regulated revenue adjustments

As described on pages 219 – 226, our allowed revenues are set in accordance with our regulatory price controls or rate plans. 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 the 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 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. In the US, a substantial portion of our costs are pass-through costs (including commodity and energy-efficiency costs) and are fully recoverable from our customers. Timing differences between costs of this type being incurred and their recovery through revenue are also included in timing. The amounts calculated as timing differences are estimates and subject to change until the variables that determine allowed revenue are final.

Our continuing operating profit for the year includes a total estimated in-year under-collection of £147 million (2018/19: £108 million over-collection). Our closing balance at 31 March 2020 was £256 million over-recovered. In the UK, there was a cumulative over-recovery of £24 million at 31 March 2020 (2019: under-recovery of £59 million). In the US, cumulative timing over-recoveries at 31 March 2020 were £240 million (2019: £466 million over-recovery).

The total estimated in-year over- or under-collection excludes opening balance adjustments related to estimates or finalisation of balances as part of regulatory submissions.

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

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

For our UK Regulated businesses as a whole, timing and regulated revenue adjustments totalled a recovery of £92 million in the year (2018/19: £115 million return). In the US, accumulated regulatory entitlements cover a range of different areas, with the most significant being environmental remediation and pension assets, as well as deferred storm costs.

All regulatory entitlements are recoverable (or repayable) over different periods, which are agreed with the regulators to match the expected payment profile for the liabilities.

	UK Electricity Transmission £m	UK Gas Transmission £m	US Regulated £m	Total £m
1 April 2019 opening balance ¹	(127)	59	471	403
Over/(under) recovery	146	(54)	(239)	(147)
31 March 2020 closing balance to (recover)/return³	19	5	232	256
	UK Electricity Transmission £m	UK Gas Transmission £m	US Regulated £m	Total £m
1 April 2018 opening balance ¹	(41)	97	245	301
Over/(under) recovery	(77)	(38)	226	111
31 March 2019 closing balance to (recover)/return^{2,3}	(118)	59	471	412
	UK Electricity Transmission £m	UK Gas Transmission £m	US Regulated £m	Total £m
1 April 2017 opening balance ¹	(30)	111	108	189
Over/(under) recovery	(14)	(18)	143	111
31 March 2018 closing balance to (recover)/return^{2,3}	(44)	93	251	300

1. Opening balances have been restated to reflect the finalisation of calculated over/(under)-recoveries in the UK and the US.

2. US over/(under) recovery and all US Regulated balances have been translated using the average exchange rate for the year ended 31 March 2020.

3. The over-recovered closing balance at 31 March 2020 was £264 million (translated at the closing rate of \$1.24:£1). 31 March 2019 was £407 million (translated at the closing rate of \$1.30:£1). 31 March 2018 was £279 million (translated at the closing rate of \$1.40:£1).

Other unaudited financial information continued

Capital investment

'Capital investment' or 'investment' refer to additions to property, plant and equipment and intangible assets, and contributions to joint ventures and associates, other than the St William Homes LLP joint venture during the period. We also include the Group's investments by National Grid Partners during the period, which are classified for IFRS purposes as non-current financial assets in the Group's consolidated statement of financial position.

Investments made to our St William Homes LLP arrangement are excluded based on the nature of this joint venture arrangement. We typically contribute property assets to the joint venture in exchange for cash and accordingly do not consider these transactions to be in the nature of capital investment.

Year ended 31 March	At actual exchange rates			At constant currency		
	2020 £m	2019 £m	% change	2020 £m	2019 £m	% change
UK Electricity Transmission	1,043	925	13	1,043	925	13
UK Gas Transmission	249	308	(19)	249	308	(19)
US Regulated	3,228	2,650	22	3,228	2,688	20
NGV and Other	559	438	28	559	439	27
Group capital expenditure	5,079	4,321	18	5,079	4,360	16
Equity investment, funding contributions and loans to joint ventures and associates ¹	56	127	(56)	56	128	(56)
Acquisition of Geronimo and Emerald	209	–	n/a	209	–	n/a
Increase in financial assets (National Grid Partners)	61	58	5	61	59	3
Group capital investment	5,405	4,506	20	5,405	4,547	19

1. Excludes £15 million (2019: £47 million) equity contribution to the St William Homes LLP joint venture.

Net debt

See note 29 on page 178 for the definition and reconciliation of net debt.

Funds from operations and interest cover

FFO is the cash flows generated by the operations of the Group. Credit rating metrics, including FFO, are used as indicators of balance sheet strength.

Year ended 31 March	2020 £m	2019 ¹ £m	2018 ¹ £m
Interest expense (income statement)	1,119	1,066	1,128
Hybrid interest reclassified as dividend	(39)	(51)	(51)
Capitalised interest	122	135	128
Pensions interest adjustment	16	(4)	(49)
Interest on lease rentals adjustment	–	11	16
Unwinding of discount on provisions	(77)	(74)	(75)
Other interest adjustments	–	1	12
Adjusted interest expense	1,141	1,084	1,109
Net cash inflow from operating activities	4,715	4,389	4,710
Interest received on financial instruments	73	68	57
Interest paid on financial instruments	(957)	(914)	(853)
Dividends received	75	201	213
Working capital adjustment	(269)	(40)	(118)
Excess employer pension contributions	176	260	211
Hybrid interest reclassified as dividend	39	51	51
Lease rentals	–	34	86
Difference in net interest expense in income statement to cash flow	(187)	(186)	(178)
Difference in current tax in income statement to cash flow	67	(13)	(206)
Current tax related to prior periods	(45)	(52)	(22)
Cash flow from discontinued operations	(97)	(71)	(207)
Funds from operations (FFO)	3,590	3,727	3,744
FFO interest cover ((FFO + adjusted interest expense)/adjusted interest expense)	4.1x	4.4x	4.4x

1. Numbers for 2019 and 2018 reflect the calculations for the total Group as based on the published accounts for the respective years.

Retained cash flow/adjusted net debt

RCF/adjusted net debt is one of two credit metrics that we monitor in order to ensure the Group is generating sufficient cash to service its debts, consistent with maintaining a strong investment-grade credit rating. We calculated RCF/adjusted net debt applying the methodology used by Moody's, as this is one of the most constrained calculations of credit worthiness. The net debt denominator includes adjustments to take account of the equity component of hybrid debt.

Year ended 31 March	2020 £m	2019 £m	2018 £m
Funds from operations (FFO)	3,590	3,727	3,744
Hybrid interest reclassified as dividend	(39)	(51)	(51)
Ordinary dividends paid to shareholders	(892)	(1,160)	(1,316)
RCF (excluding share buybacks)	2,659	2,516	2,377
Repurchase of shares	–	–	(178)
RCF (net of share buybacks)	2,659	2,516	2,199
Borrowings	30,794	28,730	26,625
Less:			
50% hybrid debt	(1,054)	(1,039)	(1,050)
Cash and cash equivalents	(73)	(252)	(329)
Financial and other investments	(1,278)	(1,311)	(2,304)
Underfunded pension obligations	1,442	845	857
Operating leases adjustment	–	248	408
Derivative balances removed from debt	(116)	141	(479)
Currency swaps	203	38	117
Nuclear decommissioning liabilities reclassified as debt	6	18	5
Collateral – cash received under collateral agreements	(785)	(558)	(878)
Accrued interest removed from short-term debt	(246)	(223)	(195)
Adjusted net debt (includes pension deficit)	28,893	26,637	22,777
RCF (excluding share buybacks)/adjusted net debt	9.2%	9.4%	10.4%
RCF (net of share buybacks)/adjusted net debt	9.2%	9.4%	9.7%

Regulatory Performance Measures

Regulated financial performance – UK

Regulatory financial performance is a pre-interest and tax measure, starting at segmental operating profit and making adjustments (such as the elimination of all pass-through items included in revenue allowances and timing) to approximate regulatory profit for the UK regulated activities. This measure provides a bridge for investors between a well-understood and comparable IFRS starting point and through the key adjustments required to approximate regulatory profit. This measure also provides the foundation to calculate Group RoE.

For the reasons noted above, the table below shows the principal differences between the IFRS operating profit and the regulated financial performance, but is not a formal reconciliation to an equivalent IFRS measure.

UK Electricity Transmission

Year ended 31 March	2020 £m	2019 £m	2018 £m
Adjusted operating profit	1,320	1,015	1,041
Movement in regulatory 'IOUs'	(99)	174	51
Deferred taxation adjustment	63	64	70
RAV indexation (average 3% long-run inflation)	406	391	374
Regulatory vs IFRS depreciation difference	(459)	(394)	(377)
Fast money/other	26	72	69
Pensions	(52)	(51)	(49)
Performance RAV created	119	90	83
Regulated financial performance	1,324	1,361	1,262

Other unaudited financial information continued

UK Gas Transmission

Year ended 31 March	2020 £m	2019 £m	2018 £m
Adjusted operating profit	348	303	487
Movement in regulatory 'IOUs'	67	68	(91)
Deferred taxation adjustment	25	8	18
RAV indexation (average 3% long-run inflation)	185	179	173
Regulatory vs IFRS depreciation difference	(77)	(42)	(29)
Fast money/other	(17)	(10)	(11)
Pensions	(34)	(33)	(32)
Performance RAV created	(24)	(30)	(16)
Regulated financial performance	473	443	499

Regulated financial performance – US

US Regulated

Year ended 31 March	2020 £m	2019 £m	2018 £m
Adjusted operating profit	1,397	1,724	1,698
Bad debt provision (COVID-19) ¹	117	–	–
Major storm costs	–	93	142
Timing	239	(223)	(136)
US GAAP pension adjustment	(4)	(80)	(73)
Regulated financial performance	1,749	1,514	1,631

1. US Regulated financial performance includes an adjustment reflecting our expectation for future recovery of COVID-19 related bad and doubtful debt costs.

Total regulated financial performance

Year ended 31 March	2020 £m	2019 £m	2018 £m
UK Electricity Transmission	1,324	1,361	1,262
UK Gas Transmission	473	443	499
US Regulated	1,749	1,514	1,631
Total regulated financial performance	3,546	3,318	3,392

US timing, major storms and movement in UK regulatory 'IOUs' – Revenue related to performance in one year may be recovered in later years. Revenue may be recovered in one year but be required to be returned to customers in future years. In the UK, this is calculated as the movement in other regulated assets and liabilities.

Performance RAV – UK performance efficiencies are in-part remunerated by the creation of additional RAV which is expected to result in future earnings under regulatory arrangements. This is calculated as in-year totex outperformance multiplied by the appropriate regulatory capitalisation ratio and multiplied by the retained company incentive sharing ratio.

Pension adjustment – Cash payments against pension deficits in the UK are recoverable under regulatory contracts. In US Regulated operations, US GAAP pension charges are generally recoverable through rates. Revenue recoveries are recognised under IFRS but payments are not charged against IFRS operating profits in the year. In the UK, this is calculated as cash payments against the regulatory proportion of pension deficits in the UK regulated business, whereas in the US, it is the difference between IFRS and US GAAP pension charges.

3% RAV indexation – Future UK revenues are expected to be set using an asset base adjusted for inflation. This is calculated as UK RAV multiplied by 3% (long-run RPI inflation assumption).

UK deferred taxation adjustment – Future UK revenues are expected to recover cash taxation cost including the unwinding of deferred taxation balances created in the current year. This is the difference between: (a) IFRS underlying EBITDA less other regulatory adjustments; and (b) IFRS underlying EBITDA less other regulatory adjustments less current taxation (adjusted for interest tax shield) then grossed up at full UK statutory tax rate.

Regulatory depreciation – US and UK regulated revenues include allowance for a return of regulatory capital in accordance with regulatory assumed asset lives. This return does not form part of regulatory profit.

Fast/slow money adjustment – The regulatory remuneration of costs incurred is split between in-year revenue allowances and the creation of additional RAV. This does not align with the classification of costs as operating costs and fixed asset additions under IFRS accounting principles. This is calculated as the difference between IFRS classification of costs as operating costs or fixed asset additions and the regulatory classification.

Regulated asset base

The regulated asset base is a regulatory construct, based on predetermined principles not based on IFRS. It effectively represents the invested capital on which we are authorised to earn a cash return. By investing efficiently in our networks, we add to our regulated asset base over the long term, and this in turn contributes to delivering shareholder value. Our regulated asset base is comprised of our regulatory asset value in the UK, plus our rate base in the US.

Maintaining efficient investment in our regulated asset base ensures we are well positioned to provide consistently high levels of service to our customers and increases our revenue allowances in future years. While we have no specific target, our overall aim is to achieve between 5% and 7% growth in regulated asset base each year through continued investment in our networks in both the UK and US.

In the UK, the way in which our transactions impact RAV is driven by principles set out by Ofgem. In a number of key areas these principles differ from the requirements of IFRS, including areas such as additions and the basis for depreciation. Further, our UK RAV is adjusted annually for inflation. RAV in each of our retained UK businesses has evolved over the period since privatisation in 1990, and as a result, historical differences between the initial determination of RAV and balances reported under UK GAAP at that time still persist. Due to the above, substantial differences exist in the measurement bases between RAV and an IFRS balance metric, and therefore, it is not possible to provide a meaningful reconciliation between the two.

In the US, rate base is a regulatory measure determined for each of our main US operating companies. It represents the value of property and other assets or liabilities on which we are permitted to earn a rate of return, as set out by the regulatory authorities for each jurisdiction. The calculations are based on the applicable regulatory agreements for each jurisdiction and include the allowable elements of assets and liabilities from our US companies. For this reason, it is not practical to provide a meaningful reconciliation from the US rate base to an equivalent IFRS measure. However, we include the calculation below.

'Total Regulated and other balances' includes the under or over-recovery of revenues that National Grid's UK regulated businesses target to collect in any year, which are based on the regulator's forecasts for that year. Under the UK price control arrangements, revenues will be adjusted in future years to take account of actual levels of collected revenue, costs and outputs delivered when they differ from those regulatory forecasts. In the US, other regulatory assets and liabilities include regulatory assets and liabilities which are not included in the definition of rate base, including working capital where appropriate.

The investment in 'NGV and other businesses' includes net assets excluding pensions, tax and items related to the UK Gas Distribution sale.

Year ended 31 March (£m at constant currency)	RAV, rate base or other business assets		Total Regulated and other balances	
	2020 £m	2019 ¹ £m	2020 £m	2019 ¹ £m
UK Electricity Transmission	14,133	13,537	13,769	13,291
UK Gas Transmission	6,298	6,155	6,305	6,099
US Regulated	20,644	18,407	22,435	20,394
Total regulated	41,075	38,099	42,509	39,784
NGV and other businesses	4,105	3,351	3,591	2,672
Total Group regulated and other balances	45,180	41,450	46,100	42,456

1. Figures relating to prior periods have, where appropriate, been re-presented at constant currency, for opening balance adjustments following the completion of the UK regulatory reporting pack process in 2019, and finalisation of US balances.

US rate base and Total Regulated and other balances for 31 March 2019 have been restated in the table above at constant currency. At actual currency the values were £17.6 billion and £19.5 billion respectively.

Other business assets and other balances for NGV and Other businesses for 31 March 2019 have been restated in the table above for the impact of IFRS 16 leases, constant currency and to exclude out 39% share of our investment in Quadgas. At actual currency excluding IFRS 16 leases the values were £2.8 billion and £2.7 billion respectively.

Group RoE

Group RoE provides investors with a view of the performance of the Group as a whole compared with the amounts invested by the Group in assets attributable to equity shareholders. It is the ratio of our regulatory financial performance to our measure of equity investment in assets. It therefore reflects the regulated activities as well as the contribution from our non-regulated businesses together with joint ventures and non-controlling interests.

We use Group RoE to measure our performance in generating value for our shareholders, and targets for Group RoE are included in the incentive mechanisms for executive remuneration within both the APP and LTPP schemes.

Group RoE is underpinned by our regulated asset base. For the reasons noted above, no reconciliation to IFRS has been presented, as we do not believe it would be practical. However, we do include the calculations below.

Calculation: Regulatory financial performance including a long-run assumption of 3% RPI inflation, less adjusted interest and adjusted taxation divided by equity investment in assets:

- adjusted interest removes interest on pensions, capitalised interest in regulated operations and unwind of discount rate on provisions;
- adjusted taxation adjusts the Group taxation charge for differences between IFRS profit before tax and regulated financial performance less adjusted interest; and
- equity investment in assets is calculated as the total opening UK regulatory asset value, the total opening US rate base plus goodwill plus opening net book value of National Grid Ventures and Other activities and our share of joint ventures and associates, minus opening net debt as reported under IFRS restated to the weighted average £/\$ exchange rate for the year.

Other unaudited financial information continued

	2020 £m	2019 £m	2018 £m
Year ended 31 March			
Regulated financial performance	3,546	3,318	3,392
Operating profit of other activities	269	424	255
Group financial performance	3,815	3,742	3,647
Share of post-tax results of joint ventures and associates	88	40	238
Non-controlling interests	(1)	(3)	(1)
Adjusted Group interest charge	(1,069)	(1,037)	(980)
Group tax charge	(433)	(488)	(639)
Tax on adjustments	(117)	(34)	27
Group financial performance after interest and tax	2,283	2,220	2,292
Opening rate base/RAV	37,459	35,045	32,446
Share of Cadent RAV	–	–	512
Opening other balances	3,304	2,298	1,787
Opening goodwill	5,938	5,852	5,626
Opening capital employed	46,701	43,195	40,371
Opening net debt	(27,194)	(24,345)	(21,770)
Opening equity	19,507	18,850	18,601
Return on Equity	11.7%	11.8%	12.3%

UK and US regulated RoE

Year ended 31 March	Regulatory Debt: Equity assumption	Achieved Return on Equity		Base or Allowed Return on Equity	
		2020 %	2019 %	2020 %	2019 %
UK Electricity Transmission	60/40	13.5	13.7	10.2	10.2
UK Gas Transmission	62.5/37.5	9.8	9.5	10.0	10.0
US Regulated	Avg. 50/50	9.3	8.8	9.4	9.4

UK regulated RoE

UK regulated RoEs are a measure of how the businesses are performing against the assumptions used by our UK regulator. These returns are calculated using the assumption that the businesses are financed in line with the regulatory adjudicated capital structure, at the cost of debt assumed by the regulator, and that RPI inflation is equal to a long-run assumption of 3%. They are calculated by dividing elements of out/under-performance versus the regulatory contract (i.e., regulated financial performance disclosed above) by the average equity RAV in line with the regulatory assumed capital structure and adding to the base allowed RoE.

This is an important measure of UK regulated business performance, and our operational strategy continues to focus on this metric. This measure can be used to determine how we are performing under the RIIO framework and also helps investors to compare our performance with similarly regulated UK entities. Reflecting the importance of this metric, it is also a key component of the APP scheme.

The UK RoE is underpinned by the UK RAV. For the reasons noted above, no reconciliation to IFRS has been presented, as we do not believe it would be practical.

US regulated RoE

US regulated RoE is a measure of how a business is performing against the assumptions used by the US regulators. This US operational return measure is calculated using the assumption that the businesses are financed in line with the regulatory adjudicated capital structure and allowed cost of debt. The returns are divided by the average rate base (or where a reported rate base is not available, an estimate based on rate base calculations used in previous rate filings) multiplied by the adjudicated equity portion in the regulatory adjudicated capital structure.

This is an important measure of our US regulated business performance, and our operational strategy continues to focus on this metric. This measure can be used to determine how we are performing and also helps investors compare our performance with similarly regulated US entities. Reflecting the importance of this metric, it is also a key component of the APP scheme.

The US return is based on a calculation which gives proportionately more weighting to those jurisdictions which have a greater rate base. For the reasons noted above, no reconciliation to IFRS for the RoE measure has been presented, as we do not believe it would be practical to reconcile our IFRS balance sheet to the equity base.

The table below shows the principal differences between the IFRS result of the US Regulated segment, and the 'return' used to derive the US RoE. In outlining these differences, we also include the result for the US regulated Operating Companies (OpCo) entities aggregated under US GAAP.

In respect of 2018/19 and 2017/18, this measure is the aggregate operating profit of our US OpCo entities' publicly available financial statements prepared under US GAAP. For 2019/20, this measure represents our current estimate, since local financial statements have yet to be prepared.

	2020 £m	2019 £m	2018 £m
Underlying IFRS operating profit for US regulated segment	1,636	1,594	1,704
Weighted average £/\$ exchange rate	\$1.2868	\$1.305	\$1.358
	2020 \$m	2019 \$m	2018 \$m
Underlying IFRS operating profit for US regulated segment	2,105	2,081	2,313
<i>Adjustments to convert to US GAAP as applied in our US OpCo entities</i>			
Adjustment in respect of customer contributions	(50)	(50)	(151)
Pension accounting differences ¹	(13)	(10)	(101)
Environmental charges recorded under US GAAP	(94)	(117)	(106)
Storm costs and recoveries recorded under US GAAP	(9)	(112)	(113)
Other regulatory deferrals, amortisation and other items	3	121	(146)
Results for US regulated OpCo entities, aggregated under US GAAP²	1,942	1,913	1,696
<i>Adjustments to determine regulatory operating profit used in US RoE</i>			
Levelisation revenue adjustment	(122)	(48)	82
Adjustment for COVID-19 related provision for bad and doubtful debts ³	150	–	–
Net other	51	(1)	40
Regulatory operating profit	2,021	1,864	1,818
Pensions ¹	19	(95)	–
Regulatory interest charge	(491)	(457)	(395)
Regulatory tax charge	(408)	(345)	(520)
Regulatory earnings used to determine US RoE	1,141	967	903
	2020 \$m	2019 \$m	2018 \$m
US equity base (average for the year)	12,331	11,045	10,092
US RoE	9.3%	8.8%	8.9%

1. Following a change in US GAAP accounting rules, an element of the pensions charge is reported outside operating profit with effect from 2019.

2. Based on US GAAP accounting policies as applied by our US regulated OpCo entities.

3. US RoE includes an adjustment reflecting our expectation for future recovery of COVID-19 related bad and doubtful debt costs.

Value Added and Value Added per share and Value Growth

Value Added is a measure that reflects the value to shareholders of our cash dividend and the growth in National Grid's regulated and non-regulated assets (as measured in our regulated asset base, for regulated entities), and corresponding growth in net debt. It is a key metric used to measure our performance and underpins our approach to sustainable decision-making and long-term management incentive arrangements.

Value Added is derived using our regulated asset base and, as such, it is not practical to provide a meaningful reconciliation from this measure to an equivalent IFRS measure due to the reasons set out for our regulated asset base. However, the calculation is set out in the Financial review on page 32. Value Added per share is calculated by dividing Value Added by the weighted average number of shares (3,461 million) set out in note 8 on page 145.

Value Growth of 10.4% (2018/19: 11.5%) is derived from Value Added by adjusting Value Added to normalise for a 3% long-run RPI inflation rate. In 2019/20, the numerator for Value Growth was £2,068 million (2018/19: £2,166 million). The denominator is Group equity as used in the Group RoE calculation, adjusted for foreign exchange movements.

Asset growth

Asset growth is the annual percentage increase in our RAV and rate base and other business balances (including the assets of NGV and NGP) calculated at constant currency.

Regulatory gearing

Regulatory gearing is a measure of how much of our investment in RAV and rate base and other elements of our invested capital (including our investments in NGV, UK property and other assets and US other assets) is funded through debt. Comparative amounts as at March 2019 are presented at historical exchange rates and have not been restated for opening balance adjustments.

As at 31 March	2020 £m	2019 £m	
UK RAV	20,431	19,692	
US rate base	20,644	17,565	
Other invested capital included in gearing calculation	4,105	2,815	
Total assets included in gearing calculation	45,180	40,072	
Net debt (including 100% of hybrid debt)	(28,590)	(26,529)	change
Group gearing (based on 100% of net debt)	63%	66%	3% pts
Group gearing (excluding 50% of hybrid debt from net debt)	61%	64%	3% pts

Commentary on consolidated financial statements

for the year ended 31 March 2019

In compliance with SEC rules, we present a summarised analysis of movements in the income statement and an analysis of movements in adjusted operating profit (for the continuing group) by operating segment. This should be read in conjunction with the 31 March 2020 financial review included on pages 28 – 37.

Analysis of the income statement for the year ended 31 March 2019

Revenue

Revenue for the year ended 31 March 2019 decreased by £317 million to £14,933 million. This decrease was driven by lower revenues in our UK Electricity Transmission business and in our UK Gas Transmission business, partially offset by higher revenues in our US Regulated and NGV and Other businesses. US Regulated revenues were £574 million higher year-on-year, principally due to the impact of new rate plans, the benefit of foreign exchange and recovery of prior year timing under-collections, partially offset by the collection of lower tax allowances and the impact of IFRS 15. UK Electricity Transmission revenues decreased by £803 million, (related to IFRS 15, which reduced both revenues and costs by £1.0 billion), partly offset by higher BSIS pass-through costs and return of prior year timing over-collections. UK Gas Transmission revenues were £195 million lower, driven by the return of allowances related to Avonmouth. Revenue from NGV and Other businesses increased by £100 million, primarily driven by sales in our Commercial Property business.

Operating costs

Operating costs for the year ended 31 March 2019 of £12,063 million were £306 million higher than the prior year. This increase in costs included a £608 million increase in exceptional items and remeasurements, which is discussed below. Excluding exceptional items and remeasurements, operating costs were £302 million lower, driven by the impact of IFRS 15, which reduced costs (and related revenues) for payments to other network owners by £1,043 million, partially offset by higher pass-through costs, increased rates and property taxes, higher depreciation as a result of continued asset investment and the impact of movement in exchange rates.

Net finance costs

For the year ended 31 March 2019, net finance costs before exceptional items and remeasurements were £8 million lower than 2017/18 at £993 million, mainly as a result of the impact of the stronger US dollar and lower pension net interest expense due to lower pension net liabilities and other interest gains, partially offset lower gains on the sale of financial assets and the impact of higher UK RPI inflation. Net finance costs in 2018/19 included remeasurement losses of £76 million on derivative financial instruments used to hedge our borrowings, compared to £119 million of remeasurement gains in 2017/18.

Tax

The tax charge on profits before exceptional items and remeasurements of £488 million was £96 million lower than 2017/18. This reduction was primarily due to a full year's benefit in 2018/19 from the Tax Cut & Jobs Act which reduced the US corporate tax rate from 35% to 21% with effect from 1 January 2018.

Exceptional items and remeasurements

Operating costs for the year ended 31 March 2019 included £283 million of costs arising from the workforce contingency plan related to the Massachusetts Gas labour dispute, £204 million of restructuring charges in our UK and US businesses and £137 million related to the impairment of nuclear connection development costs following the cancellation of the NuGen and Horizon projects. These were partially offset by a net £52 million gain on remeasurement of commodity contracts. In the previous year, operating costs included a £26 million gain on settlement of outstanding balances related to the LIPA Management Services Agreement, together with a net £10 million gain on remeasurement of commodity contracts.

Finance costs for the year ended 31 March 2019 included a net loss of £76 million on financial remeasurements of derivative financial instruments used to hedge our borrowings, compared to a gain of £119 million on financial remeasurements in 2017/18.

Share of post-tax results of joint ventures and associates before exceptional items for the year ended 31 March 2019 of £40 million was £4 million lower, principally due to higher costs in St William.

Adjusted earnings and EPS from continuing operations

Adjusted earnings and EPS, which exclude exceptional items and remeasurements, are provided to reflect the Group's results on a 'business performance' basis, described further in note 5. See page 242 for a reconciliation of adjusted basic EPS to EPS.

The above earnings performance translated into an increase in adjusted EPS in 2018/19 of 3.7p (7%).

Exchange rates

Our financial results are reported in sterling. Transactions for our US operations are denominated in dollars, so the related amounts that are reported in sterling depend on the dollar to sterling exchange rate. The table below shows the average and closing exchange rates of sterling to US dollars.

	2018/19	2017/18	% change
Weighted average (income statement)	1.31	1.36	4%
Year-end (statement of financial position)	1.30	1.40	7%

The movement in foreign exchange during 2018/19 has resulted in a £355 million increase in revenue, a £62 million increase in adjusted operating profit and a £63 million increase in operating profit.

The movement in foreign exchange during 2018/19 has resulted in a £355 million increase in revenue, a £62 million increase in adjusted operating profit and a £63 million increase in operating profit.

Analysis of the adjusted operating profit by segment for the year ended 31 March 2019

UK Electricity Transmission

For the year ended 31 March 2019, revenue in the UK Electricity Transmission segment decreased by £803 million to £3,351 million, and adjusted operating profit decreased by £26 million to £1,015 million. Revenue was significantly impacted by the adoption of IFRS 15, with revenues collected from customers but passed on to the Scottish and Offshore transmission operators are now excluded from both revenue and operating costs, compared to £1,027 million in 2017/18. Excluding pass-through costs, net revenue was £43 million higher, reflecting higher baser allowances including the impact of inflation and increased incentives income, partially offset by the return of outstanding timing balances along with higher adjustments this year to return the benefits of efficiencies and lower required outputs to customers. Regulated controllable costs were £11 million higher, reflecting inflation, increased headcount and workload, and initiative spend. Depreciation and amortisation was £18 million higher, reflecting the continued capital investment programme. Other costs were £41 million higher, principally relating to provision against income recognised on early termination of connections.

Capital expenditure decreased by £74 million compared with 2016/17 to £925 million reflecting reduced activity on Western Link and completion of the London Power Tunnels project.

UK Gas Transmission

Revenue in the UK Gas Transmission segment decreased by £195 million to £896 million, and adjusted operating profit decreased by £184 million to £303 million.

After deducting pass-through costs, net revenue was £165 million lower than 2017/18, reflecting the refund of revenues previously received in respect of the proposed Avonmouth pipeline project that is no longer required. Regulated controllable costs were £2 million lower than 2017/18, with efficiency savings offsetting the higher IT run-the-business costs and the impact of inflation. Pension costs were £9 million higher mainly related to the Guaranteed Minimum Pension equalisation ruling. Depreciation and amortisation costs were £13 million lower following a detailed review of asset lives in the year. Other operating costs were £25 million higher than 2017/18, as a result of the release of unused provisions in the prior year.

Capital expenditure marginally decreased to £308 million, £2 million lower than last year.

US Regulated

Revenue in our US Regulated business increased by £574 million to £9,846 million, and adjusted operating profit increased by £26 million to £1,724 million.

The stronger US dollar decreased revenue and operating profit in 2018/19. Excluding the impact of foreign exchange rate movements, revenue increased by £202 million. Of this increase, £21 million was due to increases in pass-through costs charged on to customers. Excluding pass-through costs, net revenue increased by £181 million at constant currency, principally reflecting increased revenue allowances under rate plans in upstate and downstate New York and in Massachusetts, partially offset by the impact of US tax reform (as the billing tariffs now reflect lower tax requirements) and the impact of IFRS 15, under which customer connection revenues are now recognised over the life of the asset rather than on completion of the works.

We incurred £93 million of major storm costs in 2018/19 through a number of heavy winter storms that caused substantial damage to our electricity networks, compared to £142 million in 2017/18. Excluding these costs and the impact of foreign exchange movements, regulated controllable costs increased by £106 million, reflecting workload increases agreed with regulators and the impact of inflation. Bad debt expense increased by £42 million at constant currency, reflecting higher levels of receivables and cash collection studies. Depreciation and amortisation was £40 million higher in 2018/19 at constant currency as a result of ongoing investment in our networks. Other operating costs were £41 million higher at constant currency, due to more expenditure on 'minor' storms (non-deferrable) and increased cost of removal.

Capital expenditure in the US Regulated business increased to £2,650 million in 2018/19, £226 million more than in 2017/18. At constant currency, this represented a £129 million increase in investment driven by higher investment in new and replacement gas mains and gas business enablement investment, partially offset by the impact of the Massachusetts Gas labour dispute.

NGV and Other

Revenue in NGV and Other increased by £100 million to £876 million, and adjusted operating profit increased by £169 million to £400 million. This reflects higher revenues and profit on disposal of property sites in the UK and lower costs to setting up our new business and the absence of the impairment of land value in 2017/18.

Capital expenditure in NGV and Other was £107 million higher than 2017/18 at £438 million, including the increased investment in a second French Interconnector and in the North Sea Link interconnector to Norway.

Summary consolidated financial information

Financial summary (unaudited)

The financial summary set out below has been derived from the audited consolidated financial statements of National Grid for the five financial years ended 31 March 2020. It should be read in conjunction with the consolidated financial statements and related notes, together with the Strategic Report. The information presented below is adjusted for the matters described in the footnotes below for the years ended 31 March 2020, 2019, 2018, 2017 and 2016 where relevant and has been prepared under IFRS as issued by the IASB and as adopted by the EU.

Summary income statement (£m)	2020	2019	2018 ¹	2017	2016 ²
Continuing operations					
Revenue	14,540	14,933	15,250	15,035	13,212
Operating profit					
Before exceptional items, remeasurements	3,307	3,442	3,457	3,773	3,214
Exceptional items, remeasurements	(527)	(572)	36	(565)	11
Profit before tax					
Before exceptional items, remeasurements	2,346	2,489	2,500	2,807	2,417
Exceptional items, remeasurements	(592)	(648)	160	(623)	(88)
Profit after tax from continuing operations					
Before exceptional items, remeasurements	1,913	2,001	1,916	2,141	1,813
Exceptional items, remeasurements	(639)	(499)	1,633	(331)	89
(Loss)/profit after tax from discontinued operations					
Before exceptional items, remeasurements	5	57	145	606	576
Exceptional items, remeasurements	(14)	(45)	(143)	57	116
Gain on disposal of UK Gas Distribution after tax	–	–	–	5,321	–
Total profit for the year	1,265	1,514	3,551	7,794	2,594
Profit for the year attributable to equity shareholders					
Before exceptional items, remeasurements	1,917	2,055	2,060	2,747	2,386
Exceptional items, remeasurements	(653)	(544)	1,490	(273)	205
Gain on disposal of UK Gas Distribution after tax	–	–	–	5,321	–
Total	1,264	1,511	3,550	7,795	2,591
Earnings per share					
Basic – continuing operations (pence)	36.8	44.3	102.5	48.1	50.4
Diluted – continuing operations (pence)	36.6	44.1	102.1	47.9	50.2
Basic – total (pence)	36.5	44.6	102.6	207.1	68.7
Diluted – total (pence)	36.3	44.4	102.1	206.2	68.4
Weighted average number of shares – basic (millions)	3,461	3,386	3,461	3,763	3,774
Weighted average number of shares – diluted (millions)	3,478	3,401	3,476	3,780	3,790
Dividends per ordinary share					
Paid during the year (pence)	47.83	46.52	128.97	43.51	43.16
Approved or proposed during the year (pence) ³	48.57	47.34	45.93	128.65	43.34
Paid during the year (\$)	0.615	0.607	1.751	0.555	0.664
Approved or proposed during the year (\$)	0.625	0.618	0.624	1.642	0.635

1. Items previously reported for 2018 have been re-presented to reflect our investment in Quadgas HoldCo Limited being presented as a discontinued operation in the current year.

2. Items previously reported for 2016 have been re-presented to reflect UK Gas Distribution being presented as a discontinued operation.

3. Following the disposal of UK Gas Distribution, 2017 includes a special interim dividend of 84.375 pence per share that was paid on 2 June 2017

Summary statement of net assets (£m)	2020	2019	2018	2017	2016
Non-current assets	61,288	55,017	52,106	52,266	52,622
Current assets	5,801	7,946	6,681	13,574	6,312
Total assets	67,089	62,963	58,787	65,840	58,934
Current liabilities	(8,564)	(9,129)	(8,697)	(10,511)	(7,721)
Non-current liabilities	(38,941)	(34,465)	(31,242)	(34,945)	(37,648)
Total liabilities	(47,505)	(43,594)	(39,939)	(45,456)	(45,369)
Net assets	19,584	19,369	18,848	20,384	13,565
Total shareholders' equity	19,562	19,349	18,832	20,368	13,555

Definitions and glossary of terms

Our aim is to use plain English in this Annual Report and Accounts. However, where necessary, we do use a number of technical terms and abbreviations. We summarise the principal ones below, together with an explanation of their meanings. The descriptions below are not formal legal definitions. Alternative and Regulatory Performance Measures are defined on pages 240 – 249.

A

Adjusted interest

A measure of the interest charge of the Group, calculated by making adjustments to the Group reported interest charge.

Adjusted net debt

A measure of the indebtedness of the Group, calculated by making adjustments to the Group reported borrowings, including adjustments made to include elements of pension deficits and exclude elements of hybrid debt financing.

Adjusted results (also referred to as headline results)

Financial results excluding the impact of exceptional items and remeasurements that are treated as discrete transactions under IFRS and can accordingly be classified as such. This is a measure used by National Grid management that forms part of the incentive target set annually for remunerating certain Executive Directors, and further details of these items are included in note 5 to the Financial Statements.

American Depositary Shares (ADSs)

Securities of National Grid listed on the New York Stock Exchange, each of which represents five ordinary shares. They are evidenced by American Depositary Receipts or ADRs.

Annual General Meeting (AGM)

Meeting of shareholders of the Company held each year to consider ordinary and special business as provided in the Notice of AGM.

B

BAME

Black, Asian and Minority Ethnic (being the UK term used to refer to members of non-white communities).

BEIS

The Department for Business, Energy and Industrial Strategy, the UK government department responsible for business, industrial strategy, and science and innovation with energy and climate change policy.

Board

The Board of Directors of the Company (for more information see pages 66 and 67).

bps

Basis point (bp, bps) is a unit that is equal to 1/100th of 1% and is typically used to denote the movement in a percentage-based metric such as interest rates or RoE. A 0.1% change in a percentage represents 10 basis points.

BritNed

BritNed Development Limited.

C

Cadent

Cadent Gas Limited, the Company's former UK Gas Distribution business. A 61% equity interest in it was sold to the Consortium on 31 March 2017, and the sale of the remaining 39% to the Consortium completed on 28 June 2019.

Called-up share capital

Shares (common stock) that have been issued and have been fully paid for.

Capital tracker

In the context of our US rate plans, this is a mechanism that allows the recovery of the revenue requirement of incremental capital investment above that embedded in base rates, including depreciation, property taxes and a return on the incremental investment.

Carrying value

The amount at which an asset or a liability is recorded in the Group's statement of financial position and the Company's balance sheet.

The Company, the Group, National Grid, we, our or us

We use these terms to refer to either National Grid plc itself or to National Grid plc and/or all or certain of its subsidiaries, depending on context.

Consolidated financial statements

Financial statements that include the results and financial position of the Company and its subsidiaries together as if they were a single entity.

Consortium

The Consortium that purchased Cadent. It comprised Macquarie Infrastructure and Real Assets, Allianz Capital Partners, Hermes Investment Management, CIC Capital Corporation, Qatar Investment Authority, Dalmore Capital, and Amber Infrastructure Limited/International Public Partnerships.

Constant currency

'Constant currency basis' refers to the reporting of the actual results against the results for the same period last year, which, in respect of any US\$ currency denominated activity, have been translated using the average US\$ exchange rate for the year ended 31 March 2020, which was \$1.29 to £1. The average rate for the year ended 31 March 2019 was \$1.31 to £1, and for the year ended 31 March 2018 was \$1.36 to £1. Assets and liabilities as at 31 March 2019 have been retranslated at the closing rate at 31 March 2020 of \$1.24 to £1. The closing rate for the balance sheet date 31 March 2019 was \$1.30 to £1.

Contingent liabilities

Possible obligations or potential liabilities arising from past events for which no provision has been recorded, but for which disclosure in the financial statements is made.

COVID-19

COVID-19 or coronavirus disease is an infectious disease caused by a newly discovered coronavirus which spreads through droplets of saliva or discharge from the nose when an infected person coughs or sneezes.

CPIH

The UK Consumer Prices Index including Owner Occupiers' Housing Costs as published by the Office for National Statistics.

D

Dth

Decatherm, being an amount of energy equal to 1 million British thermal units (BTUs), equivalent to approximately 293 kWh.

DB

Defined benefit, relating to our UK or US (as the context requires) final salary pension schemes.

DC

Defined contribution, relating to our UK or US (as the context requires) pension schemes to which National Grid, as an employer, pays contributions based on a percentage of employees' salaries.

Deferred tax

For most assets and liabilities, deferred tax is the amount of tax that will be payable or receivable in respect of that asset or liability in future tax returns as a result of a difference between the carrying value for accounting purposes in the statement of financial position or balance sheet and the value for tax purposes of the same asset or liability.

Deposit agreement

The amended and restated deposit agreement entered into between National Grid plc, the Depositary and all the registered holders from time to time of ADRs, pursuant to which ADSs have been issued, dated 23 May 2013, and any related agreement.

Depositary

Depositary means the Bank of New York Mellon acting as depositary.

Derivative

A financial instrument or other contract where the value is linked to an underlying index, such as exchange rates, interest rates or commodity prices. In most cases, we exclude contracts for the sale or purchase of commodities that are used to supply customers or for our own needs from this definition.

Directors/Executive Directors/Non-executive Directors

The Directors/Executive Directors and Non-executive Directors of the Company, whose names are set out on pages 66 and 67 of this document.

Definitions and glossary of terms continued

Distributed Energy Resources (DER)

Decentralised assets, generally located behind the meter, covering a range of technologies including solar, storage, electric vehicle charging, district heating, smart street lighting and combined heat and power.

Dollars or \$

Except as otherwise noted, all references to dollars or \$ in this Annual Report and Accounts relate to the US currency.

E

Earnings per share (EPS)

Profit for the year attributable to equity shareholders of the Company allocated to each ordinary share.

Electricity System Operator (ESO)

The party responsible for the long-term strategy, planning and real-time operation (balancing supply and demand) of the electricity system in Great Britain.

Electricity Transmission (ET)

National Grid's UK electricity transmission business.

Employee engagement

A key performance indicator (KPI), based on the percentage of favourable responses to certain indicator questions repeated in each employee survey. It is used to measure how employees think, feel and act in relation to National Grid. Research shows that a highly engaged workforce leads to increased productivity and employee retention. We use employee engagement as a measure of organisational health in relation to business performance.

Employee resource group (ERG)

A group of employees who join together in their workplace based on shared characteristics or life experiences.

Estate Tax Convention

The convention between the US and the UK for the avoidance of double taxation with respect to estate and gift taxes.

EU

The European Union (EU) is the economic and political union of 27 member states located in Europe. The UK left the European Union on 31 January 2020.

Exchange Act

The US Securities Exchange Act 1934, as amended.

F

FERC

The US Federal Energy Regulatory Commission.

Finance lease

A lease where the asset is treated as if it was owned for the period of the lease, and the obligation to pay future rentals is treated as if they were borrowings. Also known as a capital lease.

Financial year

For National Grid this is an accounting year ending on 31 March. Also known as a fiscal year.

FRS

A UK Financial Reporting Standard as issued by the UK Financial Reporting Council (FRC). It applies to the Company's individual financial statements on pages 209 – 215, which are prepared in accordance with FRS 101.

Funds from Operations (FFO)

A measure used by the credit rating agencies of the operating cash flows of the Group after interest and tax but before capital investment.

G

Gas Transmission (GT)

National Grid's UK gas transmission business.

Geronimo

Geronimo, a leading developer of wind and solar generation based in Minneapolis in the US, which National Grid acquired in July 2019.

Grain LNG

National Grid Grain LNG Limited.

Great Britain

England, Wales and Scotland.

Group Value Growth

Group Value Growth is Group-wide value added expressed as a proportion of Group equity. See page 32 for an explanation of Value Added.

GW

Gigawatt, an amount of power equal to 1 billion watts (10⁹ watts).

GWh

Gigawatt hours, an amount of energy equivalent to delivering 1 billion watts (10⁹ watts) of power for a period of one hour.

H

Hinkley-Seabank (HSB)

A project to connect the new Hinkley Point C nuclear power station to the electricity transmission network.

HMRC

HM Revenue & Customs. The UK tax authority.

HVDC

High-voltage, direct-current electric power transmission that uses direct current for the bulk transmission of electrical power in contrast to the more common alternating current systems.

I

IAS or IFRS

An International Accounting Standard (IAS) or International Financial Reporting Standard (IFRS), as issued by the International Accounting Standards Board (IASB). IFRS is also used as the term to describe international generally accepted accounting principles as a whole.

Individual financial statements

Financial statements of a company on its own, not including its subsidiaries or joint ventures and associates.

Injury frequency rate (IFR)

The number of lost time injuries (LTIs) per 100,000 hours worked in a 12-month period.

Interest cover

A measure used by the credit rating agencies, calculated as FFO plus adjusted interest divided by adjusted interest.

J

Joint venture (JV)

A company or other entity that is controlled jointly with other parties.

K

KEDLI

KeySpan Gas East Corporation, also known as KeySpan Energy Delivery Long Island.

KEDNY

The Brooklyn Union Gas Company, also known as KeySpan Energy Delivery New York.

KPI

Key performance indicator.

kW

Kilowatt, an amount of power equal to 1,000 watts.

L**LIPA**

The Long Island Power Authority.

LNG

Liquefied natural gas is natural gas that has been condensed into a liquid form, typically at temperatures at or below -161°C (-258°F).

Lost time injury (LTI)

An incident arising out of National Grid's operations that leads to an injury where the employee or contractor normally has time off for the following day or shift following the incident. It relates to one specific (acute) identifiable incident which arises as a result of National Grid's premises, plant or activities, and was reported to the supervisor at the time and was subject to appropriate investigation.

M**MADPU**

The Massachusetts Department of Public Utilities.

MW

Megawatt, an amount of power equal to 1 million watts.

MWh

Megawatt hours, an amount of energy equivalent to delivering 1 million watts (10⁶) of power for a period of one hour.

N**National Grid Metering Limited (NGM)**

The Company's UK regulated metering business.

National Grid Partners (NGP)

The Company's venture investment and innovation business established in November 2018.

National Grid Ventures (NGV)

The Company's division that operates outside its core UK and US regulated businesses, comprising a broad range of activities in the UK and US, including Geronimo, electricity interconnectors, the Grain LNG terminal and energy metering, as well as being tasked with investment in adjacent businesses, distributed energy opportunities and the development of new and evolving technologies.

National Transmission System (NTS)

The gas National Transmission System in Great Britain.

Net Promoter Score (NPS)

A commonly used tool to measure customer experience to gauge the loyalty of a company's customer relationships. It is an index ranging from -100 to +100.

Net Zero

Net zero means that a person, legal entity (such as a company), country or other body's own emissions of greenhouse gases are either zero or that its remaining greenhouse gas emissions are balanced by schemes to offset, through the removal of an equivalent amount of greenhouse gases from the atmosphere, such as planting trees or using technology like carbon capture and storage.

New England

The term refers to a region within northeastern US that includes the states of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont. National Grid's New England operations are primarily in the states of Massachusetts and Rhode Island.

Northeastern US

The northeastern region of the US, comprising the states of Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Vermont.

NYPSC

The New York Public Service Commission.

O**Ofgem**

The UK Office of Gas and Electricity Markets is part of the UK Gas and Electricity Markets Authority (GEMA), which regulates the energy markets in the UK.

OPEB

Other post-employment benefits.

Ordinary shares

Voting shares entitling the holder to part ownership of a company. Also known as common stock. National Grid's ordinary shares have a nominal value of 12²⁰⁴⁴⁷³ pence following the share consolidation approved at the General Meeting of the Company held on 19 May 2017.

P**Paris Agreement**

The agreement, also known as the Paris Climate Accord, within the United Nations Framework Convention on Climate Change dealing with greenhouse gas emissions mitigation, adaptation and finance starting in the year 2020, and adopted by consensus on 12 December 2015.

Price control

The mechanism by which Ofgem sets restrictions on the amounts of revenue we are allowed to collect from customers in our UK businesses. The allowed revenues are intended to cover efficiently incurred operational expenditure, capital expenditure and financing costs, including a Return on Equity invested.

R**Rate base**

The base investment on which the utility is authorised to earn a cash return. It includes the original cost of facilities, minus depreciation, an allowance for working capital and other accounts.

Rate plan

The term given to the mechanism by which a US utility regulator sets terms and conditions for utility service, including, in particular, tariffs and rate schedules. The term can mean a multi-year plan that is approved for a specified period, or an order approving tariffs and rate schedules that remain in effect until changed as a result of future regulatory proceedings. Such proceedings can be commenced through a filing by the utility or on the regulator's own initiative.

Regulated controllable costs

Total operating costs under IFRS less depreciation and certain regulatory costs where, under our regulatory agreements, mechanisms are in place to recover such costs in current or future periods.

Regulatory asset value (RAV)

The value ascribed by Ofgem to the capital employed in the relevant licensed business. It is an estimate of the initial market value of the regulated asset base at privatisation, plus subsequent allowed additions at historical cost, less the deduction of annual regulatory depreciation. Deductions are also made to reflect the value realised from the disposal of certain assets that formed part of the regulatory asset base. It is also indexed to the RPI to allow for the effects of inflation.

Regulatory IOUs

Net under/over-recoveries of revenue from output-related allowance changes, the totex incentive mechanism, legacy price control cost true-up and differences between allowed and collected revenues.

Retained cash flow (RCF)

A measure of the cash flows of the Group used by the credit rating agencies. It is calculated as funds from operations less dividends paid and costs of repurchasing scrip shares.

Revenue decoupling

Revenue decoupling is the term given to the elimination of the dependency of a utility's revenue on the volume of gas or electricity transported. The purpose of decoupling is to encourage energy-efficiency programmes by eliminating the disincentive a utility otherwise has to such programmes.

Definitions and glossary of terms continued

RIIO

Revenue = Incentives + Innovation + Outputs, the regulatory framework for energy networks issued by Ofgem.

RIIO-T1

The regulatory framework for transmission networks that was implemented in the eight-year price controls that started on 1 April 2013.

RIIO-2

The regulatory framework for energy networks expected to be issued by Ofgem to start on 1 April 2021.

RIPUC

The Rhode Island Public Utilities Commission.

RPI

The UK retail price index as published by the Office for National Statistics.

S

Scope 1 greenhouse gas emissions

Scope 1 emissions are direct greenhouse gas emissions that occur from sources that are owned or controlled by the Company. Examples include emissions from combustion in owned or controlled boilers, furnaces, vehicles, etc.

Scope 2 greenhouse gas emissions

Scope 2 emissions are greenhouse gas emissions from the generation of purchased electricity consumed by the Company. Purchased electricity is defined as electricity, heat, steam or cooling that is purchased or otherwise brought into the organisational boundary of the Company. Scope 2 emissions physically occur at the facility where electricity is generated.

Scope 3 greenhouse gas emissions

Scope 3 emissions are indirect greenhouse gas emissions as a consequence of the operations of the Company, but are not owned or controlled by the Company, such as emissions from third-party logistics providers, waste management suppliers, travel suppliers, employee commuting, and combustion of sold gas by customers.

SEC

The US Securities and Exchange Commission, the financial regulator for companies with registered securities in the US, including National Grid and certain of its subsidiaries.

SF₆

Sulphur hexafluoride is an inorganic, colourless, odourless and non-flammable greenhouse gas. SF₆ is used in the electricity industry as a gaseous dielectric medium for high-voltage circuit breakers, switchgear and other electrical equipment. The Kyoto protocol estimated that the global warming potential over 100 years of SF₆ is 23,900 times more potent than that of CO₂.

Share premium

The difference between the amount shares are issued for and the nominal value of those shares.

STEM

Science, technology, engineering and mathematics.

Stranded cost recoveries

The recovery of historical generation-related costs in the US, related to generation assets that are no longer owned by us.

Subsidiary

A company or other entity that is controlled by National Grid.

Swaption

A swaption gives the buyer, in exchange for an option premium, the right, but not the obligation, to enter into an interest-rate swap at some specified date in the future. The terms of the swap are specified on the trade date of the swaption.

T

Tax Convention

Tax Convention means the income tax convention between the US and the UK.

Taxes borne

Those taxes that represent a cost to the Company and are reflected in our results.

Taxes collected

Those taxes that are generated by our operations but do not affect our results. We generate the commercial activity giving rise to these taxes and then collect and administer them on behalf of HMRC.

Tonne

A unit of mass equal to 1,000 kilogrammes, equivalent to approximately 2,205 pounds.

Tonnes carbon dioxide equivalent (CO₂e)

A measure of greenhouse gas emissions in terms of the equivalent amount of carbon dioxide.

Totex

Total expenditure, comprising capital and operating expenditure.

Treasury shares

Shares that have been repurchased but not cancelled. These shares can then be allotted to meet obligations under the Company's employee share schemes.

U

UK

The United Kingdom, comprising England, Wales, Scotland and Northern Ireland.

UK Corporate Governance Code (the Code)

Guidance, issued by the Financial Reporting Council in 2018, on how companies should be governed, applicable to UK listed companies, including National Grid, in respect of reporting periods starting on or after 1 January 2019.

UK GAAP

Generally accepted accounting principles in the UK. These differ from IFRS and from US GAAP.

Underlying EPS

Underlying results for the year attributable to equity shareholders of the Company allocated to each ordinary share.

Underlying results

The financial results of the Company, adjusted to exclude the impact of exceptional items and remeasurements that are treated as discrete transactions under IFRS and can accordingly be classified as such, and to take account of volumetric and other revenue timing differences arising due to the in-year difference between allowed and collected revenues.

US

The United States of America, its territories and possessions, any state of the United States and the District of Columbia.

US GAAP

Generally accepted accounting principles in the US. These differ from IFRS and from UK GAAP.

US state regulators (state utility commissions)

In the US, public utilities' retail transactions are regulated by state utility commissions, including the New York Public Service Commission (NYPSC), the Massachusetts Department of Public Utilities (MADPU) and the Rhode Island Public Utilities Commission (RIPUC).

V

Value growth

Value growth is the Value Added, adjusted to normalise for a 3% long-run RPI inflation rate, expressed as a proportion of Group equity. See page 249.

Want more information or help?

Equiniti

For queries about **ordinary shares**:



0800 169 7775

This is a Freephone number from landlines within the UK, mobile costs may vary. Lines are open 8.30am to 5.30pm, Monday to Friday, excluding public holidays. If calling from outside the UK: +44 (0) 121 415 0931. Calls from outside the UK will be charged at the applicable international rate.



Visit help.shareview.co.uk for information regarding your shareholding (from here you will also be able to email a query securely).



National Grid Share Register
Equiniti
Aspect House
Spencer Road, Lancing
West Sussex BN99 6DA

The Bank of New York Mellon

For queries about **American Depositary Shares**:



1-800-466-7215

If calling from outside the US:
+1-201-680-6825



www.mybnyhdr.com

Email: shrrelations@cpushareownerservices.com



BNY Mellon – ADR
PO Box 505000
Louisville, KY 40233-5000

Further information about National Grid, including share price and interactive tools, can be found on our website: <http://investors.nationalgrid.com>

Beware of share fraud

Investment scams are often sophisticated and difficult to spot. Shareholders are advised to be wary of any unsolicited advice or offers, whether over the telephone, through the post or by email. If you receive any unsolicited communication, please check the company or person contacting you is properly authorised by the Financial Conduct Authority (FCA) before getting involved. Be ScamSmart and visit www.fca.org.uk/scamsmart. You can report calls from unauthorised firms to the FCA by calling **0800 111 6768**.

Financial calendar

The following dates have been announced or are indicative:

18 June 2020	2019/20 full-year results
1 July 2020	ADRs go ex-dividend for 2019/20 final dividend
2 July 2020	Ordinary shares go ex-dividend for 2019/20 final dividend
3 July 2020	Record date for 2019/20 final dividend
9 July 2020	Scrip reference price announced
22 July 2020 (5pm London time)	Scrip election date
27 July 2020	2020 AGM
19 August 2020	2019/20 final dividend paid to qualifying shareholders
12 November 2020	2020/21 half-year results
25 November 2020	ADRs go ex-dividend for 2020/21 interim dividend
26 November 2020	Ordinary shares go ex-dividend for 2020/21 interim dividend
27 November 2020	Record date for 2020/21 interim dividend
3 December 2020	Scrip reference price announced
14 December 2020 (5pm London time)	Scrip election date for 2020/21 interim dividend
13 January 2021	2020/21 interim dividend paid to qualifying shareholders

Dividends

The Directors are recommending a final dividend of 32.00 pence per ordinary share (\$2.0126 per ADS) to be paid on 19 August 2020 to shareholders on the register as at 3 July 2020. Further details on dividend payments can be found on page 37. If you live outside the UK, you may be able to request that your dividend payments are converted into your local currency.

Under the Deposit agreement, a fee of up to \$0.05 per ADS can be charged for any cash distribution made to ADS holders, including cash dividends. ADS holders who receive cash in relation to the 2019/20 final dividend will be charged a fee of \$0.02 per ADS by the Depositary prior to the distribution of the cash dividend.

Have your dividends paid directly into your bank or building society account:

- your dividend reaches your account on the payment day;
- it is more secure – cheques sometimes get lost in the post; and
- no more trips to the bank.

Elect to receive your dividends as additional shares:

Join our scrip dividend scheme; no stamp duty or commission to pay.

Electronic communications

Please register at www.shareview.co.uk.

It only takes a few minutes to register – just have your 11-digit Shareholder Reference Number to hand. You will be sent an Activation Code to complete registration.

Once you have registered, you can elect to receive your shareholder communications electronically.

Registered office

National Grid plc was incorporated on 11 July 2000. The Company is registered in England and Wales No. 4031152, with its registered office at 1–3 Strand, London WC2N 5EH.

Share dealing

Postal share dealing: Equiniti offer our European Economic Area resident shareholders a share dealing service by post. This service is available to private shareholders resident within the European Economic Area, the Channel Islands or the Isle of Man. If you hold your shares in CREST, you are not eligible to use this service. For more information and to obtain a form, please visit www.shareview.co.uk or call Equiniti on **0800 169 7775**.

Internet and telephone share dealing: Equiniti also offer telephone and online share dealing at live prices. For full details together with terms and conditions, please visit www.shareview.co.uk. You can call Equiniti on **03456 037037** for further details, or to arrange a trade. Lines are open Monday to Friday, 8.00am to 4.30pm for dealing, and until 6.00pm for enquiries.

ShareGift: If you only have a small number of shares that would cost more for you to sell than they are worth, you may wish to consider donating them to ShareGift. ShareGift is a registered charity (No. 1052686) which specialises in accepting such shares as donations. For more information, visit www.sharegift.org or contact Equiniti.

Individual Savings Accounts (ISAs): ISAs for National Grid shares are available from Equiniti. For more information, call Equiniti on **0345 300 0430** or visit www.shareview.co.uk/ISA.

Cautionary statement

This document comprises the Annual Report and Accounts for the year ended 31 March 2020 for National Grid and its subsidiaries.

It contains the Directors' Report and Financial Statements, together with the independent auditor's report thereon, as required by the Companies Act 2006. The Directors' Report, comprising pages 1 – 107 and 216 – 252 has been drawn up in accordance with the requirements of English law, and liability in respect thereof is also governed by English law. In particular, the liability of the Directors for these reports is solely to National Grid.

This document contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements include information with respect to our financial condition, our results of operations and businesses, strategy, plans and objectives. Words such as 'aims', 'anticipates', 'expects', 'should', 'intends', 'plans', 'believes', 'outlook', 'seeks', 'estimates', 'targets', 'may', 'will', 'continue', 'project' and similar expressions, as well as statements in the future tense, identify forward-looking statements. These forward-looking statements are not guarantees of our future performance and are subject to assumptions, risks and uncertainties that could cause actual future results to differ materially from those expressed in or implied by such forward-looking statements. Many of these assumptions, risks and uncertainties relate to factors that are beyond our ability to control or estimate precisely, such as the impact of COVID-19 on our operations, our employees, our counterparties, our funding and our regulatory and legal obligations, but also more widely in terms of changes in laws or regulations, including any arising as a result of the United Kingdom's exit from the European Union; announcements from and decisions by governmental bodies or regulators, including proposals relating to the RII0-2 price as well as increased economic uncertainty resulting from COVID-19; the timing of construction and delivery by third parties of new generation projects requiring connection; breaches of, or changes in, environmental, climate change, and health and safety laws or regulations, including breaches or other incidents arising from the potentially harmful nature of our activities; network failure or interruption, the inability to carry out critical non-network operations, and damage to infrastructure, due to adverse weather conditions, including the impact of major storms as well as the results of climate change, due to counterparties being unable to deliver physical commodities, or due to the failure of or unauthorised access to or deliberate breaches of our IT systems and

supporting technology; failure to adequately forecast and respond to disruptions in energy supply; performance against regulatory targets and standards and against our peers with the aim of delivering stakeholder expectations regarding costs and efficiency savings; and customers and counterparties (including financial institutions) failing to perform their obligations to the Company. Other factors that could cause actual results to differ materially from those described in this document include fluctuations in exchange rates, interest rates and commodity price indices; restrictions and conditions (including filing requirements) in our borrowing and debt arrangements, funding costs and access to financing; regulatory requirements for us to maintain financial resources in certain parts of our business and restrictions on some subsidiaries' transactions, such as paying dividends, lending or levying charges; the delayed timing of recoveries and payments in our regulated businesses and whether aspects of our activities are contestable; the funding requirements and performance of our pension schemes and other post-retirement benefit schemes; the failure to attract, develop and retain employees with the necessary competencies, including leadership and business capabilities, and any significant disputes arising with our employees or the breach of laws or regulations by our employees; the failure to respond to market developments, including competition for onshore transmission; the threats and opportunities presented by emerging technology; the failure by the Company to respond to, or meet its own commitments as a leader in relation to, climate change development activities relating to energy transition, including the integration of distributed energy resources; and the need to grow our business to deliver our strategy, as well as incorrect or unforeseen assumptions or conclusions (including unanticipated costs and liabilities) relating to business development activity.

For further details regarding these and other assumptions, risks and uncertainties that may affect National Grid, please read the Strategic Report and the risk factors on pages 227 – 230 of this document. In addition, new factors emerge from time to time and we cannot assess the potential impact of any such factor on our activities or the extent to which any factor, or combination of factors, may cause actual future results to differ materially from those contained in any forward-looking statement. Except as may be required by law or regulation, the Company undertakes no obligation to update any of its forward-looking statements, which speak only as of the date of this document.

The contents of any website references in this document do not form part of this document.



This report is printed on Arena White Smooth which is made of FSC® certified and other controlled material.

Printed sustainably in the UK by Pureprint, a CarbonNeutral® company with FSC® chain of custody and an ISO 14001 certified environmental management system recycling over 99% of all dry waste.

If you have finished with this document and no longer wish to retain it, please pass it on to other interested readers or dispose of it in your recycled waste. Thank you.

The paper used in this report has been Carbon Balanced with the World Land Trust, an international conservation charity, who offset carbon emissions through the purchase and preservation of high conservation value land.

Through protecting standing forests, under threat of clearance, carbon is locked in that would otherwise be released. These protected forests are then able to continue absorbing carbon from the atmosphere, referred to as REDD (Reduced Emissions from Deforestation and forest Degradation). This is now recognised as one of the most cost-effective and swiftest ways to arrest the rise in atmospheric CO₂ and global warming effects. Additional to the carbon benefits is the flora and fauna this land preserves, including a number of species identified at risk of extinction on the IUCN Red List of Threatened Species.

Designed and produced by Superunion
www.superunion.com

