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RIIO-T2 Final Determination

National Grid response

London, 2 March 2021

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Our response

John Pettigrew

Chief Executive

Overview

- Our overall view of Ofgem's Final Determination
- The basis of our decision to make an appeal to the CMA regarding;
  - the cost of equity and;
  - the outperformance wedge
- Group credit metrics outlook
- Dividend policy
- Next steps

Broad acceptance of Final Determinations

- Recognition of the effort the team has put in to the RIIO-T2 process
- Our widest consultation ever - over 25,000 stakeholders
- Pleased to accept a large part of the Final Determinations
- Our three core objectives we set out to achieve:

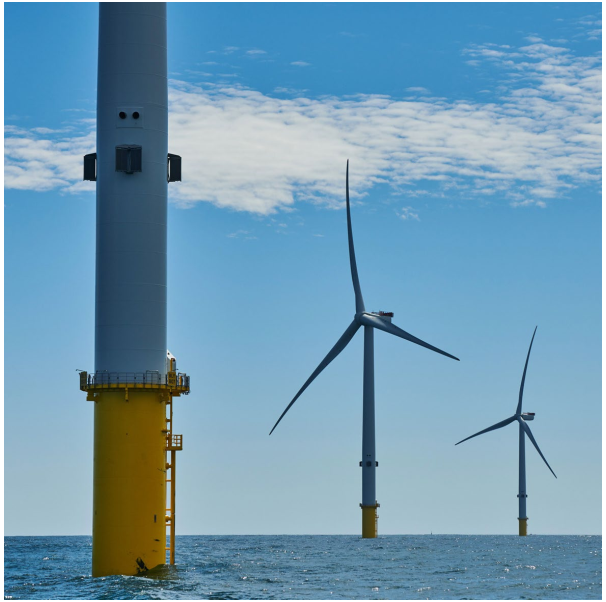
ONE
Investment levels to maintain **world class reliability and resilience**

TWO
A framework to deliver **energy networks of the future**

THREE
A financial package that allows a **fair return for our investors, whilst limiting the impact on customer bills**

Achieving our objectives under RIIO-T2

- We believe the final determinations provides:
  - the investment required to maintain asset health levels
  - the flexibility to deliver investment for the green recovery and energy transition
- Looking ahead to the next 5 years we expect:
  - to invest around £10bn
  - higher than average annual investment levels in RIIO-T1
  - 60% of investment focused on asset health
- Continue to enable a cleaner energy system, with investment in:
  - the Hinkley Seabank connection
  - new overhead line routes to facilitate offshore wind
  - connecting customers to renewable generation



A technical appeal to the CMA

- The Board has decided on a technical appeal to the CMA focused on the cost of equity and outperformance wedge
- **On cost of equity we believe that Ofgem's methodology:**
  - discards evidence for higher total market return and risk-free rate levels
  - uses too narrow a peer group for cross checking
- **On the outperformance wedge we believe this:**
  - undermines productivity incentives
  - discourages companies from innovating
  - would lead to consumers paying more
- We expect confirmation of appeal by early April and a conclusion by early October

3 MARCH 2021
National Grid to submit Technical Appeal to CMA

1 APRIL
New price controls implemented

EARLY APRIL
Confirmation of Appeal expected

OCTOBER
Conclusion of Appeal expected

Credit Metrics

Andy Agg
Chief Financial Officer

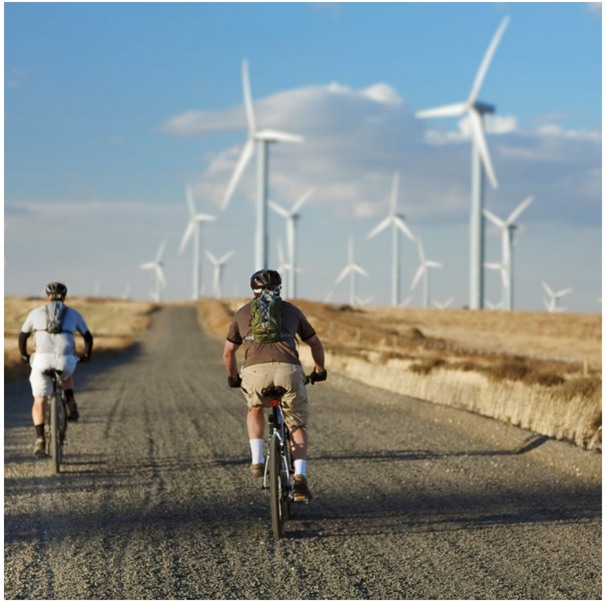
Near term impacts

COVID-19

- Our guidance due to Covid-19 remains unchanged for FY21:
  - £400m headwind to underlying operating profit and
  - up to £1bn cash impact
- We remain confident on recovery through UK timing mechanisms and US rate negotiations and filings
- Timing of US recoveries may now take longer than first expected, as we look to manage the impact on customer bills

RIIO-T2

- Lower returns
- Higher levels of investment



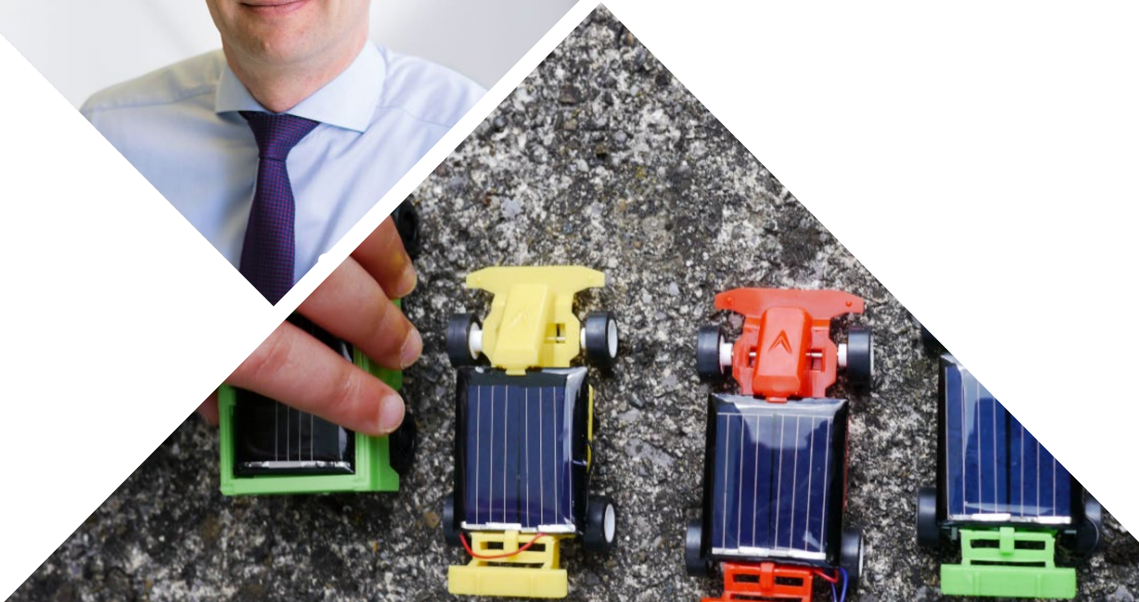
Impact on financial metrics

At the National Grid plc level:

- Moody's targets a 9% RCF/Net Debt for Baa1
- S&P targets a 13% FFO/Net Debt for BBB+

5 year outlook

- We expect to remain below these thresholds
- Strong possibility that we'll see a one notch rating downgrade at National Grid plc and the majority of our rated subsidiaries
- We expect our rating metrics to remain stable, with sufficient headroom above the next thresholds
- We remain committed to maintaining a strong overall investment grade credit rating



John Pettigrew
Chief Executive

Dividend policy

The Board has reaffirmed the existing dividend policy for this financial year

- To grow the dividend at least in line with UK RPI inflation

New dividend policy from FY2021/22

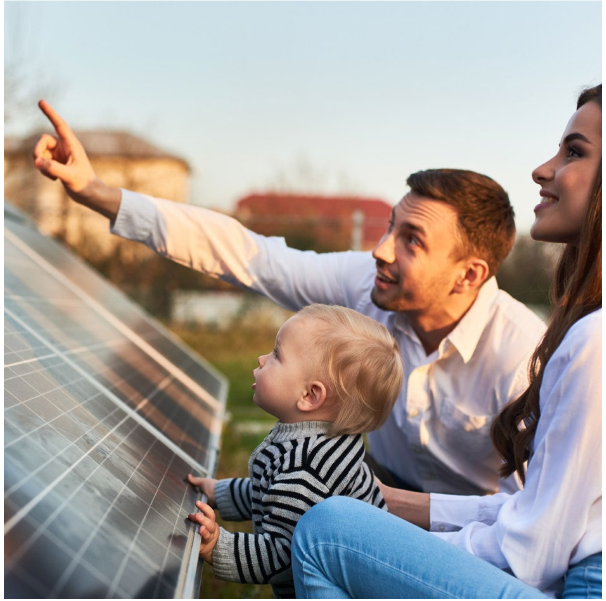
- Aim to grow the annual dividend per share in line with UK CPIH inflation
- This reflects the move from RPI to CPIH in our UK regulated businesses
- The Board will review this policy regularly taking into account;
  - expected business performance and
  - regulatory developments

Use of scrip dividend

- The scrip alternative will continue to be offered
- We don't expect to buy back the scrip given the continued outlook for strong asset growth

Next steps

- Pleased we are able to accept a large part of the final determinations
- Will work closely with the CMA over the course of the year
- We remain:
  - committed to a strong, investment grade credit rating
  - well placed to deliver investment to deliver strong asset growth towards the top end of our 5-7% range
  - enabling the energy transition in the years ahead
- More detailed guidance on FY22 and the impact of RIIO-T2 at full year results announcement on 20th May



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Q&A