nationalgrid

Debt Investor Update

Half Year Results 2021/22

Alexandra Lewis, Group Treasurer

nationalgrid

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 (the Company) 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, predict 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 implementation of the RIIO-2 price controls; 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 (including any that result in safety and/or environmental events), 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 supply including those caused by the COVID-19 pandemic; performance against regulatory targets and standards and against National Grid's peers with the aim of delivering stakeholder expectations regarding costs and efficiency savings, as well as against targets and standards designed to deliver net zero; 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 presentation 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, including as a result of the COVID-19 pandemic, 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 skills, and any significant disputes arising with 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; the failure by the Company to respond to, or meet its own commitments as a leader in relation to, climate change development activities relating to energy transition, including 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 the integration of WPD, the sale of the Company's Rhode Island gas and electricity business and the proposed sale of a majority stake in its UK gas transmission business. 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 236 to 239 of National Grid's most recent Annual Report and Accounts, as updated by the Principal risks and uncertainties statement on page 65 of this presentation. 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.

Key takeaways

Transactions

- WPD acquisition complete
- Rhode Island sale on track
- UK Gas Transmission sales process launched

Our businesses

- Now moved to new operating model
- >£400m pa cost efficiency programme by the end of 3 years
- Targeting
  - At least 95% of US allowed returns
  - 100bp outperformance through RIIO-T2

Financial performance highlights[1]

Underlying operating profit

£1,407m ⬆ 52%

HY21: **£924m**

Underlying EPS

22.8p ⬆ 66%

HY21: **13.7p**

Capital investment

£2,840m ⬆ 22%

HY21: **£2,320m**

Dividend growth in line with policy

17.21p

HY21: **17.0p**

[1] Excluding UK Gas Transmission which is classified as a discontinued operation, comparatives have been restated accordingly

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

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

Operating profit and capital investment for continuing operations presented at constant exchange rates

nationalgrid

Safety and reliability

- Good safety performance with lost time injury frequency rate maintained at 0.11
- Reliability was excellent
  - 95% of customers restored within 19 hours from Hurricane Elsa and Henri in the US
  - UK managed well through summer periods of low wind generation
- Winter outlook 6.6% electricity capacity margin
- UK gas network peak cold day demand well within capacity
- IFA1 return to full service expected December 2022

UK Electricity Distribution - WPD

Opportunities

- Long term highly visible growth
- Pivots the group towards electricity
- Sharing best practice

Performance

- £315m investment in 3.5 months

RIIO – ED2

- Taken on board stakeholder and customer feedback
- Deliver investment to support electric vehicle, home heating and more renewable generation

UK Electricity Transmission

Performance

- £587m investment
- Higher maintenance spend
- Continued progress on Hinkley and LPT2

Regulation

- Successfully challenged outperformance wedge

Policy

- Critical to have a regulatory framework that meets challenges of net zero

UK Gas Transmission

Majority stake sale

- Sales process launched
- Now reported as discontinued operation

Capital investment

- £131m investment
- Higher spend on asset health

Performance

- Targeting 100bps outperformance in T2

New York

Investment

- £851m, up 10%
- Delivered 171 miles of leak prone pipe replacement
- 2GW New York Energy Solutions project brings renewable energy into the State

Regulation

- Target 95% of allowed returns

KEDNY / KEDLI rate settlement

- 8.8% RoE / $3.3bn capex allowance

Niagara - Mohawk rate cases

- 9.0% RoE / $3.3bn capex allowance

New England

Investment

- £700m
- Higher levels in MA - lifting of COVID restrictions
- Delivered 85 miles of leak prone pipe replacement

Regulation

- MA gas new rate case with I-X formula
- 9.7% RoE
- Additional operating expenses of $65m
- Around $3.5bn capex

NG Ventures

Performance

- Investment of £282m focused on delivery of interconnectors
- North Sea Link commissioned early
- Viking Link remains on track for completion in 2024
- Onshore US renewables business completed Prairie Wolf 200MW solar project

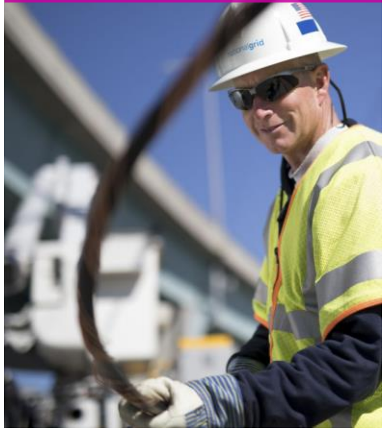
Cost efficiency programme

Cost efficiency target

>£400m p.a.
across the group
by end of 3 years

Growing regulated asset base >20% while holding controllable costs flat

>£300m from New York and New England businesses



c.£100m from UK Electricity Transmission and NG Ventures

Interest, tax and earnings

Finance costs

£475m

£73m higher than HY21[3]

- First time inclusion of WPD debt
- Funding of bridge loan facility

Underlying effective tax rate[1]

19.0%

Underlying tax charge: **£177m**

- 330 bps higher than prior year

Underlying earnings[2]

£812m

HY21: **£482m**

- 22.8 p/share
- EPS up 66% on the prior year

1. Excluding joint ventures and associates
2. Underlying results attributable to equity shareholders
3. At constant currency

Underlying results for continuing operations, excluding timing, exceptional items and remeasurements

Cash flow, net debt and ratings

Cash generated

£2bn

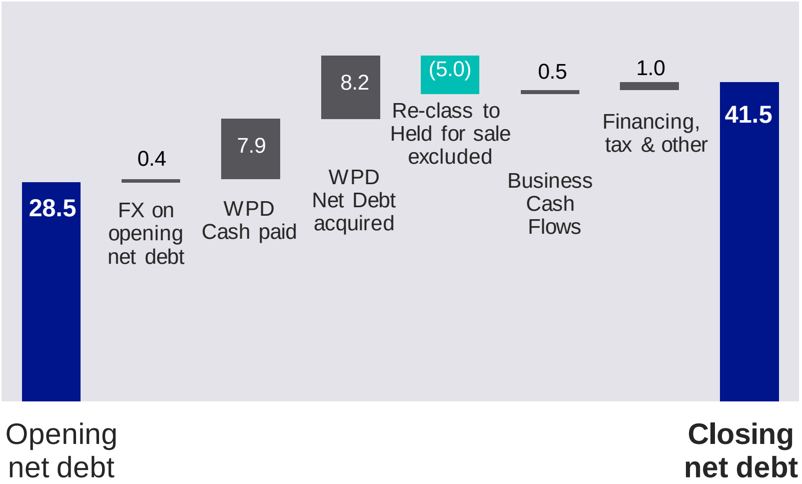
27% higher
compared to prior year

Net debt increase

£12.9bn

44% higher
compared to prior year

Net debt (£bn)

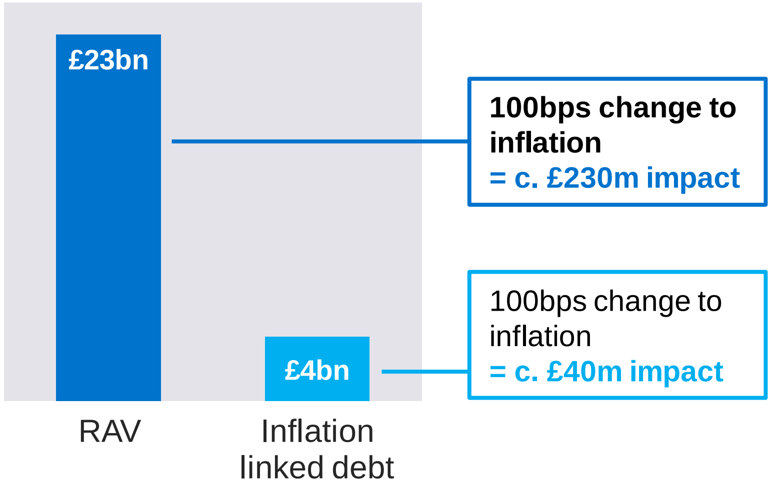


- Net debt increase following WPD acquisition
- For full year, net debt is expected to remain consistent with the level as at 30 September

Impact of inflation

- Moderately higher inflation is a positive over the long-term
- Protection of real returns
- Inflation protection
  - UK revenues and Real Price Effects adjustment for labour and materials
  - Massachusetts and FERC annual increases
  - New York rate plans include forward looking price estimates

Example:
UK – Impact of higher inflation



Impact of interest rates

UK

- Annual update to UK cost of debt allowances
- Revenue allowances over time offset higher interest costs

US

- Fixed rate and long-term debt with pass through of costs

nationalgrid

Debt Funding

London, 18 November 2021

Green Financing

- Green Financing Framework updated in July 2021
  - aligned with the ICMA Green Bond Principles published in June 2021 and the LMA Green Loan Principles published in February 2021
  - aligned as closely as possible with the EU Taxonomy Regulation and the EU Taxonomy Delegated Acts on Climate Change Mitigation and Adaptation
  - SPO by ISS-ESG

- NG plc issued a €850m 8yr green bond in August 2021
  - Proceeds to be allocated to projects in NG Ventures and New England
  - Majority of allocation expected to be for Renewable Energy and Energy Efficiency categories
  - Green Financing Report expected summer 2022 as part of the Responsible Business Report

Debt Funding

2020/21 so far

- c. £2.0bn of senior long-term debt raised across 7 bonds
  - Majority through public bonds for NGET in CAD, and NG plc in EUR. Remainder through a series of EMTN private placements across AUD, EUR and GBP for NGET, and ECA facility drawdowns.

Second half of 2020/21

- We expect to issue another c.£2bn split across the group over the remainder of the year
  - £6.0bn of general liquidity facilities have remained undrawn.
  - The UK Electricity System Operator also maintains £550m of committed facilities
  - WPD has £1bn of committed facilities, of which £300m was drawn at 30 Sept 2021

First half year achievements

- FY22 EPS expected to be significantly ahead of 5-7% growth range
- WPD acquisition completed early
- Now moved to new operating model
- >£400m cost efficiency programme
- Strong start to RIIO-T2
- Balance sheet remains strong
- Full refresh of new rates across New York and New England
- Interconnector construction programme nearing completion

Q&A