2016/17 Half Year Results
10 November 2016
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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. 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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
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 US rate case programme progressing well

Joint-proposal filed for KEDNY/KEDLI

- 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

~1.8m gas customers

over 12,000 miles of gas distribution and transmission pipes
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
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
HY update on key priorities

1. US rate case programme progressing well
2. Gas Distribution process entering the final phase
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

<table>
<thead>
<tr>
<th>OPERATING PROFIT</th>
<th>PROFIT BEFORE TAX</th>
<th>EARNINGS</th>
</tr>
</thead>
<tbody>
<tr>
<td>£1.9bn</td>
<td>£1.4bn</td>
<td>£1.1bn</td>
</tr>
<tr>
<td>HY16 £1.9bn</td>
<td>HY16 £1.4bn</td>
<td>HY16 £1.1bn</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EARNINGS PER SHARE</th>
<th>DIVIDEND PER SHARE</th>
<th>CAPITAL INVESTMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>28.2p</td>
<td>15.17p</td>
<td>£2.2bn</td>
</tr>
<tr>
<td>HY16 28.2p</td>
<td>HY16 15.00p</td>
<td>HY16 £2.0bn</td>
</tr>
</tbody>
</table>
## UK Electricity Transmission

<table>
<thead>
<tr>
<th>OUTLOOK</th>
<th>Totex incentive</th>
<th>Other incentives</th>
<th>Additional allowances</th>
<th>RoE</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY16</td>
<td>210bps</td>
<td>80bps</td>
<td>80bps</td>
<td>13.9%</td>
</tr>
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</table>

### Operating Profit

<table>
<thead>
<tr>
<th>OPERATING PROFIT</th>
<th>£697m</th>
<th>+14%</th>
</tr>
</thead>
<tbody>
<tr>
<td>HY16</td>
<td>£610m</td>
<td></td>
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### Capital Investment

<table>
<thead>
<tr>
<th>CAPITAL INVESTMENT</th>
<th>£586m</th>
</tr>
</thead>
<tbody>
<tr>
<td>HY16</td>
<td>£514m</td>
</tr>
</tbody>
</table>

- 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

<table>
<thead>
<tr>
<th>OUTLOOK</th>
<th>Totex incentive</th>
<th>Other incentives</th>
<th>Additional allowances</th>
<th>RoE</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY16</td>
<td>(20)bps</td>
<td>120bps</td>
<td>150bps</td>
<td>12.5%</td>
</tr>
</tbody>
</table>

### OPERATING PROFIT
- **FY16**: £159m (flat)
- **HY16**: £159m

### CAPITAL INVESTMENT
- **FY16**: £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

<table>
<thead>
<tr>
<th></th>
<th>FY16</th>
<th>Other incentives</th>
<th>Additional allowances</th>
<th>RoE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Totex incentive</td>
<td>200bps</td>
<td>100bps</td>
<td>10bps</td>
<td>13.0%</td>
</tr>
</tbody>
</table>

### Operating Profit

- **HY16** £403m, **-6%** compared to £428m

### Capital Investment

- **HY16** £268m, **-6%** compared to £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

<table>
<thead>
<tr>
<th></th>
<th>HY16</th>
<th>HY16</th>
</tr>
</thead>
<tbody>
<tr>
<td>£435m</td>
<td>£389m</td>
<td>+12%</td>
</tr>
</tbody>
</table>

CAPITAL INVESTMENT

<table>
<thead>
<tr>
<th></th>
<th>HY16</th>
<th>HY16</th>
</tr>
</thead>
<tbody>
<tr>
<td>£1,039m</td>
<td>£1,000m</td>
<td></td>
</tr>
</tbody>
</table>

- 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

RoE

<table>
<thead>
<tr>
<th>UK</th>
<th>KEDNY / KEDLI</th>
</tr>
</thead>
<tbody>
<tr>
<td>13.3%</td>
<td>9.0%</td>
</tr>
</tbody>
</table>

Cash Return

<table>
<thead>
<tr>
<th>UK</th>
<th>KEDNY / KEDLI</th>
</tr>
</thead>
<tbody>
<tr>
<td>£35 Equity</td>
<td>£15 Debt</td>
</tr>
<tr>
<td>£10 Debt</td>
<td>£43 Equity</td>
</tr>
</tbody>
</table>

Total Return

<table>
<thead>
<tr>
<th>UK</th>
<th>KEDNY / KEDLI</th>
</tr>
</thead>
<tbody>
<tr>
<td>£16 RPI</td>
<td>£15 Equity</td>
</tr>
<tr>
<td>£10 Debt</td>
<td>£43 Equity</td>
</tr>
</tbody>
</table>

- 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

<table>
<thead>
<tr>
<th>OTHER ACTIVITIES</th>
<th>OPERATING PROFIT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>HY16</strong></td>
<td></td>
</tr>
<tr>
<td>£86m Metering</td>
<td>£157m HY16</td>
</tr>
<tr>
<td>£35m Grain LNG</td>
<td></td>
</tr>
<tr>
<td>£35m IFA</td>
<td></td>
</tr>
<tr>
<td>£44m Property</td>
<td>£293m HY16</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>JVs</th>
<th>POST TAX SHARE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>HY16</strong></td>
<td>£31m HY16</td>
</tr>
<tr>
<td>£28m BritNed</td>
<td>£29m HY16</td>
</tr>
<tr>
<td>£6m Millennium</td>
<td></td>
</tr>
<tr>
<td>£23m</td>
<td></td>
</tr>
<tr>
<td>£6m</td>
<td></td>
</tr>
</tbody>
</table>

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

26 2016/17 HALF YEAR RESULTS NOVEMBER 2016
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

<table>
<thead>
<tr>
<th>Cash flow (£m)</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Six months ended 30 September</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating profit</td>
<td>1,851</td>
<td>1,836</td>
</tr>
<tr>
<td>Depreciation &amp; amortisation</td>
<td>865</td>
<td>796</td>
</tr>
<tr>
<td>Pensions &amp; provisions</td>
<td>(459)</td>
<td>(284)</td>
</tr>
<tr>
<td>Working capital &amp; other</td>
<td>67</td>
<td>333</td>
</tr>
<tr>
<td><strong>Net operating cash flow</strong></td>
<td><strong>2,324</strong></td>
<td><strong>2,681</strong></td>
</tr>
</tbody>
</table>

Net debt (£bn)

<table>
<thead>
<tr>
<th></th>
<th>Opening net debt</th>
<th>Closing net debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underlying</td>
<td>1.4</td>
<td></td>
</tr>
<tr>
<td>FX</td>
<td>1.8</td>
<td></td>
</tr>
<tr>
<td>Debt buy back</td>
<td>0.7</td>
<td></td>
</tr>
<tr>
<td><strong>25.3</strong></td>
<td></td>
<td><strong>29.2</strong></td>
</tr>
</tbody>
</table>
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

Transformer replacement case study

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

Estimated unit cost savings

<table>
<thead>
<tr>
<th>Component</th>
<th>Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engineering design</td>
<td>(15)%</td>
</tr>
<tr>
<td>Procurement and contract strategy</td>
<td>(10)%</td>
</tr>
<tr>
<td>Timescale / scheduling</td>
<td>(5)%</td>
</tr>
</tbody>
</table>

SAVINGS ~30%
Growth through balanced investments

Growth

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

Total Investment

<table>
<thead>
<tr>
<th>Year</th>
<th>Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY14</td>
<td>£3.4bn</td>
</tr>
<tr>
<td>FY15</td>
<td>£3.5bn</td>
</tr>
<tr>
<td>FY16</td>
<td>£3.9bn</td>
</tr>
<tr>
<td>FY17</td>
<td></td>
</tr>
</tbody>
</table>

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:

**Massachusetts Electric business**
- is a top 10 utility
- facilitating solar connections
- US grid modernisation plans could drive significant investment

**Power responsive**

Electricity System Operator
- using battery storage contracts to deliver savings of ~£200m
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
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