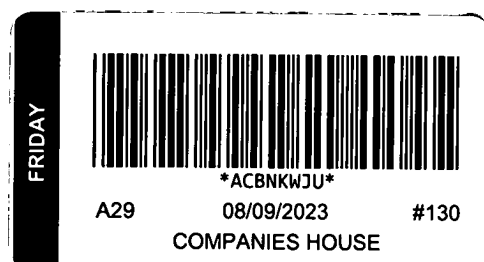


Company Registration Number: 2367004

National Grid Holdings One plc

Annual Report and Financial Statements

For the year ended 31 March 2023



National Grid Holdings One plc
Strategic Report
For the year ended 31 March 2023

The Directors present their Strategic Report on National Grid Holdings One plc ('the Company') for the year ended 31 March 2023.

Review of the business

The Company is an intermediate holding company for National Grid's UK businesses, which principally include National Grid Electricity System Operator Limited, National Grid Interconnector Holdings Limited, National Grid Electricity Distribution Holdings Limited, Lattice Group Limited and National Grid Holdings Limited, the latter of which holds National Grid Electricity Transmission plc.

In addition, on 31 March 2023, the Company assumed IAS 19 sponsorship of Section A of the National Grid UK Pension Scheme ('Section A of NGUKPS'), which is a defined benefit scheme, plus the National Grid UK Supplementary Pension Scheme, which is an unfunded pension scheme, following the transfer from its subsidiary, Lattice Group Limited. The resulting asset and liability have been reflected in the Company balance sheet.

In addition, the Company obtains and provides finance to fellow subsidiary companies via intercompany balances.

Executive summary

During the year, the Company received cash dividends of £5,428 million (2022: £261 million) from its subsidiary, Lattice Group Limited, largely funded by the sale of the UK Gas Transmission business by Lattice Group Limited. Following the receipt of this dividend, the Directors reviewed the carrying value of this investment and other investments and considered it appropriate to charge £2,096 million through the profit and loss account as an impairment charge.

On 31 March 2023, Section A of NGUKPS was transferred to the Company from Lattice Group Limited as a dividend in specie to the value of £429 million and has been reflected in the statement of comprehensive income.

There have been no other significant changes in the Company's trading activities during the year, as reported in the profit and loss account. During the year, the Company also received dividends from its key intermediate subsidiary, National Grid Holdings Limited, of £2,650 million (2022: £371 million), as well as dividends of £80 million (2022: £157 million) from the Company's other trading subsidiaries, giving total dividend income of £8,158 million (2022: £789 million).

Results, as detailed below, largely depend on investment income received less amounts written off fixed asset investments less net interest payable.

Results

The Company's profit for the year was £5,795 million (2022: £749 million profit).

Financial position

The financial position of the Company is presented in the balance sheet. Total shareholders' equity at 31 March 2023 was £10,723 million (2022: £4,606 million) comprising fixed assets of £16,580 million (2022: £18,676 million) less net current liabilities of £5,722 million (2022: £14,044 million) less long term creditors, provisions and pension benefit obligations of £135 million (2022: £26 million).

Key performance indicators and principal risks and uncertainties

As the Company is part of a larger group, the management of the Company does not involve the use of key performance indicators in measuring the development, performance or the position of the Company and the principal risks and uncertainties are integrated with the principal risks of National Grid plc. For information on the development, performance, risks, uncertainties and position of National Grid plc and its subsidiaries ('National Grid'), and of the key performance indicators used, refer to the Strategic Report included in National Grid plc's Annual Report and Accounts 2022/23, which does not form part of this report.

National Grid Holdings One plc
Strategic Report (continued)
For the year ended 31 March 2023

Financial risk management

The management of the Company and the execution of the Company's strategy are subject to several financial risks. The Directors have identified the need to manage the Company's material financial risks, including liquidity, credit, interest rate and foreign exchange risks. These risks are monitored through National Grid's Treasury ('Treasury') management function which invests surplus funds, mitigates foreign exchange and interest rate exposure and manages borrowings for National Grid plc and its subsidiaries.

Treasury also seeks to limit third party counterparty risk which arises from the investment of surplus funds and the use of derivative financial instruments. Treasury monitors the exposure that National Grid has with any one counterparty against agreed limits and these limits are monitored regularly and updated for changes in credit ratings.

Liquidity risk

The Company finances its operations through a combination of retained profits and intercompany loans to ensure that the Company has sufficient long-term and short-term funds available for current operations and future activities.

Credit risk

The Company aims to reduce the risk of loss arising from default by parties to financial transactions. The Company holds an approved list of counterparties of good credit quality and these counterparties and their credit ratings are routinely monitored. No exposure is considered to exist in respect of intercompany loans as the subsidiaries are solvent and are covered by the National Grid group's liquidity arrangements.

Interest rate risk

The Company has multiple intercompany loans which can fluctuate between assets and liabilities which exposes it to interest rate risk. To the extent that the Company enters intercompany loan agreements, the Company's exposure to interest rate risk arises on such loans on which interest is currently charged based upon Sterling Overnight Index Average (SONIA).

Foreign exchange risk

To the extent that the Company enters financial instruments in currencies different to that of the Company's functional currency, there is an exposure to movements in exchange rates. At the balance sheet date the Company has intercompany financial instruments denominated in Euro (EUR), US dollar (USD), Swedish krona (SEK) and Japanese Yen (JPY). However, the Company has no overall exposure to movements in exchange rates as it economically hedges all exposures.

Derivative financial instruments

Derivative financial instruments in the form of forward foreign exchange contracts are entered into for the purposes of hedging foreign exchange risk. These derivative financial instruments are recorded at fair value in the financial statements. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties. Where available, market values have been used to determine fair values. In other cases, fair values have been calculated using quotations from independent financial institutions, or by discounting expected cash flows at prevailing market rates.

As at 31 March 2023, the fair value of these derivative financial instruments resulted in an asset of £16 million (2022: £29 million) and a liability of £16 million (2022: £29 million). The net notional principal of these contracts was £1,811 million (2022: £1,712 million) with a net foreign exchange exposure of £1,811 million (2022: £1,712 million). The future expected cash flows from these derivatives are affected by changes in the EUR/GBP, SEK/GBP, JPY/GBP and USD/GBP exchange rates. The contracts have fixed settlement dates.

Future developments

The Directors do not foresee a change in activities of the Company.

National Grid Holdings One plc
Strategic Report (continued)
For the year ended 31 March 2023

Section 172(1) statement

The Directors of the Company, as those of all UK companies, must act in accordance with section 172 ('s172') of the UK Companies Act 2006. Section 172 requires a Director to consider, where relevant, the following in making their decisions:

- the likely long term consequences of the decision;
- the interests of the Company's employees;
- the need to foster the Company's business;
- the need to foster relationships with suppliers, customers and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly between members of the Company

The Directors of National Grid plc (the 'Group Directors') are responsible for overseeing the governance of the National Grid Group (the 'Group') as a whole. The Group operates a single governance framework, and the Group Directors have considered the matters under s172 at Group level. To the extent applicable for understanding the Company's position, the Group summary of s172 considerations is set out on pages 74 to 75 of the National Grid plc Annual Report and Accounts (available at: www.nationalgrid.com/investors).

The Company is a holding company, with investments in Group subsidiary companies and is itself a wholly owned subsidiary within the Group. The Company obtains and provides finance to its fellow subsidiary companies via intercompany balances and acts as a sponsoring company of Section A of the NGUKPS. The Company has no other operational activities, employees or external suppliers or customers.

During the year, the Directors have considered the Company's investments in accordance with the Group's corporate and social responsibility strategy, applicable risk policies and in light of the wider aims of the Group. This included consideration of intergroup financing arrangements and the approval of the transfer of Section A of the NGUKPS to the Company for the benefit of the Group as a whole. These decisions were considered in accordance with the Group's strategy, applicable risk policies and in light of the wider aims of the Group. The Board received relevant information from Group management to inform its decisions. All decisions have been taken in accordance with the Group delegations of authority policy and with due regard to National Grid's aims and governance structure.

The Directors are of the opinion that they have acted fairly and in good faith to promote the success of the Company for the benefit of its members as a whole, with consideration of the applicable matters under s172. The Directors have carried out these duties and have made decisions and undertaken short- and long-term strategies to maintain its financial performance and position. The Directors also continue to recognise the importance of maintaining its high standards of business conduct in line with the Group's Code of Ethical Business Conduct which applies to all subsidiaries within the Group.

The Strategic Report was approved by the Board of Directors and was signed by order of the Board on its behalf by:

DocuSigned by:

Lawrence Hagan

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L Hagan
Company Secretary
31 August 2023

National Grid Holdings One plc
Directors' Report
For the year ended 31 March 2023

The Directors present their Report and the audited financial statements of the Company for the year ended 31 March 2023.

Future developments

Details of future developments have been included within the Strategic Report on page 2.

Principal risk and uncertainties

Details of principal risks and uncertainties have been included within the Strategic Report on page 1.

Financial risk management

Details of financial risk management have been included within the Strategic Report on page 2.

Dividends

During the year, the Company has paid no interim ordinary dividends (2022: £nil). The Directors do not recommend the payment of a final dividend (2022: £nil).

Directors

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

A J Agg
L Barbrook
K M Dickie
S W Grant
A M Lewis
A K Mead
J M Pettigrew
C J Waters (Resigned 28 March 2023)

Directors' indemnity

National Grid 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 during 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, National Grid places Directors' and Officers' liability insurance cover for each Director.

Going concern

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

The Company is in a net current liabilities position, but is expected to continue to be in a position to obtain finance via intercompany loans to continue to operate for the foreseeable future. In completing this analysis, the Directors have considered the ability of the National Grid group to provide such finance and have received assurances in writing that the Group will continue to provide funding for the foreseeable future. Therefore, they continue to adopt the going concern basis of accounting in preparing the financial statements.

National Grid Holdings One plc
Directors' Report (continued)
For the year ended 31 March 2023

Modern Slavery Act 2015

In accordance with the Modern Slavery Act 2015 (section 54 part 6), the Board of National Grid Holdings One plc has adopted and approved the Statement on the prevention of slavery and human trafficking of its parent company, National Grid plc. A copy of the Statement is available on the National Grid plc website.

Disclosure of information to auditors

Having made the requisite enquiries, so far as the Directors in office at the date of the approval of this report are aware, there is no relevant audit information of which the auditors are unaware and each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information. This confirmation is given in accordance with the provisions of section 418 of the Companies Act 2006.

Auditors

At the 2023 Annual General meeting of National Grid plc, the Company's ultimate parent company, Deloitte LLP were reappointed as external auditor to the group. Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed to the Company and Deloitte LLP will, therefore, continue in office.

Statement of Directors' responsibilities

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

UK company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework'. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors' Report was approved by the Board of Directors and was signed by order of the Board on its behalf by:

DocuSigned by:

882598C639FF40A...
L Hagan
Company Secretary
31 August 2023

Registered office:

1-3 Strand
London
WC2N 5EH

Registered in England and Wales
Company registration number: 2367004

Independent auditor's report to the members of National Grid Holdings One plc

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of National Grid Holdings One plc ('the Company'):

- give a true and fair view of the state of the Company's affairs as at 31 March 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes to the financial statements - Note 1 to Note 18.

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

Basis for opinion

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

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

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

Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditor's report to the members of National Grid Holdings One plc (continued)

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

We considered the nature of the Company's industry and its control environment, and reviewed the Company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and the Directors about their own identification and assessment of the risks of irregularities, including those that are specific to the Company's business sector.

We obtained an understanding of the legal and regulatory framework that the Company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, pensions, tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the Company's ability to operate or to avoid a material penalty. These included the Company's operating licence and environmental regulations.

We discussed among the audit engagement team including relevant internal specialists such as tax and pensions specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

Independent auditor's report to the members of National Grid Holdings One plc (continued)

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

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with relevant regulatory authorities.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:


- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

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

DocuSigned by:


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Lee Highton (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

31 August 2023

National Grid Holdings One plc
Profit and loss account
For the year ended 31 March 2023

	Notes	2023 £m	2022 £m
Operating charges		(2,093)	(7)
Operating loss	2	<u>(2,093)</u>	<u>(7)</u>
Income from shares in subsidiary undertakings		8,158	789
Interest receivable and similar income	4	19	35
Interest payable and similar charges	5	(353)	(76)
Profit before tax		<u>5,731</u>	<u>741</u>
Tax	6	64	8
Profit for the year		<u><u>5,795</u></u>	<u><u>749</u></u>

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

National Grid Holdings One plc
Statement of comprehensive income
For the year ended 31 March 2023

	Notes	2023 £m	2022 £m
Profit for the financial year		5,795	749
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Dividend in specie	14	429	—
Deferred tax on transfer of pension scheme	13	(107)	—
Total items that will be never reclassified to profit or loss		322	—
Other comprehensive income for the year, net of tax		322	—
Total comprehensive income for the year		6,117	749

National Grid Holdings One plc
Balance sheet
As at 31 March 2023

	Notes	2023 £m	2022 £m
Fixed assets			
Tangible fixed assets	7	8	8
Investments	8	16,572	18,668
		<u>16,580</u>	<u>18,676</u>
Current assets			
Debtors (amounts falling due within one year)	9	424	5,090
Debtors (amounts falling due after more than one year)	9	9	17
Pension asset	14	448	—
Current asset investments	10	3	22
Cash at bank in hand		1	—
Total current assets		<u>885</u>	<u>5,129</u>
Creditors (amounts falling due within one year)	11	(6,607)	(19,173)
Net current liabilities		<u>(5,722)</u>	<u>(14,044)</u>
Total assets less current liabilities		<u>10,858</u>	<u>4,632</u>
Creditors (amounts falling due after more than one year)	11	(9)	(16)
Provisions for liabilities and charges	13	(107)	(10)
Pension benefit obligations	14	(19)	—
Net assets		<u>10,723</u>	<u>4,606</u>
Equity			
Share capital	15	176	176
Share premium account		335	335
Revaluation reserve		624	624
Other reserve		3	3
Profit and loss account		9,585	3,468
Total shareholders' equity		<u>10,723</u>	<u>4,606</u>

The financial statements set out on pages 9 to 30 were approved by the Board of Directors on 31 August 2023 and were signed on its behalf by:

DocuSigned by:

Kylee Dickie

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K M Dickie

Director

National Grid Holdings One plc

Company registration number: 2367004

National Grid Holdings One plc
Statement of changes in equity
For the year ended 31 March 2023

Notes	Share capital £m	Share premium account £m	Revaluation reserve ¹ £m	Other equity reserve £m	Profit and loss account £m	Total shareholders' equity £m
At 1 April 2021	176	335	624	3	2,719	3,857
Profit for the year	—	—	—	—	749	749
At 31 March 2022	176	335	624	3	3,468	4,606
Profit for the year	—	—	—	—	5,795	5,795
Other comprehensive income for the year	—	—	—	—	322	322
Total comprehensive income for the year	—	—	—	—	6,117	6,117
At 31 March 2023	176	335	624	3	9,585	10,723

¹ During the year ended 31 March 1999, the Company acquired all of the ordinary shares in National Grid Holdings Limited in exchange for shares in subsidiary undertakings, including National Grid Electricity Transmission plc (at that date 'The National Grid Company plc'). The carrying value of National Grid Holdings Limited within fixed asset investments represents the value attributable to the initial investment in The National Grid Company plc, which was acquired for no consideration and was based on a pro-forma net asset value at the date of acquisition, plus all additional investments at cost. As a result of this transaction a revaluation reserve of £624 million was created.

National Grid Holdings One plc
Notes to the financial statements
For the year ended 31 March 2023

1. Summary of significant accounting policies

National Grid Holdings One plc is a public company, limited by shares. The nature of the Company's principal activities is set out in the Strategic Report on page 1. The Company is incorporated and registered in England with its registered office at 1-3 Strand, London, WC2N 5EH.

(a) Basis of preparation

The financial statements of National Grid Holdings One plc for the year ended 31 March 2023 were approved by the Board of Directors on 31 August 2023. The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council. Accordingly, these financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). In preparing these financial statements, the Company applies the recognition and measurement requirements of International Financial Reporting Standards (IFRS) as adopted by the UK, but makes amendments where necessary in order to comply with the Companies Act 2006 and sets out below where advantage of the FRS 101 disclosure exemptions has been taken.

These financial statements have been prepared on an historical cost basis except for the revaluation of derivative financial instruments and are presented in pounds sterling which is the currency of the primary economic environment in which the Company operates. The 2022 comparative financial information has also been prepared on this basis.

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

The Company is in a net current liabilities position, but is expected to continue to be in a position to obtain finance via intercompany loans to continue to operate for the foreseeable future. In completing this analysis the Directors have considered the ability of the National Grid group to provide such finance and have received assurances in writing that the Group will continue to provide funding for the foreseeable future. Therefore, they continue to adopt the going concern basis of accounting in preparing the financial statements.

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

In accordance with Section 400 of the Companies Act 2006, the Company is exempt from preparing consolidated financial statements, as it is included within the consolidated financial statements of National Grid plc, which are publicly available.

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

- a cash flow statement and related notes;
- disclosures in respect of transactions with National Grid plc and its wholly owned subsidiaries;
- disclosures in respect of capital management;
- disclosures in respect of impairment of assets;
- disclosures in respect of fixed asset investments; and
- the effects of new but not yet effective IFRS standards.

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

National Grid Holdings One plc
Notes to the financial statements (continued)
For the year ended 31 March 2023

1. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 March 2023 that have a material impact on the Company's financial statements.

The area of judgement that has the most significant effect on the amounts recognised in the financial statements is the recognition of the surplus in respect of the defined benefit pension scheme. Similarly, the key source of estimation uncertainty that has significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year relates to the estimation of liabilities for pensions as detailed in note 14.

These financial statements have been prepared in accordance with the Company's accounting policies approved by the Board of Directors and described below:

(b) Tax

The tax credit for the period is recognised in the profit and loss account, the statement of comprehensive income or directly in equity, according to the accounting treatment of the related transaction. The tax credit comprises current tax.

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

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

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

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

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

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

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

National Grid Holdings One plc
Notes to the financial statements (continued)
For the year ended 31 March 2023

1. Summary of significant accounting policies (continued)

(c) Property, plant and equipment

The Company leases a property on a 99-year lease dated 22 July 2013 with a break out clause date of 31 December 2072. With effect from 1 April 2019, new lease arrangements entered into are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. The right-of-use asset and associated lease liability arising from a lease are initially measured at the present value of the lease payments expected over the lease term. The lease payments include fixed payments, any variable lease payments dependent on an index or a rate, and any break fees or renewal option costs that the Company is reasonably expected to incur. The discount rate applied is the rate implicit in the lease or if that is not available, then the incremental rate of borrowing for a similar term and similar security (which is determined based on observable data for borrowing rates for the Company, with specific adjustments for the term of the lease and any lease-specific risk premium). The lease term takes account of exercising any extension options that are at the Company's option if the Company is reasonably certain to exercise the option and any lease termination options unless the Company is reasonably certain not to exercise the option. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit and loss account over the lease period using the effective interest rate method. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Items within property, plant and equipment are tested for impairment only if there is some indication that the carrying value of the assets may have been impaired.

Impairments of assets are calculated as the difference between the carrying value of the asset and the recoverable amount, if lower. Where such an asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash-generating unit to which that asset belongs is estimated.

Impairments are recognised in the profit and loss account and are disclosed separately. Any assets which suffered impairment in a previous period are reviewed for possible reversal of the impairment at each reporting date.

(d) Fixed asset investments

Investments in subsidiary undertakings held as fixed assets are stated at cost less any provisions for impairment.

Investments are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairments are calculated such that the carrying value of the fixed asset investment is the lower of its cost or recoverable amount. Recoverable amount is the higher of its net realisable value and its value-in-use.

(e) Foreign currency transactions and balances

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

(f) Equity instruments

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

National Grid Holdings One plc
Notes to the financial statements (continued)
For the year ended 31 March 2023

1. Summary of significant accounting policies (continued)

(g) Financial instruments

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

Financial assets that have contractual cash flows that are solely payments of principal and interest, and which are held within a business model whose objective is to collect contractual cash flows, are held at amortised cost. These instruments include loans to subsidiary undertakings and other loans to subsidiaries within the National Grid group. For impairment assessment purposes loans to subsidiary and fellow subsidiary undertakings are individually assessed based on a review of solvency and liquidity arrangements and as such the expected credit loss for the year is £nil.

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

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

Derivatives

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

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

(h) Dividends

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

(i) Pensions

Section A of NGUKPS, which is a defined benefit (DB) scheme, is reflected within these financial statements following the transfer of the Scheme to the Company on 31 March 2023. On retirement, members of DB schemes receive benefits whose value is dependent on factors such as salary and length of pensionable service. The Company's obligations in respect of DB pension schemes is calculated by projecting the estimated amount of future benefit payments that employees have earned for their pensionable service in the current and prior periods. These future benefit payments are discounted to determine the present value of the liabilities. Current service cost and any unrecognised past service cost are recognised immediately. The discount rate used is the yield curve at the valuation date on high-quality corporate bonds.

Advice is taken from independent actuaries relating to the appropriateness of the key assumptions applied, including life expectancy, expected salary and pension increases, and inflation. Comparatively small changes in the assumptions used may have a significant effect on the net asset recognised in the balance sheet.

National Grid Holdings One plc
Notes to the financial statements (continued)
For the year ended 31 March 2023

2. Operating loss

	2023	2022
	£m	£m
Operating loss is stated after charging:		
Impairment of fixed asset investments (note 8)	2,096	—
Impairment of intercompany loans	—	6
Depreciation charge for the year	—	1
	<u>—</u>	<u>1</u>

Operating loss is stated after charging audit fees of the Company of £48,000 (2022: £45,000) and audit fees of fellow subsidiary undertakings of £nil (2022: £17,000).

Disclosure of non-audit fees is not required as these have been disclosed in the consolidated financial statements of National Grid plc.

During the prior year, the Company assigned intercompany loans to fellow National Grid subsidiary undertakings at fair value resulting in the impairment charge of £6 million.

3. Directors and employees

The emoluments of the Directors are not paid to them in their capacity as Directors of the Company and are payable for services wholly attributable to other National Grid subsidiary undertakings. Accordingly, no details in respect of their emoluments have been included in these financial statements. During the year, there were 7 Directors (2022: 8) who exercised share options in or received ordinary shares as part of long term incentive plans of the ultimate parent company, National Grid plc.

There were no employees of the Company during the year (2022: none).

4. Interest receivable and similar income

	2023	2022
	£m	£m
Interest receivable from ultimate parent company	—	27
Interest on external derivatives	6	3
Changes in fair value of intercompany derivatives	10	2
Changes in fair value of external derivatives	—	3
Other interest receivable	3	—
	<u>19</u>	<u>35</u>

5. Interest payable and similar charges

	2023	2022
	£m	£m
Interest payable to subsidiary undertakings	175	21
Interest payable to ultimate parent company	171	47
Changes in fair value of intercompany derivatives	—	8
Changes in fair value of external derivatives	7	—
	<u>353</u>	<u>76</u>

National Grid Holdings One plc
Notes to the financial statements (continued)
For the year ended 31 March 2023

6. Tax

	2023 £m	2022 £m
Current tax:		
UK corporation tax	<u>(64)</u>	<u>(8)</u>

The tax credit for the year is lower (2022: lower) than the standard rate of corporation tax in the UK of 19% (2022: 19%). The differences are explained below:

	2023 £m	2022 £m
Profit before tax	<u>5,731</u>	<u>741</u>
Profit before tax multiplied by standard rate of corporation tax in the UK of 19% (2022: 19%)	1,089	141
Effect of:		
Expenses not deductible for tax purposes	398	2
Non-taxable income from investments	(1,551)	(150)
Non-taxable income	<u>—</u>	<u>(1)</u>
Total tax credit in the profit and loss account	<u>(64)</u>	<u>(8)</u>

Factors that may affect future tax charges

In the Spring Budget 2021, the UK Government announced an increase in the main corporation tax rate from 19% to 25% with effect from 1 April 2023. This was substantively enacted on 24 May 2021.

7. Tangible fixed assets

	Land and buildings £m
Right of use asset	
Cost:	
At 1 April 2022 and 31 March 2023	<u>9</u>
Depreciation:	
At 1 April 2022 and 31 March 2023	<u>1</u>
Net book value:	
At 31 March 2022 and 31 March 2023	<u><u>8</u></u>

The Company leases a property on a 99-year lease dated 22 July 2013 with a break clause date of 31 December 2072 (further detail is included in note 1 (c)).

National Grid Holdings One plc
Notes to the financial statements (continued)
For the year ended 31 March 2023

8. Fixed asset investments

	Shares in subsidiary undertakings £m
Cost:	
At 1 April 2022 and 31 March 2023	<u>18,668</u>
Provision:	
At 1 April 2022	—
Additions	<u>(2,096)</u>
At 31 March 2023	<u>(2,096)</u>
Net book value:	
At 31 March 2023	<u><u>16,572</u></u>
At 31 March 2022	<u><u>18,668</u></u>

During the year, the Company received cash dividends of £5,428 million from its subsidiary, Lattice Group Limited, largely funded by the sale of the UK Gas Transmission business by Lattice Group Limited. Following the receipt of this dividend, the Directors reviewed the carrying value of this investment and other investments and considered it appropriate to charge £2,096 million through the profit and loss account as an impairment charge.

In the prior year, on 14 June 2021, the Company acquired 100% of the share capital of National Grid Electricity Distribution Holdings Limited, together with its subsidiaries, for a total consideration of £7,974 million.

The fixed asset investments at 31 March 2023 were as follows:

Incorporated in England and Wales

Registered office: 1–3 Strand, London WC2N 5EH, UK (unless stated otherwise in footnotes).

Name of subsidiary	Principal activity
Lattice Group Limited	Holding company
National Grid Carbon Limited	Carbon capture
National Grid Distributed Energy Limited	Energy development company
National Grid Electricity Distribution Holdings Limited ¹	Holding company
National Grid Electricity System Operator Limited ²	Electricity system operator in Great Britain
National Grid Holdings Limited	Holding company
National Grid Hydrogen Limited	Energy development company
National Grid Interconnector Holdings Limited	Holding company
National Grid Interconnectors Limited	Interconnector between the UK and France
National Grid UK Limited	Contracting agent for the Group

¹ Registered office: Avonbank, Feeder Road, Bristol, BS2 0TB

² On 6 April 2022, the Department for Business Energy and Industrial Strategy (BEIS) and Ofgem announced their decision to create a Future System Operator (FSO) that is independent of National Grid. This decision means in time the Electricity System Operator will become part of a new organisation and National Grid will work closely with BEIS and Ofgem on the creation of the FSO.

The Directors believe that the carrying value of the investments is supported by the value of the underlying net assets.

National Grid Holdings One plc
Notes to the financial statements (continued)
For the year ended 31 March 2023

8. Fixed asset investments (continued)

The Company also controls indirectly through its subsidiary undertakings a number of companies split between subsidiaries and joint ventures and associates as listed below. These undertakings are wholly owned unless stated otherwise in the footnotes.

Incorporated in England and Wales

Registered office: 1-3 Strand, London, WC2N 5EH (unless stated otherwise in the footnotes)

Birch Sites Limited	National Grid Lion Link Limited
Carbon Sentinel Limited	National Grid Nautilus Limited
Central Networks Trustees Limited ¹	National Grid North Sea Link Limited
Droylsden Metering Services Limited	National Grid Offshore Limited
Gridcom Limited	National Grid Partners Limited
Hyder Profit Sharing Trustee Limited ¹	National Grid Plus Limited
Icelink Interconnector Limited	National Grid Property Holdings Limited
Kelston Properties 2 Limited ¹	National Grid Smart Limited
Lattice Group Employee Benefit Trust Limited	National Grid Telecoms Limited ¹
Lattice Group Trustees Limited	National Grid Thirty Six Limited ^{2*}
Natgrid Limited ^{2*}	National Grid Twenty Eight Limited
National Grid Commercial Holdings Limited	National Grid Twenty Seven Limited
National Grid Continental Limited	National Grid UK Pension Services Limited
National Grid Electricity Distribution (East Midlands) plc ¹	National Grid Ventures Limited
National Grid Electricity Distribution (South Wales) plc ¹	National Grid Viking Link Limited
National Grid Electricity Distribution (South West) plc ¹	National Grid William Limited
National Grid Electricity Distribution (West Midlands) plc ¹	NG Nominees Limited
National Grid Electricity Distribution Generation Limited ¹	NGC Employee Shares Trustee Limited
National Grid Electricity Distribution Investment Holdings Limited ¹	Ngrid Intellectual Property Limited
National Grid Electricity Distribution Investments Limited ¹	Port Greenwich Limited
National Grid Electricity Distribution Midlands Limited ¹	Sheet Road Management Company Limited (51%) ³
National Grid Electricity Distribution Network Holdings Limited ¹	South Wales Electricity Share Scheme Trustees Limited ¹
National Grid Electricity Distribution plc ¹	Supergrid Electricity Limited ^{2*}
National Grid Electricity Distribution Property Investments Limited ¹	Supergrid Energy Transmission Limited ^{2*}
National Grid Electricity Group Trustee Limited	Supergrid Limited ^{2*}
National Grid Electricity Transmission plc	Thamesport Interchange Limited
National Grid Energy Metering Limited	The National Grid Group Quest Trustee Company Limited
National Grid Grain LNG Limited	The National Grid YouPlan Trustee Limited ^{2*}
National Grid Helicopters Limited ¹	Transco Limited
National Grid IFA 2 Limited	Warwick Technology Park Management Company (No 2) Limited (60.56%) ⁴
National Grid International Limited	Western Power Pension Trustee Limited ¹
	WPD Share Scheme Trustees Limited ¹
	WPD WEM Holdings Limited ¹
	WPD WEM Limited ¹
	WW Share Schemes Trustees Limited ¹

¹ Registered office: Avonbank, Feeder Road, Bristol, Avon, BS2 0TB.

² Registered office: C/o Interpath Limited, 10 Fleet Place, London, EC4M 7RB.

³ Registered office: Netley Old Hall Farm, Dorrington, Shrewsbury, SY5 7JY.

⁴ Registered office: Shire Hall, PO Box 9, Warwick, CV34 4RL.

* In liquidation.

National Grid Holdings One plc
Notes to the financial statements (continued)
For the year ended 31 March 2023

8. Fixed asset investments (continued)

Indirectly owned subsidiary undertakings (continued)

Incorporated in Australia

Registered office: Level 7, 330 Collins Street, Melbourne, VIC 3000, Australia

National Grid Australia Pty Limited

Incorporated in Guernsey

Registered office: 1st & 2nd Floors Elizabeth House, Les Ruettes Brayes, St Peter Port, GY1 1EW, Guernsey, Channel Islands

National Grid Electricity Distribution Limited[†]

Registered office: PO Box 155, Mill Court, La Charroterie, St. Peter Port, GY1 4ET. Guernsey, Channel Islands

Aztec Insurance Limited

Incorporated in the Isle of Man

Registered office: Third Floor, St George's Court, Upper Church Street, Douglas, IM1 1EE, Isle of Man, UK

National Grid Insurance Company (Isle of Man) Limited

NGT Holding Company (Isle of Man) Limited^{*†}

* In liquidation.

[†] Entity is tax resident in the United Kingdom

National Grid Holdings One plc
Notes to the financial statements (continued)
For the year ended 31 March 2023

8. Fixed asset investments (continued)

Indirectly owned joint ventures

The following indirectly owned entities are joint ventures:

Incorporated in England and Wales

Registered office: 1–3 Strand, London WC2N 5EH, UK (unless stated otherwise in footnotes).

BritNed Development Limited (50%)^{*}

National Places LLP (50%)[†]

Nemo Link Limited (50%)

NGET/SPT Upgrades Limited (50%)[†]

Incorporated in France

Registered office: 1 Terrasse Bellini, Tour Initiale, TSA 41000 – 9291, Paris La Defense, CEDEX, France

IFA2 SAS (50%)

Indirectly owned associates

The following indirectly owned entities are associates:

Incorporated in England and Wales

Registered office: National Grid House, Warwick Technology Park, Gallows Hill, Warwick, CV34 6DA

GasT TopCo Limited (40%)^{**}

Joint Radio Company Limited (25%)^{2***}

Incorporated in Belgium

Registered office: Avenue de Cortenbergh 71, 1000 Brussels, Belgium

Coreso SA (15.84%)

Indirectly owned other investments

The following indirectly owned entities are classed as other investments:

Incorporated in England and Wales

Registered office: 1 More London Place, London SE1 2AF, UK

Energis plc (33.06%)[‡]

Registered office: Third Floor, Northumberland House, 303-306 High Holborn, London, WC1V 7JZ

Electralink Limited (27.04%)

* National Grid Interconnector Holdings Limited owns 284,500,000 €0.20 C Ordinary shares and one £1.00 Ordinary A share.

** This has been accounted for as an asset held for sale in the financial statements of Lattice Group Limited. On 19 July 2023, Lattice Group Limited agreed to sell 20% of its interest in GasT TopCo Limited.

*** National Grid Electricity Transmission plc owns one £0.50 A Ordinary share.

† National Grid Electricity Transmission plc owns 50 £1.00 A Ordinary shares.

‡ In administration.

¹ Registered office: 80 Cheapside, London, EC2V 6EE, UK.

² Registered office: Friars House, Manor House Drive, Coventry, CV1 2TE, UK.

National Grid Holdings One plc
Notes to the financial statements (continued)
For the year ended 31 March 2023

9. Debtors

	2023	2022
	£m	£m
Amounts falling due within one year		
Derivative financial instruments (note 12)	15	22
Amounts owed by subsidiary undertakings	372	279
Amounts owed by fellow subsidiary undertakings	3	3
Amounts owed by ultimate parent company	—	4,737
Corporation tax recoverable	32	47
Prepayments	2	2
	<u>424</u>	<u>5,090</u>

Amounts owed by group undertakings are unsecured, have no fixed date of repayment and are repayable on demand. Where intercompany loans are interest-bearing interest is charged at rates determined by Treasury. For impairment assessment purposes, such loans to group undertakings are considered low risk as the subsidiaries are solvent and are covered by the National Grid group's liquidity arrangements and as such the expected credit loss for the year is £nil.

	2023	2022
	£m	£m
Amounts falling due after more than one year		
Derivative financial instruments (note 12)	1	7
Prepayments	8	10
	<u>9</u>	<u>17</u>

10. Current asset investments

	2023	2022
	£m	£m
Investments in short term money funds	<u>3</u>	<u>22</u>

11. Creditors

	2023	2022
	£m	£m
Amounts falling due within one year		
Borrowings*	2	1
Derivative financial instruments (note 12)	15	22
Amounts owed to subsidiary undertakings	2,711	5,933
Amounts owed to fellow subsidiary undertakings	26	5
Amounts owed to ultimate parent company	3,851	13,211
Other creditors	2	1
	<u>6,607</u>	<u>19,173</u>

*Borrowings primarily represents a bank loan payable

Amounts owed to group undertakings are unsecured, have no fixed date of repayment and are repayable on demand. Where intercompany loans are interest-bearing interest is charged at rates determined by Group Treasury.

National Grid Holdings One plc
Notes to the financial statements (continued)
For the year ended 31 March 2023

11. Creditors (continued)

	2023 £m	2022 £m
Amounts falling due after more than one year		
Lease liabilities	8	9
Derivative financial instruments (note 12)	1	7
	<u>9</u>	<u>16</u>

	2023 £m	2022 £m
Lease liabilities		
Gross lease liabilities are repayable as follows:		
More than 5 years	15	17
	<u>15</u>	<u>17</u>
Less: finance charges allocated to future periods	(7)	(8)
	<u>8</u>	<u>9</u>
The present value of lease liabilities is as follows:		
More than 5 years	8	9
	<u>8</u>	<u>9</u>

12. Derivative financial instruments

The fair values of derivative financial instruments are:

	Assets £m	2023 Liabilities £m	Total £m
Amounts falling due within one year	15	(15)	—
Amounts falling due after one year	1	(1)	—
	<u>16</u>	<u>(16)</u>	<u>—</u>

	Assets £m	2022 Liabilities £m	Total £m
Amounts falling due within one year	22	(22)	—
Amounts falling due after one year	7	(7)	—
	<u>29</u>	<u>(29)</u>	<u>—</u>

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

	2023 £m	2022 £m
Foreign exchange forward contracts	<u>(1,811)</u>	<u>(1,712)</u>

*The notional amounts of derivatives indicate the gross nominal value of transactions outstanding.

National Grid Holdings One plc
Notes to the financial statements (continued)
For the year ended 31 March 2023

13. Provision for liabilities and charges

	2023 £m	2022 £m
Provision	—	10
Deferred tax on pension scheme	107	—
	<u>107</u>	<u>10</u>
Deferred tax	2023	2022
	£m	£m
At 31 March 2022	—	—
Charged to statement of comprehensive income	107	—
At 31 March 2023	<u>107</u>	<u>—</u>

The other provision in the prior year comprised £10 million in respect of transaction costs in association with the sale of UK Gas Distribution. During the year, £5 million of this provision was utilised and £5 million was released to the profit and loss account.

14. Pensions

Defined benefit plan

Until March 2023, Lattice Group Limited recognised Section A of NGUKPS (the Scheme), a defined benefit pension plan, on its balance sheet. As of 31 March 2023, the Directors of Lattice Group Limited agreed to transfer this pension asset plus an unfunded pension liability of £19 million to the Company via a dividend in specie. The net defined pension asset of the pension plan is now reflected within the Company's balance sheet. The plan is managed by a trustee company (the Trustee) with a board consisting of company- and member-appointed directors and holds its assets in separate Trustee administered funds. This plan is now closed to new members.

The pension plan is subject to independent actuarial funding valuations every three years, and following consultation and agreement with National Grid, the qualified actuary certifies the employers' contributions, which, together with the specified contributions payable by the employees and proceeds from the scheme's assets, are expected to be sufficient to fund the benefits payable.

The latest full actuarial valuation was carried out at 31 March 2022 and the plan was in surplus with no additional funding required. The Company will fund the cost of future benefit accrual going forward (over and above member contributions). Plan administration expenses and Pension Protection Fund (PPF) levies are payable by the Scheme without reimbursement from the Company, with the exception of non business-as-usual project costs agreed between the Trustee and Company.

Actuarial assumptions

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

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

National Grid Holdings One plc
Notes to the financial statements (continued)
For the year ended 31 March 2023

14. Pensions (continued)

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

	2023
	%
Discount rate – past service	4.80
Discount rate – future service	4.80
Rate of increase in salaries	3.10
Rate of increase in RPI – past service	3.20
Rate of increase in RPI – future service	<u>3.10</u>

Single equivalent financial assumptions are shown above for presentational purposes, although full yield curves have been used in our calculations. The discount rate is determined by reference to high-quality UK corporate bonds at the reporting date. The rate of increases in salaries is in addition to the application of a promotional scale where appropriate. The rates of increases stated are not indicative of historical increases awarded or a guarantee of future increase, but merely an appropriate assumption used in assessing DB liabilities. RPI is the key assumption that determines assumed increases in pensions in payment and deferment in Section A of the NGUKPS.

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

	2023
Assumed life expectations for a retiree age 65	years
Today:	
Males	21.2
Females	23.3
In 20 years:	
Males	22.5
Females	<u>24.8</u>

Maturity profile of defined benefit obligations

The weighted average duration of the defined benefit obligation is 10 years.

As at the reporting date, the present value of the funded obligations split according to member status, was approximately 1% active members; 11% deferred members and 88% pensioner members.

National Grid Holdings One plc
Notes to the financial statements (continued)
For the year ended 31 March 2023

14. Pensions (continued)

Amounts recognised in the balance sheet

	2023 £m
Present value of funded obligations	(4,075)
Fair value of scheme assets	4,523
	<u>448</u>
Present value of unfunded liabilities	(19)
Net defined benefit asset	<u><u>429</u></u>
Represented by:	
Liability	(19)
Asset	<u>448</u>
	<u><u>429</u></u>

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

No amount has been recognised in the Company's profit and loss account nor statement of comprehensive income in relation to the pension scheme. These amounts were recognised in Lattice Group Limited prior to the transfer of the pension scheme.

The expected contributions to the Scheme in the following year are £1 million.

Asset allocations

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

	2023 £m
Equities – unquoted	182
Corporate bonds – quoted	1,013
Government securities – quoted	624
Property – unquoted	198
Diversified alternatives – unquoted	380
Liability matching assets – unquoted ¹²	2,126
	<u><u>4,523³</u></u>

¹ Comprises the buy-in policies held by the Trustee

² Includes £110 million of repurchase agreements. These are used to increase the market exposure of the liability-matching portfolio.

³ The fair value of plan assets includes employer-related investment exposure of £23 million.

National Grid Holdings One plc
Notes to the financial statements (continued)
For the year ended 31 March 2023

14. Pensions (continued)

Main defined benefit risks

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

The most significant risks associated with the Scheme are:

- investment risk – investments are made in a variety of asset classes, with actual returns likely to differ from the underlying discount rate adopted, impacting the funding position of the Scheme through the net balance sheet asset or liability. The Scheme seeks to balance the level of investment return required with the risk that it can afford to take, to design the most appropriate investment portfolio;
- changes in bond yields – liabilities are calculated using discount rates set with reference to the yields on high-quality corporate bonds prevailing in the UK markets and will fluctuate as yields change. Volatility of the net balance sheet asset or liability is controlled through liability-matching;
- inflation risk – changes in inflation will affect the current and future pensions but are partially mitigated through investing in inflation-matching assets and hedging instruments as well as bulk annuity buy-in policies.
- member longevity – longevity is a key driver of liabilities and changes in life expectancy have a direct impact on liabilities. Improvements in life expectancy will lead to pension payments being paid for longer than expected and benefits ultimately being more expensive. This risk has been partly mitigated by the purchase of bulk annuity buy-in policies;
- counterparty risk – is managed by having a diverse range of counterparties and through having a strong collateralisation process. Measurement and management of counterparty risk is delegated to the relevant investment managers. For our bulk annuity policies, various termination provisions were introduced in the contracts, managing our exposure to counterparty risk. The insurers' operational performance and financial strength are monitored on a regular basis;
- default risk – debt investments are predominantly made in regulated markets in assets considered to be of investment grade. Where investments are made either in non-investment grade assets or outside of regulated markets, investment levels are kept to prudent levels and subject to agreed control ranges, to control the risk;
- liquidity risk – the pension plans hold sufficient cash to meet benefit requirements, with other investments being held in liquid or realisable assets to meet unexpected cash flow requirements. These could include collateral calls relating to the Scheme's liability-matching assets which could result from extreme market movements. Should the Scheme not have sufficient liquidity to meet cash flow requirements, they could be forced to take sub-optimal investment decisions such as selling assets at reduced price. The plans do not borrow money, or act as guarantor, to provide liquidity to other parties (unless it is temporary); and
- currency risk – fluctuations in the value of foreign denominated assets due to exposure to currency exchange rates is managed through a combination of segregated currency hedging overlay and currency hedging carried out by some of the investment managers.

Defined benefit investment strategies

The Trustee's responsibilities are set out in the Trust Deed and Rules. The Trustee, after taking advice from professional investment advisors and in consultation with National Grid, sets the key principles, including expected returns, risk and liquidity requirements. The Trustee formulates an investment strategy to manage risk through diversification, taking into account expected contributions, maturity of the pension liabilities, and the strength of the covenant. These strategies allocate investments between return-seeking assets such as equities and property, and liability-matching assets such as buy-in policies, government securities and corporate bonds which are intended to protect the funding position.

National Grid Holdings One plc
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For the year ended 31 March 2023

14. Pensions (continued)

The approximate investment allocations for the Scheme is as follows:

	2023
	%
Return-seeking assets	17
Liability-matching assets	83
	<u>100</u>

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

The pension plan has a Responsible Investment (RI) Policy, which takes into account Environmental, Social and Governance (ESG) factors and incorporates the six UN-backed Principles for Responsible Investment (UNPRI). The Trustee board believes that ESG factors can be material to financial outcomes and should therefore be considered alongside other factors. They recognise that their primary responsibility remains a fiduciary one, i.e. their first duty is to ensure the best possible return on investments with the appropriate level of risk. However, they also recognise the increasing materiality of ESG factors and that they have a fiduciary and regulatory duty to consider RI, including ESG factors and their potential impact on the quality and sustainability of long-term investment returns.

Sensitivities

Sensitivities have been prepared to show how the defined benefit obligations could potentially be impacted by changes in the relevant actuarial assumption that were reasonably possible as at 31 March 2023. In preparing sensitivities the potential impact has been calculated by applying the change to each assumption in isolation and assuming all other assumptions remain unchanged. This is with the exception of RPI in the UK where the corresponding change to increases to pensions in payment, increases to pensions in deferment and increases in salary is recognised.

The sensitivities included in the table below broadly have an equal and opposite effect if the sensitivity increases or decreases by the same amount. The changes shown are a change in the defined benefit obligations:

	2023	2023
	Profit and loss	Net assets
	£m	£m
Pensions and other post retirement liabilities (pre-tax)		
Discount rate change of 1% ¹	4	401
RPI rate change of 1% ²	—	304
Long term rate of increase in salaries change of 1%	—	1
Change of one year to life expectancy at age 65 ³	—	174

¹ A change in the discount rate is likely to occur as a result of changes in bond yields and as such would be expected to be offset to a significant degree by a change in the value of the bond assets held by the Scheme. There would also be a £218 million net assets offset from the buy-in policies, where the accounting value of the buy-in asset is set equal to the associated liabilities.

² The projected impact resulting from a change in RPI reflects the underlying effect on pensions in payment, pensions in deferment and resultant increases in salary assumptions. The buy-in policies would have a £163 million net assets offset to the above.

³ The buy-in policies would have a £78 million net assets offset to the above.

National Grid Holdings One plc
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For the year ended 31 March 2023

15. Share capital

	2023	2022
	£m	£m
Allotted, called up and fully paid		
1,498,000,000 (2022: 1,498,000,000) ordinary shares of 11 ^{13/17} pence	<u>176</u>	<u>176</u>

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

16. Commitments and contingencies

As part of the sectionalisation of the National Grid UK Pension Scheme, a guarantee of £1 billion has been provided to Section A. This payment is contingent on insolvency or on failure to pay pensions obligations to Section A and can be claimed against National Grid plc, National Grid Holdings One plc or Lattice Group Limited (up to £1 billion in total).

17. Related party transactions

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

18. Ultimate parent company

The ultimate parent and controlling company is National Grid plc and the immediate parent company National Grid Luxembourg SARL. The largest and smallest group which includes the Company and for which consolidated financial statements are prepared is headed by National Grid plc. National Grid plc is registered in England and Wales at the registered office below and National Grid Luxembourg SARL at 412F, Route d'Esch, L-2086, Luxembourg, Grand Duchy of Luxembourg.

Copies of the consolidated financial statements can be obtained from the Company Secretary, National Grid plc, 1-3 Strand, London WC2N 5EH.