UK Gas Transmission

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

Regulated financial performance – US

US Regulated

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

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

Total regulated financial performance

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

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

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

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

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

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

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

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

Other unaudited financial information continued

Regulated asset base

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

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

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

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

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

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

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

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

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

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

Group RoE

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

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

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

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

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

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

UK and US regulated RoE

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

UK regulated RoE

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

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

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

US regulated RoE

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

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

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

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

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

Other unaudited financial information continued

	2020 £m	2019 £m	2018 £m
Underlying IFRS operating profit for US regulated segment	**1,636**	1,594	1,704
Weighted average £/$ exchange rate	**$1.2868**	$1.305	$1.358

	2020 $m	2019 $m	2018 $m
Underlying IFRS operating profit for US regulated segment	**2,105**	2,081	2,313
Adjustments to convert to US GAAP as applied in our US OpCo entities			
Adjustment in respect of customer contributions	**(50)**	(50)	(151)
Pension accounting differences[1]	**(13)**	(10)	(101)
Environmental charges recorded under US GAAP	**(94)**	(117)	(106)
Storm costs and recoveries recorded under US GAAP	**(9)**	(112)	(113)
Other regulatory deferrals, amortisation and other items	**3**	121	(146)
Results for US regulated OpCo entities, aggregated under US GAAP[2]	**1,942**	1,913	1,696
Adjustments to determine regulatory operating profit used in US RoE			
Levelisation revenue adjustment	**(122)**	(48)	82
Adjustment for COVID-19 related provision for bad and doubtful debts[3]	**150**	–	–
Net other	**51**	(1)	40
Regulatory operating profit	**2,021**	1,864	1,818
Pensions[1]	**19**	(95)	–
Regulatory interest charge	**(491)**	(457)	(395)
Regulatory tax charge	**(408)**	(345)	(520)
Regulatory earnings used to determine US RoE	**1,141**	967	903

1. Following a change in US GAAP accounting rules, an element of the pensions charge is reported outside operating profit with effect from 2019.
2. Based on US GAAP accounting policies as applied by our US regulated OpCo entities.
3. US RoE includes an adjustment reflecting our expectation for future recovery of COVID-19 related bad and doubtful debt costs.

	2020 $m	2019 $m	2018 $m
US equity base (average for the year)	**12,331**	11,045	10,092
US RoE	**9.3%**	8.8%	8.9%

Value Added and Value Added per share and Value Growth

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

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

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

Asset growth

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

Regulatory gearing

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

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