Half Year Results 2018/19

Debt Investor Update

8 November 2018

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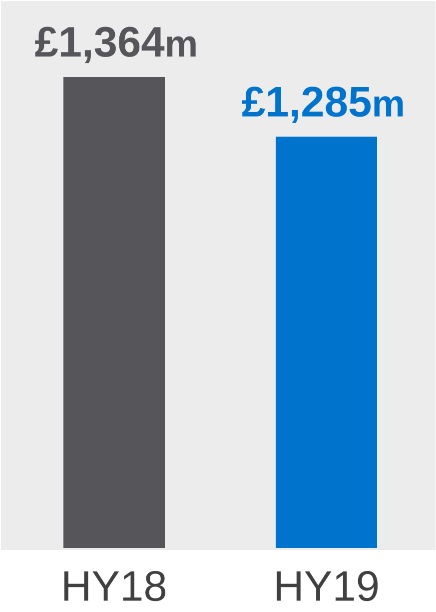
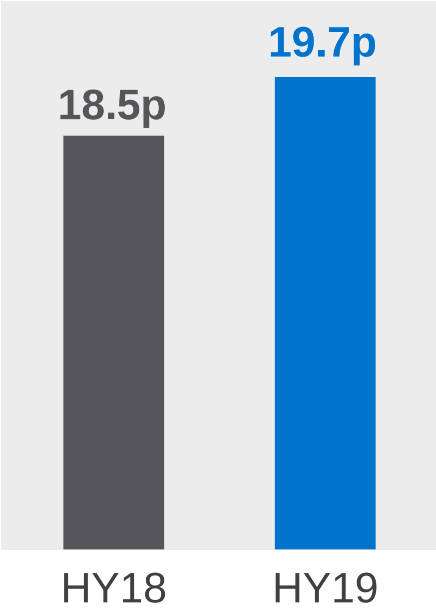
For further details regarding these and other assumptions, risks and uncertainties that may impact National Grid, please read the Strategic Report section and the 'Risk factors' on pages 193 to 196 of National Grid's most recent Annual Report and Accounts. In addition, new factors emerge from time to 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.

Solid financial performance

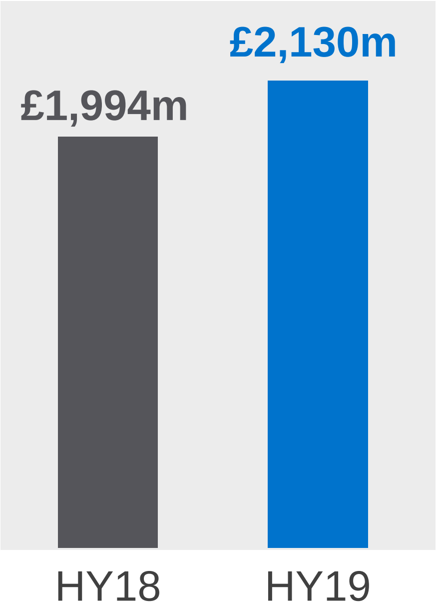
Underlying operating profit
down 6%



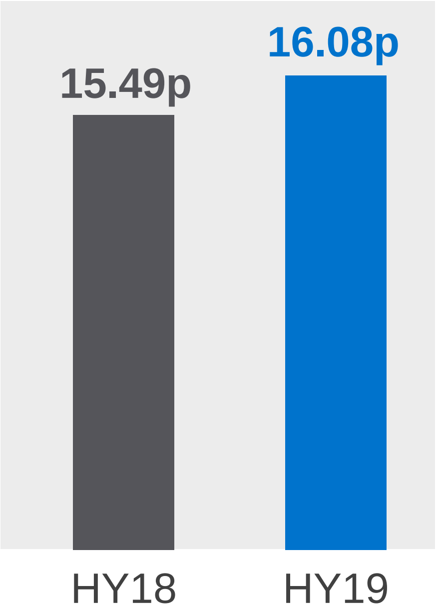
Underlying earnings per share
up 6%



Capital investment
up 7%



Dividend growth in line with policy
up 3.8%



Underlying results from continuing operations, excluding exceptional items, remeasurements, timing and major storms

Operating profit and capital investment calculated at constant currency

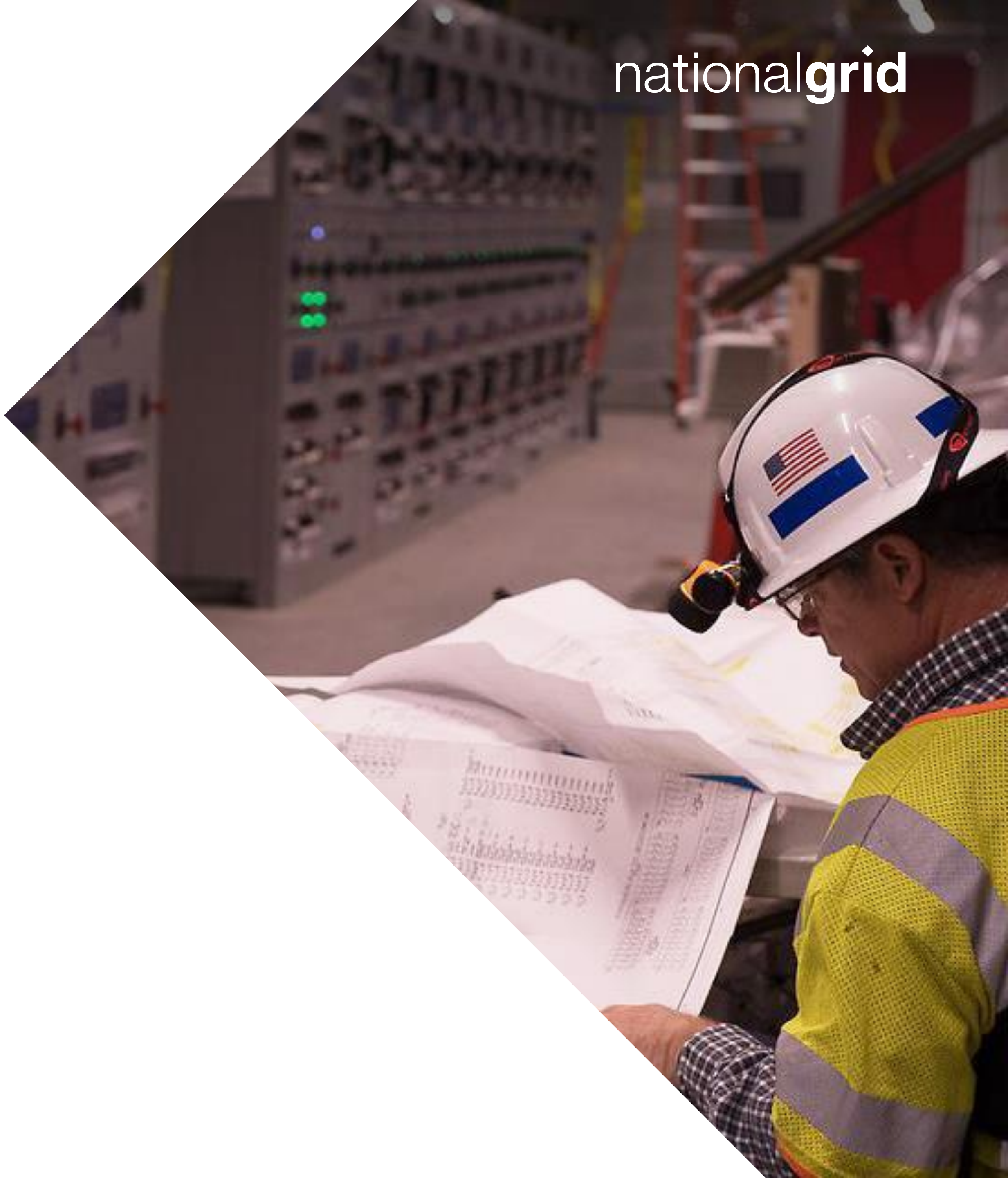
Capital investment includes investment in JVs (excluding equity contributions to St William property JV)

Strong strategic progress

- Decision to exercise the options on our remaining 39% stake in Cadent
- Completed full refresh of rates for US distribution companies
- Started significant cost efficiency programme in the UK
- Taken final investment decision on Viking interconnector to Denmark

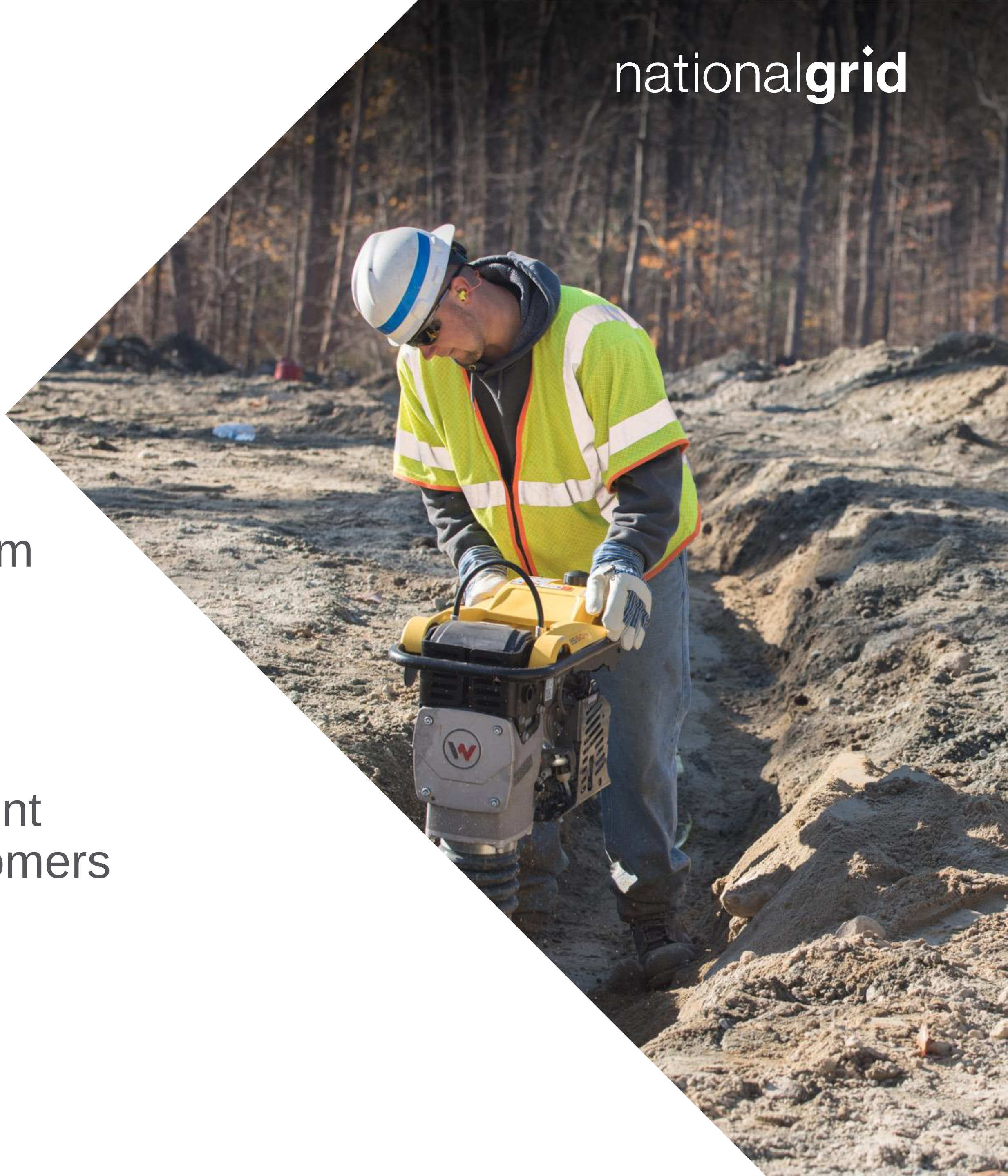
Delivering strong US organic growth

- $1.5bn capital invested in H1
- Mix of multiple small and large projects drive rate base growth
- e.g. South Street substation, Providence RI, $80m project
  - to build a new substation and secure reliability for downtown Providence
  - increases reliability and supports economic development



Massachusetts Gas union negotiation update

- Ongoing negotiations with two unions
  - 16 other unions accepted deals on similar terms
- Contingency workforce plan implemented from end of June
- Incremental costs of £97m incurred to 30 September
- Negotiations ongoing to achieve fair settlement that minimises future cost increases for customers



Good UK performance continues

- Strong operational performance
- Consistent levels of investment
- Delivery of forecast ET Network Output Measures for FY19 well ahead of schedule
  - forecast to outperform over RIIO-T1
- Feeder 9 project progressing well
  - 1.7km tunnelling complete
  - on track for completion in Autumn 2020

UK regulatory update

- RIIO-T1 reopeners
  - allowances agreed for enhanced physical and cyber security spend
  - funding disallowed for compressor works
    - reviewing our approach to meeting emissions standards
  - asset health spend for Feeder 9 gas pipeline to continue project
- Approval for Visual Impact Provision for undergrounding transmission lines in Dorset

Progress on NG Ventures and Property

North Sea Link
260km subsea cable laid so far

- 1.4GW, 720km link to Norway
- Expected to be operational in FY22

IFA 2
Cable duct drilling complete on UK end

- 1GW, 240km link to France
- Expected to be operational in FY21

Nemo Link
Energisation & station testing underway

- 1GW, 140km link to Belgium
- Commissioning before the end of March 2019

Fulham, London
Preliminary planning approval granted

- 17 acre site in central London
- 1,800 residential units, 35% affordable homes

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UK cost efficiency programme

- Creating a leaner, more agile organisation
- £127m exceptional charge recognised in H1 of FY19
- Will generate opex savings of ~£50m in FY20 and ~£100m per annum from FY21 onwards
  - net cash positive from FY20 onwards
- Continue to expect 200-300bps of out-performance over the remainder of RIIO-T1

Update on US tax reform impact

- Tax reform is economically neutral for utilities
  - lower cashflows in the near term
- Clarity on bill reductions for all operating companies
- $2.2bn deferred tax credit to be returned over up to 50 years
- Higher rate base growth

Overall impact on income statement	
FY19	• Impact on operating profit of $210m • More than offset by the lower tax charge • Small benefit to earnings
FY20	• Additional impact to operating profit of around $110m • Offset by the lower tax rate • No significant in year impact on earnings

Interest, tax and earnings

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FINANCE COSTS

£494m

9% lower than HY18

- One-off benefits offset higher net debt
- Effective interest rate of 4.4%

UNDERLYING EFFECTIVE TAX RATE[1]

19.3%

at £(153)m

- Tax rate 360bps lower than HY18
- Tax charge £36m lower than HY18

UNDERLYING EARNINGS

£662m

HY18 £656m

- 3,367m weighted average shares
- 19.7p/share

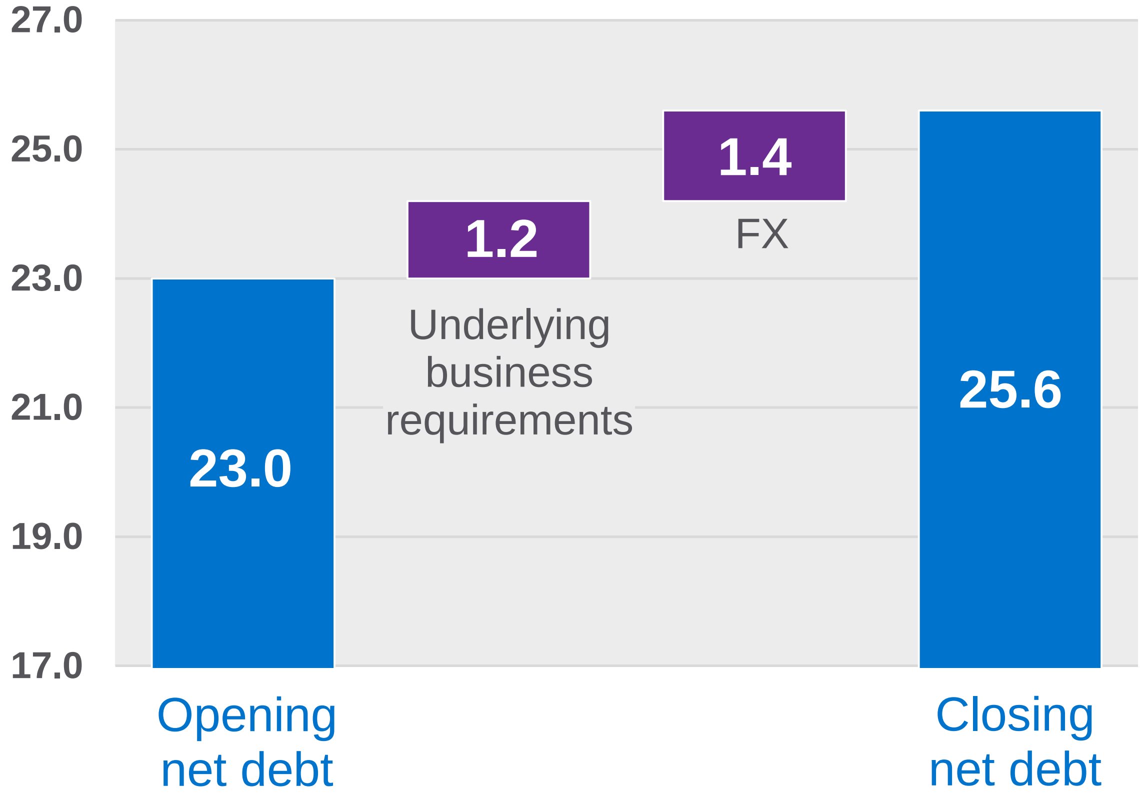
1 Excluding joint ventures and associates

Underlying results, excluding timing, exceptional items, remeasurements and major storms

Cash flow and net debt

£m Period ended 30 September 2018	
Operating profit	1,202
Depreciation & amortisation	791
Pensions	(128)
Working capital & other	76
Net operating cash flow	**1,941**
Net debt	(25,631)

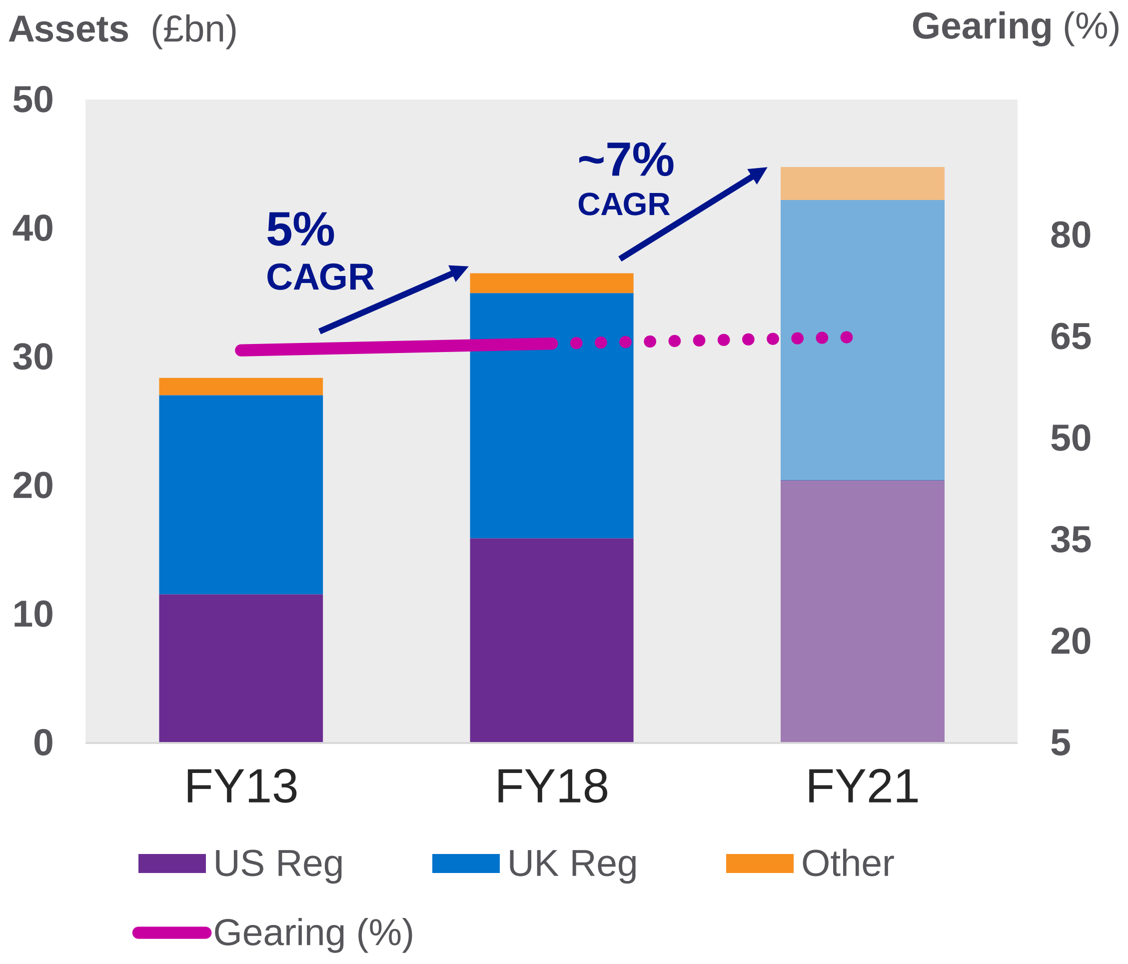
Net debt (£bn)



Underlying results, excluding timing, exceptional items, remeasurements and major storms

Efficiently funding growth

- Current strong organic growth being funded through
  - mix of debt at attractive rates
  - internally generated cash flows
  - scrip utilisation
  - Cadent proceeds in June 2019
- Forecast to maintain gearing at around 65% over the medium-term
  - higher gearing at 31 March 2019, ahead of Cadent proceeds
  - consistent with a strong credit rating
- Benefit of additional EBITDA from 2022 onwards



Priorities & Outlook

Regulatory frameworks that enable performance optimisation - UK

- Regulatory frameworks major area of focus
- RIIO-2 Framework decision in July
  - key RIIO principles reaffirmed
  - will work towards a fair return, reflecting level of risk borne by transmission
- Sector specific consultations in December
  - stakeholder led process

RIIO-T2 timeline

2017	2018	2019	2020	2021
Programme launch: Open letter	Framework consultation; Framework decision; Sector specific methodology consultation	Sector specific methodology decision; Formal business plan submission	Draft determination; Final determination; Statutory licence consultation	RIIO-T2 starts

Regulatory frameworks that enable performance optimisation - UK

- SPV consultation on onshore competition underway
- Will work with Ofgem to develop a framework that delivers value for both customers and shareholders
- Complex model that doesn't present a clear customer benefit case
- Long-term track record of efficient delivery puts us in a strong position to win in a competitive environment
  - competitively tender around 90% of our costs

Regulatory frameworks that enable performance optimisation - US

- Trend of higher investment to continue across all jurisdictions
- Rate filing for new rates for Massachusetts Electric in November
  - will propose five year, forward-looking incentive based framework
- Changing customer needs driving investment across all jurisdictions
  - electric vehicle filings made
  - advanced metering infrastructure implementation filing in New York
- Reviewing next steps on KEDNY and KEDLI rates
  - current three-year plan concludes in December 2019

Interconnectors provide attractive long term cash flows

- Final investment decision taken on Viking interconnector
  - £850m investment
  - 760km, 1.4GW JV with the Danish transmission owner
  - go live in 2023
- All four new interconnectors provide
  - combined investment of £2.1bn
  - expected annual EBITDA contribution of £250m when fully operational in mid 2020s

Efficient delivery of growth

- Wide range of future growth drivers
  - asset health for safety and reliability in our core networks
  - new opportunities to meet changing customer needs
- Significant capex visibility to 2021
- Driving asset growth of at least 7% for the next two years
- Portfolio of businesses with high quality future growth prospects

Evolving for the future

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- Small but growing portfolio of US renewables
  - almost 30MW solar and storage in operation and more under construction
- Wind and solar opportunities that match our capabilities and risk/reward profile
- Offshore wind agreements with Deepwater Wind
  - advising on subsea cable construction
  - options to purchase subsea links when commissioned

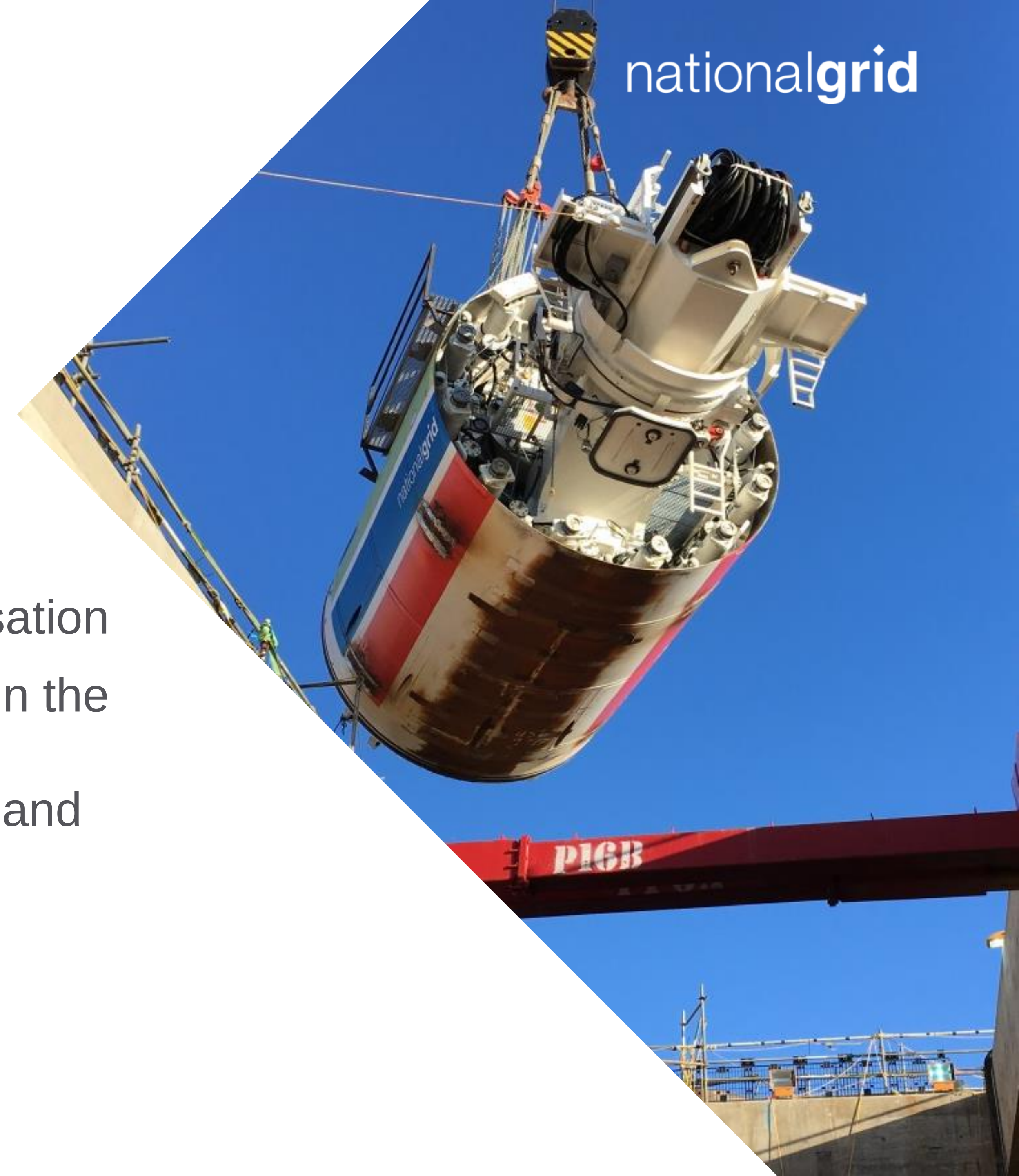
Debt Funding

Debt Funding

- Since 31-March, our US companies have issued over $1.3bn of new long-term debt, including:
  - NGNA: €500m 0.75% 5yr due 2023
  - Narragansett Electric: $350m 3.919% 10yr due 2028
- Over the remainder of FY 2018/19, we expect to issue new debt for the US, predominantly for our OpCos and possibly in NGNA
- We may also issue in the UK from National Grid Electricity Transmission plc
- £5.5bn of general liquidity facilities
- Strong credit ratings: Single A for UK OpCos and majority of US OpCos

Summary

- Delivered solid financial performance and strong strategic progress
- Influencing the evolution of regulatory frameworks in UK and US
- Significant activity to be a more agile organisation
- Disciplined delivery on growth opportunities in the medium term
  - to create long term value for customers and shareholders



Q&A

Appendices

UK Electricity Transmission

OUTLOOK	Totex incentive ▲	Other incentives ◀▶	Additional allowances ◀▶	▲ RoE
FY18	180bps	40bps	70bps	13.1%

UNDERLYING OPERATING PROFIT

£556m +3%

HY18 £540m

CAPITAL INVESTMENT

£462m

HY18 £515m

- Capital investment lower due to completion of non-load investments
  - FY20 will include cable undergrounding in Dorset and higher NOM's delivery
- Totex incentive expected to benefit from higher allowances in the re-opener filings

Underlying results, excluding timing, exceptional items, remeasurements and major storms

UK Gas Transmission

OUTLOOK	Totex incentive ▼	Other incentives ▼	Additional allowances ◀▶	▼ RoE
FY18	(80)bps	120bps	(40)bps	10.0%

UNDERLYING OPERATING PROFIT

£91m -37%

HY18 £144m

CAPITAL INVESTMENT

£153m

HY18 £157m

- H1 operating profit decrease due to expected return of Avonmouth revenues received in prior years
- Totex incentive expected to reduce due to lower allowances in the re-opener filings
  – FY20 MOD expected to be approx. -£80m

Underlying results, excluding timing, exceptional items, remeasurements and major storms

US Regulated

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OUTLOOK **Targeting ROE in line with prior year** ◀▶ **RoE**

UNDERLYING OPERATING PROFIT	CAPITAL INVESTMENT
£431m -17%	**$1.5bn**
HY18 £522m	HY18 $1.4bn

- Underlying operating profit reflects
  - benefit of new rate case outcomes
  - £56m higher storm costs and impact of US tax reform
- US profitability more weighted to H2 this year
- Massachusetts work contingency plan costs classified as an exceptional item
  - lower capex in Massachusetts Gas

Operating profit and capital investment calculated at constant currency

Underlying results, excluding timing, exceptional items, remeasurements and major storms

NG Ventures

OPERATING PROFIT	£78m Metering	£37m Grain LNG	£34m IFA	£(18)m Other	£131m
HY18	£83m	£37m	£34m	£(22)m	HY18 £132m

POST TAX SHARE of JVs	£13m BritNed	£8m Millennium	£10m Other	£31m
HY18	£18m	£6m	£nil	HY18 £24m

TOTAL INVESTMENT **£212m**
HY18 £180m

- Interconnector projects driving higher investment in NGV

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

Other activities

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OPERATING PROFIT	£38m Property	£38m Corporate centre and other	**£76m**
HY18	£53m	£(27)m	HY18 £26m

POST TAX SHARE of JVs	£(6)m St. William	**£(6)m**
HY18	£(4)m	HY18 £(4)m

TOTAL INVESTMENT[1] **£126m**
HY18 £53m

- Fulham transaction expected in H2, subject to finalisation of site works and planning consents
- Legal settlements of £94m

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 storms