

nationalgrid

Debt Investor Update

Full Year
Results 2018/19

16 May 2019



Cautionary statement

This presentation contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements include information with respect to National Grid's financial condition, its results of operations and businesses, strategy, plans and objectives. Words such as 'aims', 'anticipates', 'expects', 'should', 'intends', 'plans', 'believes', 'outlook', 'seeks', 'estimates', 'targets', 'may', 'will', 'continue', 'project' and similar expressions, as well as statements in the future tense, identify forward-looking statements. These forward-looking statements are not guarantees of National Grid's future performance and are subject to assumptions, risks and uncertainties that could cause actual future results to differ materially from those expressed in or implied by such forward-looking statements. Many of these assumptions, risks and uncertainties relate to factors that are beyond National Grid's ability to control or estimate precisely, such as changes in laws or regulations, including any arising as a result of the United Kingdom's exit from the European Union; announcements from and decisions by governmental bodies or regulators, including proposals relating to the RII0-T2 price controls as well as increased political and economic uncertainty;; the timing of construction and delivery by third parties of new generation projects requiring connection; breaches of, or changes in, environmental, climate change and health and safety laws or regulations, including breaches or other incidents arising from the potentially harmful nature of its activities; network failure or interruption, the inability to carry out critical non network operations and damage to infrastructure, due to adverse weather conditions including the impact of major storms as well as the results of climate change, due to counterparties being unable to deliver physical commodities, or due to the failure of or unauthorised access to or deliberate breaches of National Grid's IT systems and supporting technology; failure to adequately forecast and respond to disruptions in energy supplies; performance against regulatory targets and standards and against National Grid's peers with the aim of delivering stakeholder expectations regarding costs and efficiency savings, including those related to investment programmes and remediation plans; and customers and counterparties (including financial institutions) failing to perform their obligations to the Company. Other factors that could cause actual results to differ materially from those described in this announcement include fluctuations in exchange rates, interest rates and commodity price indices; restrictions and conditions (including filing requirements) in National Grid's borrowing and debt arrangements, funding costs and access to financing; regulatory requirements for the Company to maintain financial resources in certain parts of its business and restrictions on some subsidiaries' transactions such as paying dividends, lending or levying charges; the delayed timing of recoveries and payments in National Grid's regulated businesses and whether aspects of its activities are contestable; the funding requirements and performance of National Grid's pension schemes and other post-retirement benefit schemes; the failure to attract, develop and retain employees with the necessary competencies, including leadership and business capabilities, and any significant disputes arising with National Grid's employees or the breach of laws or regulations by its employees; and the failure to respond to market developments, including competition for onshore transmission, the threats and opportunities presented by emerging technology, development activities relating to changes in the energy mix and the integration of distributed energy resources, and the need to grow the Company's business to deliver its strategy, as well as incorrect or unforeseen assumptions or conclusions (including unanticipated costs and liabilities) relating to business development activity. For further details regarding these and other assumptions, risks and uncertainties that may impact National Grid, please read the Strategic Report section and the 'Risk factors' on pages 193 to 196 of National Grid's most recent Annual Report and Accounts, as updated by National Grid's unaudited half-year financial information for the six months ended 30 September 2018 published on 8 November 2018. In addition, new factors emerge from time to time and National Grid cannot assess the potential impact of any such factor on its activities or the extent to which any factor, or combination of factors, may cause actual future results to differ materially from those contained in any forward-looking statement. Except as may be required by law or regulation, the Company undertakes no obligation to update any of its forward-looking statements, which speak only as of the date of this presentation.

Financial performance highlights

Underlying
operating profit

£3,427m ↓4%

FY18: **£3,560m**

Underlying
EPS

58.9p ↑5%

FY18: **56.2p**

Return on
Equity

11.8% ↓50bps

FY18: **12.3%**

Asset growth
increased

7.2% ↑130bps

FY18: **5.9%**

Dividend growth
in line with policy

47.34p ↑3.1%

FY18: **45.93p**

Underlying results from continuing operations, excluding exceptional items, remeasurements, timing and major storm costs. Exceptional items totalled £624m in 2018/19

Operating profit calculated at constant currency

Safety, reliability and customer performance

- Continued strong safety performance
 - IFR of 0.1*
- Strong reliability maintained across our networks
- Good response to increased storm frequency
- Improved customer satisfaction scores across the Group

* Combined IFR is the number of injuries per 100,000 hours worked in a 12 month period for employees and contractors



nationalgrid

Strong strategic progress in 2018/19

- Delivered strong organic growth in 18/19
 - £4.5bn of capital invested delivering asset growth of 7.2%
- Sale of Cadent to complete with £2bn in proceeds expected in June
- Good US regulatory progress, with all distribution companies under refreshed rates
- Launched new cost efficiency programmes in both UK and US
- Significant progress on interconnector portfolio
- Major milestone achieved for Property business with sale of Fulham site to St William

nationalgrid

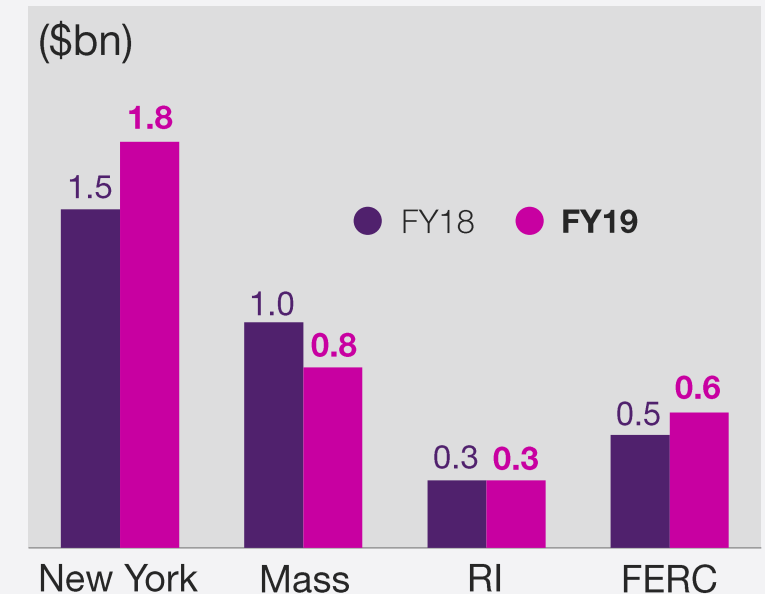


US operational performance

- Achieved 8.8% RoE, 93% of allowed
- Asset growth of 9.2%
- US cost efficiency programme launched
 - will deliver cost savings of \$30m in 19/20 and \$50m in 20/21
- Massachusetts Gas union agreement reached
 - higher costs of labour dispute due to additional spend during peak winter period
 - minimise bill increases for customers
 - exceptional charge of £283m
 - agreement with two further unions reached since January

\$3.5bn

invested driving
asset growth of 9.2%



Continued regulatory progress

- First cycle of refreshing rate plans successfully complete
- Rhode Island and Massachusetts Gas filings completed in 18/19
- Enabling New York's clean energy goals
 - \$650m capital request for smart meters (AMIs) in NiMo
- New rates filed for Massachusetts Electric and KEDNY/KEDLI

Rhode Island rate plan

Summary

- 3 year settlement from September 2018
- RoE of 9.3%
- \$240m annual capex

Massachusetts Gas rate plan

Summary

- New rates effective from October 2018
- RoE of 9.5%
- \$413m annual capex allowance

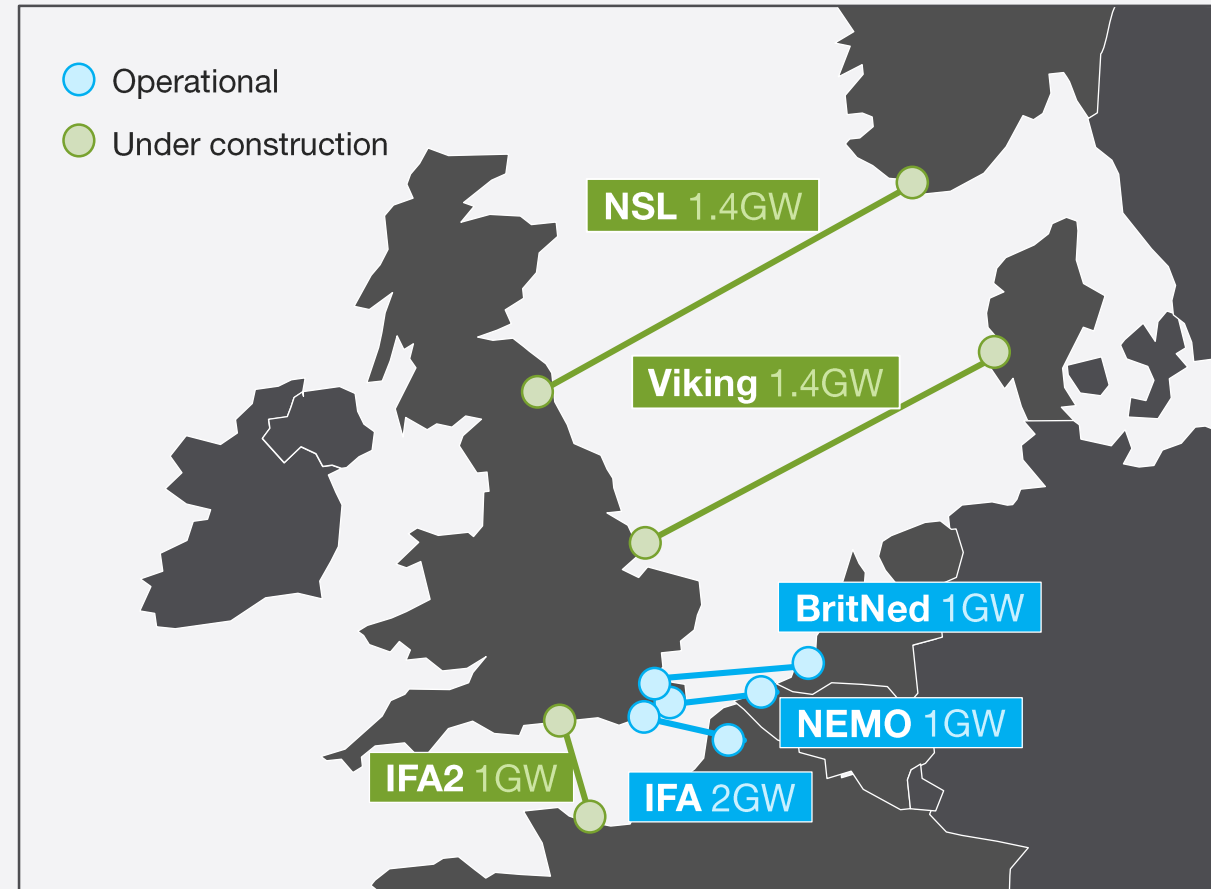
UK operational performance

- UK Return on Equity of 12.4%, consistently delivering outperformance in the 200-300bps range
- Cost efficiency programme progressing
 - one-off costs of £136m in 18/19
 - expect to deliver at least £50m opex savings in 19/20 and £100m from 20/21
- RIIO-T1 reopeners funding agreed
- Electricity System Operator now legally separate
- Limited economic impact of cancellation of NuGen and Horizon nuclear projects
 - one-off charge of £137m



Strong progress for NG Ventures

- 1GW, 140km Nemo Link to Belgium successfully commissioned in January
- Construction of IFA2 and NSL on track
- Final investment decision taken on Viking Link
 - all planning and land rights obtained
- Geronimo acquisition enables further growth in US renewables, 6GW potential pipeline
 - expected to complete in June



Interest, tax and earnings

Finance
costs

£993m

1% **lower** than FY18

- Lower RPI
- Effective interest rate of 4.3%

Underlying
effective tax rate¹

19.6%

at **£(476)m**

- Tax rate 420bps lower than 17/18, due to tax reform
- Underlying tax charge £117m lower than 17/18

Underlying
earnings²

£1,995m

FY18: **£1,944m**

- 3,386m weighted average shares
- 58.9p/share

1 Excluding joint ventures and associates

2 Underlying results attributable to equity shareholders

Underlying results, excluding timing, exceptional items, remeasurements and major storm costs

Cash flow and net debt

£m	Year ended 31 March 2019
Underlying operating profit	3,427
Depreciation & amortisation	1,588
Exceptional items	(400)
Working capital & other	(151)
Net operating cash flow	4,464
Net debt	(26,529)

RCF/Net debt

9.4%

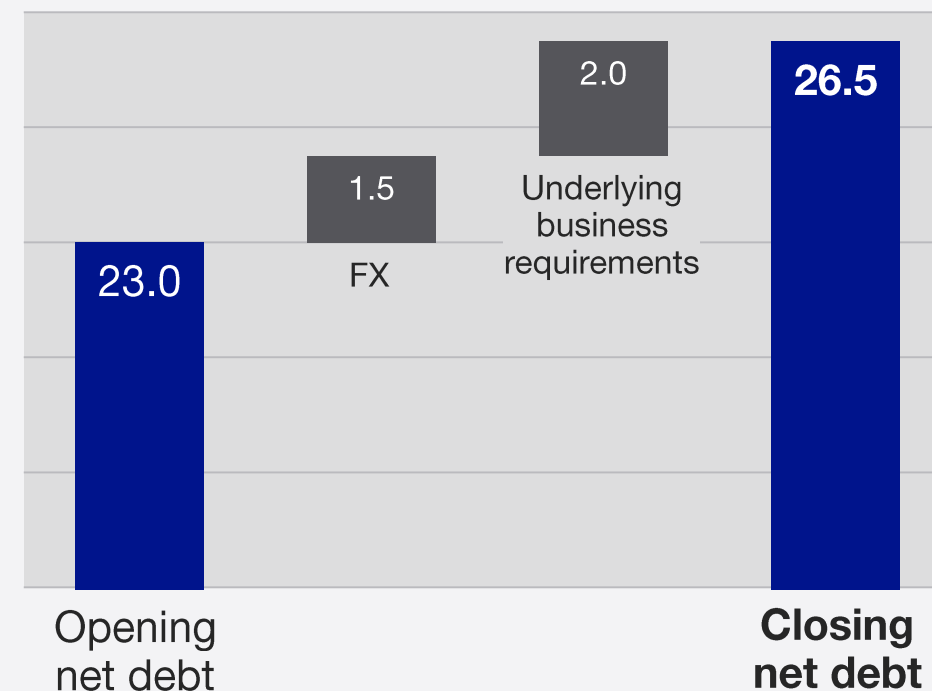
FFO/Net debt

12.6%

Excluding exceptional items:

10.8%**14.7%**

Net debt (£bn)



Net debt slightly lower than guidance - exceptional costs partially offset by favourable timing

Capital investment to increase to almost £5bn

US Regulated investment

- Continued investment to update and modernise the networks
- Supported by recent filings requests for Massachusetts Electric and KEDNY & KEDLI

UK Regulated investment

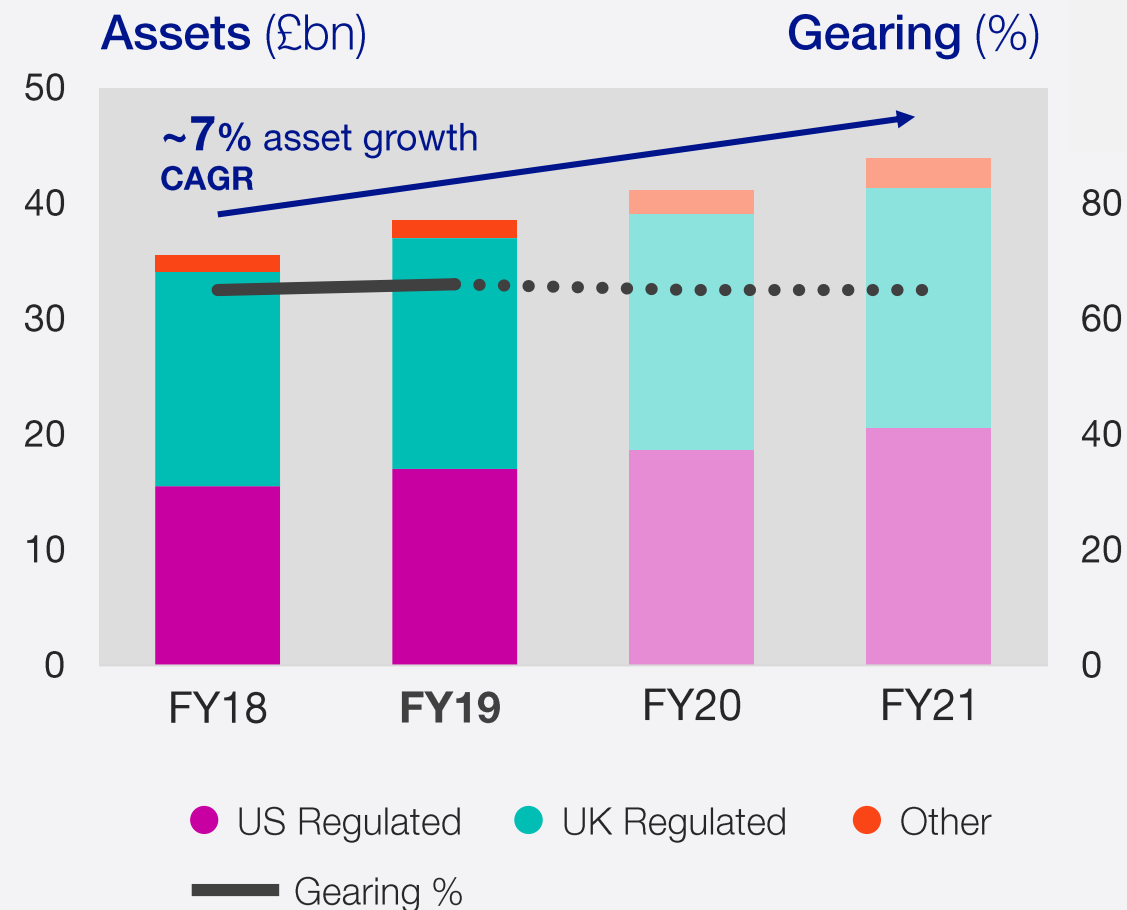
- Two thirds of spend relates to asset health
- Increased spend on undergrounding power lines in Dorset

NGV & Other

- Significant increase in interconnector spend
- Initial investments in large scale renewables

Efficiently funding growth

- Gearing of 66% at March 2019
- Investment expected to increase to around £5bn in 19/20 and 20/21
- Financing growth through
 - new debt issued at attractive rates
 - benefit from Cadent sale proceeds in June
 - internally generated capital, delivered through strong operational performance
 - additional capital generated by the scrip in 19/20 and 20/21
- Gearing to continue to be at the mid-sixty percent level in 19/20 and 20/21



FY19/20 technical guidance

Regulated performance

- UK regulated operations expected to deliver outperformance of 200-300 bps
 - £50m benefit from cost efficiency programme in 19/20
- US RoE expected to improve to at least 95% of the allowed return
 - \$30m benefit from US cost efficiency programme in 19/20

NG Ventures and Other activities

- Non-repeat of Fulham transaction and legal settlements
- First year of Nemo and St William joint venture profits

Interest and tax charge

- Interest charge to increase, including growth in average net debt and absence of one-off benefits in 18/19
- Effective tax rate on profits generated in the year of around 21%

Net debt

- ~£1bn increase in net debt, including receipt of Cadent proceeds and £0.4bn impact of IFRS16

Priorities & Outlook

US priorities & outlook

Delivering for our customers

- Three key focus areas:
 - improving customer experience
 - efficient and safe service delivery
 - fair and progressive regulatory settlements
- Invest in customer e-billing portal
 - ambition of universal paperless billing
- Upgrade our gas business IT systems, providing
 - more efficient workforce management
 - more responsive customer service
 - further cost efficiencies

nationalgrid



US priorities & outlook

Evolving regulatory frameworks

- Regulatory strategy to move to forward-looking incentive-based multi-year agreements
 - greater benefits for customers
 - higher returns for shareholders

Massachusetts Electric rates

Summary of proposal

- 5 year rate plan from October 2019
- RoE of 10.5%
- \$300m annual capex allowance

KEDNY/KEDLI Gas rates

Summary of proposal

- 4 year rate plan from April 2020
- Year 1 RoE of 9.65%
- \$962m annual capex allowance KEDNY
- \$586m annual capex allowance KEDLI

UK priorities & outlook

Embedding cost efficiencies

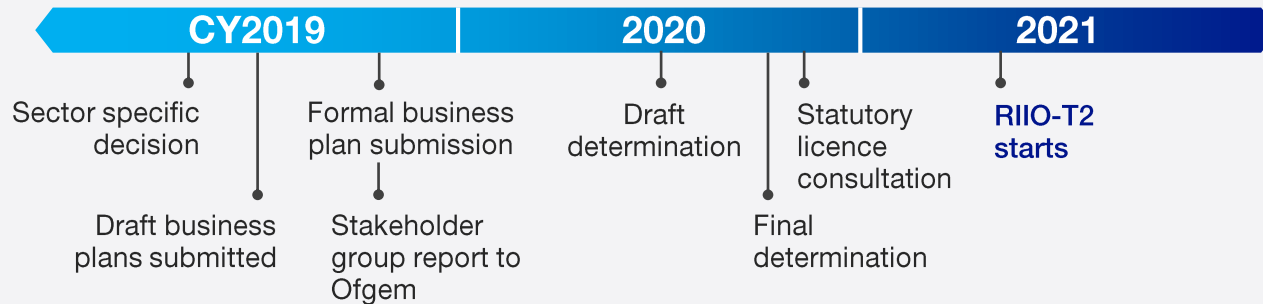
- Three key focus areas:
 - embed customer cost efficiency programme
 - deliver capital investment efficiently
 - continue regulatory development
- Go-live with new IT systems
- Complete Feeder 9 tunnelling
- Start undergrounding work on Dorset VIP project



UK priorities & outlook

Achieving a fair regulatory outcome

- Ofgem's RIIO-2 proposals a step in the right direction, however:
 - current proposals won't bring change consumers need
 - require a fair risk/return balance for both consumers and investors
- Next step – submit draft business plans for stakeholder comment
- Consultation on final licence modifications for Hinkley-Seabank expected in the summer



NGV priorities & outlook

Interconnectors driving strong growth

- Interconnectors provide cost-effective source of energy to meet UK demand
 - 7.8GW importing ~90% low carbon energy by 2025
- Continue to successfully deliver interconnector projects
- Geronimo acquisition to complete in June



Our contribution

At the forefront of the energy transition

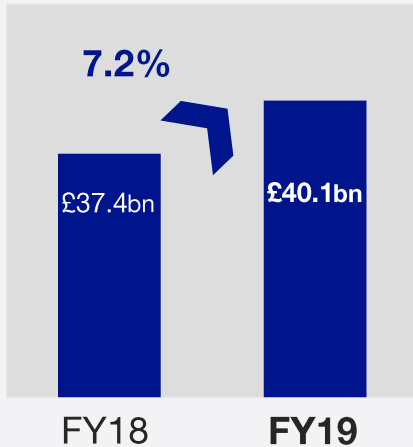
- Environmental and sustainability goals integral part of our business priorities
- Significant progress on decarbonisation targets
 - already achieved 68% reduction in emissions and reviewing 2050 target
- Focus on eight UN Sustainable Development Goals
 - enhancing the natural environment value of sites across UK
 - supporting the Government’s Inclusive Economy Partnership, reporting on disability, mental health and wellbeing in the workplace



Strong outlook for growth maintained

- Investment of nearly £5bn in both 19/20 and 20/21
- Vast majority of investment covered by regulatory arrangements

Targeting asset growth of **5-7% per annum** assuming 3% inflation



At constant currency

~£10bn of investment over the next two years



Debt Funding

Debt funding

- National Grid issued c. £2.9bn of new long term debt in 2018/19:
 - We issued c. \$3.2bn (~£2.4bn) from our US companies, the majority at OpCo level
 - National Grid Electricity Transmission (NGET) issued its first bonds since 2013, raising c. £0.5bn in total
- In 2019/20 we expect the majority of debt issuance to be at OpCo level, both in the US and in the UK for NGET
- £5.5bn of general liquidity facilities
- Strong credit ratings: single A range for UK operating companies and the majority of US operating companies



Summary

- Delivered strong organic growth and strategic progress
 - underpinning our total return proposition
 - delivering significant customer benefits
- Contributing to the evolution of regulatory frameworks in US and UK
- Strong balance sheet supporting long term growth and dividends



Q&A

Appendix

UK Electricity Transmission

Return on equity

10.2%

Base return

230bps

Totex incentive

50bps

Other incentives

70bps

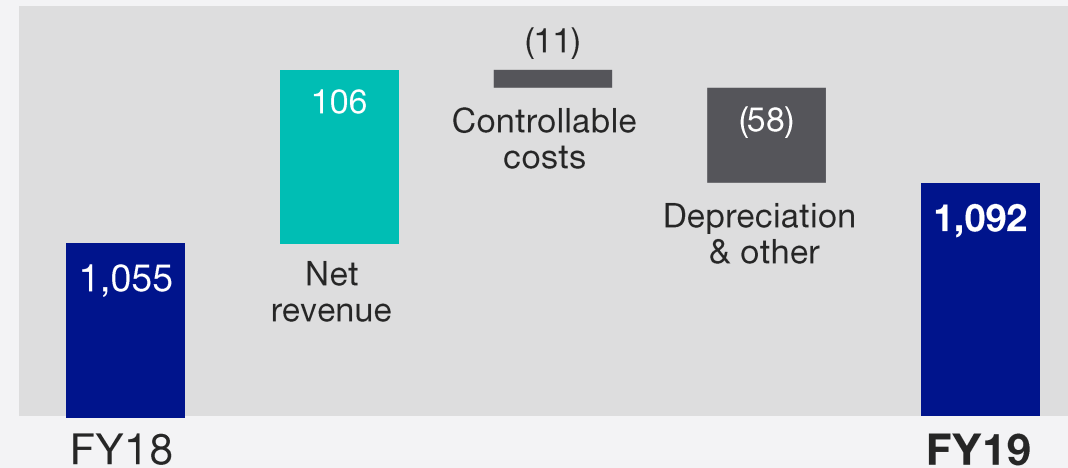
Additional allowances

Achieved
return

13.7%

FY18: **13.1%**

Underlying operating profit (£m)



Capital
investment
£925m
FY18: **£999m**

Regulated
asset value
£13.5bn
FY18: **£13.0bn**

- RoE benefits from reopener filings
- 3.8% RAV growth
- Operating profit excludes exceptional charges:
 - £137m nuclear charge
 - £100m of efficiency programme costs

Underlying results, excluding timing, exceptional items, remeasurements and major storm costs

UK Gas Transmission

Return on equity

10.0%

Base return

(110)bps

Totex incentive

120bps

Other incentives

(60)bps

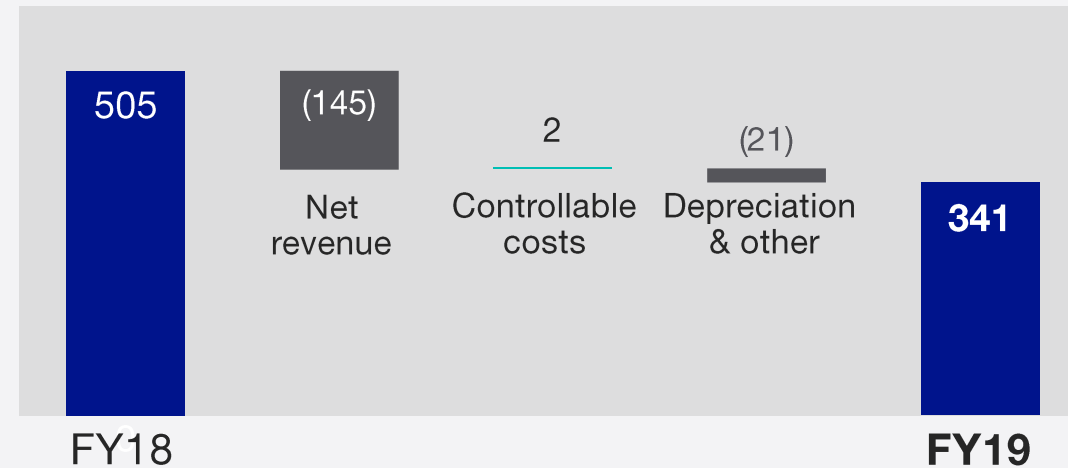
Additional allowances

Achieved
return

9.5%

FY18: **10.0%**

Underlying operating profit (£m)



Capital
investment
£308m
FY18: **£310m**

Regulated
asset value
£6.2bn
FY18: **£6.0bn**

- RoE includes impact of reopener filings and asset health spend
- Operating profit reflects expected return of Avonmouth revenues
- 3.3% RAV growth
- Operating profit excludes £36m of efficiency programme costs

Underlying results, excluding timing, exceptional items, remeasurements and major storm costs

US Regulated

Return on equity

8.6%

New York

7.6%

Massachusetts

7.7%

Rhode Island

11.5%

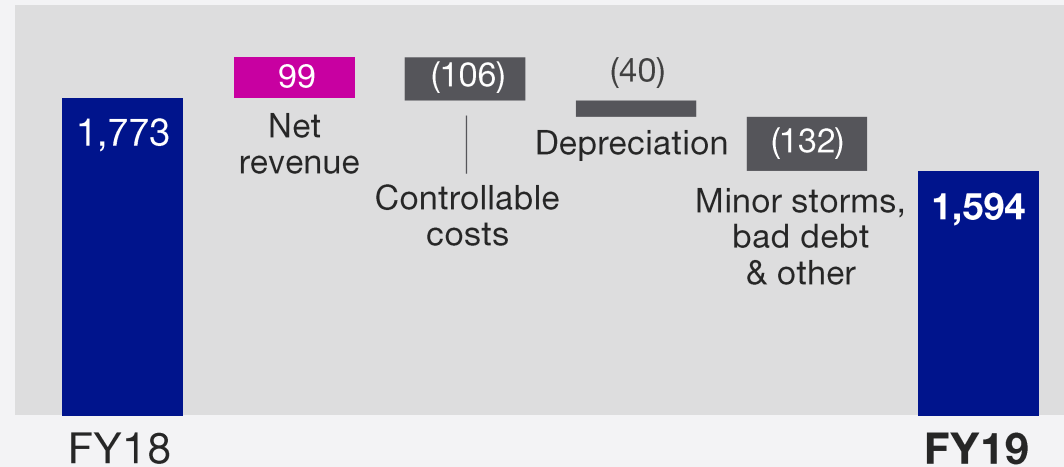
FERC

Achieved return

8.8%

FY18: **8.9%**

Underlying operating profit (£m)



Capital investment

\$3,458m

FY18: **\$3,290m**

Rate base

\$22.9bn

FY18: **\$20.9bn**

Assets outside rate base

\$2.5bn

FY18: **\$2.5bn**

- Achieved 93% of the allowed return
- 9.2% rate base growth
- £80m of increased costs not expected to recur in 19/20
- Operating profit excludes exceptional charges:
 - \$370m Mass. Gas labour dispute costs
 - \$88m efficiency programme costs

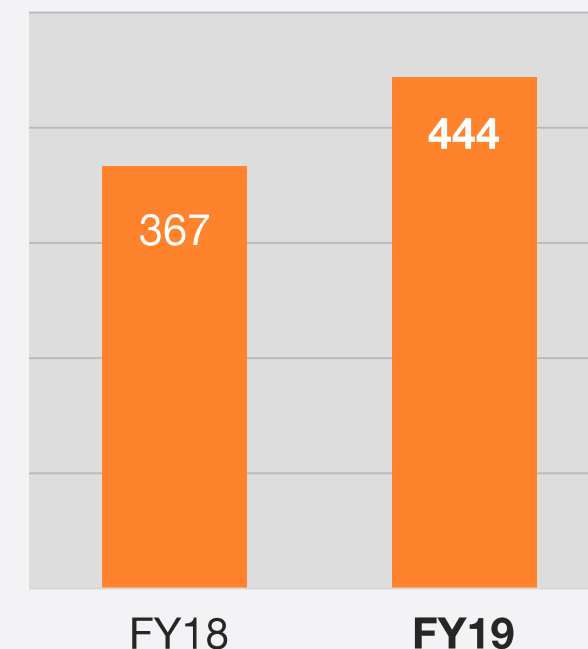
Underlying results, excluding timing, exceptional items, remeasurements and major storm costs at constant currency

	Year ended	
	31 March 2019	31 March 2018
Operating profit (£m)		
Metering	153	155
Grain LNG	74	76
Interconnectors	64	65
Other	(28)	(64)
	263	232
Post tax share of JVs (£m)		
Interconnectors*	29	35
Millennium	18	14
Other	6	5
	53	54
Total NGV	316	286

* Includes Britned and Nemo

Operating profit, share of joint venture profit after tax and investment calculated at constant currency
Underlying results, excluding timing, exceptional items, remeasurements and major storm costs

Capital investment (£m)



- Increased investment in interconnectors
- Interconnectors to contribute around £250m of EBITDA by 24/25

Other activities

	Year ended	
	31 March 2019	31 March 2018
Operating profit (£m)		
Property	181	84
Corporate centre & other	(44)	(89)
	137	(5)
Post tax share of JVs (£m)		
St William	(17)	(9)
Other	4	-
	(13)	(9)
Total Other activities	124	(14)

- Operating profit increases
 - Fulham transaction completed at the end of the year
 - legal settlements of £95m, partially offset by one-off pension charges

Total investment¹

£179m

FY18: **£160m**

- Increased capital investment, driven by NG Partners

¹ Excludes investment in St. William joint venture

Operating profit, share of joint venture profit after tax and investment calculated at constant currency

Underlying results, excluding timing, exceptional items, remeasurements and major storm costs