

2016/17 Half Year Results

10 November 2016



Cautionary statement

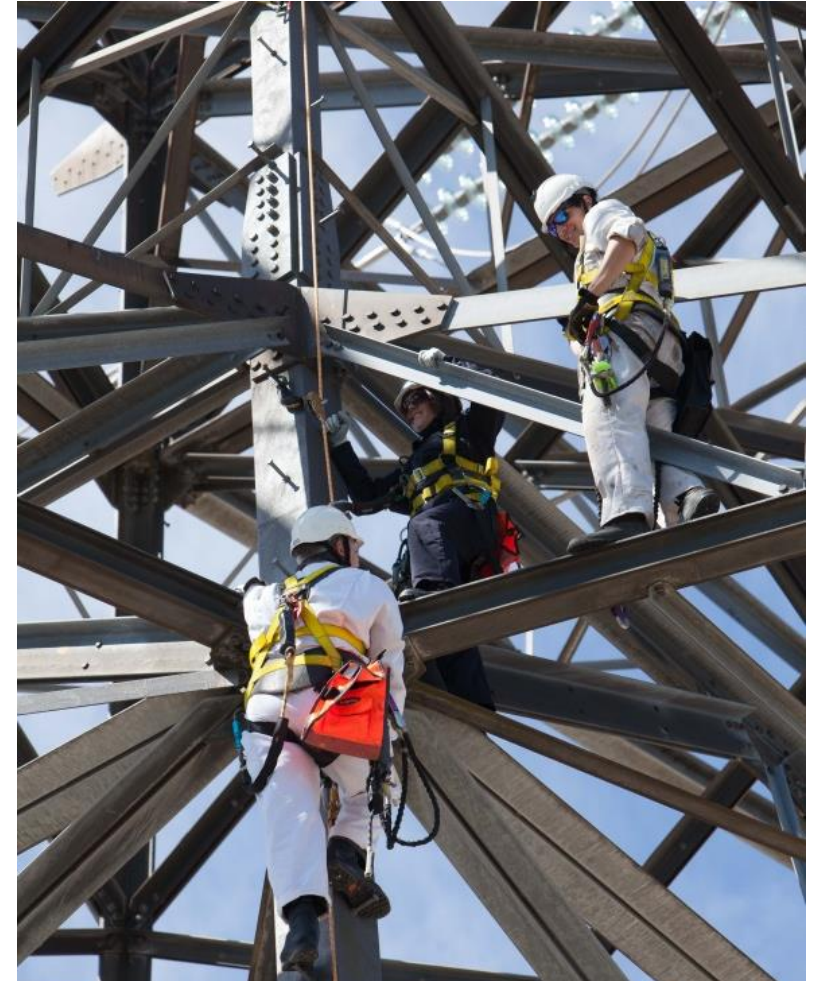
This announcement contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, 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 '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 the timeliness of consents for construction projects); 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; 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 internal transformation 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; inflation or deflation; 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, train or retain employees with the necessary competencies, including leadership skills, and any significant disputes arising with the National Grid's employees or the breach of laws or regulations by its employees; 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, including assumptions in connection with the Company's potential sale of a majority stake in its gas distribution business and with joint ventures. 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 183 to 186 of National Grid plc'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 announcement.

Agenda

Highlights John Pettigrew

Financial review Andrew Bonfield

Priorities and outlook John Pettigrew



Highlights

JOHN PETTIGREW
CHIEF EXECUTIVE



NICOLA SHAW
UK EXECUTIVE DIRECTOR



HY 2016/17 financial performance

OPERATING
PROFIT

£1.9bn

PROFIT
BEFORE TAX

£1.4bn

EARNINGS

£1.1bn

CAPITAL
INVESTMENT

£2.2bn

EARNINGS PER SHARE

28.2p

DIVIDEND PER SHARE

15.17p

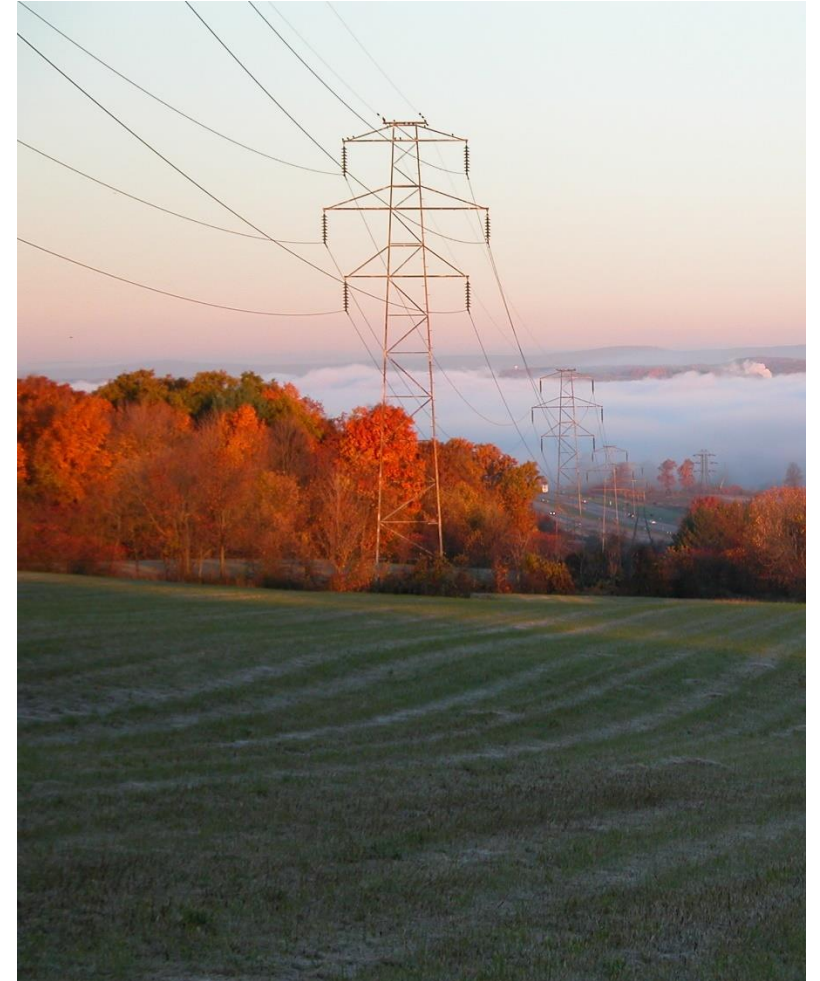
Continued safe and reliable service

- Group injury frequency rate remains world class
- Strong network reliability benefiting from high levels of investment
- Prepared for winter in the US and UK



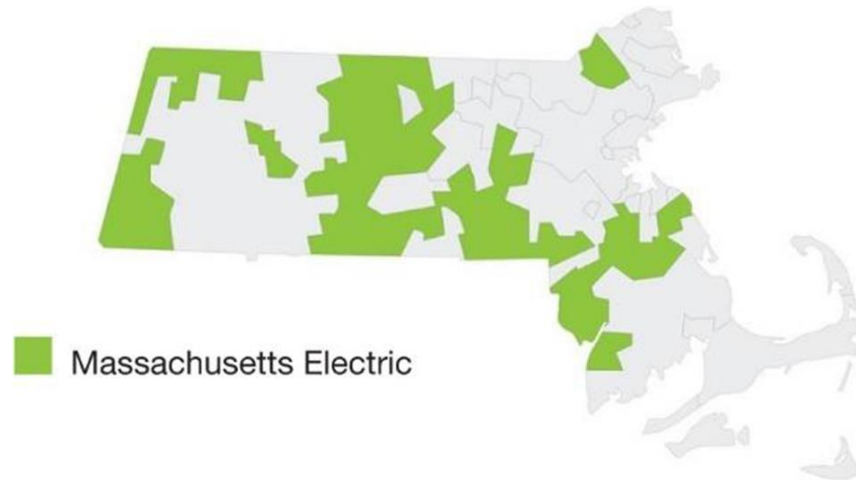
HY update on key priorities

- 1 US rate case programme progressing well
- 2 Gas Distribution process entering the final phase
- 3 UK regulatory update



1 US rate case programme progressing well

New rates for Massachusetts Electric



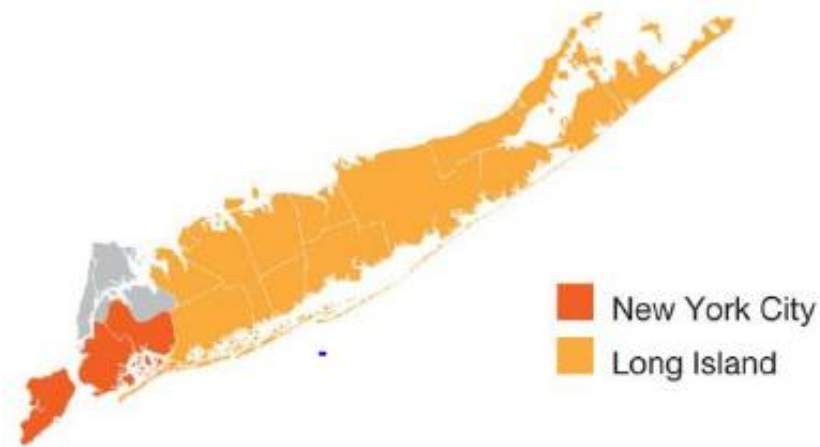
- First update to rates since 2010
- 9.9% allowed RoE on 51% equity structure
- 92% of requested opex increase
- Capital spend up to \$249m

~1.3m
electric
customers

over 13,000 miles
of electric lines

1 US rate case programme progressing well

Joint-proposal filed for KEDNY/KEDLI

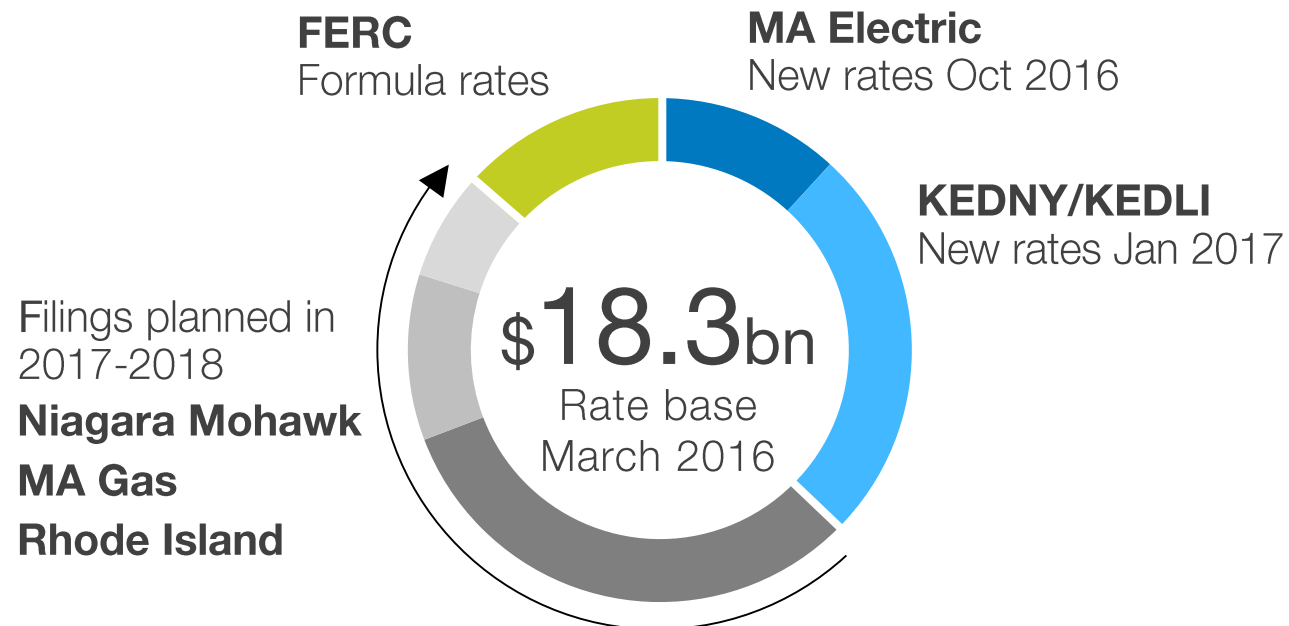


~1.8m
gas customers

over 12,000 miles
of gas distribution and
transmission pipes

- First update to rates since 2008
- 3 year rate plan
- 9.0% allowed RoE on 48% equity structure
- Over 85% of requested opex increase
- \$3bn capital programme over 3 years

Updating US rates through regular filings



- Systems and process established for regular filings
 - Reflected in three recent filings
- Regular filings to minimise customer bill impact
- ~40% of rate base to have updated rates in FY2017
- ~50% of rate base to be filed in FY2018
- Remainder subject to FERC regulation

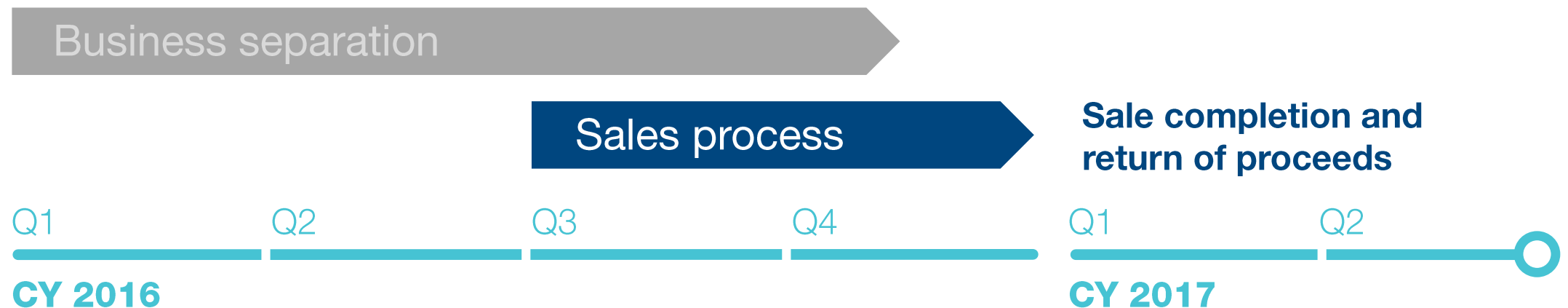
HY update on key priorities

- 1 US rate case programme progressing well
- 2 Gas Distribution process entering the final phase**
- 3 UK regulatory update



2 Gas Distribution process entering the final phase

- Business separation substantially complete; gas distribution transportation license transferred
- Secured substantially all funding required for the new GD entity at attractive rates
- Agreement reached on pension programme



Indicative timeline

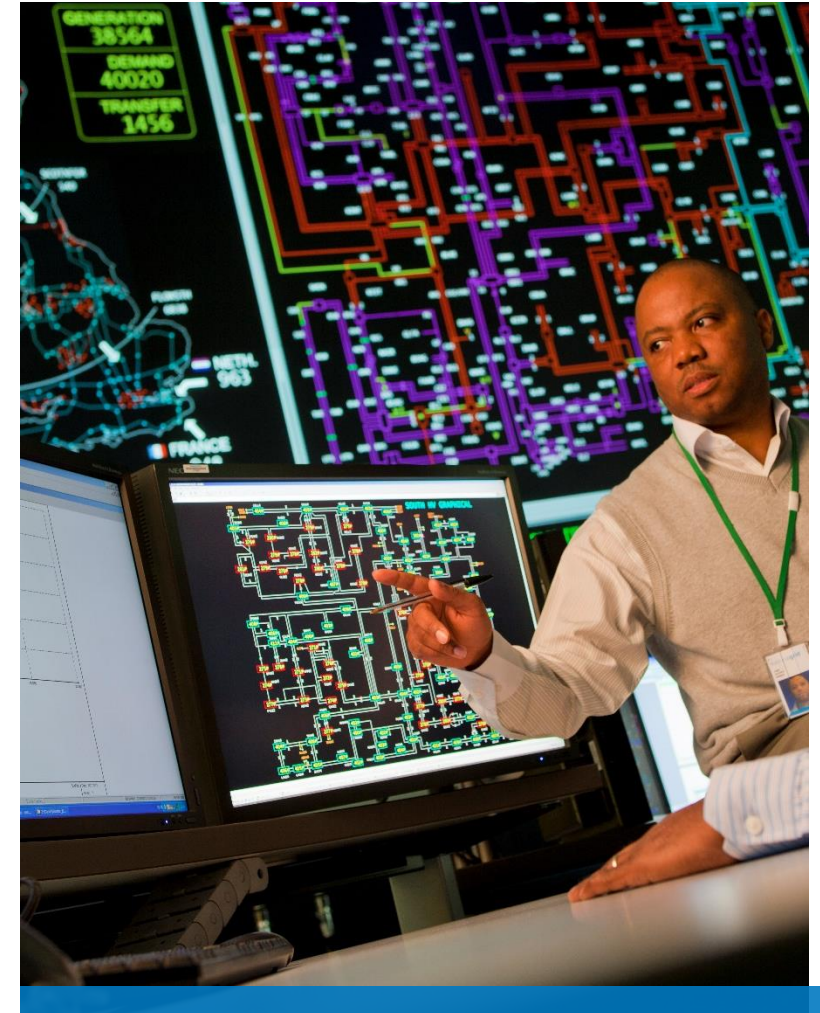
HY update on key priorities

- 1 US rate case programme progressing well
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- 3 UK regulatory update



3 UK regulatory update

- Electricity System Operator discussions ongoing
- RIIO mid-period review complete reflecting relatively narrow scope
- Ofgem consultation for onshore competition continues



HY update on key priorities

- 1 US rate case programme progressing well
- 2 Gas Distribution process entering the final phase
- 3 UK regulatory update



Financial performance

ANDREW BONFIELD

FINANCE DIRECTOR



Financial highlights

OPERATING PROFIT

£1.9bn

HY16 £1.9bn

PROFIT BEFORE TAX

£1.4bn

HY16 £1.4bn

EARNINGS

£1.1bn

HY16 £1.1bn

EARNINGS PER SHARE

28.2p

HY16 28.2p

DIVIDEND PER SHARE

15.17p

HY16 15.00p

CAPITAL INVESTMENT

£2.2bn

HY16 £2.0bn

UK Electricity Transmission

OUTLOOK	Totex incentive ▼	Other incentives ▲	Additional allowances ◀▶	▼ RoE
FY16	210bps	80bps	80bps	13.9%

OPERATING PROFIT

£697m +14%

HY16 £610m

CAPITAL INVESTMENT

£586m

HY16 £514m

- H1 operating profit increase primarily driven by favourable timing and net revenue increases
- Return expected to be slightly lower due to reduced totex incentive

UK Gas Transmission

OUTLOOK	Totex incentive ▼	Other incentives ▼	Additional allowances ▼	▼ RoE
FY16	(20)bps	120bps	150bps	12.5%

OPERATING PROFIT

£159m flat

HY16 £159m

CAPITAL INVESTMENT

£116m

HY16 £91m

- Consistent operating profit despite lower year-on-year timing
- FY17 return:
 - Additional allowances down ~100bps, as expected
 - Increased spend on asset health

UK Gas Distribution

OUTLOOK	Totex incentive	Other incentives	Additional allowances	RoE
FY16	200bps	100bps	10bps	13.0%

OPERATING PROFIT

£403m -6%

HY16 £428m

CAPITAL INVESTMENT

£268m

HY16 £286m

- H1 operating profit down mostly due to unfavourable timing
- Sustained totex performance expected for FY17
- Good incentive performance continues

US Regulated

OUTLOOK

Maintain return around 8%

◀▶ **RoE**

CY 15 8.0%

OPERATING PROFIT

£435m +12%

HY16 £389m

CAPITAL INVESTMENT

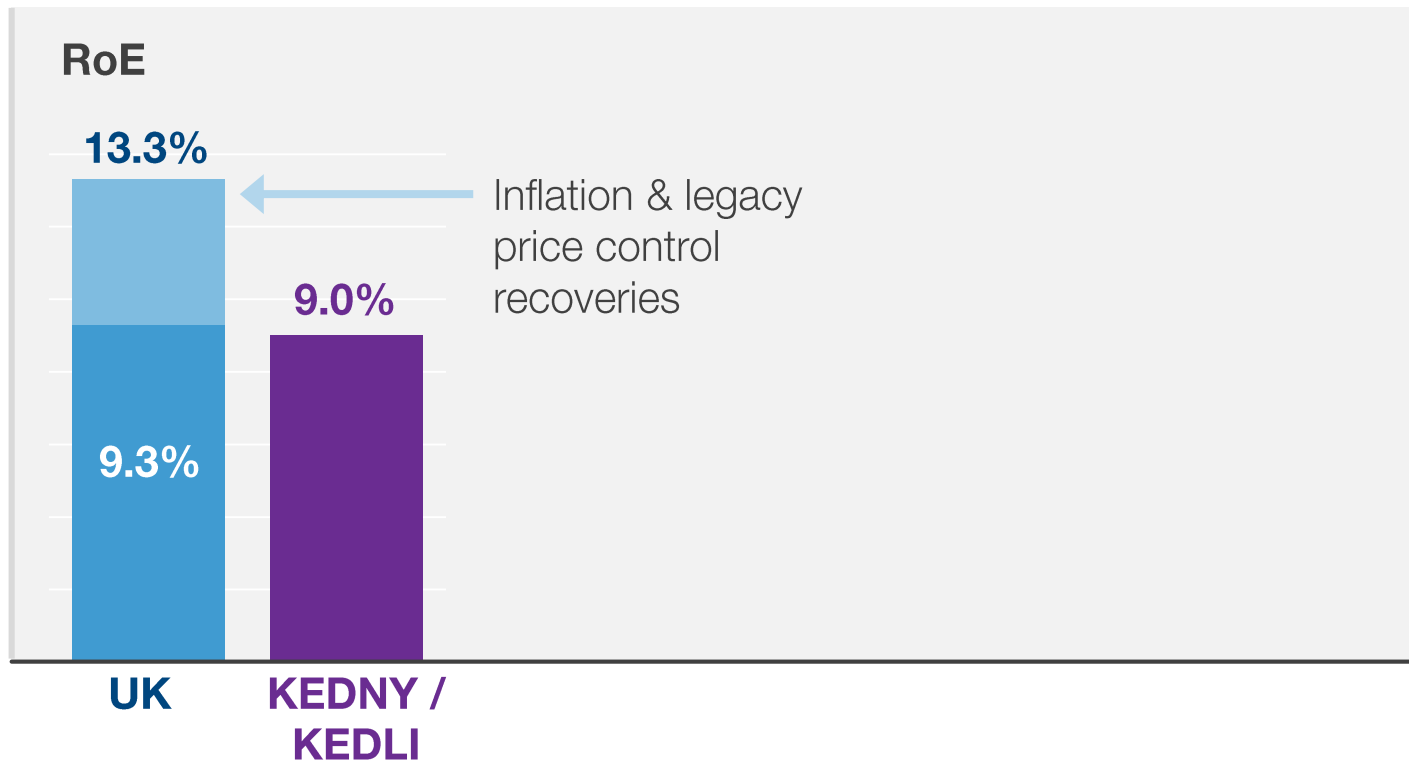
£1,039m

HY16 £1,000m

- H1 operating profit up primarily due to favourable timing
- Expect to maintain return around current level in FY17
- Transitioning returns to fiscal year to align with broader business

Comparative returns

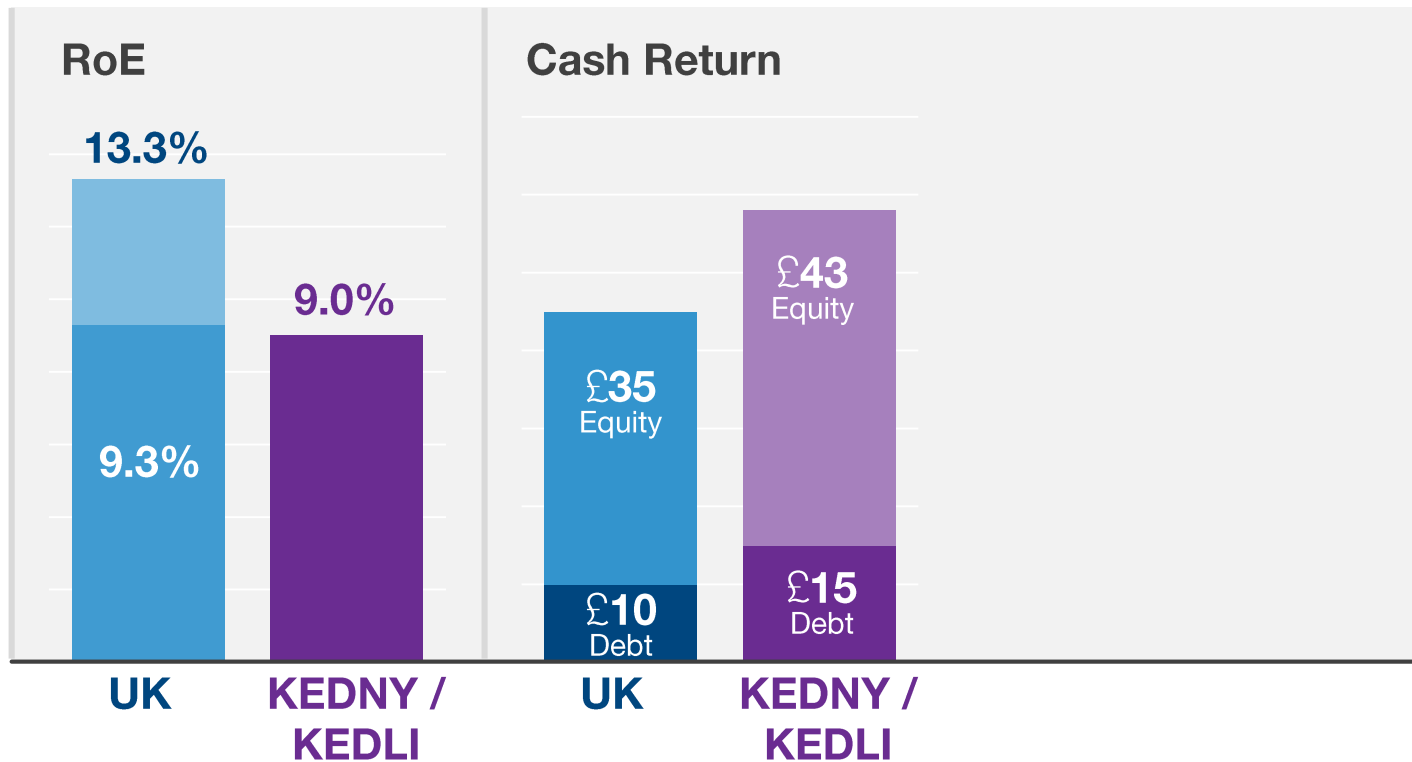
Return on £1,000 Regulated Asset Base



- UK and US headline returns differ
- Need for significant investment in ageing infrastructure
- Regulatory objectives are aligned
- Investment is incentivised through returns that reflect regulatory risk

Comparative returns

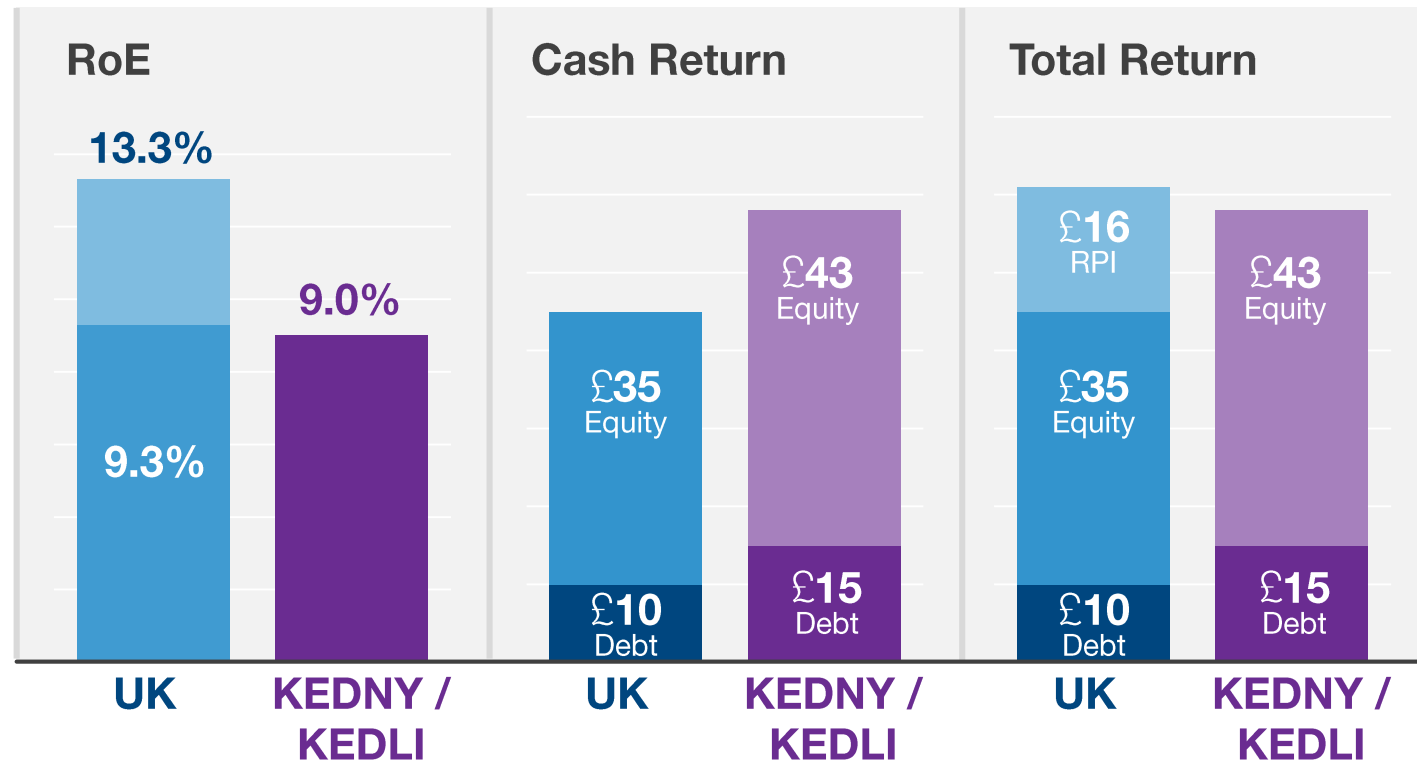
Return on £1,000 Regulated Asset Base



- US nominal return provides faster recovery on higher equity ratio
- UK cash return excludes long run RPI and legacy price control allowances

Comparative returns

Return on £1,000 Regulated Asset Base



- Total returns on equity differ
- Nominal regulation in US provides a faster cash return
- Total returns are higher in the UK as customer bill impact of RPI is deferred

Other Activities & JVs

OTHER ACTIVITIES	£86m	£35m	£35m	£44m
	Metering	Grain LNG	IFA	Property
HY16	£84m	£39m	£81m	£61m

JVs	£28m	£6m
	BritNed	Millennium
HY16	£23m	£6m

- Other activities and JVs performance returning to more normal levels
- Consistent year-on-year performance expected from Grain, Property and Metering

OPERATING PROFIT	£157m
	HY16 £293m

POST TAX SHARE	£31m
	HY16 £29m

CAPITAL INVESTMENT	£141m
	HY16 £133m

Interest, tax and earnings

FINANCE COSTS

£523m

6% higher than HY16

- Effective interest rate of 3.9%
- Significant financing at low interest rates

EFFECTIVE TAX RATE

21.7%

at £(295)m

- Tax rate 30bps lower than HY16
- Tax charge £7m lower than HY16

EARNINGS

£1,062m

HY16 £1,067m

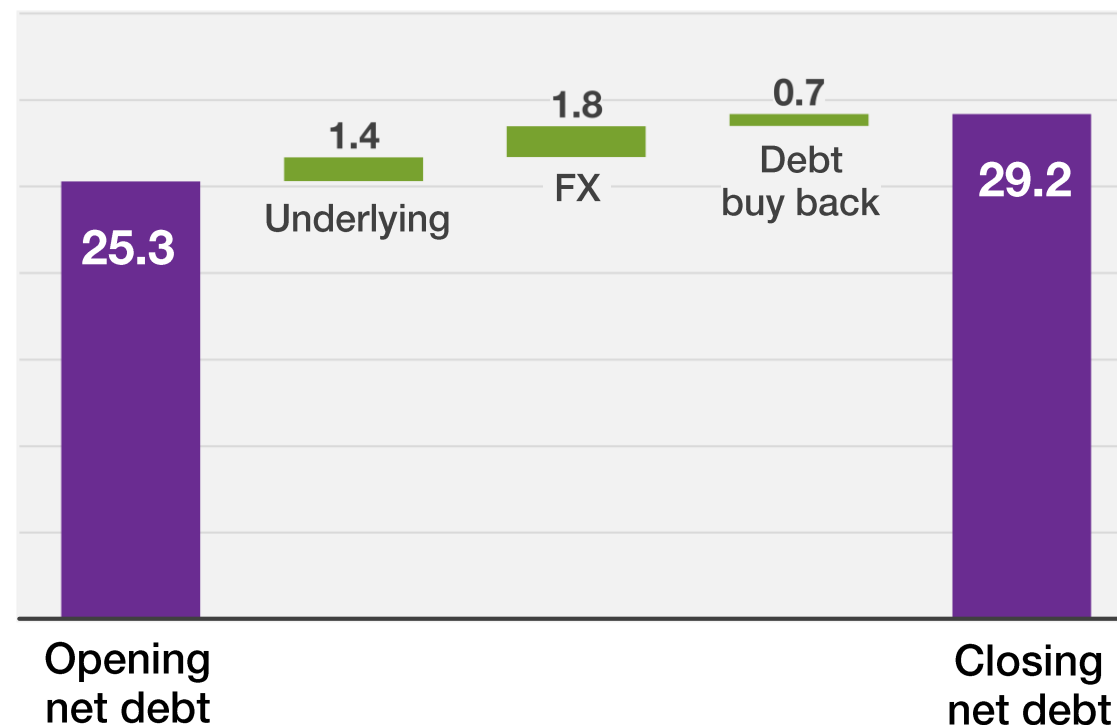
- 3,763m weighted average shares
- 28.2p/share

Cash flow and net debt

Cash flow (£m)

Six months ended 30 September	2016	2015
Operating profit	1,851	1,836
Depreciation & amortisation	865	796
Pensions & provisions	(459)	(284)
Working capital & other	67	333
Net operating cash flow	2,324	2,681

Net debt (£bn)



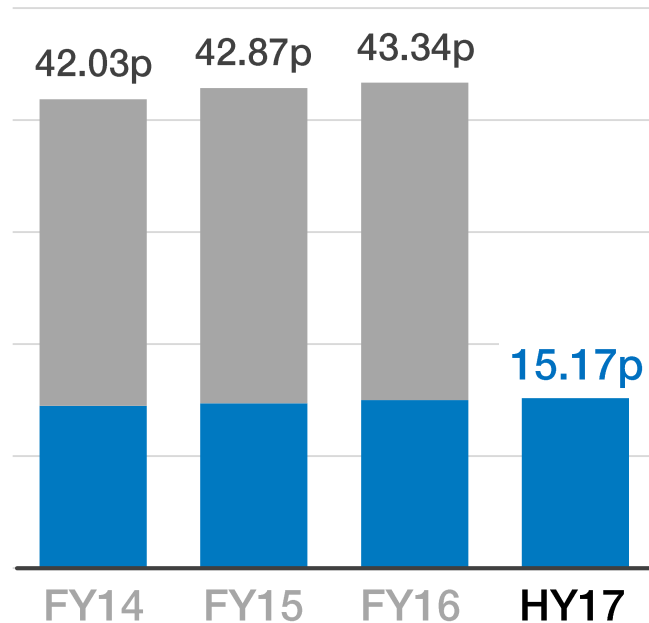
Funding of new Gas Distribution company

- Funding of the new company substantially complete
 - Record £3bn issuance
 - €750m issuance
 - Attractive 2.2% average rate
 - Targeting 65% leverage
- Bought back £2.1bn (book value) of higher rate debt
 - £718m exceptional charge
 - NPV positive
 - Continued actions to bring NG Gas debt in line with regulatory levels



Dividend and scrip

Dividend per share



- 15.17p (35% of prior year full year dividend)
- Full year dividend to grow at least in line with UK RPI
- Scrip option to continue



Technical guidance

- UK Regulated operations expected to deliver outperformance of 200-300bps
 - Gas Transmission impacted by expected reduction in totex performance and legacy incentives
- US return maintained, ahead of new rates
- Other activities impacted by lower interconnector income and non-recurrence of one-time gain on Iroquois

Priorities & Outlook

JOHN PETTIGREW
CHIEF EXECUTIVE



Drivers for long term success

CUSTOMER FIRST



Performance optimisation



Growth



Evolve for the future

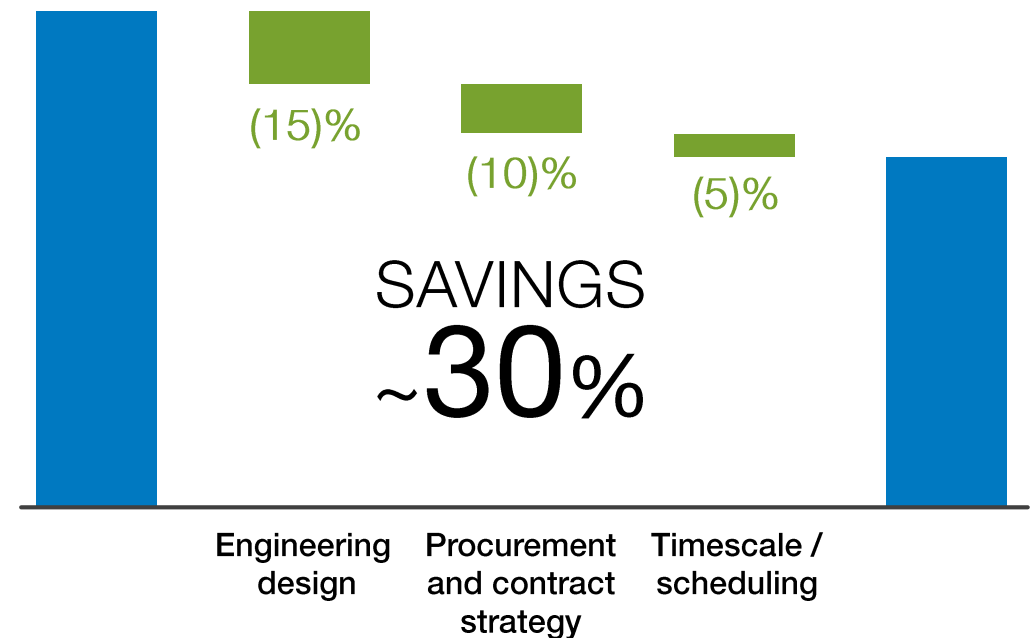
Delivering outperformance alongside customer savings

Performance optimisation

Transformer replacement case study

- More than 100 units to be replaced or decommissioned over RII0 T1
- Targeted reduction of £140m
- Deployment of lean engineering techniques and asset management expertise

Estimated unit cost savings

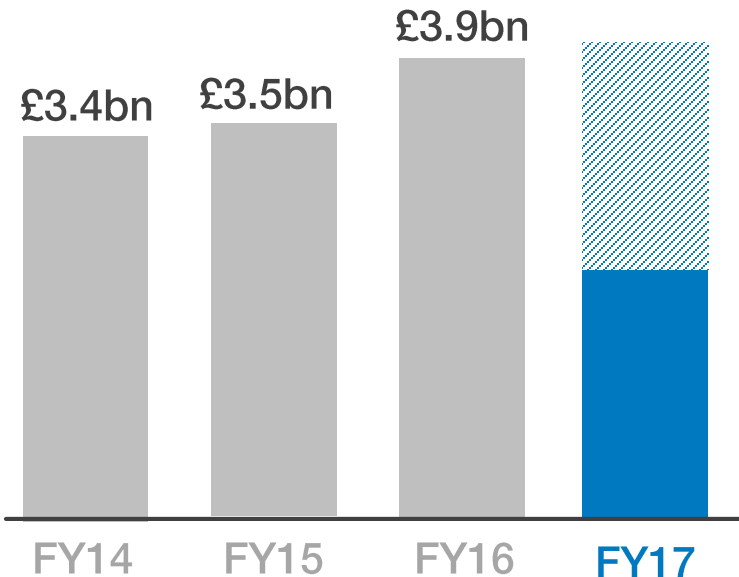


Growth through balanced investments

Growth

- 5-7% asset growth
 - assuming 3% UK RPI

Total Investment



Core regulated assets

Asset health, network expansion and modernisation



Other activities

Interconnectors, US transmission, Property



Further investments in new energy

Smart Meters, Solar and Storage



Networks of the future

Evolve for the future



Drive for cleaner energy

has led to improved economics for renewables



Further investment

needed to reinforce and modernise the networks

National Grid's response

Evolve for the future

- At the forefront of change
- Multiple programmes across the business



Example:

Electricity System Operator

using battery storage contracts to deliver savings of ~£200m

Example:

Massachusetts Electric business

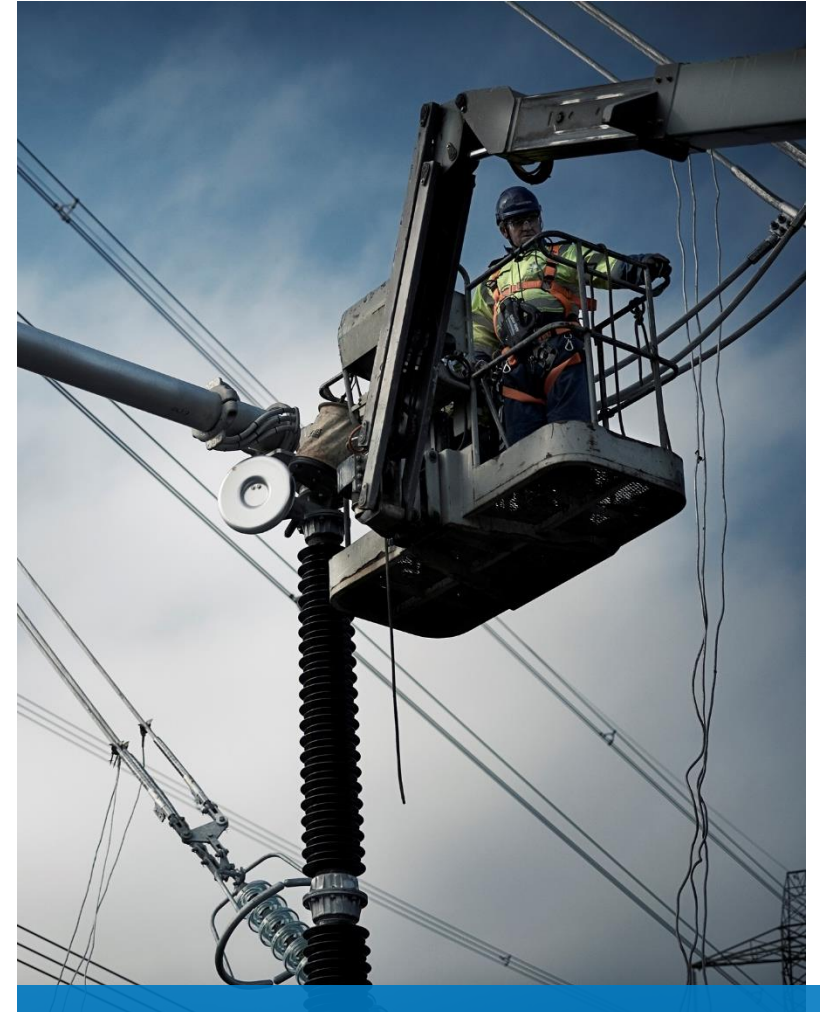
is a top 10 utility facilitating solar connections

US grid modernisation plans could drive significant investment



Summary

- Good first half performance
- Significant progress with near-term priorities
- Priorities for the second half include:
 - Finalise the KEDNY/KEDLI Joint Proposal
 - Complete the sale of the stake in our Gas Distribution business
- Focus on drivers for long-term success



Q&A



JOHN PETTIGREW
CHIEF EXECUTIVE



ANDREW BONFIELD
FINANCE DIRECTOR

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