

NGET and NGGT:

RIIO-2 final business plans

Investor Relations | December 2019



“Our plans cover a crucial period when we all expect rapid change in the energy system to dramatically reduce carbon emissions to achieve the UK’s net-zero target by 2050. Our plans highlights specific opportunities within the regulatory framework, to enable and accelerate the UK’s progress to net zero. We are putting forward collaborative, innovative, and whole-system solutions to support policymakers. We are reinforcing this with commitments to reduce our own emissions to deliver the UK’s net-zero target.”

Nicola Shaw Executive Director, UK

Highlights from our business plans

We have engaged widely with our stakeholders

- We have engaged with ~12k households, businesses and major energy consumers in NGET and over 13k in NGGT and were the first networks to set up the independent stakeholder user groups

We are committed to a ‘whole energy system’ approach to meet net zero emissions by 2050

- In our electricity business we have developed our plan in line with net zero and have provided options for additional anticipatory investment to connect significant additional wind generation and develop a national electric vehicle network
- In our gas business we have worked with other network companies and government to identify a programme of work needed to test and provide hydrogen conversion options

Our plans include annual baseline totex levels of £2bn and identified efficiency savings of 11%

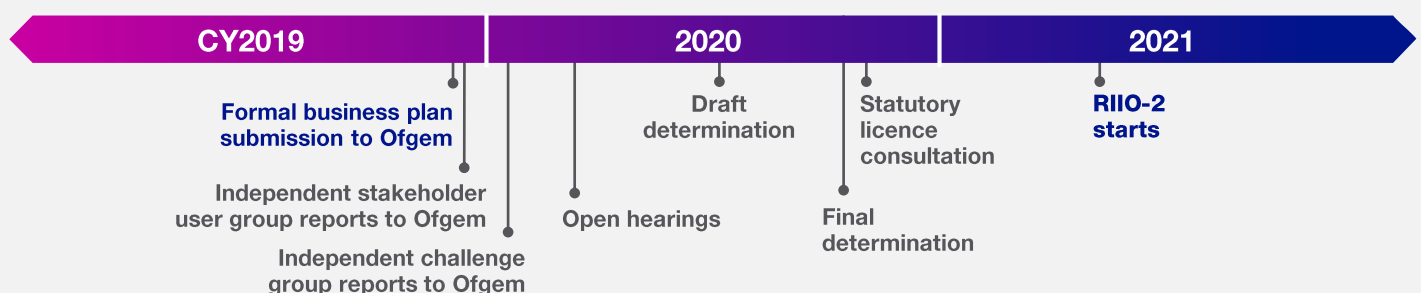
- We will be investing more during RIIO-2 to maintain network reliability and resilience and reduce carbon emissions whilst keeping the cost to consumers flat or reducing in real terms

We provide evidence for why adjustments to Ofgem’s proposed financial framework are needed to make sure our plan is sustainably financed across a range of credible future scenarios

Our engagement approach



RIIO-2 Timeline



National Grid Electricity Transmission (NGET)

- English and Welsh Electricity Transmission System: National Grid
- Scottish Electricity Transmission System



- Own and maintain the high-voltage electricity transmission network in England and Wales
- 4,481 miles of overhead lines

Summary of NGET's final RIIO-2 business plan

- Connect 15.3GW of customer capacity, providing the UK with clean power and flexible storage
- Developing innovative whole system solutions in partnership with other stakeholders
- Invest to maintain network reliability and availability
- Increase the resilience of the network to environmental factors and to cyber and physical attacks
- Household bill expected to reduce slightly in real terms
- 87% of consumers (household and business) found our plan and its bill impact acceptable

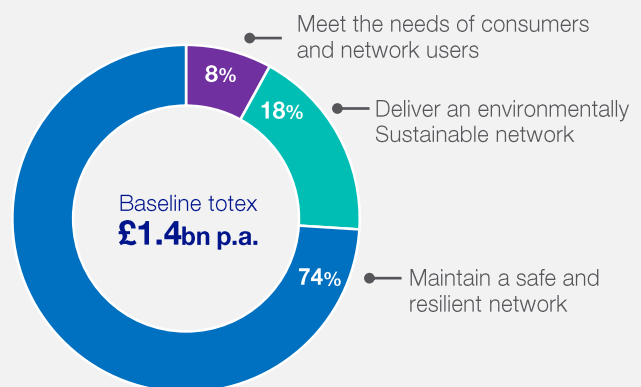
Meeting net-zero

- We will achieve net-zero for our own emissions by 2050, with an interim target of a 50% reduction by 2030 (against a 2018/19 baseline)
- We will move to a 100% alternative fuel fleet by 2030 and 100% renewable electricity for our own use by 2026
- We support the competitively appointed transmission owner (CATO) early competition model to identify whole system solutions and attract the right capital at the right rate of return
- We will work alongside government to overcome the recognised challenges with delivering an ultra-rapid electric vehicle charging infrastructure
- We include an option to build the transmission network around the east coast of England to significantly reduce the whole-system cost and disruption of connecting new offshore wind farms in the North Sea

How NGET is delivering in RIIO-1

- Achieved world-class safety performance
- 2018/19 network reliability of 99.99999%, consistent with the best performing organisations worldwide
- Achieved our highest ever customer satisfaction scores
- Protecting 90 sites from environmental factors, cyber and physical threats
- Tried the use of electric vehicles to support the transition to alternative fuels
- Invested £8bn (over the first 6 years) whilst maintaining our contribution to the average annual household bill below £25 per annum

NGET's RIIO-2 baseline totex



Changes to our draft NGET business plan

- We have reduced our baseline average annual totex by £60m compared to July, to £1.4bn, reflecting further refinement of our plans and including additional efficiencies
- We have included a proposal for net zero uncertainty mechanisms and proposed an anticipatory investment process

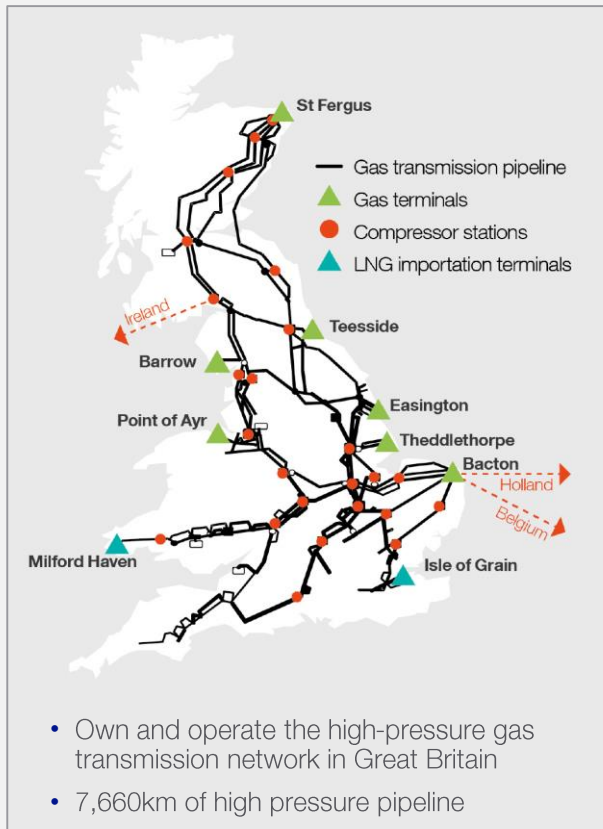
Our proposed financial package

| Cost of equity | Cost of debt | Rate of Return | Assumed equity capitalisation |
|----------------|--------------|----------------|-------------------------------|
| 6.5% | 2.93% | 4.36% | 40.0% |

Note: CPI stripped, RIIO-2 average

- 100% transition to CPI
- NGET 45 year straight line depreciation for new assets

National Grid Gas Transmission (NGGT)



Summary of NGGT's final RIIO-2 business plan

- Increase asset health spend to maintain the current level of network reliability, resilience and availability
- Increase the resilience of the network to environmental factors and to physical and cyber attacks
- Replace two compressor units at our Wormington site, and work on solutions at three more sites using uncertainty mechanisms
- Household bill expected to reduce slightly in real terms
- 88% of domestic and 82% of non-domestic consumers find the average impact of our RIIO-2 plan acceptable

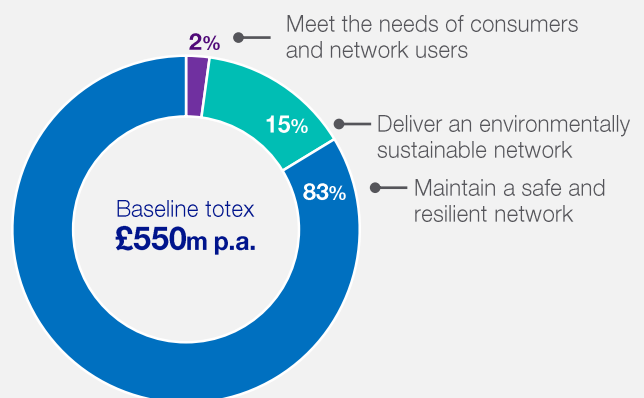
Meeting net-zero

- Natural gas has an important role to play in supporting the transition to a low carbon future
- We will improve air quality and reduce emissions through work on our compressor fleet and reduce our overall carbon footprint in our activities
- We will replace 100% of our operational vehicles with alternative fuel vehicles, where there is a market alternative in 2019 (represents 30% of our operational fleet)
- We have identified a programme of work needed to test and prove hydrogen conversion options

How NGGT is delivering in RIIO-1

- Achieved world-class safety performance
- 2018/19 network reliability of 99.99%
- Improved customer and stakeholder satisfaction
- Enhanced physical security of our assets and implemented higher resilience data centres to protect against external threats
- Invested £2bn (over the first 6 years) whilst maintaining our contribution to the average annual household bill at around £9 per annum

NGGT's RIIO-2 baseline totex



Changes to our draft NGGT business plan

- We have reduced our baseline average annual totex by £46m compared to July, to £553m, reflecting further refinement of our plan and the identification of additional efficiencies
- Completing additional work to ensure our plan is underpinned by the network capability stakeholders need
- Included a proposal for a net zero uncertainty mechanism

Our proposed financial package

| Cost of equity | Cost of debt | Rate of Return | Assumed equity capitalisation |
|----------------|--------------|----------------|-------------------------------|
| 6.5% | 2.93% | 4.36% | 40.0% |

Note: CPI stripped, RIIO-2 average

- 100% transition to CPI
- NGGT 25 year sum of digits depreciation for new assets



Important notice

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Further information

Aarti Singhal

Director of Investor Relations
T +44 (0) 20 7004 3170
M +44 (0) 7989 492447
aarti.singhal@nationalgrid.com

Jon Clay

Investor Relations Officer
T +44 (0) 20 7004 3460
M +44 (0) 7899 928247
jonathan.clay@nationalgrid.com

Peter Kennedy

Investor Relations Assistant Manager
T +44 (0) 20 7004 3169
M +44 (0) 7966 200094
peter.kennedy@nationalgrid.com

Nick Ashworth

Senior Investor Relations Officer
T +44 (0) 20 7004 3166
M +44 (0) 7814 355590
nicholas.ashworth@nationalgrid.com

James Flanagan

Investor Relations Manager (US)
T +44 (0) 20 7004 3129
M +44 (0) 7970 778952
james.flanagan2@nationalgrid.com

@Grid_Media



investors.nationalgrid.com

National Grid plc
1-3 Strand
London WC2N 5EH
United Kingdom
www.nationalgrid.com

nationalgrid