

18 April 2024

National Grid plc

Note on change to the definition of Underlying Earnings and Underlying EPS alternative performance measures

Starting with 2023/24 Full Year results, we will report Underlying Earnings and Underlying EPS excluding deferred tax attributable to our UK Electricity Transmission and Distribution businesses as we believe it increases comparability to our UK peers, and better represents the underlying performance of the business.

In March 2023, as part of the Spring Budget the UK Government introduced a 'full expensing' tax regime for qualifying capital expenditure, which was originally expected to last for 3 years. On 22 November 2023, the UK Government announced it would make the 'full expensing' tax regime permanent.

Like most companies with large investment programmes, for National Grid, the full expensing regime will reduce cash tax payable in the UK. However, in our UK Electricity Transmission and UK Electricity Distribution businesses, our regulatory agreements provide a revenue allowance to fund cash tax payable. As a result, any reduction in cash tax payable is matched by a reduction in the regulated revenues that we collect. This results in a broadly neutral cash position, and no economic effect.

For IFRS purposes, whilst UK cash tax is reduced, an increase in deferred tax means the overall accounting tax charge is broadly unchanged. The increase in deferred tax reflects higher cash taxes expected to be payable in the future given the shifting of tax relief from the future into the current year because of full expensing. As this future cash tax becomes payable, our regulated revenues would also adjust to ensure a broadly neutral cash position and, hence, no adverse economic effect.

The introduction of "full expensing" would therefore lead to a reduction in reported underlying earnings (we collect lower revenues, but our IFRS tax charges remains broadly unchanged), even though there is no economic impact. Now that this tax change has been made permanent, we have changed our definition of Underlying Earnings and Underlying EPS to provide greater clarity and remove this accounting impact. Most of the deferred tax charge relates to capital allowances, with the remainder relating to pensions and other.

Deferred tax accounting charges attributable to the rest of the group will continue to be included within Underlying Earnings and Underlying EPS.

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 (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. This document also references climate-related targets and climate-related risks which differ from conventional financial risks in that they are complex, novel and tend to involve projection over long term scenarios which are subject to significant uncertainty and change. 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 or targets. 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 current energy crisis, announcements from and decisions by governmental bodies or regulators, including those relating to the RII0-T2 and RII0-ED2 price controls and the proposals for the future of system operation in the UK; 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; failure to adequately forecast and respond to disruptions in energy supply; 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 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; 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, develop and retain employees with the necessary competencies, including leadership and business capabilities, 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 sale of the Company's UK gas transmission and metering business, its strategic infrastructure projects and joint ventures and the separation and transfer of the electricity system operator to the public sector. 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 225 to 228 of National Grid's most recent Annual Report and Accounts, as updated by National Grid's unaudited half-year financial information for the six months ended 30 September 2023 published on 9 November 2023. 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.