nationalgrid

National Grid Shareholder Webcast

Answers to shareholder questions submitted prior to the Shareholder Webcast

The answers to the questions dealt with in the shareholder webcast have been taken from the transcript of the webcast

Q: At a time when good governance is as critical as it has ever been, can the Board please explain why the Company has not run a hybrid General Meeting this year when technology and UK law allows for this to happen?

Whilst COVID rules mean public gatherings cannot occur physically, the law allows for hybrid meetings and market guidance is clear this should occur where Articles permit it, the legislation allowing closed meetings is not being extended. If National Grid's Articles do not permit it, please confirm this is being addressed as hybrids provide better governance than merely physical or virtual meetings.

A: Good governance is imperative and as a Board we take great care to ensure that we provide our stakeholders, including our shareholders, with the opportunity to engage with us whenever possible.

The Company's current Articles of Association do not allow for a hybrid meeting to take place and therefore we have been unable to offer this for this format for the General Meeting.

We are considering at the May Board - when we look at the resolutions we're going to propose for this year's Annual General Meeting the possibility of putting a resolution to the AGM to amend the Articles of Association to allow for hybrid meetings going forwards.

With hindsight if we'd known at this time last year that we were going to be convening a General Meeting to consider this acquisition, I think we would have brought forward a resolution to last year's Annual General Meeting, but unfortunately, we did not have that gift of foresight. And so, as I said at the beginning, regrettably we are not able to have this General Meeting as a hybrid.

But I do assure you that the Board will give this serious consideration at its meeting next month when we do consider the resolution for the 2021 AGM.

Q: How will shareholders be compensated for the sell-off of National Grid Gas assets? Why is this happening as the merger in 2003 was supposed to be a great way to reduce opex?

A: What you have heard today is that the sale of the Gas Transmission business, a majority stake in the Gas Transmission business, is part of a strategic pivot that we're making that includes the sale of our Rhode Island business as well as the acquisition of WPD.

We'd expect to start the sale process for the majority stake in Gas Transmission later this year and typically that will take around 12 months to complete. The proceeds that we will receive through the sale of Gas Transmission will then be used to partly offset the debt facility that we've taken in order to acquire WPD.

With regards to Gas Transmission, it is a really good business, it has been performing really well, it's got a fantastic reputation for safety and reliability and of course it has got the optionality to grow as we see the energy transition unfold in the UK. So, we'd expect to see a lot of interest from buyers for that business.

But with the acquisition of WPD what we've effectively done is strategically pivot towards electricity and with that it will allow us to actually see stronger growth for a longer period of time and more certain growth and of course that underpins the dividend policy that we've set most recently.

Q: What is the reason for withdrawing from your Gas operation in the UK - as it appears to have been profitable?

A: As you've already heard today the announcement of the proposed sale of a majority stake is alongside our other two transactions, the purchase of WPD and the sale of the Rhode Island business.

The Board anticipates significant buyer interest in the sale of these assets, given its high-quality operations and proven delivery, the strategic nature of the business, and the key role that Gas Transmission will continue to play in the UK's energy transition.

And so whilst the Gas Transmission business is indeed a profitable business and is also strongly cash generative, we believe the sale of a stake in that business, aligned with the purchase of WPD, will enable National Grid to focus on higher growth assets as we've heard, underpinning our Group asset growth target of 5 to 7% for longer. And this in turn will underpin our renewed dividend policy of growing the dividend in line with UK CPIH inflation and all of this whilst continuing to maintain our strong balance sheet.

Q: Have any employees of upper management or the Board of Directors personally invested in National Grid Group? Or have they simply acquired Company shares through bonuses or by exercising options granted to them? In other words, are they personally at risk, as would be the case with private ownership or sole proprietorship?

To me, their overall compensation should reflect in some manner the amount of personal, financial risk they have in the success or failure of the Company. Otherwise, they're just employees, and their annual compensation should be significantly adjusted downward.

A: Yes, members of upper management have purchased shares with their own money, by participating in the Company's Sharesave and Share Incentive Plan, but also by purchasing shares on the open market. We have disclosed these details in the shareholder circular that supports this General Meeting.

Non-Executive Directors have also purchased shares in the open market, using their own money, for example I now hold over 100,000 shares in National Grid, which have been purchased entirely from my own funds.

Senior management need to have personal risk in the long-term success of the Company and that is why our remuneration policy reflects the need for a close alignment between the interests of management and the long-term interests of the Company and its investors.

You may recollect that every three years we put our remuneration policy to the vote of shareholders, and I'm pleased to say that every time we have done so investors have comprehensively supported our remuneration policy with a very significant number of votes cast in support of the policy.

Also, a number of years ago we made a change to the policy which shifted the emphasis of the policy more heavily towards longer term incentivisation away from the annual bonus scheme.

These points all illustrate the importance we place on the alignment of management's interest with the long-term interests of the Company.

And as a result of these policies, for example, the Chief Executive, now holds over five times his annual salary in Company shares. At the point at which he leaves there is also a restriction on him and on other senior executives from selling those shares for a period of time after their departure. In the Chief Executive's case that is a period of two years. So that again reinforces management's alignment with the long-term interests of the business.

And it is arising from that alignment that led to the thinking that underpins the transaction we are considering today and the other two transactions we announced at the same time last month, because it is about getting the Company's asset growth trajectory and therefore its longer-term growth parts onto a steeper curve than would be the case if we were not undertaking the three transactions that we announced. And so that is very much, again, reflecting the incentivisation management has to do things which are demonstrably in the long-term interest of the Company and its shareholders.

Answers to shareholder questions submitted following the Shareholder Webcast

Q: Will this acquisition have any future effect on gas distribution and growth in the US Massachusetts market? If so how?

A: There is no direct impact on Massachusetts Gas from the sale of our Rhode Island business - we anticipate the existing drivers of growth to continue for Massachusetts Gas.

Q: There was no reference in the Board webcast about the necessary increased borrowing limit required to fund the WPD acquisition. Could you supply more details on this, can the company afford it, and is this borrowing likely to affect the company share price?

A: There are two resolutions that we are asking shareholders to vote on. The first is for the approval of the WPD acquisition. The second is to vote for the amendment of the Company’s borrowing limit in the Articles of Association from £45bn to £55bn.

As a result of the WPD Acquisition, National Grid will take on additional borrowing comprising both the Acquisition Facility and existing borrowings of the WPD Group. The second resolution is therefore proposing the increase in borrowing limit to ensure that the Company does not breach its borrowing limit as a result of, and has sufficient headroom to enable it to continue to be able to fund growth over the medium-term in an efficient manner following, completion of the WPD Acquisition.

As of today, confirmed debt funding is in place to fully cover the WPD purchase price. We intend to use the proceeds from Rhode Island and the eventual sale of the majority stake in UK

Gas Transmission to repay the bridge facility, with any remainder being refinanced through new debt issued in the capital markets. Post these transactions, and assuming a sale of a majority stake of our UK Gas Transmission business, we expect our credit metrics to be little changed, well within the 7-9% RCF to net debt band for our current Moody's Baa2 rating, and the 10-13% FFO to net debt band for our BBB flat S&P rating. Overall, we expect to retain a strong balance sheet with sufficient headroom at the current rating to support the higher level of growth we expect to see as a net result of these transactions.