Company Registration Number: 3900804

Lattice Group Limited

Annual Report and Financial Statements

For the year ended 31 March 2020

Lattice Group Limited

Strategic Report

For the year ended 31 March 2020

The Directors present their Strategic Report on Lattice Group Limited ('the Company') for the year ended 31 March 2020.

Review of the business

The Company holds investments in other National Grid plc subsidiary companies and obtains and provides finance to fellow subsidiary companies via intercompany balances. In addition, the Company acts as the sponsoring company of Section A of the National Grid UK Pension Scheme.

Executive summary

There have been no significant changes in the Company's trading activities during the year, as reported in the profit and loss account. During the year, the Company has received dividends from its subsidiaries, National Grid Gas Holdings Limited and National Grid Grain LNG Limited of £1,047 million and £520 million respectively.

The Company has participated in a group wide intercompany loan rationalisation project. As a result, various amounts owed by subsidiary undertakings have been cash settled in full. Another such loan with an indirect subsidiary was partially repaid and the remainder was not called in for settlement, but instead assigned from the Company to another group company at fair value, which was less than nominal value, given the company with whom the loan was with was in a net liabilities position. Thus, a charge of £97 million was made to the profit and loss account, which has been reflected within operating charges.

The Company's pension asset has fallen from £742 million to £612 million primarily due to actuarial losses on scheme assets of £517 million partially offset by actuarial gains on scheme liabilities of £369 million. For further details see note 13 to the financial statements.

During the year, the Trustees of the pension scheme entered into a buy-in arrangement in order to manage various risks. The policy provides bulk annuities in respect of some pensioner and dependent members and were funded by existing assets. In Section A, £2.8 billion of gilts were exchanged for a buy-in policy with Rothesay Life and this policy is held by the Trustee. The pricing for the policy was highly competitive, however, under IAS 19 the methodology for calculating the value of the buy-in (as an asset held by the scheme) differs from the price paid. This resulted in the recognition of an actuarial loss of £400 million on purchase, which is included within the actuarial losses on scheme assets described above.

Results, as detailed below, largely depend on dividends and net interest received partially offset by the impairment of an intercompany loan.

COVID-19

Since the outbreak of the COVID-19 coronavirus pandemic in early 2020, the Directors have reviewed the risks to the Company. The Company provides finance to fellow National Grid subsidiary companies and has no external transactions to the National Grid group. As a result, COVID-19 has not impacted the Company or caused any adjustments to these financial statements.

Results

The Company's profit for the year was £1,461 million (2019: £29 million profit).

Financial position

The financial position of the Company is presented in the balance sheet. Total shareholders' equity at 31 March 2020 was £2,667 million (2019: £2,876 million) comprising fixed asset investments of £675 million (2019: £675 million), net current assets of £2,127 million (2019: £2,349 million) less provisions for liabilities and charges of £111 million (2019: £121 million) and pension benefit obligations of £24 million (2019: £27 million).

Lattice Group Limited

Strategic Report (continued)

For the year ended 31 March 2020

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, other than the profit or loss for the year, 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 2019/20, which does not form part of this report. Further details of Company financial risk management have been included in the Directors' Report.

Future developments

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

Section 172 (1) statement

The Board believes that, individually and together, they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members, as a whole, having regard to the stakeholders and matters set out in section 172(a)-(f) of the Companies Act 2006 in the decisions taken during the year ended 31 March 2020. It follows the National Grid Group's ('the Group's') business standards and compliance with local corporate governance requirements, and is committed to acting if our business should fail to act in the manner we expect of them. For the Group's section 172 statement please see the National Grid plc Annual Report and Accounts.

The Board is responsible for monitoring and upholding the culture, values, standards, ethics and reputation of the Company to ensure that our obligations to our shareholder and to our stakeholders are met. For each matter, which comes before the Board, stakeholders who may be affected are identified and their interests are carefully considered as part of the Board's decision-making.

The Board is also mindful of the wider social context within which our businesses operate, including those issues related to climate change which are of fundamental importance to the planet's well-being.

Our culture and decision making

Our culture is shaped by our clearly defined values to help ensure we achieve our vision. It determines how we behave, how we make decisions and our attitude towards risk aligned with the Group's purpose, vision and values. Decisions affecting a subsidiary are required to be taken in line with the National Grid Statement of Delegations of Leadership, Responsibility and Financial Authority. In making such decisions the Directors have regard to a variety of matters including the interests of various stakeholders, the consequences of their decisions in the long term and the long-term reputation of the Company and its businesses.

Employee engagement

The Company has no employees. All UK employees engaged in the activities of the Company are employed by subsidiary undertakings of National Grid plc. The employees are kept informed about what is happening across the Group through the Group's intranet and through email, newsletters, and leadership blogs and briefings.

Disclosures relating to employees may be found in the Annual Report and Accounts of these companies. You can read more about the Group's engagement with employees on page 73 of the National Grid plc Annual Report and Accounts (available at: www.nationalgrid.com/investors).

Section 172 (1) statement (continued)

Fostering business relationships with our customers and suppliers

The Company is an investment holding company and obtains and provides finance to fellow subsidiary companies thus has no suppliers and customers itself. The Directors recognise that fostering business relationships with key stakeholders, such as customers and suppliers, is essential to the success of the Group and are satisfied that the Group has close relationships with its customers, suppliers to meet our strategic priorities.

The community and the environment

The Directors recognise that the Group delivers sustainable energy safely, reliably and affordably for the communities we serve. Giving back to the communities in which we operate, and to charities that have meaning to our business, is vitally important to the Group and its employees, allowing them to make a positive difference and have an impact where it counts.

The Directors recognise the critical role the Group plays in tackling climate change in the markets that we operate. Ambitious carbon reduction targets and further legislative actions are anticipated in all our markets which will be challenging and as a Group we embrace the opportunity to support the delivery of these goals. The Group continues to focus on and advance its work in relation to its environmental sustainability strategy.

You can read more about the Group's responsible business on pages 48 to 56 in the National Grid plc Annual Report and Accounts.

Shareholders

The Board considers the long-term impact of corporate actions and decisions on our shareholders. During the year, the Board has approved dividends of £1,567 million to the immediate parent during the year.

The ultimate shareholder is National Grid plc and there is ongoing communication and engagement with the National Grid Board. Any matters requiring escalation are escalated by the Board through the Chairman to its ultimate parent.

Maintaining a reputation for high standards of business conduct

The Group's Code of Ethical Business Conduct sets out the standards and behaviours expected from all employees to meet the Group's values.

Detailed information on the Group-wide business conduct processes and policies are described in the National Grid plc Annual Report and Accounts on pages 55 and 56 (available on the website at: www.nationalgrid.com/investors).

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

DocuSigned by:
megan barnes
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M Barnes
Company Secretary
6 August 2020

Lattice Group Limited

Directors' Report

For the year ended 31 March 2020

The Directors present their report and the audited financial statements of the Company for the year ended 31 March 2020.

Future developments

Details of future developments have been included within the Strategic Report on page 1.

Dividends

The Company has paid an interim ordinary dividend of £1,567 million during the year (2019: £nil) and the Directors do not recommend the payment of a final dividend (2019: £nil).

Financial risk management

The management of the Company and the execution of the Company's strategy are subject to a number of financial risks. The Directors have identified the need to manage the Company's material financial risks, including liquidity, credit and interest rate cash flow risks. These risks are monitored through a National Grid 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. 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 cash flow risk

The Company has intercompany financial assets which exposes it to interest rate cash flow risk. To the extent that the Company enters intercompany loan agreements, the Company's exposure to interest rate cash flow risk arises on such loans on which interest is charged based upon sterling LIBOR.

The UK's Financial Conduct Authority announced that LIBOR will cease to exist by the end of 2021, and will be replaced by alternative reference rates ('ARRs'). National Grid's interest rate risk arises from long-term borrowings, which currently use LIBOR as the benchmark. The migration to ARRs will impact contracts at National Grid including financial liabilities that pay LIBOR-based cash flows, derivatives that receive or pay LIBOR-based cash flows, and other contracts such as leases or procurement contracts that reference LIBOR. The change in benchmark also affects discount rates which can impact valuations. National Grid are managing the risk by identifying affected contracts and planning to replace LIBOR cash flows with alternative reference rates on those contracts.

Lattice Group Limited

Directors' Report (continued)

For the year ended 31 March 2020

Directors

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

A J Agg	(Resigned 1 October 2019)
J P Clay	
K M Dickie	(Appointed 1 October 2019)
S W Grant	
H Hill	
S C Humphreys	(Resigned 31 December 2019)
A K Mead	
D A Preston	
C J Waters	

Directors' indemnity

National Grid has arranged, in accordance with the Companies Act 2006 and the Articles, 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

The impact of COVID-19 on the National Grid group's operations is continually being assessed and subject to rapid change. These risks and uncertainties are included within the Strategic Report and described in note 1 to the consolidated financial statements in National Grid plc's Annual Report and Accounts 2019/20 and have been taken into consideration in assessing the ability of the Group to continue as a going concern. Based on this analysis the Directors of National Grid plc concluded that the Group has adequate resources to continue in operation and adopted the going concern basis of accounting in preparing the Group financial statements.

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 Directors have considered the impact of COVID-19 on the Group and on the Company and have concluded that there are no material uncertainties related to these events or conditions that may cast doubt upon the Company's ability to continue as a going concern. Therefore, they continue to adopt the going concern basis of accounting in preparing the financial statements.

Events after the reporting period

In the period since year end to the date of signing of these financial statements there have continued to be substantial economic and social changes in the UK as a result of the ongoing pandemic of coronavirus disease (COVID-19). These changes and risks are being actively managed by the Directors of the Company and other than the presumption of the going concern basis of preparation (see note 1) none of these developments have impacted or caused adjustment to these financial statements.

Subsequent to the year end, on 24 July 2020, the Company received dividends of £123 million from its subsidiary, National Grid Gas Holdings Limited. The cash consideration received was used to settle a dividend declared to its parent company, National Grid Holdings One plc of £123 million on the same date.

Modern Slavery Act

In accordance with the Modern Slavery Act 2015 (section 54 part 6), the Board of Lattice Group Limited 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.

Lattice Group Limited

Directors' Report (continued)

For the year ended 31 March 2020

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 2020 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.

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 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:
megan barnes
CD578C5FC5B2475...

M Barnes
Company Secretary
6 August 2020

Registered office:
1-3 Strand
London
WC2N 5EH

Registered in England and Wales
Company registration number: 3900804

Independent auditor's report to the members of

Lattice Group Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Lattice Group Limited ('the Company'):

- give a true and fair view of the state of the Company's affairs as at 31 March 2020 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 1 to 16.

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

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. 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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Independent auditor's report to the members of

Lattice Group Limited (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.

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.

Independent auditor's report to the members of

Lattice Group Limited (continued)

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:
Douglas King
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Douglas King FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
6 August 2020

Lattice Group Limited

Profit and loss account

For the year ended 31 March 2020

	Notes	2020 £m	2019 £m
Other operating charges		**(101)**	(2)
Operating loss	2	**(101)**	(2)
Income from shares in subsidiary undertakings		**1,567**	-
Interest receivable and similar income	4	**34**	34
Interest payable and similar charges	5	**(1)**	(1)
Profit before tax		**1,499**	31
Tax	6	**(36)**	(2)
Profit for the year		**1,463**	29

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

Lattice Group Limited

Statement of comprehensive income

For the year ended 31 March 2020

	Notes	2020 £m	2019 £m
Profit for the year		**1,463**	29
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Remeasurement (losses)/gains on pension assets and post-retirement benefit obligations	13	**(148)**	45
Tax on items that will never be reclassified to profit or loss	6	**45**	(8)
Total items that will never be reclassified to profit or loss		**(103)**	37
Other comprehensive (loss)/income for the year, net of tax		**(103)**	37
Total comprehensive income for the year		**1,360**	66

Lattice Group Limited

Balance sheet

As at 31 March 2020

	Notes	2020 £m	2019 £m
Fixed asset investments	8	**675**	675
Current assets			
Debtors (amounts falling due within one year)	9	**1,522**	1,612
Pension asset	13	**612**	742
Total current assets		**2,134**	2,354
Creditors (amounts falling due within one year)	10	**(5)**	(5)
Net current assets		**2,129**	2,349
Total assets less current liabilities		**2,804**	3,024
Provisions for liabilities and charges	11	**(111)**	(121)
Pension benefit obligations	13	**(24)**	(27)
Net assets		**2,669**	2,876
Equity			
Share capital	12	**361**	361
Share premium account		**3**	3
Other equity reserve		**14**	14
Profit and loss account		**2,291**	2,498
Total shareholders' equity		**2,669**	2,876

The financial statements set out on pages 10 to 30 were approved by the Board of Directors on 6 August 2020 and were signed on its behalf by:

DocuSigned by:
Kylee Dickie
543744FB68524D9...

K M Dickie
Director

Lattice Group Limited
Company registration number: 3900804

Lattice Group Limited

Statement of changes in equity

For the year ended 31 March 2020

	Share capital £m	Share premium account £m	Other equity reserve £m	Profit and loss account £m	Total shareholders' equity £m
At 1 April 2018	361	3	14	2,432	2,810
Profit for the year	-	-	-	29	29
Other comprehensive income for the year	-	-	-	37	37
Total comprehensive income for the year	-	-	-	66	66
At 31 March 2019	361	3	14	2,498	2,876
Profit for the year	-	-	-	1,463	1,463
Other comprehensive loss for the year	-	-	-	(103)	(103)
Total comprehensive income for the year	-	-	-	1,360	1,360
Equity dividends (note 7)	-	-	-	(1,567)	(1,567)
At 31 March 2020	**361**	**3**	**14**	**2,291**	**2,669**

Lattice Group Limited

Notes to the financial statements

For the year ended 31 March 2020

1 Summary of significant accounting policies

Lattice Group Limited is a private limited 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 Lattice Group Limited for the year ended 31 March 2020 were approved by the Board of Directors on 6 August 2020. 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 EU, 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 an historical cost basis and are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates. The 2019 comparative financial information has also been presented 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 Directors have considered the impact of COVID-19 on the Group and on the Company and have concluded that there are no material uncertainties related to these events or conditions that may cast doubt upon the Company's ability to continue as a going concern. 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 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'.

The Company adopted IFRS 16 'Leases' with effect from 1 April 2019. The adoption of IFRS 16 has had no impact on the Company.

1 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

The UK's Financial Conduct Authority announced that LIBOR will cease to exist by the end of 2021, and will be replaced by alternative reference rates. In September 2019, the IASB amended IFRS 9 and IFRS 7 by issuing Interest Rate Benchmark Reform, which provides exceptions to specific hedge accounting requirements to ensure that hedging relationships are not considered to be modified as a result of uncertainties during the migration from LIBOR to alternative reference rate. The Company early-adopted these changes to IFRS 7 and IFRS 9 with effect from 1 April 2019 and the adoption has had no impact on the Company.

The preparation of financial statements may require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and the reported amounts of income and expenses during the reporting period. Actual results could differ from these estimates. 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 the estimation of liabilities for pensions as detailed in note 13. In light of the current ongoing impact of the Covid-19 pandemic the valuation of certain pension assets in particular unquoted equities, properties and diversified alternatives, in light of the volatile economic markets. In order to illustrate the impact that changes in assumptions could have on the results and financial position, sensitivity analysis has been provided in note 13.

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

(b) 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.

(c) 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 loans to subsidiaries within the National Grid group. For impairment assessment purposes loans to subsidiary and fellow subsidiary undertakings are individually assessed based on comparable external credit ratings and 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 their fair value which normally reflects the proceeds received, net of direct issue costs less any repayments. Subsequently these are stated at amortised cost, using the effective interest method. Any difference between proceeds and the redemption value is recognised over the term of the borrowing in the profit and loss account using the effective interest method.

1 Summary of significant accounting policies (continued)

(d) Equity instruments

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

(e) Tax

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

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 jointly controlled entities except where the Company is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

1 Summary of significant accounting policies (continued)

(f) Pensions

Section A of the National Grid UK Pension Scheme, which is a defined benefit (DB) scheme, is reflected within these financial statements.

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 amounts recognised in the profit and loss Account, the statement of other comprehensive iincome and the net asset recognised in the Balance Sheet.

Remeasurements of pension assets and post-retirement benefit obligations are recognised in full in the period in which they occur in the statement of other comprehensive income.

(g) 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.

2 Operating loss

	2020 £m	2019 £m
Operating loss is stated after charging:		
Amounts written off intercompany loan receivable (note 9)	97	-

Audit fees of £14,000 (2019: £13,000) have been borne by the immediate parent company and not recharged.

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

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 8 Directors (2019: 6) 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 (2019: none).

Lattice Group Limited

Notes to the financial statements (continued)

For the year ended 31 March 2020

4 Interest receivable and similar income

	2020 £m	2019 £m
Interest receivable from subsidiary undertakings*	**4**	4
Interest receivable from immediate parent company	**7**	7
Interest receivable from ultimate parent company	**6**	5
Net interest receivable on pension assets and post-retirement benefit obligations	**17**	18
	34	34

* Comparatives have been represented to be consistent with current year disclosure

5 Interest payable and similar charges

	2020 £m	2019 £m
Other interest payable	**1**	1

Other interest payable represents fees in relation to surety bonds taken out as security for future payments due to Section A of the National Grid UK Pension Scheme.

6 Tax

Tax charged to profit and loss account

	2020 £m	2019 £m
Current tax:		
UK corporation tax	**1**	2
Deferred tax:		
Origination and reversal of timing differences	**35**	-
Total tax charge	**36**	2

Tax charged to other comprehensive income

	2020 £m	2019 £m
Deferred tax		
Remeasurement (losses)/gains of pension assets and post-retirement benefit obligations	**(45)**	8

The tax for the year is lower (2019: lower) than the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are explained below:

Lattice Group Limited

Notes to the financial statements (continued)

For the year ended 31 March 2020

6 Tax (continued)

	2020 £m	2019 £m
Profit before tax	**1,499**	31
Profit before tax multiplied by standard rate of corporation tax in the UK of 19% (2019: 19%)	**285**	5
Effect of:		
Impact of change in UK tax rate	**31**	-
Expenses not deductible for tax purposes	**17**	-
Non-taxable income	**(297)**	(3)
Total tax charge in the profit and loss account	**36**	2

Factors that may affect future tax charges

On 17 March 2020, the UK government utilised the Provisional Collection of Taxes Act 1968 to substantively enact a reversal of the reduction in the main UK corporation tax rate to 17% with effect from 1 April 2020. The main UK corporation tax rate therefore remains at 19%. Deferred tax balances have been calculated at this rate.

The Directors will continue to monitor the developments driven by Brexit, the OECD's Base Erosion and Profit Shifting (BEPS) project and European Commission initiatives including fiscal aid investigations. At this time the Directors do not expect this to have any material impact on future tax charges. Governments across the world including the UK have introduced various stimulus/reliefs for businesses to cope with the impact of COVID 19 pandemic. The Directors will monitor as the details become available for any that may materially impact our future tax charges.

7 Equity dividend

	2020 £m	2019 £m
Equity – ordinary dividend		
First interim paid: £0.29 per £0.10 share	**1,047**	-
Second interim paid: £0.14 per £0.10 share	**520**	-
	1,567	-

8 Fixed asset investments

	Shares in subsidiary undertakings £m
Cost:	
At 1 April 2019 and 31 March 2020	695
Provision:	
At 1 April 2019 and 31 March 2020	20
Net book value:	
At 31 March 2020 and 31 March 2019	**675**

8 Fixed asset investments (continued)

The Company's subsidiary undertakings as at 31 March 2020 were as follows:

Name of subsidiary	% Holding	Principal activity
National Grid Blue Power Limited	100	In liquidation
National Grid Commercial Holdings Limited	100	Investment holding company and provision of corporate centre services
National Grid Gas Holdings Limited	100	Investment holding company
National Grid Grain LNG Limited	100	Gas storage company
National Grid Smart Limited	100	Metering services
National Grid Energy Metering Limited	100	Dormant

The above subsidiaries are registered in England and Wales with a registered office at 1-3 Strand, London, WC2N 5EH.

The Directors believe that the carrying values of the investments are supported by the value of their underlying net assets.

The Company also controls indirectly through its subsidiary undertakings a number of companies.

Subsidiary undertakings incorporated in England and Wales
Registered office: 1-3 Strand, London, WC2N 5EH.

Beegas Nominees Limited
Birch Sites Limited
Droylsdon Metering Services Limited
Landranch Limited
Lattice Group Employee Benefit Trust Limited
Lattice Group Trustees Limited
National Grid Gas plc
National Grid Metering Limited
National Grid Property Holdings Limited
National Grid Twenty Eight Limited
National Grid Twenty Seven Limited
National Grid William Limited
Ngrid Intellectual Property Limited
NGT Telecom No 1 Limited*
Port Greenwich Limited
Stargas Nominees Limited
Thamesport Interchange Limited
Warwick Technology Park Management Company (No 2) Limited (60.56%)[1]

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

Subsidiary undertakings incorporated in the United States of America
Registered office: Corporation Service Company, 251 Little Falls Drive, Wilmington, DE 19808, New Castle County, USA.

British Transco Capital Inc.
British Transco Finance, Inc.

Subsidiary undertakings incorporated in the Netherlands
British Transco International Finance B.V.
Registered office: Westblaak 89, 3012 KG Rotterdam, PO Box 21153, 3001 AD, Rotterdam, Netherlands.

Subsidiary undertakings incorporated in the Republic of Ireland
National Grid Company (Ireland) Designated Activity Company *
Registered office: c/o Moore Stephens Nathans, Third Floor, Ulysees House, 23/24 Foley Street, Dublin 1, D01 W2T2, Ireland.

* in liquidation

8 Fixed asset investments (continued)

The list below contains all indirect joint ventures.

Joint ventures incorporated in England and Wales
Joint Radio Company Limited (50%)**
Registered office: Friars House, Manor House Drive, Coventry, CV1 2TE, UK.

St William Homes LLP (50%)
Registered office: Berkeley House, 19 Portsmouth Road, Cobham, Surrey, KT11 1JG, UK.

** National Grid Gas plc owns all £1.00 A Ordinary shares

9 Debtors (amounts falling due within one year)

	2020 £m	2019 £m
Amounts owed by subsidiary undertakings*	**75**	427
Amounts owed by immediate parent company	**850**	590
Amounts owed by fellow subsidiary undertakings*	**1**	1
Amounts owed by ultimate parent company	**596**	594
	1,522	1,612

* Comparatives have been represented to be consistent with current year disclosure

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.

The Company has participated in a group wide intercompany loan rationalisation project. As a result, various amounts owed by subsidiary undertakings have been cash settled in full.

Another such loan with an indirect subsidiary was partially repaid and the remainder was not called in for settlement, but instead assigned from the Company to another group company at fair value, which was less than nominal value, given the company with whom the loan was with was in a net liabilities position. Thus, a charge of £97 million was made to the profit and loss account, which has been reflected within operating charges. In the prior year, no provision for impairment was made for loans with subsidiaries in a net liabilities position as a provision was made to make good such deficits should they be called in, in the financial statements of the Company's immediate parent company, National Grid Holdings One plc.

10 Creditors (amounts falling due within one year)

	2020 £m	2019 £m
Other creditors	**5**	5

11 Provisions for liabilities and charges

Deferred tax	2020 £m	2019 £m
Pensions and other post-retirement benefits	**111**	121

	2020 £m	2019 £m
Deferred tax liability at 1 April	**121**	113
Charged to the profit and loss account	**35**	-
(Credited)/charged to the statement of other comprehensive income	**(45)**	8
Deferred tax liability at 31 March	**111**	121

There are no significant unrecognised deferred tax assets or liabilities.

12 Share capital

	2020 £m	2019 £m
Allotted, called up and fully paid		
3,613,496,929 (2019: 3,613,496,929) ordinary shares of £0.10 each	**361**	361

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.

13 Pensions

Section A of the National Grid UK Pension Scheme ('the Scheme') which is a defined benefit (DB) pension scheme is reflected within these financial statements. The Scheme is supported by the Company and makes payments to cover administration costs and the Pension Protection Fund levy. The Scheme was closed to new hires on 1 April 2002. In addition to the defined benefit scheme the Company also maintains an unfunded pension scheme for a limited number of staff.

Defined benefit arrangements

The Company's defined benefit arrangements are held in separate Trustee-administered funds. These arrangements are managed by a Trustee company with a board consisting of company- and member-appointed directors.

These arrangements are subject to independent actuarial funding valuations at least every three years and following consultation and agreement with National Grid, the qualified actuary certifies the employers' contribution, 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 most recent actuarial funding valuation was carried out by Willis Towers Watson as at 31 March 2019 and has been recently completed. The market value of the Scheme's assets and liabilities was £6,551 million and £6,502 million respectively. The value of the assets represented approximately 101% of the actuarial value of benefits due to members. Thus, there was a funding surplus of £49 million (£40 million net of tax).

Following the last actuarial valuation at 31 March 2019, the Scheme remains in surplus, so no deficit funding contributions are required. National Grid and the Trustees have agreed a schedule of contributions whereby the employers will contribute 51.8% of pensionable salary, less member contributions, in respect of future benefit accrual.

13 Pensions (continued)

Defined benefit arrangements (continued)

As part of the sectionalisation of the National Grid UK Pension Scheme on 1 January 2017 a guarantee of £1 billion has been provided to Section A. This payment is contingent on insolvency or on failure to pay pension obligations to Section A and can be claimed against National Grid plc, National Grid Holdings One plc or the Company (up to £1 billion in total).

Pensions buy-in

During the year, the Trustees entered into a buy-in arrangement in order to manage various risks. The policy provides bulk annuities in respect of some pensioner and dependent members and were funded by existing assets. In Section A, £2.8 billion of gilts were exchanged for a buy-in policy with Rothesay Life and this policy is held by the Trustee. The pricing for the policy was highly competitive, however, under IAS 19 the methodology for calculating the value of the buy-in (as an asset held by the Scheme) differs from the price paid. This resulted in the recognition of an actuarial loss of £0.4 billion on purchase, recorded within the statement of other comprehensive income.

Security arrangements

The Company has also established a security arrangement with a charge in favour of the Trustees. As at 31 March 2020 the value of this arrangement was £315 million and the principal supporting employers are National Grid plc and National Grid UK Limited. An additional amount of £72 million is payable if certain trigger events occur which have been agreed between the Scheme and their relevant supporting employers.

The security is provided in the form of surety bonds. The assets held in security will be paid to the Scheme in the event that the relevant supporting employer is subject to an insolvency event or fails to make the required contributions. Counter indemnities have also been taken out to ensure the obligations will be fulfilled.

The COVID-19 pandemic

The COVID-19 pandemic has had a global impact on economies, equity and bond markets. Market volatility during March has had an impact on the value of assets held by the Schemes. The Scheme has low-risk investment strategies with limited exposure to equities and other return seeking assets.

Actuarial assumptions

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

	2020	**2019**
	%	**%**
Discount rate – past service	**2.35**	2.40
Discount rate – future service	**2.35**	2.45
Rate of increase in salaries	**2.90**	3.50
Rate of increase in RPI – past service	**2.65**	3.25
Rate of increase in RPI – future service	**2.45**	3.20

At 31 March 2020, single equivalent financial assumptions are shown above for presentational purposes, although full yield curves have been used in the calculations. In 2019, single equivalent financial assumptions were set which reflected the average duration for the aggregate past and future service obligations.

The discount rate is determined by reference to high-quality UK corporate bonds at the reporting date. The rate of increase in salaries has been set using a promotional scale where appropriate. The rates of increases stated are not indicative of historical increases awarded or a guarantee of future increase, but merely an appropriate assumption used in assessing DB liabilities. Retail Price Index (RPI) is the key assumption that determines assumed increases in pensions in payment and deferment.

13 Pensions (continued)

Demographic assumptions

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in the UK. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 65:

Assumed life expectations for a retiree age 65	2020 years	2019 years
Today:		
Males	**21.4**	21.6
Females	**23.4**	23.4
In 20 years:		
Males	**22.8**	23.0
Females	**25.0**	25.0

Maturity profile of defined benefit obligations

The weighted average duration of the defined benefit obligation is 12.8 years.

As at the reporting date, the present value of the funded obligations split according to member status, was approximately 1% active members (2019: 1%); 17% deferred members (2019: 20%) and 82% pensioner members (2019: 79%).

Amounts recognised in the balance sheet

	2020 £m	2019 £m
Present value of funded obligations	**(5,268)**	(5,810)
Fair value of scheme assets	**5,880**	6,552
	612	742
Present value of unfunded liabilities	**(24)**	(27)
Net defined benefit asset	**588**	715
Represented by:		
Liability	**(24)**	(27)
Asset	**612**	742
	588	715

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 from the Scheme in the event of a winding up. The Trustees must seek the agreement of the Company to any benefit augmentation beyond the provisions set out in the Scheme Rules.

Lattice Group Limited

Notes to the financial statements (continued)

For the year ended 31 March 2020

13 Pensions (continued)

Amounts recognised in profit and loss and statement of other comprehensive income

	2020 £m	2019 £m
Included within operating costs*		
Administration costs	4	3
Included within payroll costs*		
Current service cost	2	3
Past service cost – plan amendments	-	17
Special termination benefit cost – redundancies	-	2
Included within interest payable		
Net interest receivable on pension assets and post-retirement benefit obligations	(17)	(18)
Total included in profit and loss account*	(11)	7
Amounts recharged to fellow National Grid subsidiary companies	(2)	(22)
Total included in Company profit and loss account	(13)	(15)
Remeasurement (losses)/gains on pension assets and post-retirement obligations	(148)	45
Total included in the statement of other comprehensive income	(148)	45

* All service costs (current and past) and special termination benefit costs have been recharged to fellow National Grid subsidiary companies.

Reconciliation of the net defined benefit asset

	2020 £m	2019 £m
Opening net defined benefit asset	715	665
Credit recognised in the profit and loss account	13	15
Amounts recharged to fellow National Grid subsidiary companies	(2)	(22)
Remeasurement effects recognised in the statement of other comprehensive income	(148)	45
Employer contributions	7	12
Other movements	3	-
Closing net defined benefit asset	588	715

13 Pensions (continued)

Changes in the present value of defined benefit obligations (including unfunded obligations)

	2020 £m	2019 £m
Opening defined benefit obligations	**(5,837)**	(5,880)
Current service cost	**(2)**	(3)
Interest cost	**(137)**	(148)
Actuarial gains/(losses) – experience	**42**	(6)
Actuarial gains – demographic assumptions	**64**	95
Actuarial gains/(losses) – financial assumptions	**263**	(215)
Special termination benefit cost – redundancies	**-**	(2)
Past service cost – plan amendments	**-**	(17)
Benefits paid	**315**	339
Closing defined benefit obligations	**(5,292)**	(5,837)

Changes in the fair value of scheme assets

	2020 £m	2019 £m
Opening fair value of scheme assets	**6,552**	6,545
Interest income	**154**	166
Return on assets (less)/greater than assumed (i)	**(517)**	171
Administration costs	**(4)**	(3)
Employer contributions	**7**	12
Benefits paid	**(312)**	(339)
Closing fair value of scheme assets	**5,880**	6,552
Actual return on scheme assets	**(363)**	337
Expected contributions to scheme in the following year	**5**	10

(i) For the year ended 31 March 2020, this includes an actuarial loss from the purchase of a buy-in policy of £400 million.

Asset allocation strategy

The Scheme's investment strategy is formulated specifically to target specific asset allocations and returns, and to manage risk. The asset allocation of the scheme as at 31 March 2020 is as follows:

	2020 %	2019 %
Equities	**6.3**	**8.1**
Corporate bonds	**29.1**	**26.2**
Government securities	**17.6**	**53.6**
Property	**4.3**	**5.1**
Diversified alternatives	**6.3**	**5.2**
Liability matching assets	**34.5**	**-**
Cash and cash equivalents	**1.9**	**1.8**
	100.0	**100.0**

13 Pensions (continued)

Defined benefit investment strategies and risks

A DB pension scheme can pose a significant risk to future cash flows, as the Company 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 in mitigating the risks associated with the scheme and to ensure that the scheme is funded to meet its obligations.

The Trustee is the governing body of the scheme and its responsibilities are set out in the Trust Deed and Rules.

The Trustee after taking advice from professional investment advisers and in consultation with the Company, sets the key principles, including expected returns, risk and liquidity requirements. In setting these, the Trustee take into account expected contributions, maturity of the pension liabilities, and the strength of the covenant. The Trustee formulates an investment strategy to manage risk through diversification, including the use of liability matching assets, which move in line with the long-term liabilities of the plan, return seeking assets, some of which are designed to mitigate downside risk. Where appropriate, the strategies may include interest rate and inflation hedging instruments, and currency hedging to hedge overseas holdings.

Investments are usually grouped into:

- Return-seeking assets: equities, property and diversified funds where the objective is to achieve growth within the constraints of the scheme's risk profiles. These assets should produce returns greater than the liability increase, so improving the funding position, and are assessed by reference to benchmarks and performance targets agreed with the investment managers; and
- Liability matching assets: liability driven investments (LDI) funds, buy-ins, government securities, corporate bonds and swaps, where the objective is to secure fixed or inflation adjusted cash flows in future. These investments are generally expected to match the change in liability valuation, so protecting the funding position. Bonds and securities are also measured against certain market benchmarks.

Investments are predominantly made in assets considered to be of investment grade. Where investments are made in non-investment grade assets, the higher volatility involved is carefully judged and balanced against the expected higher returns. Similarly, investments are made predominantly in regulated markets. 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. Should these investments fall outside the pre-agreed ranges, corrective actions and timescales are agreed with the investment manager to remedy the position.

The Trustee ensures that the performance of investment managers is regularly reviewed against measurable objectives, consistent with each section's long-term objectives and accepted risk levels. Where required, the portfolios are amended, or investment managers changed.

The Trustees 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. The investment managers use their skill and expertise to manage the investments competently. In some cases, they may further delegate this responsibility, through appointing sub-managers.

The Scheme holds sufficient cash to meet benefit requirements, with other investments being held in liquid or realisable assets to meet unexpected cash flow requirements. The Scheme does not borrow money, or act as guarantor, to provide liquidity (unless it is temporary).

13 Pensions (continued)

Defined benefit investment strategies and risks (continued)
The Scheme has Responsible Investment (RI) Policies, which considers Environmental, Social and Governance (ESG) areas. The Scheme RI also incorporates the six UN-backed Principles for Responsible Investment (UNPRI). The Trustees believe that ESG factors can be material to financial outcomes and therefore these should and will be considered alongside other factors. The Trustees 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, the Trustees also recognise the increasing materiality of ESG factors and that they have a fiduciary and regulatory duty to consider RI, including ESG factors and the potential impact on the quality and sustainability of long-term investment returns and therefore on the Trustees' primary fiduciary duty.

The most significant risks associated with the Scheme are:

- Asset volatility – the scheme invests in a variety of asset classes, but principally in government securities, bulk annuities, corporate bonds, equities and property. Consequently, actual returns will differ from the underlying discount rate adopted, impacting on the funding position of the plan through the net balance sheet asset or liability. Each section 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. Volatility will be controlled through using liability-matching asset strategies including bulk annuities, as well as interest rate hedging and management of foreign exchange exposure, and diversification of the return-seeking assets;
- Changes in bond yields – liabilities are calculated using discount rates set with reference to the yields in high-quality corporate bonds prevailing in the UK debt markets and will fluctuate as yields change;
- Member longevity – longevity is a key driver of liabilities and changes in life expectancy have a direct impact on liabilities. The section holds a buy-in policy which covers exposure to improvement in longevity, providing long-term protection in the event that members live longer than expected;
- 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 contract, managing our exposure to counterparty risk. The insurers' operational performance and financial strength is monitored on a regular basis;
- Deficit risk – the risk that the increase in the liability will outpace the growth in assets is managed through assessing the progress of the actual growth of the liabilities relative to the selected investment policy and adjusting the policy as required;
- Manager risk – expected deviation of the return, relative to the benchmark, is carefully monitored, as is the process, team and expertise of the manager. Where appropriate, the Trustee will move assets under management to a more robust manager, whom they consider will have a better expectation of performing well in the future;
- 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;
- Interest rate and 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;
- Investment funds – the credit risk arising from investing in investment funds is mitigated by the underlying assets of the investment funds being ring-fenced from the fund managers, the regulatory environments in which the fund managers operate and diversification of investments among investment fund arrangements;
- Political risk – an adverse influence on asset values arising from political intervention in a specific country or region is managed through regular review of the asset distribution and through ensuring geographical diversification of investments within the managers; and
- Custodian risk – the creditworthiness and ability of the custodians to settle trades on time and provide secure safekeeping of the assets under custody is managed by ongoing monitoring of the custodial arrangements against pre-agreed service levels and credit ratings.

Lattice Group Limited

Notes to the financial statements (continued)

For the year ended 31 March 2020

13 Pensions (continued)

Assets allocations

Within the asset allocations below there is significant diversification across regions, asset managers, currencies and bond categories.

	2020 £m	2019 £m
Equities – quoted	**145**	302
Equities – unquoted	**224**	231
Corporate bonds – quoted	**1,709**	1,717
Government securities – quoted	**1,034**	3,506
Property – unquoted	**253**	336
Diversified alternatives – unquoted	**372**	338
Liability matching assets – unquoted (i)	**2,029**	-
Cash and cash equivalents - unquoted	**117**	121
Other – unquoted	**(3)**	1
	5,880	6,552

(i) Comprises the buy-in policy held by the Trustee

The markets for unquoted investments are illiquid and the valuations that have been provided by fund managers as at 31 March 2020 may be based on valuation models that have unobservable inputs. Given the current market volatility that has arisen as a result of COVID-19, this means that the prices provided are subject to additional estimation uncertainty.

Sensitivities

Sensitivities have been prepared to show how the defined benefit obligations and annual service costs could potentially be impacted by changes in the relevant actuarial assumption that were reasonably possible as at 31 March 2020. 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 annual pension service charge and change in the defined benefit obligations:

	2020 Profit and loss £m	2020 Net assets £m	2019 Profit and loss £m	2019 Net assets £m
Pensions and other post retirement liabilities (pre-tax)				
Discount rate change of 0.5% (i)	-	**331**	-	396
RPI rate change of 0.5% (ii)	-	**224**	-	321
Long term rate of increase in salaries change of 0.5%	-	**3**	-	4
Change of one year to life expectancy at age 65 (iii)	-	**233**	-	258
Pension assets				
Unquoted equities change of 10%	-	**22**	-	23
Unquoted properties change of 10%	-	**25**	-	34
Unquoted diversified alternatives of 10%	-	**37**	-	34

13 Pensions (continued)

Sensitivities (continued)

(ii) 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 £134 million, net asset offset from the buy-in policy purchased in the year, where the accounting value of the buy-in asset is set equal to the associated liability.
(iii) 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 policy purchased during the year would have a £97 million net asset offset to the above.
(iv) The buy-in policy purchased during the year would have a £76 million net asset offset to the above.

14 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.

15 Ultimate parent company

The ultimate parent and controlling company is National Grid plc and the immediate parent company is National Grid Holdings One plc. The largest and smallest group which includes the Company and for which consolidated financial statements are prepared is headed by National Grid plc. Both of these companies are registered in England and Wales at the registered office below.

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

16 Events after the reporting period

In the period since year end to the date of signing of these financial statements there have continued to be substantial economic and social changes in the UK as a result of the ongoing pandemic of coronavirus disease (COVID-19). These changes and risks are being actively managed by the Directors of the Company and other than the presumption of the going concern basis of preparation (see note 1) none of these developments have impacted or caused adjustment to these financial statements.

Subsequent to the year end, on 24 July 2020, the Company received dividends of £123 million from its subsidiary, National Grid Gas Holdings Limited. The cash consideration received was used to settle a dividend declared to its parent company, National Grid Holdings One plc of £123 million on the same date